Solvency and Financial Condition Report
31 December 2019

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 2019.

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 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 a key focus of Police Mutual.

1.2.7. To deliver what we were set up to do, we expect to 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.

1.2.8. 2019 has been a challenging year for the Group. We have continued to reduce costs to align to our income levels. However, we have also spent money on reviewing our strategy and have suffered an increase in pension liabilities following the annual accounting valuation, which led to an overall loss for 2019.

1.2.9. This focus on rightsizing the business has resulted in the Group reducing its in year operating loss, this has been achieved through ongoing management of expenditure and improved profitability of the subsidiary companies. Income has seen modest increases in Police life, mortgages and IFA income, but this has been offset by lower net healthcare revenue due to higher claims and a falling general insurance book. Military performance has been impacted by additional spend to create a longer term viable business.

1.2.10. PMAS has worked to maximise investment returns recognising market uncertainties in respect of Brexit, US/China trade war and the UK general election whilst remaining cognisant of our financial position and ability to take investment risk. Focus on investment management, and wider considerations, continue in light of the impact that the Covid-19 virus has created and will continue to create in terms of unprecedented social and economic pressure across the globe. At the date of this report, the response to and advice in respect of Covid-19 from the UK government is evolving rapidly and the impact on businesses and individuals is uncertain.

1.2.11. In addition to the market turbulence, 2019 saw significant write-downs in the values of the subsidiaries and investments in Neyber – a business partner. The write-downs reduced balance sheet assets by more than £25m.

1.2.12. Last year this report commented that a strategic review would be undertaken in 2019 to develop and agree the future direction of the Group. This has now been completed. The Board concluded that the Group cannot continue to meet its purpose without further major change and has been actively pursuing broader strategic options with the aim of securing the long term future. On 24 April 2020, a transfer agreement was signed with Royal London which will see the Society's business transfer to The Royal London Mutual Insurance Society Limited (Royal London) during the second half of this year, along with the subsidiary businesses. In the unlikely event that this transaction fails to complete, the Board has made the decision that the Society will close to new business and the fund will be put into run off, to protect our existing Members' interests.

1.2.13. This transaction creates a new chapter in Police Mutual's long heritage and will secure the future of the Group, its Members and policyholders, and will enable the Police Mutual brand and what it stands for to continue to operate in a much more financially secure environment.

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. Prior to May 2019 the roles of Chair of the Committee of Management and Chair of the Managing Board were held by a single individual. However, it was decided as part of the succession planning for that role, and in recognition of the very different nature of the two bodies, that separate individuals would be appointed to the two roles going forward. To effect this decision, Sir Jon Murphy, a member of the Police Service, was appointed Chair of the Committee of Management in May 2019 whilst a financial services professional, Julie Hopes, was appointed as Chair of the Managing Board in June 2019.

Other material changes, in terms of Senior Management Function appointments are:

- The appointment of a new SMF1-Chief Executive Officer, John Perks, who received regulatory approval on 18 June 2019.
- The appointment of a new SMF2 – Chief Finance Officer, David Vallery, who received regulatory approval on 12 December 2019.
- The appointment of a new SMF5-Chief Risk Officer, Andrew Blackmore, who received regulatory approval on 12 December 2019.
- The appointment of a new SMF20-Chief Actuary, Alan Bacon, who received regulatory approval on 29 March 2019.
- The appointment of a new SMF20a-With-Profits Actuary, Julia Beresford, who received regulatory approval on 11 February 2019.

1.3.4. The Society completed the implementation and associated embedding of the Insurance Distribution Directive (IDD) and extended the requirements of the senior manager and certification regime (SMCR) to the regulated subsidiaries.

1.4. Risk profile summary

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

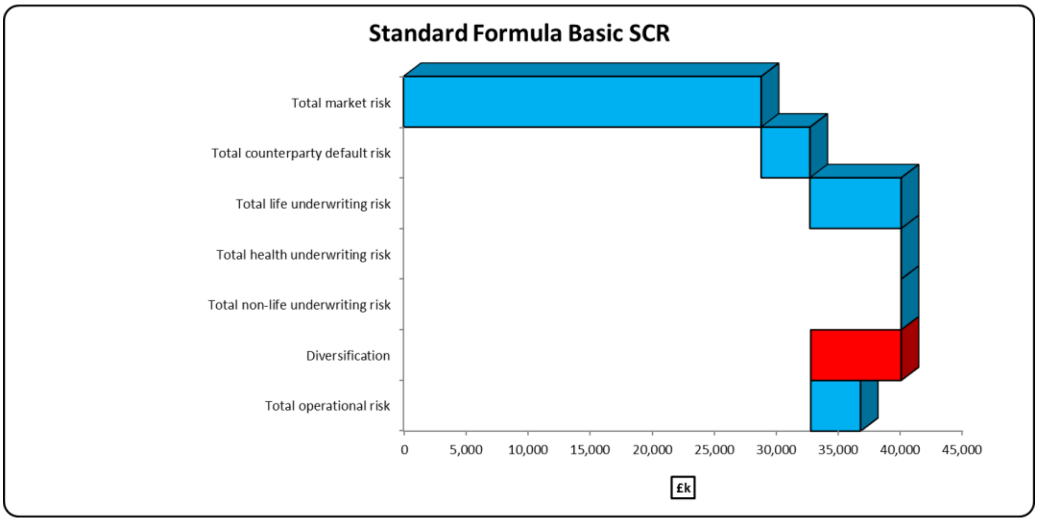
- Maintain financial soundness;
- Protect Police Mutual brand's members and customers; and
- Maintain appropriate levels of organisational capability and capacity.

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 has been outside of its risk appetite in relation to all three measures throughout 2019. In 2019 there has been increased focus on the liquidity and quality of capital with the aim to strengthen both. A number of management actions were agreed by the Managing Board that reduced the SCR and therefore improved the percentage covered, if not our absolute levels of capital. This remains a focus in 2020.

1.4.4. 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.

1.4.5. 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.



1.4.6. Market risk is the main Standard Formula risk. This is mainly driven by the guarantees offered on the with-profits business. The risk capital shown above has taken into account management actions to mitigate the impact of a significant adverse movement.

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 the volatility adjustment 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:

	£m
Society fund for future appropriations (FFA)	**66**
Different valuation of subsidiaries	(10)
Removal of intangible assets	(0)
Inclusion of negative sterling reserves on unit-linked business	2
Inclusion of Risk Margin	(5)
Inclusion of Volatility Adjustment	2
Own Funds	**54**

Any apparent discrepancies in the sums are due to rounding

1.6. Capital management summary

1.6.1. At 31 December 2019, Own Funds were £53,735k (2018: £82,683k) and there was a Solvency Capital Requirement ("SCR") of £36,782k (2018: £48,538k). The solvency ratio was therefore 146% reducing from 170% as at 31 December 2018.

1.6.2. The PRA has approved usage of Volatility Adjustment in the computation of the liabilities and capital. Without the Volatility Adjustment the solvency ratio would be 136%.

1.6.3. The Own Funds consisted of £51,829k of Tier 1 capital eligible to cover the SCR and Minimum Capital Requirement ("MCR") and £1,906k of Tier 3 capital to cover the SCR.

1.6.4. The significant change in the Own Funds primarily arises from a reduction in value of the subsidiaries (~£15m write-down) and a change in the value of the investment of Neyber (~£12m write-down). The subsidiaries valuation was restated following revisions to estimates of future cash flows, especially in the GI business. During the latter part of 2019 Neyber experienced financial difficulties which extended into 2020 and was neither able to secure new funding, nor a trade buyer and consequently the business entered administration. Given the financial problems apparent at the year end valuation date, the equity investment was written down to £nil and the corporate loan was written down significantly, reflecting the ultimate recovery likely.

1.6.5. 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.

1.6.6. Management of the Own Funds and SCR is monitored throughout the year. Monthly estimates are undertaken, supplemented with more frequent estimates where material movements in the balance sheet are expected. Any significant changes are analysed and investigated by management as necessary. Updated values are reported to the Managing Board.

1.6.7. In light of the perceived headwinds on markets (Brexit, USA/China trade wars), and in the context of the solvency position of the Society, an investment decision was taken in 2019 to effect derivative protection within the investment assets – i.e. the assets invested to back asset shares. This provided protection against volatility in equity markets and also provided a capital benefit relative to no protection. This derivative protection was restructured late in 2019 and continued into 2020.

1.6.8. In late 2019 the solvency position of the Society was such that Management were considering implementing management actions to improve solvency. It was noted that some of the actions under consideration were not being allowed for in the SCR calculation. The SCR calculations were revised to allow for these potential management actions.

Any other information

1.6.9. After the year end, the impact of the Covid-19 virus has created and will continue to create unprecedented social and economic pressure across the globe. At the date of this report, the response to and advice in respect of Covid-19 from the UK government is evolving rapidly and the impact on businesses and individuals is uncertain.

1.6.10. During late February and March, the financial markets experienced extreme volatility in equity, bond and commodity prices. In addition to this, the threat of an oil price war provided further market uncertainty. Significant actions to address economic issues and concerns have already been taken by national governments and central banks and, in the UK, by the Bank of England and through the March 2020 budget.

1.6.11. As of 31 March 2020, the solvency position of the balance sheet had deteriorated from the year-end position, showing a solvency ratio of 124%, down from 146% at 31 December 2019.

1.6.12. The impact of these market movements on our with-profits policyholder returns has been reduced due to the equity hedging arrangements we have in place and we have also taken investment policy decisions to reduce our equity exposure and overall investment risk.

1.6.13. We have also made an interim bonus declaration for our conventional with-profits policies which had and will continue to have the impact of reducing maturity and surrender payments to reflect the falls in markets and to reduce the financial impact of our payment smoothing. The maturity values will be reduced by approximately 5%, although will still be above the unsmoothed asset shares, and surrender values by about 10%. Bonus rates will continue to be monitored within the context of stock market movements. The Group will continue to monitor the markets and take appropriate action to protect the interests of our policyholders and members to the best of our abilities.

1.6.14. Whilst UK government advice in respect of safeguarding individuals and controlling the spread of Covid-19 is emerging and changing rapidly, we have set up an Incident Management Team (IMT) to develop plans in response to this advice and to implement policies to protect our staff. These inevitably involve more home working across our business to support the government's drive to reduce social contact for a period. We have made good progress, and believe that we will be able to support homeworking for almost 100% of our staff without a significant impact on service standards. The directors accept that during a period of exceptional change, focus on the integrity and effectiveness of internal controls must not diminish and where processes have needed to change, these changes have been documented and approved.

1.6.15. The extent and duration of the impact of Covid-19 is very difficult to predict. We do expect there to be disruption to our sales activity. Face to face sales will be impacted by travel and social engagement restrictions, illness can affect both our staff and potential customers, and, perhaps most importantly of all, our customers may well have higher immediate priorities than saving and investing. Equally, home and motor insurance remains important and online and telephony channels mean we will not see a complete cessation in business volumes. In addition, and noting the proposed transfer to Royal London, we do not currently foresee any long term reduction in sales potential The directors will continue to monitor this situation very closely and take actions where appropriate.

1.6.16. We acknowledge the important role that the Police and Military will need to play in the collective response to Covid-19 and we will endeavour to continue to serve our Members and policyholders. At this stage, the impact to the overall business is not known, however we expect it to impact future business volumes and sales, at least in the short term.

INTRODUCTION

2.1. This is a Report provided to the PRA as part of the 31 December 2019 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. These Delegated Regulations have been updated and amended over the years with a number of additional Delegated Regulations. 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.fca.org.uk/contact.

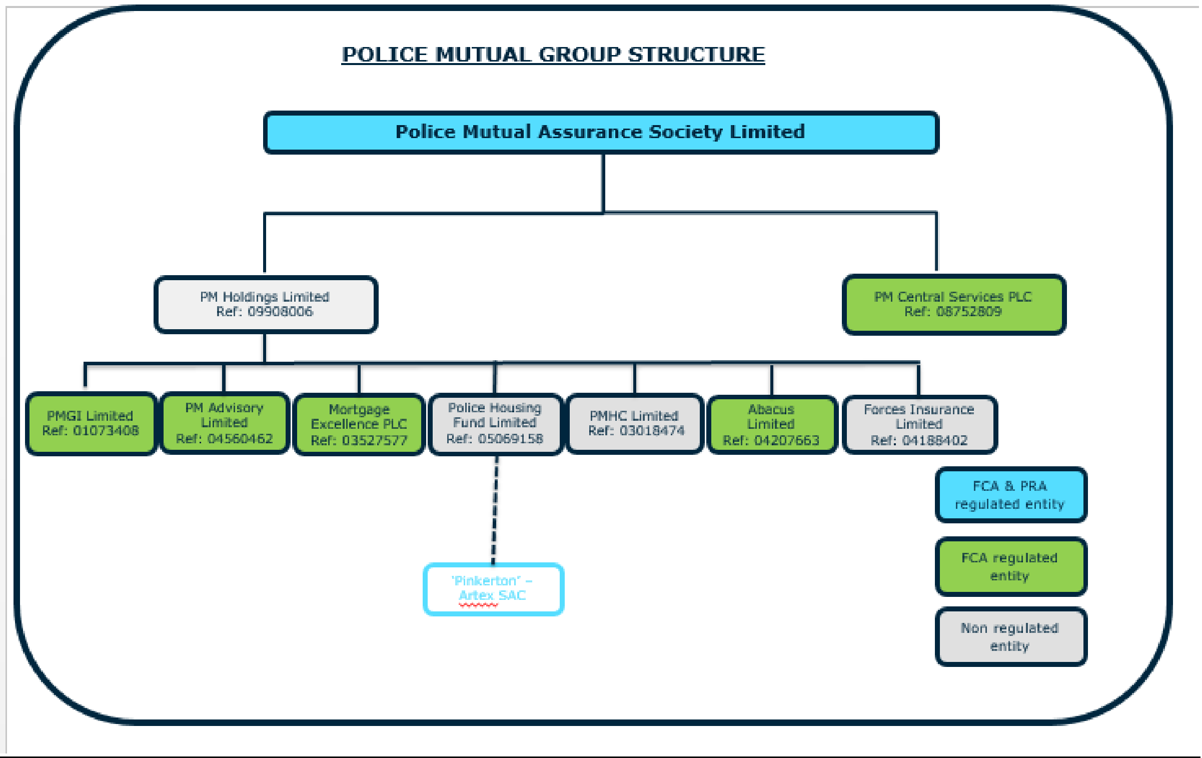
A1.4. In line with the PRA policy statement PS25/18, this document has not been externally audited as PMAS meets the requirements of a "small Solvency II firm". The Financial Statements have been externally audited by Deloitte LLP of 2 Hardman Street, Manchester M3 3HF.

A1.5. Set out below are PMAS' investments in subsidiary undertakings as at 31 December 2019, 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	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	PM Holdings Limited	Private Limited Company
Forces Insurance 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. 2019 has been a challenging year for the Group. We have continued to reduce costs to align to our income levels. However, we have also spent money on reviewing our strategy and have suffered an increase in pension liabilities following the annual accounting valuation, which led to an overall loss for 2019.

This focus on rightsizing the business has resulted in the Group reducing its in year operating loss, this has been achieved through ongoing management of expenditure and improved profitability of the subsidiary companies. Income has seen modest increases in Police life, mortgages and IFA income, but this has been offset by lower net healthcare revenue due to higher claims and a falling general insurance book. Military performance has been impacted by additional spend to create a longer term viable business.

A1.11. Last year this report commented that a strategic review would be undertaken in 2019 to develop and agree the future direction of the Group. This has now been completed. The Board concluded that the Group cannot continue to meet its purpose without further major change and has been actively pursuing broader strategic options with the aim of securing the long term future. On 24 April 2020, a transfer agreement was signed with Royal London which will see the Society's business transfer to The Royal London Mutual Insurance Society

Limited (Royal London) during the second half of this year, along with the subsidiary businesses. In the unlikely event that this transaction fails to complete, the Board has made the decision that the Society will close to new business and the fund will be put into run off, to protect our existing Members' interests.

A1.12. This transaction creates a new chapter in Police Mutual's long heritage and will secure the future of the Group, its Members and policyholders, and will enable the Police Mutual brand and what it stands for to continue to operate in a much more financially secure environment.

A1.13. In addition to the strategic review, the key progress in 2019 has been:

- Against our strategic aim of strengthening our capital through reducing losses, good progress has been made in rightsizing the business and we have reduced our underlying operational cost base. This has been delivered through headcount reduction, consolidating our suppliers and good cost discipline. We continue to seek ways to create efficiencies whilst balancing the focus on maintaining Member services and supporting our affinities more broadly.

- The Society moved to a single investment asset manager, BMO, in December 2018 for all investments except property holdings and are currently working with them to complete the transition to ensure appropriate management of assets on behalf of members. Alongside BMO the Society has worked to maximise investment returns recognising market uncertainties in respect of Brexit, US/China trade war and the UK general election whilst remaining cognisant of our financial position and ability to take investment risk.

- At the beginning of the year the Managing Board's Risk Committee noted the achievement of the risk function's target effectiveness rating and the bolstering of its resources through the establishment of the Financial Risk team from 1 January, with both the Compliance and Finance Risk functions implementing their respective target operating models and maintained resourcing at an appropriate level throughout the period.

- The closure of the Basingstoke office was completed during 2019, which has reduced the number of offices to two.

- As a consequence of the expense reduction initiatives and extensive strategic options work progressed during 2019, the Society moderated its ambition for the pace at which it could move towards the desired risk appetite range. The risk and compliance functions focused on supporting management in improving the operating effectiveness of the internal risk and control frameworks and providing enhanced levels of assurance to the Managing Board. Given the business' strategic uncertainty it is subject to heightened scrutiny from key regulators, the PRA and FCA with regular and transparent conversations being held with the intent of providing confidence over the business's future direction.

- The Society completed the implementation and associated embedding of the Insurance Distribution Directive (IDD) and extended the requirements of the senior manager and certification regime (SMCR) to the regulated subsidiaries.

The Group continues to review its products to ensure that they are meeting Member needs and the following are key to note for 2019-2020:

- There continues to be regulatory focus on motor and household insurance prices, specifically about the price differential between new and renewal business and the treatment of vulnerable customers in this context. The Group is fully supportive of the FCA investigations and are 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 the Group. The Group will consider and make any necessary adjustments to its pricing policy when the FCA release their final report, expected in early 2020.

- A new military kit product was launched in September that provides a simpler and more cost effective product to military customers, combined with digital access. During 2020 the Group will be looking to widen the protection product range to its military customers by adding additional insurers.

- The healthcare scheme handled 5,129 claims in 2019 and Members receive treatment within an average of 7 weeks, saving 11 weeks compared to average NHS wait times.

- For Regular Savings Plan policies that matured in 2019 the net of tax return generated was 3.6% 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 2019**	**31 December 2018**
Earned premiums, net of reinsurance[1,2]	86,706	92,539
Claims incurred, net of reinsurance[1,2]	(124,557)	(112,925)
Change in technical provisions, net of reinsurance[2]	(4,736)	(42,309)
Expenses	(10,581)	(11,598)

	Index linked and unit-linked insurance	
£000	**31 December 2019**	**31 December 2018**
Earned premiums, net of reinsurance[1,2]	5,600	5,779
Claims incurred, net of reinsurance[1,2]	(12,470)	(12,568)
Change in technical provisions, net of reinsurance[2]	12,814	515
Expenses	(1,441)	(1,274)

	Other life insurance	
£000	**31 December 2019**	**31 December 2018**
Earned premiums, net of reinsurance[1,2]	3,383	1,279
Claims incurred, net of reinsurance[1,2]	(734)	(602)
Change in technical provisions, net of reinsurance[2]	(7,039)	(13,051)
Expenses	(999)	(923)

	Total life obligations	
£000	31 December 2019	31 December 2018
Earned premiums, net of reinsurance[1,2]	95,688	99,597
Claims incurred, net of reinsurance[1,2]	(137,761)	(126,096)
Change in technical provisions, net of reinsurance[2]	1,038	(54,845)
Expenses	(13,021)	(13,795)

1 *Net earned premiums and claims incurred include £7,994k (2018: £5,825k) and £12,641k (2018: £12,613k) respectively in respect of policies accounted for under UK GAAP as investment contracts.*
2 *The reinsurer's share of earned premiums is £1,571k (2018: £1,749k), of claims is £988k (2018:£ 1,836k) and of the change in technical provisions is £-1,002k (2018: £320k).*

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 £4,717k (2018:£5,801k).

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. Whilst the expectation is that in the long term the allocations will, on average, be in line with the central strategic allocations as set out in the PPFM, 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.

A3.3. During 2019, 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. In August 2019, in light of anticipated headwinds with respect to equity markets (Brexit, USA/China trade war), and the solvency position of the Society, derivative protection was effected within the assets held to back policyholder asset shares. As equity markets continued to rise through to the end of 2019, this protection provided a drag on investment performance. A detailed split of the assets held at 31 December 2019 is shown in Appendix 3, S.02.01.

A3.4. The investment returns achieved in 2019 vary by product. The investment return before tax, charges and smoothing for the Investment Assets, which represents the majority of assets, was 7.7% in 2019. This was made up as follows:

	Actual return	Benchmark
Global Equity	22.8%	25.1%
Property	(0.1)%	1.4%
Global Fixed Interest	6.8%	6.5%
Overall return	7.7%	13.6%

Returns for each asset class represent actual 1 year returns on an unweighted basis. The total return figure of 7.7% represents these actual returns weighted by the actual asset allocations over the 1 year period, allowing for hedging. The total benchmark return represents the individual benchmark returns weighted by the central strategic asset allocation over the 1 year period.

A3.5. 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***	***£44m***	***£16m***	***£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	***£31m***	***£2m***	***<£1m***

A3.6. 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. The corporate loan with Neyber has been subject to a significant write-down, as discussed earlier in this report. The consequence of this was that additional cash from the estate was required to back the Fixed Term Options ISA liabilities.

A3.7. The Anytime Access Options ISA is not shown in the table. This product is backed by a cash-like fund.

A3.8. These central strategic asset allocations are reviewed at least every two years. The allocation for the investment assets was reviewed in 2018 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. During 2019 an option strategy was introduced, designed to reduce exposure to equity market volatility and to provide some downside protection but through limiting participation in rising markets above a certain level.

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

£'000	**2019**	**2018**
Investment income:		
- Income from financial investments	24,916	15,282
- Gains on the realisation of investments	34,297	95,382
- Net foreign exchange loss[1]	(370)	(3,401)
	58,843	**107,263**
Unrealised Gains on investments[2]	**(29,792)**	**(104,914)**
Investment expenses and charges:		
- Investment management expenses	(1,535)	(2,390)
- Losses on the realisation of investments	(14,653)	(37,007)
	(16,188)	**(39,397)**
Net investment return	**12,863**	**(37,048)**

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, unrealised gains included the gains on the investment in subsidiary companies. These gains 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. 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.

A3.12. 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.

A3.13. 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.

A3.14. Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price.

A3.15. 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 2019 this equated to £1,155k (2018: £1,104k).

A5. Any other information

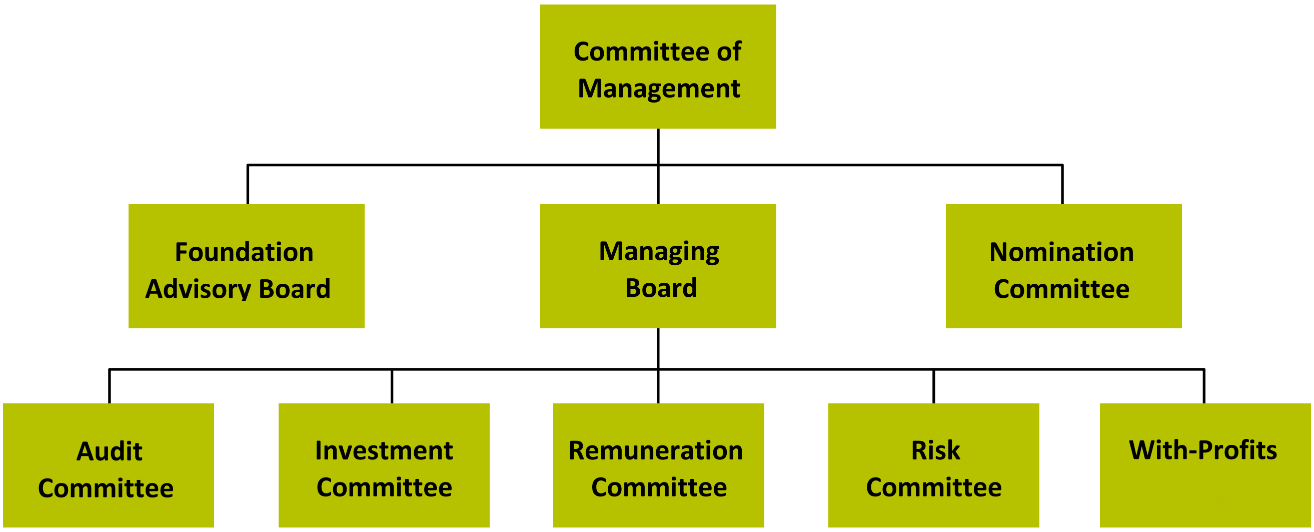
A5.1. No further information.

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 responsible for:

- Safeguarding on behalf of the Police Service, Police Mutual's constitutional purpose, its financial and long-term viability and acting in the best interests of its members.
- Directing and advising the Managing Board and Chief Executive on the relationship with the Police Service and ensuring Police Mutual's reputation in the Police Service is upheld.
- Expressing the aspirations of Police Mutual's membership and the Police Service for the strategic direction of the Police Mutual Group, the provision of products and services, its requirements of Police Mutual's conduct in its relationship with the Police Service and setting the overall values and principles of the Group.
- Overseeing the development and implementation of the Group strategy in line with Police Mutual's constitutional purpose and its strategic Purpose, Vision and Values; and
- Overseeing the safeguarding and development of Police Mutual's investment in its Military affinity business.

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 Managing Board's objectives are to:

- Act as guardians of a Police Service asset set up by and for the Police and to safeguard, on behalf of the Police Service, Police Mutual's constitutional purpose, its financial and long term viability and to act in the best interests of members of the Society.
- Have due regard and respect for, and nurturing and protecting, the relationship with Police forces as the employer of the Police Service and as a fundamental pillar of the Police Mutual affinity model.
- Develop and implement the strategic direction of the Police Mutual Group on behalf of the Committee of Management to deliver its constitutional purpose and its strategic Purpose,

Vision and Values approved by the Committee of Management. In doing so taking due account of the expectations of the Committee of Management regarding the overall standards and principles of the Group, relationships with the Police Service and objectives for product and service provision to the Police Family.

- Safeguard and develop Police Mutual's investment in its Military affinity business through the delivery of suitable products and services and in doing so providing added benefit to members through, inter alia, economies of scale and increased capital strength that demonstrably provide a net benefit to members and the Police Services. In doing so it will ensure the Military affinity business is run on mutual lines with the same strategic Purpose, Vision and Values as the Police affinity and adopting the same standards of conduct relating to the provision of products and services, the delivery of fair customer outcomes, relationships with the Military and the reputation of the Police Mutual Group.
- Have responsibility for the overall conduct and management of the business of the Police Mutual Group ensuring that it operates in accordance with its statutory and regulatory responsibilities. The Chief Executive is responsible under the immediate authority of the Managing Board for the conduct of the whole of the business of the Police Mutual Group.
- Ensure that Police Mutual's reputation in the Police Services is upheld in accordance with the expectations of the Committee of Management.

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

- **With-Profits Committee:** responsible for acting in an advisory capacity to inform the decision making of the Managing Board on the way in which the with-profits business is managed and a means by which the interests of with-profits policyholders are appropriately considered, in particular whether this is reflected in or compliant with the Principles and Practices of Financial Management (PPFM).
- **Audit Committee:** responsible to the Managing Board for the oversight of the financial reporting process, the integrity of financial statements and information in the report and accounts together with oversight of the relationship with the external auditors. The Audit Committee also has the objective of ensuring assurance over the internal systems of control, and the adequacy and scope of the Internal Audit function.
- **Risk Committee:** responsible to the Managing Board for providing oversight and challenge that the Chief Executive is managing the Group in accordance with the Managing Board's risk appetite requirements and that the Enterprise Risk Management Framework remains appropriate.
- **Remuneration Committee:** responsible to the Managing Board for: the determination of the framework and policy for the remuneration of the Police Mutual Executive Directors and members of the wider Executive team (including those employed on a permanent or temporary basis) and ensure that they are consistent with Police Mutual's risk taking (appetite) policy and take into account remuneration trends across the Group and; oversee major changes in employee benefits and the design and targets of any Group-wide performance related pay schemes.
- **Investment Committee:** responsible to the Managing Board for providing oversight and challenge regarding investment responsibilities.

Other sub-committees of the Committee of Management

B1.5. **The Foundation Advisory Board**: 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.

B1.6. **Nomination Committee:** responsible to the Committee of Management for advising on matters relating to its composition and ensuring succession planning is in place for key roles of the Committee of Management, Managing Board and for the Chief Executive.

The Advisory Panel

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

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

Executive Level Committees

Group Executive Committee

B1.9. The Group Executive Committee is responsible for the development, implementation and 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 Enterprise Risk Management 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.

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 – B4.14.

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 Audit manager 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 Chief Actuary who reports directly to the Chief Finance Officer. The Chief Actuary is supported by a team of suitably qualified individuals. Activities of the function are reported to the 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. Prior to May 2019 the roles of Chair of the Committee of Management and Chair of the Managing Board were held by a single individual. However, it was decided as part of the succession planning for that role and in recognition of the very different nature of the two bodies, that separate individuals would be appointed to the two roles going forward. To effect this decision, Sir Jon Murphy, a member of the Police Service, was appointed Chair of the Committee of Management in May 2019 whilst a financial services professional, Julie Hopes, was appointed as Chair of the Managing Board in June 2019.

B1.19. Other material changes, in terms of Senior Management Function appointments, include:

- The appointment of a new SMF1-Chief Executive Officer, John Perks, who received regulatory approval on 18 June 2019.
- The appointment of a new SMF2 – Chief Finance Officer, David Vallery, who received regulatory approval on 12 December 2019.
- The appointment of a new SMF5-Chief Risk Officer, Andrew Blackmore, who received regulatory approval on 12 December 2019.
- The appointment of a new SMF20-Chief Actuary, Alan Bacon, who received regulatory approval on 29 March 2019.
- The appointment of a new SMF20a-With-Profits Actuary, Julia Beresford, who received regulatory approval on 11 February 2019.

Information on the Remuneration Policy and Practices

B1.20. The Remuneration Committee is responsible for reviewing the ongoing appropriateness and relevance of the Remuneration Policy.

Chair and Non-Executive Director Remuneration

B1.21. 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.

B1.22. 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

B1.23. 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.

B1.24. 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.

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

- The value of the individual in the organisation;
- Their role, experience and performance;
- Comparator salaries within Police Mutual to ensure equal pay for equal work;
- Average change in broader employee salaries within Police Mutual;
- Total salary budgets;
- Market survey data i.e. what they might reasonably expect to be paid in comparable organisations;
- The affordability of the salary, taking into account the overall financial performance of Police Mutual.

B1.26. Variable pay is made up of two elements: annual bonus and deferred annual bonus. The key principles in setting bonuses are that they reward achievement of annual financial and strategic business targets, delivery of the Executive team objectives, 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.

B1.27. Police Mutual provides a pension scheme which complies with the Government's mandatory auto-enrolment requirements. Directors may participate in that scheme, which operates on a defined contribution/money purchase basis. The level of employer contributions to the pension scheme for Executives is set by the Remuneration Committee. 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

B1.28. 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.

B1.29. 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.

B1.30. 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 and Internal Audit functions to ensure levels of impartiality are maintained.

Material Transactions

B1.31. Police Mutual did not enter into any new material transactions with shareholders, persons who exercise a significant influence or members of the management body 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 Senior Manager Function (SMF) and Key Function Holder (KFH) positions, as defined by the Senior Manager and Certification Regime (SMCR), and Notified Non-Executive Director roles. The Recruiting Manager will discuss with the line Executive and, if applicable, Compliance to determine if a role forms part of the SMCR and, if so, what status the role holds e.g. Certified, SMF. In the case of colleagues subject to SMCR, competency based interviews and other evidential methods are required to validate their fitness and propriety as well as suitability for specific elements of the role related to their regulatory and professional responsibilities. Annual reassessment of competency, fitness and propriety 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 models;
- Systems of governance;
- Risk management;
- Financial and actuarial analysis;
- Regulatory framework requirements; and
- Operational resilience

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 manages the risks that arise in supporting Police Mutual's fundamental purpose and values. This requires a framework to identify, measure, monitor and report these risks.

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. 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.

B3.4. Risk acceptance is defined through a series of Risk Appetite Statements. Police Mutual's approach for risk control is set out in a suite of risk policies statements.

B3.5. 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.

- Identifying, assessing, recording and managing risks in accordance with the requirements as set out in the EWRM Framework.
- Identifying, investigating, escalating and reporting on losses, incidents or issues as appropriate.
- Implementing appropriate risk monitoring, escalation and, as necessary, remediation processes.
- Periodically confirming 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.

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 reviews the ORSA Policy Statement annually which codifies its requirements for executing the ORSA process.

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. Draft ORSA reports may be submitted to the Board for discussion before a final version is submitted for approval. The ORSA report is submitted to the Prudential Regulatory Authority within two weeks of approval 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 may be produced 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 usually 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. We are considering updating these calculations in Q3 of 2020, subject to discussions with the Board and Regulators.

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.

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 first line of defence.

B4.5. The Compliance function comprises the Compliance Monitoring and the Compliance Advice and Policy 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. As SMF16, the Head of Compliance has responsibility for oversight of compliance with the requirements within the FCA's conduct of business sourcebook and for reporting to the relevant governing body in respect of that responsibility.

B4.7. As SMF17, the Head of Compliance has responsibility for oversight of compliance with the FCA's rules on systems and controls against money laundering.

B4.8. The Head of Compliance is also the Data Protection Officer for the Police Mutual Group data controllers 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.

B4.9. The Head of Compliance has direct responsibility for the leadership, development and delivery of the Compliance function's activities.

B4.10. 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.

B4.11. 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.

B4.12. Regular reports are prepared and submitted to the Managing and Subsidiary Boards, Group Risk Management Committee, the Executive and relevant Senior Managers, as appropriate.

B4.13. 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.

B4.14. 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 Audit Manager 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 focussed 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 Chief Actuary is a Fellow of the Institute and Faculty of Actuaries, has complied continuously with the specific professional obligations this requires, and holds a Practising Certificate.

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. Investment Administration Services		
HSBC Securities Services	Global Custody Services	UK
HSBC Securities Services	Fund Administration	UK
3. Fund Management Services		
BMO Global Asset Management	Investment Management – Multi Asset Investment	UK
La Salle	Investment Management – UK Property Investment	UK, Channel Islands and Ireland
4. Print Services		
APS	Bulk mailing of member letters and statements for Life products, plus product collateral	England and Wales

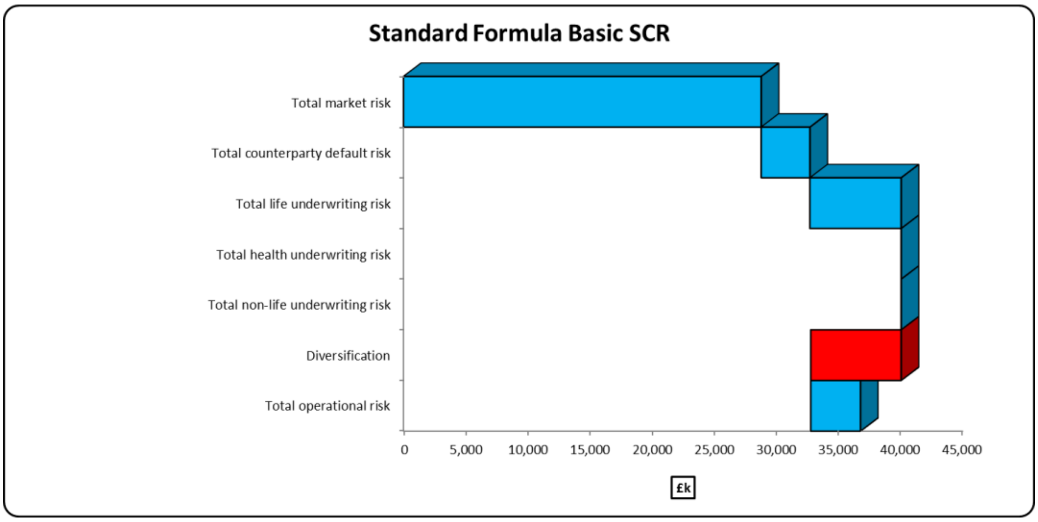
B8. Any other information

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 2019. 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. The risk capital shown above has taken into account management actions to mitigate the impact of a significant adverse movement.

C1. Underwriting risk

C1.1. Underwriting risk is defined as "the risk of loss or adverse or adverse change in the value of insurance liabilities, due to inadequate pricing and reserving assumptions."

C1.2. PMAS monitors 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.

C1.3. PMAS does not have any underwriting risk with respect to disability-morbidity or revision.

C1.4. Any changes in the future assumptions noted above will impact the best estimate liabilities. The only assets affected by this risk are the reinsurance recoverables from the non-profit life business.

C1.5. The life catastrophe risk has been calculated using a simplified method so the assets and liabilities affected by this risk have not been specified.

C1.6. Recent experience is analysed annually. It shows the risk profile of the company in relation to mortality and persistency. The most recent assessment showed that there had been no material changes since the previous reporting period.

C1.7. Expenses are analysed as part of the PMAS monthly MI reporting. Any adverse experience is addressed quickly in line with the strategic focus.

C1.8. Sensitivity analysis shows that mortality risk and expense risk are not material risks, but persistency risk is material to PMAS. A 50% decrease in lapse rates (i.e. an increase in persistency) has around a £5m 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.

C1.9. 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.

C1.10. The overall net solvency capital requirement for the Life underwriting module at 31 December 2019 was £7,339k and the gross capital requirement was £33,817k.

C2. Market risk

C2.1. Market risk is the risk of fluctuations in values of, or income from, assets or in interest arising from fluctuations in interest rates and other market rates which can affect the value of the Group's investments and therefore the size of its assets and 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. PMAS monitors 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 (is covered below).

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. Following the large write-down in value of the Neyber investments, for PMAS concentration risk is only relevant for the investments in our subsidiary companies. The stress applied to the assets in respect of concentration risk varies in line with the credit rating of the entity concerned. For PMAS, where there is no credit rating, the solvency position of the Society is used instead. This creates a circular arrangement where the Society's solvency position affects the concentration risk, which in turn affects the solvency position.

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 2019 was £28,788k and the gross capital requirement was £98,199k. These figures include the effect of credit risk as described below.

C3. Credit risk

C3.1. Credit risk includes the risk of loss arising from the default or failure of third parties to meet their financial obligations or variations in market values against expectation related to these risks. 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. PMAS monitors credit risk in terms of:

- Widening of credit spreads, where appropriate, on its holdings in 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. Counterparty exposure is more significant from derivative trades, however, collateral arrangements mitigate most of this risk.

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 and the Staff Pension Fund.

C3.6. PMAS assesses its counterparty risk on an individual counterparty basis. The net solvency capital requirement for counterparty risk at 31 December 2019 was £3,927k. 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 investment mandates with Managing Board approved exposure limits and, if appropriate, 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. Liquidity risk is the risk that Group, whether solvent or not, either does not have available sufficient financial resources to meet its obligations as they fall due, or can secure them only at excessive cost.

C4.2. PMAS creates regular plans to manage liquidity risk by considering liquidity risk in terms of:

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

C4.3. Liquidity risk is not considered as a separate risk stress under the Standard Formula SCR. Once mitigation and controls are allowed for, PMAS do not believe that liquidity risk in terms of meeting our payments to policyholders as they fall due is material.

C4.4. Liquidity risk is reported in regular monthly MI against the liquidity risk appetite. The risk is mitigated by a number of key practices including 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.

C4.5. Liquidity risk is assessed at least each year or immediately if any adverse situations have arisen. Various stress and scenario testing is undertaken to examine liquidity under adverse scenarios.

C4.6. At 31 December 2019, the Expected Profit included in Future Premiums ("EPIFP") was £924k. This item is disclosed in the QRTs but does not affect the size of the liabilities.

C5. Operational risk

C5.1. Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, human factors or due to external events.

C5.2. 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

C5.3. Detailed policies, reporting and procedures are in place to manage all key operational risks.

C5.4. Analysis of operational risk against appetite is included in Risk Reporting to the GRMC and Risk Committee (refer to section B3).

C5.5. In the Risk Appetite Statement conduct risk is explicitly mentioned. This has been defined as the risk of customer detriment which may occur throughout the customer relationship and that has resulted from the Group's conduct and/ or behaviour; and failure to deliver against its values, business strategies and its obligations for the prevention of financial crime.

C5.6. Conduct risk is in part operational, though has wider considerations. Conduct risk, just like operational risk, is covered in the detailed policies, operational procedures and is reported upon in various risk reporting.

C5.7. From an operational perspective PMAS is monitoring carefully resource strain and prioritisation of tasks. Reports are prepared regularly and assessments of priorities undertaken. Additional contracting resource is used as a mitigant to this risk.

C5.8. The Pillar 1 calculation for operational risk is based on premiums received and was calculated as £4,001k at 31 December 2019.

Compliance with the Prudent Person Principle

C5.9. 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.

The Managing Board sets out its appetite in relation to investment risk and this is captured by the relevant Risk Policy. 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 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.

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.

Investment in Neyber

C6.4. During 2019 Neyber experienced financial issues which increased the risk management focus on it. We have been actively managing the investment and risks associated with it. Neyber's issues culminated in its assets being acquired by Salary Finance in March 2020. Although the remaining exposure is much smaller there will be a continued risk focus on this in 2020.

Capital Risk, including Strategic & Business Risks

C6.5. This is the risk of not maintaining sufficient quality, quantity and liquidity of capital commensurate with the effective delivery of the Group's business strategy. Regular monitoring of the capital position and strategy is undertaken against the Managing Board's approved risk appetite.

C6.6. In 2019 there has been increased focus on the liquidity and quality of capital with the aim to strengthen both. A number of management actions were agreed that reduced the SCR and therefore improved the percentage covered, if not the absolute levels of capital. This remains a focus in 2020.

C6.7. As approved by the Managing Board, the mitigations in adverse situations include potential implementation of management actions, or in favourable situations, revisiting the bonus strategy.

C6.8. Police Mutual have been considering the potential outcomes and impacts of Brexit for some time. Business analysis shows that it will have a relatively minor impact on the Society's customers, staff and operations and appropriate preparedness arrangements have been put in place.

C6.9. To manage the financial risks arising from climate change, Police Mutual has assigned Senior Management Function (SMF) responsibility to the Chief Financial Officer (CFO) and a high level plan has been approved by the Executive Team. This is an ongoing area of review and further work in this area to enhance management of the financial risks arising will continue during 2020.

Risks not included in the SCR

C6.10. On an annual basis PMAS usually 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. As PMAS has been conducting a strategic review in 2019, the usual detailed analysis was not completed. However, a review was carried out to consider:

- changes in PMAS' risk profile;
- comparison of the Pillar 1 (standard formula SCR) and Pillar 2 (PMAS' own assessment of capital) reported positions; and
- changes in the Pillar 2 calculation.

The review concluded that there was no reason to believe that the previous conclusions would have changed and therefore 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 2019 position	54	(37)	17	146%
	Change			
Equity Values -25%	-2	-7	-9	118%
Fixed Interest Yields -1.0%*	-13	-11	-24	85%
Equity Volatility +7.5%	-8	1	-7	128%
Fixed Interest Volatility +1.5%	-1	-0	-1	143%
Per Policy Renewal Expenses +13%	-2	-1	-3	137%
Lapse Rates -32%	-5	-1	-5	129%
Mortality +13%	0	-0	0	145%
EBR +6% (to 55%)	-2	1	-1	144%

*In this sensitivity risk free rates are assumed to be negative at the shorter end of the yield curve. This sensitivity results in a shortfall of Own Funds to SCR and makes no allowance for the implementation of any management actions. In reality, management actions would be implemented to protect the solvency position. The vast majority of the SCR impact is a consequence of the concentration risk issue with respect to the subsidiary investments.

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 where triggers are hit.

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 2019 is £859,020k.

Asset Class	(£000)
Deferred tax assets	1,906
Directly held property	5,275
Participations	47,817
Listed equities	220,454
Unlisted equities	-
Government and supranational bonds	48,109
Corporate bonds	170,725
Collective Investments Undertakings	167,785
Derivatives	4,875
Assets held for unit-linked funds	112,779
Loans & mortgages	2,101
Reinsurance recoverables	9,760
Insurance and intermediaries receivables	1,121
Receivables, trade	453
Cash and cash equivalents	65,284
Other assets	576
Total	859,020

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	**2019**	**2018**
Pension scheme	920	1,115
Losses on investments	986	3,004
Total	**1,906**	**4,119**

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

£000	**2019**	**2018**
Acquisition costs	2,536	2,398
Tax losses	1,994	2,082
Losses on investments	2,085	3,877
Capital allowances	349	302
Pension contributions	143	221
Total	**7,107**	**8,880**

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. The directors reviewed the valuation as at 31 December 2019 and did not consider that it had changed materially from the prior year.

Participations

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

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

D1.10. Participations also 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 2019 is £49.4m (2018: £61.9m).

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 4.10. 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 2019. 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 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 the Fixed Term Options ISA.

D1.20. The main assumptions used in order to calculate the reinsurance recoverables at 31 December 2019 are:

- Valuation interest rates are set using the EIOPA specified yield curve.
- 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	£57,884k
Net asset value for solvency purposes	£47,817k
Difference	£10,067k

D1.24. In the financial statements, investments in participations (where the entity is trading) are valued 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 2019 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 £157k in the 31 December 2019 financial statements (2018: £362k).

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 2019 is £776, 513k.

	£000s
Life Insurance with-profit technical provisions (best estimate)	618,049
Life Insurance with-profit risk margin	4,214
Life Unit-linked technical provisions (best estimate)	111,233
Life Unit-linked risk margin	758
Other life insurance technical provisions (best estimate)	42,023
Other life insurance risk margin	235
Total	776,513

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 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 2019 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 2019, 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 £2,135k.

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 (if any) are calculated outside of the Prophet and ALS models and added into the total technical provisions.

D2.15. Any adjustment to the size of the smoothing asset is calculated on an individual contract basis with no grouping. No significant approximations are made in relation to this calculation.

D2.16. 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.

Life Unit-linked technical provisions (best estimate)

D2.17. 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.

D2.18. They consist of a unit reserve plus a sterling reserve.

D2.19. The unit reserve for each policy is:

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

D2.20. 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.

D2.21. 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

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.

Risk margin

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

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

Uncertainty associated with the value of technical provisions

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

D2.32. The calculation of the SCR split by risk module (see E2.3) gives an indication of the relative importance of different risks. The table below shows the sensitivity of the technical provisions to the key assumptions. Where possible (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 2019 position	777
	Change
Equity Values -25%	-49
Fixed Interest Yields -1.0%*	+24
Equity Volatility +7.5%	+5
Fixed Interest Volatility +1.5%	+1
Per Policy Renewal Expenses +13%	+2
Lapse Rates -32%	+5
Mortality +13%	0
EBR +6% (to 55%)	+2

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

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

D2.33. The table below shows the differences.

	£000
Technical provisions in the financial statements	774,527
Adjustments for regulatory reporting:	
Inclusion of sterling reserves on unit-linked business	(1,547)
Inclusion of the risk margin	5,208
Inclusion of volatility adjustment	(1,676)
Technical provisions for regulatory reporting	**776,513**

Any apparent discrepancies in the sums are due to rounding

Life Unit-linked technical provisions in the financial statements

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

Risk margin in the financial statements

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

Volatility adjustment

D2.36. The volatility adjustment has been used in the calculation of the technical provisions of with-profits business. This also affects the SCR and MCR for 31 December 2019.

D2.37. 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	**777**	**778**	**2**
Tier 1	*52*	*50*	*2*
Tier 2	*0*	*0*	*0*
Tier 3	*2*	*2*	*0*
Total basic own funds	**54**	**52**	**2**
Ancillary own funds	0	0	0
Eligible own funds to meet the SCR	**54**	**52**	**2**
SCR	37	38	0
Excess over SCR	17	14	2
Eligible own funds to meet the MCR	**52**	**50**	**2**
MCR	15	15	0

Transitional risk free interest rate-term structure

D2.38. 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 2019.

Transitional deduction

D2.39. No transitional deduction has been applied in the calculation of the technical provisions, SCR and MCR for 31 December 2019.

Description of the recoverables from reinsurance contracts and special purpose vehicles

D2.40. Refer to sections D 1.16 – D 1.20.

Material changes in assumptions compared to the previous reporting period

D2.41. The main assumptions used in order to calculate the technical provisions for regulatory reporting at 31 December 2018 were set in the same way as the assumptions described above for 31 December 2019.

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 £28,772k. The following have a consistent value with equivalent entries in the financial statements.

	(£000)
Pension benefit obligations	7,680
Derivatives	13,468
Insurance and intermediaries payables	2
Payables (trade, not insurance)	7,622
Total	28,772

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 2019. The main assumptions used to support the liability calculation are the discount rate, inflation, pension increases and life expectancy. The assumptions used differed from the prior year as follows:

Assumption used	**2019**	**2018**
Discount rate	2.10%	2.95%
RPI inflation	3.05%	3.50%
CPI inflation	2.05%	2.50%
LPI 5% pension increases	3.05%	3.50%
Revaluation in deferment	2.05%	2.50%

D3.4. Over 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 2019 of £57,884k. An EBITDA multiple of 8 has been selected, this is based on multiples observed in the market for businesses in this industry.

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 2019 and 2018.

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. The existing Neyber loan facilities (Facility A and Facility B) remain unchanged at the year end but were in default. At that time PMAS had not taken enforcement action but had reserved rights. This was done so as to provide capacity for Neyber to pursue a solvent funding solution as this was considered to be route which protected the maximum value for PMAS.

D4.7. The valuation basis reflected the uncertainty of Neyber being a going concern and was based on the likely recoveries (net of realisation costs) upon the failure of the business and an alternative loan servicer being contracted. This contrasted with the going concern basis of prior years where a discounted cash flow model was used with the discount rates being set with reference to the underlying risks. The same approach has been used in both the financial statements and for solvency purposes. The valuation of the Neyber loan on 31 December 2019 was £6,324k.

D4.8. The majority of the recoveries were expected to flow from Facility A which had direct security over a pool of PMAS member loans. Facility B did not directly hold underlying PMAS member loans as security against the outstanding balance but has security over the Special Purpose Vehicle (SPV, Huddle Finance 2) created to fund additional PMAS member loans. The security over the SPV was Neyber’s interest which relates to subordinated cashflows which are available once the senior lender to the SPV, Goldman Sachs, had been fully satisfied. In the circumstances it was considered with the level of uncertainty that recoveries post subordination to Goldman Sachs would be minimal.

D4.9. It was highlighted in prior years that amounts which were either unsecured or subordinated to Goldman Sachs bore significantly additional risk and that was reflected in the use of a higher discount rate. The valuation of the exposures at the end of 2018 were at a discount compared to the amounts advanced to Neyber.

D4.10. Neyber was ultimately subject to an administration process and the outcome of this was the main source of uncertainty in 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.

E1.5. In line with this one year time horizon, the Board approved a one year operating plan whilst the strategic work was ongoing

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

E1.6. At 31 December 2019, PMAS has £53,735k 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.

E1.7. The Own Funds is comprised of:

£000	31 December 2019	31 December 2018
Tier 1 Surplus Funds	51,828	78,564
Tier 3 (Deferred Tax Asset)	1,906	4,119
Total	**53,735**	**82,683**

Any apparent discrepancies in the sums are due to rounding

More detail on the Deferred Tax Asset is included in section D.

E1.8. 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	10.2
Change in value of Neyber	(11.8)
Change in EBR	1.0
Expense variances	(5.5)
Other tax impacts	0.8
Effect of claims	(2.6)
Impact of new business	(2.2)
Profits on non-profit business after reinsurance	0.5
Change in current liabilities (including SPF)	(0.3)
Change in economic assumptions	(5.1)
Change in non-economic assumptions	(1.1)
Impact of subsidiaries	(15.1)
Other variances	2.2
TOTAL CHANGE	**(28.9)**

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

E1.9. The eligible amount of own funds to cover the SCR is £53,735k. The eligible amount of own funds to cover the MCR is £51,829k.

£000	Basic own funds	Eligible own funds to meet the SCR	Eligible own funds to meet the MCR
Tier 1 – unrestricted	51,829	51,829	51,829
Tier 1 – restricted	0	0	0
Tier 2	0	0	0
Tier 3	1,906	1,906	N/A
Total	**53,735**	**53,735**	**51,829**

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

E1.10. The regulatory value of the excess of assets over liabilities is £53,735k. The financial statements value is £65,946k:

	Notes	Assets (£000)	Liabilities (£000)	Excess (£000)
Financial statements assets and liabilities		**856,495**	**(790,549)**	**65,946**
Adjustments to assets				
Mark to model valuation of subsidiaries in statutory accounts	1	(10,067)		
Intangible assets	2	(157)		
Option impact	3	12,748		
Total adjustments to assets		**2,524**		**2,524**
Adjustments to liabilities				
Sterling reserve	4		1,547	
Risk Margin	5		(5,208)	
Volatility Adjustment	6		1,676	
Options impact	3		(12,748)	
Total adjustments to liabilities			**(14,733)**	**(14,733)**
Regulatory assets and liabilities		**859,020**	**(805,283)**	**53,735**

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. The Report & Accounts has treated the liability side of the options as a negative asset.
4. 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.
5. The Risk Margin is a liability specific to the regulatory balance sheet. This is not a liability recognised in the financial statements.
6. The volatility adjustment is specific to the regulatory balance sheet. No allowance is made for this in the financial statements.

E1.11. 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 2019 was £36,782k.

E2.2. The MCR at 31 December 2019 was £14,613k.

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 2019	31 December 2018
Total market risk	28,788	40,076
Total counterparty default risk	3,927	4,299
Total life underwriting risk	7,339	8,649
Total health underwriting risk	0	0
Total non-life underwriting risk	0	0
Diversification	(7,273)	(8,556)
Total operational risk	4,001	4,069
Total	**36,782**	**48,538**

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.

Loss absorbing capacity of deferred tax

E2.7. There is no offset included in the SCR computation associated with the loss absorbing capacity of deferred tax.

Information on the inputs used to calculate the Minimum Capital Requirement

E2.8. The linear MCR for 31 December 2019 (£14,613k) was higher than the MCR floor which is calculated as 25% of the SCR (£9,195k).

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

E2.9. The SCR has reduced during the year by £11,756k and the MCR has increased by £503k. The main reasons for SCR reduction are:

- Revisions to management actions allowed for in the SCR;
- Implementation of derivative protection strategy in the investment assets; and
- Positive investment return in 2019.

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 2019.

E6. Any other information

After the year end, the impact of the Covid-19 virus has created and will continue to create unprecedented social and economic pressure across the globe. At the date of this report, the response to and advice in respect of Covid-19 from the UK government is evolving rapidly and the impact on businesses and individuals is uncertain.

During late February and March, the financial markets experienced extreme volatility in equity, bond and commodity prices. In addition to this, the threat of an oil price war provided further market uncertainty. Significant actions to address economic issues and concerns have already been taken by national governments and central banks and, in the UK, by the Bank of England and through the March 2020 budget.

As of 31 March 2020, the solvency position of the balance sheet had deteriorated from the year-end position, showing a solvency ratio of 124%, down from 146% at 31 December 2019.

The impact of these market movements on our with-profits policyholder returns has been reduced due to the equity hedging arrangements we have in place. We have also taken investment policy decisions to reduce our equity exposure and overall investment risk.

We have also made an interim bonus declaration for our conventional with-profits policies which had and will continue to have the impact of reducing maturity and surrender payments to reflect the falls in markets and to reduce the financial impact of our payment smoothing. The maturity values will be reduced by approximately 5%, although will still be above the unsmoothed asset shares, and surrender values by about 10%. Bonus rates will continue to be monitored within the context of stock market movements. The Group will continue to monitor the markets and take appropriate action to protect the interests of our policyholders and members to the best of our abilities.

Whilst UK government advice in respect of safeguarding individuals and controlling the spread of Covid-19 is emerging and changing rapidly, we have set up an Incident Management Team (IMT) to develop plans in response to this advice and to implement policies to protect our staff. These inevitably involve more home working across our business to support the government's drive to reduce social contact for a period. We have made good progress, and believe that we will be able to support homeworking for almost 100% of our staff without a significant impact on service standards. The directors accept that during a period of exceptional change, focus on the integrity and effectiveness of internal controls must not diminish and where processes have needed to change, these changes have been documented and approved.

The extent and duration of the impact of Covid-19 is very difficult to predict. We do expect there to be disruption to our sales activity. Face to face sales will be impacted by travel and social engagement restrictions, illness can affect both our staff and potential customers, and, perhaps most importantly of all, our customers may well have higher immediate priorities than saving and investing. Equally, home and motor insurance remains important and online and telephony channels mean we will not see a complete cessation in business volumes. In addition, and noting the proposed transfer to Royal London, we do not currently foresee any long term reduction in sales potential. The directors will continue to monitor this situation very closely and take actions where appropriate.

We acknowledge the important role that the Police and Military will need to play in the collective response to Covid-19 and we will endeavour to continue to serve our members and policyholders. At this stage, the impact to the overall business is not known, however we expect it to impact future business volumes and sales, at least in the short term.

APPENDIX 1 VALIDATION AND APPROVAL

VALIDATION

Financial period ended 31 December 2019

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: 22 May 2020

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 2019
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

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	1,906
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)	659,766
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	47,817
R0100	*Equities*	220,454
R0110	*Equities - listed*	220,454
R0120	*Equities - unlisted*	0
R0130	*Bonds*	218,834
R0140	*Government Bonds*	48,109
R0150	*Corporate Bonds*	170,725
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	167,785
R0190	*Derivatives*	4,875
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	112,779
R0230	Loans and mortgages	2,101
R0240	*Loans on policies*	2,101
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	9,760
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*	9,760
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	9,760
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,121
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	453
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	65,284
R0420	Any other assets, not elsewhere shown	576
R0500	**Total assets**	859,020

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)	664,522
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)*	664,522
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	660,072
R0680	*Risk margin*	4,449
R0690	Technical provisions - index-linked and unit-linked	111,991
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	111,233
R0720	*Risk margin*	758
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	7,680
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	13,468
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	2
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	7,622
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**	805,285
R1000	**Excess of assets over liabilities**	53,735

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations			Total
		Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	
		C0220	C0230	C0240	C0300
	Premiums written				
R1410	Gross	86,706	5,600	4,954	97,260
R1420	Reinsurers' share	0	0	1,571	1,571
R1500	Net	86,706	5,600	3,383	95,688
	Premiums earned				
R1510	Gross	86,706	5,600	4,954	97,260
R1520	Reinsurers' share	0	0	1,571	1,571
R1600	Net	86,706	5,600	3,383	95,688
	Claims incurred				
R1610	Gross	124,648	12,470	1,631	138,749
R1620	Reinsurers' share	91	0	896	988
R1700	Net	124,557	12,470	734	137,761
	Changes in other technical provisions				
R1710	Gross	4,736	-12,814	6,038	-2,040
R1720	Reinsurers' share	0	0	-1,002	-1,002
R1800	Net	4,736	-12,814	7,039	-1,038
R1900	**Expenses incurred**	10,581	1,441	999	13,021
R2500	**Other expenses**				
R2600	**Total expenses**				13,021

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0210
R1400		Home Country	Total Top 5 and home country
		C0220	C0280
	Premiums written		
R1410	Gross	97,260	97,260
R1420	Reinsurers' share	1,571	1,571
R1500	Net	95,688	95,688
	Premiums earned		
R1510	Gross	97,260	97,260
R1520	Reinsurers' share	1,571	1,571
R1600	Net	95,688	95,688
	Claims incurred		
R1610	Gross	138,749	138,749
R1620	Reinsurers' share	988	988
R1700	Net	137,761	137,761
	Changes in other technical provisions		
R1710	Gross	-2,040	-2,040
R1720	Reinsurers' share	-1,002	-1,002
R1800	Net	-1,038	-1,038
R1900	**Expenses incurred**	13,021	13,021
R2500	**Other expenses**		
R2600	**Total expenses**		13,021

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance		
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050	C0060	C0070	C0080
R0010	**Technical provisions calculated as a whole**	0	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			0		
	Technical provisions calculated as a sum of BE and RM							
	Best estimate							
R0030	**Gross Best Estimate**	618,049		0	111,233		9,856	32,168
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						2,918	6,842
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	618,049		0	111,233		6,938	25,326
R0100	**Risk margin**	4,214	758			235		
	Amount of the transitional on Technical Provisions							
R0110	Technical Provisions calculated as a whole							
R0120	Best estimate							
R0130	Risk margin							
R0200	**Technical provisions - total**	622,263	111,991			42,258		

S.12.01.02

Life and Health SLT Technical Provisions

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)		
						Contracts without options and guarantees	Contracts with options or guarantees
		C0090	C0100	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0	0			
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		0	0			
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**		0	771,305			
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0	9,760			
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		0	761,545			
R0100	**Risk margin**		0	5,208			
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole			0			
R0120	Best estimate			0			
R0130	Risk margin			0			
R0200	**Technical provisions - total**		0	776,513			

S.12.01.02

S.12.01.02

Life and Health SLT Technical Provisions

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

S.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	776,513	0	0	1,676	0
R0020	Basic own funds	53,735	0	0	-1,676	0
R0050	Eligible own funds to meet Solvency Capital Requirement	53,735	0	0	-1,676	0
R0090	Solvency Capital Requirement	36,782	0	0	1,383	0
R0100	Eligible own funds to meet Minimum Capital Requirement	51,829	0	0	-1,676	0
R0110	Minimum Capital Requirement	14,613	0	0	129	0

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	51,829	51,829			
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	1,906				1,906
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**	53,735	51,829	0	0	1,906

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	53,735	51,829	0	0	1,906
R0510	Total available own funds to meet the MCR	51,829	51,829	0	0	
R0540	Total eligible own funds to meet the SCR	53,735	51,829	0	0	1,906
R0550	Total eligible own funds to meet the MCR	51,829	51,829	0	0	

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0580	**SCR**	36,782				
R0600	**MCR**	14,613				
R0620	**Ratio of Eligible own funds to SCR**	146.09%				
R0640	**Ratio of Eligible own funds to MCR**	354.67%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	53,735
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	53,735
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	924
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	924

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	98,199		
R0020	Counterparty default risk	3,927		
R0030	Life underwriting risk	33,817		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-23,153		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	112,790		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	4,001
R0140	Loss-absorbing capacity of technical provisions	-80,009
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**	36,782
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	36,782
	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

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Solvency Capital Requirement - for undertakings on Standard Formula

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Not applicable

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

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	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	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	14,613

S.28.01.01

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

		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	505,777	
R0220	Obligations with profit participation - future discretionary benefits	112,272	
R0230	Index-linked and unit-linked insurance obligations	111,233	
R0240	Other life (re)insurance and health (re)insurance obligations	32,263	
R0250	Total capital at risk for all life (re)insurance obligations		402,319

	Overall MCR calculation	C0070
R0300	Linear MCR	14,613
R0310	SCR	36,782
R0320	MCR cap	16,552
R0330	MCR floor	9,195
R0340	Combined MCR	14,613
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	14,613