Solvency and Financial Condition Report (SFCR).

For the Year Ended 31 December 2019

Tesco Underwriting Limited
Company Registration Number: 6967289

CONTENTS

SUMMARY

This is the fourth Solvency and Financial Condition Report (SFCR) for Tesco Underwriting Limited (TU, the Company). All amounts in the tables of this SFCR are denominated in £'000, unless stated otherwise.

A. Business and Performance

Tesco Underwriting Limited (TU) is a partnership between Ageas (UK) Limited and Tesco Personal Finance plc, with Ageas (UK) Limited owning 50.1% and Tesco Personal Finance plc 49.9%. Tesco Underwriting Limited is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

During 2019 TU continued its underwriting of personal lines insurance business (car and home) distributed by Tesco Personal Finance plc.

TU has been compliant with Solvency II requirements from the beginning of 2016 and had capital resources of 160% (2018:145%) of its Solvency Capital Requirement (SCR) at year end.

In March 2019, the Board authorised a dividend payment of £31.3m and a repayment of subordinated debt of £15.7m following a share capital reduction of £16m. Post these changes, PIM SCR coverage was estimated at 145%.

2019's IFRS profit before tax was £28.4m. Within the Motor portfolio, the Ogden discount rate change from -0.75% to -0.25% on 15 July 2019 resulting in a £7.4m increase in profit. The underlying motor performance showed large bodily injury losses for the current accident year being offset by positive development from prior accident years. Within the Home portfolio the current year result was impacted by favourable weather conditions.

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At the end of December 2019 TU's capital position was:

- Solvency II Own funds - £189.7m
- Approved Partial Internal Model (PIM) Capital Requirement - £118.5m
- Solvency Ratio - 160%.

The vision for the Company is to be the "Insurer of choice for Tesco Customers" whilst the overall role for TU is to maintain a profitable position within the UK personal lines car and home market supporting the Tesco Personal Finance plc personal lines insurance strategy.

TU operates in a highly competitive market place with the uncertainty of forthcoming significant regulatory change including: Ogden rate changes, Whiplash and Ministry of Justice Reforms, ongoing Solvency II requirements as well as renewal transparency.

During 2019 there were no material changes to the business in the context of this report, but it is worth noting that 2019 business profitability and revisions in the Ogden discount rates have favourably impacted the levels of capital within the business.

Throughout 2019 TU has maintained a regular dialogue with the PRA including updates on actual and expected capital coverage as well as face to face meetings on business progress and sharing of Board papers.

In February 2020 TU convened a COVID-19 Core Response team from across the business which reports into the TU Executive Committee twice weekly. The situation has developed rapidly and at the time of writing TU has implemented Crisis Management with daily calls and strong focus through the Crisis Management Team. Following Boris Johnson’s announcement on 23rd March, TU has closed its Reigate office whilst maintaining attendance of a proportion of the staff in the Claim operation in Newcastle in order to maintain claims handling which cannot be undertaken remotely. However, staffing is commensurate with the reduced volumes of calls being received which at this point are about 60% less than plan.

The directors consider that the financial impact of the COVID-19 virus on the UK economy and the company cannot currently be estimated with any degree of certainty. In assessing the potential impact on the company, the directors have prepared various financial projections of impacts including reduced claims costs, investment value variability, operating expenses and premium income on the basis of a UK shutdown lasting around 3 months with a return to normal trading over the following 3 to 6 months and taking account of anticipated management actions and UK government support.

B. System of Governance

The decision making framework within TU has been defined by the shareholders. In accordance with the terms of the Shareholder Agreement, the TU Board has been delegated responsibility by TU's shareholders for the overall direction and supervision of the Company. The framework reflects the principle of delegated authority based on competence and appropriate mechanisms and triggers for escalation.

The role of the TU Board is to provide oversight of TU’s business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements. The Board delegates authority to certain committees in order that they may monitor and oversee specific aspects of the business without reference to the Board. The committees are accountable to the Board, and responsibility rests with the Board.

The TU Board has delegated authority and responsibility for key activities to designated Senior Managers in accordance with the requirements of SM&CR. The allocation of significant responsibilities is documented and maintained within TU's Governance Map.

TU has put in place policies and procedures that provide evidence of fitness and propriety for Directors, Senior Managers and those responsible for discharging a key function. Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual’s skills and experience.

TU operates a “Three Lines of Defence” governance model to provide management with reasonable assurance that the company is run in a proper way. TU management and staff have the primary responsibility for owning and managing risks (First Line of Defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (Second Line of Defence). Internal Audit provide independent verification and challenge of the adequacy and effectiveness of the internal risk and control framework (Third Line of Defence).

The goal of TU’s approach to risk management is to ensure that all significant risks are understood and effectively managed through a well-designed risk management framework. The objective of such a framework is to add value to the business as well as ensure adequate systems and controls operate.

C. Risk Profile

TU defines risk as the deviation from anticipated outcomes that may have an impact on its solvency, earnings, liquidity, customers and/or reputation and therefore its business objectives and/or future opportunities. TU's risks therefore stem from its exposure to both external and internal risk factors in conducting its business activities. TU only seeks to take on risks that:

- It has a good understanding of (i.e. is within current expertise and available information);
- Can be adequately managed at both the individual and overall portfolio level;
- Are affordable (i.e. within the TU risk appetite); and
- Have an acceptable risk-reward trade-off

The most significant risks that TU is exposed to are: Non-Life Insurance risk, Market Risk and Operational Risk – these and all risks with the TU Taxonomy are managed through a combination of polices, processes and reports. The key risks are reviewed quarterly by the Management Risk Committee (MRC) and subsequently by the Board Risk Committee (BRC).

The monitoring of these risks as assessed by the business (First Line) is facilitated by the quarterly Control Risk Self-Assessment (CRSA) process, and articulated around the annual Strategic Planning and ORSA (Own Risk and Solvency Assessment) processes, supported by relevant modelling approaches.

D. Valuation for Solvency Purposes

The valuation of assets and liabilities for Solvency II purposes is the same as IFRS except for:

- DAC, other intangibles, tangible fixed assets and prepayments are excluded from the SII balance sheet.
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments.
- Reinsurance assets (claim recoveries) are discounted for SII balance sheet purposes.
- Technical provisions (claims reserves and unearned premium reserves) are discounted for SII balance sheet valuation purposes.
- Subordinated debt within the IFRS balance sheet classified as subordinated liabilities has been reclassified from liabilities to own funds in line with SII requirements. Each of the eligibility criteria required for the subordinated debt to qualify as Tier 2 capital, as set out in Article 73 of delegated regulation (EU) 2015/35 have been met. The debt is fully subordinated in the event of a winding up, with the claims of the holder of the debt subordinated to the claims of the senior creditors (including policyholders and non-subordinated creditors). The subordinated debt is fully available to absorb losses and is free from encumbrances.

Key valuation adjustments are shown in the table between IFRS and SII balance sheet illustrated below:

	Actual 2019	Actual 2018
IFRS Equity	165,379	165,514
Subordinated liabilities	42,333	58,000
Total valuation differences	(32,938)	(37,721)
Removal of DACs	(10,429)	(19,320)
Derecognition of tangible and intangible assets	(7,206)	(5,791)
Derecognition of prepayments	(1,754)	(2,732)
Net discounting to PV of insurance assets	(4,350)	(16,081)
Net best estimate of liabilities	1,554	55,379
Tax impact on valuation differences	(4,208)	(2,176)
Forseeable dividend	-	(47,000)
Total Solvency II Own Funds (PIM)	189,735	185,793

The SII Own Funds increased in 2019 relative to 2018. This difference is driven partly by the Ogden discount rate being -0.25% in IFRS in 2019 compared to -0.75% in 2018, compared to the Solvency I change from 0% in 2018 to -0.25% in 2019. Also partly by the removal of DAC adjustment against reducing commission rates and falling volumes and partly by the use of the volatility adjuster in the valuation of Technical provisions.

E. Capital Management

TU operates a capital contingency plan which gives the business guidance on actions / considerations at different SII capital coverage levels. For example, TU successfully implemented its Capital Contingency Plan in the first quarter of 2017 following the announcement of the reduction in the Ogden discount rate to minus 0.75% on 27th February 2017. Together with 2017 profitability and the implementation of additional reinsurance this increased TU's coverage from 101% to 169% at the end of 2017.

At the end of 2019 TU had SII own funds of £189.7m (2018: £185.8m). With the TU SCR PIM at £118.5m at the end of 2019 (2018: £128.4m) this resulted in capital coverage of 160% (2018: 145%).

As TU usually holds bonds to maturity, the volatility adjuster removes the impact of short term volatility on bond yields. Excluding the use of volatility adjuster at the end of 2019, SII own funds would have been £187.6m, leading to a capital coverage of 158%.

In March 2019 there was a dividend payment of £31.3m and a repayment of subordinated debt of £15.7m.

Directors' Statement

Approval by the Board of Directors

Financial Year ended 31 December 2019

We certify:

(a) That the Solvency and Financial Condition Report ("SFCR") has been prepared in all material respects in accordance with the PRA Rules and Solvency II Regulations, and

(b) We are satisfied that:

    (i) throughout the financial year in question, Tesco Underwriting has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer, and

    (ii) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

Steve Kingshott

CEO

Colin Anthony

Chief Underwriting Officer

6 April 2020

Auditor’s Statement

Report of the external independent auditor to the Directors of Tesco Underwriting Limited (‘the Company’) pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

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

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of The Company as at 31 December 2019, (**‘the Narrative Disclosures subject to audit’**); and
- Company templates S02.01.02, S12.01.01, S17.01.02, S23.01.01 and S28.01.01 (**‘the Templates subject to audit’**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **‘Relevant Elements of the Solvency and Financial Condition Report’.**

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

- information contained within the relevant elements of the Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21 and S.25.02.21
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**‘the Responsibility Statement’**).

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

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA and the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for:

- such internal control as management determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error;
- overseeing the Company's financial reporting process; and
- assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other Matters

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

Report on Other Legal and Regulatory Requirements

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

Use of the audit report

His report, including the opinion, has been prepared for the Directors of the Company to enable them to comply with their obligations under External Audit Rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.

Steve Liddell

Steve Liddell
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katherine's Way
London
E1W 1DD

6 April 2020

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

Solo partial internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

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

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

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

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.01.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

A

BUSINESS and PERFORMANCE (unaudited)

A.1 Business

A.1.1 General Information

The following terminology is used to denote the entities referred to within this document:

- TU – Tesco Underwriting Limited (the "Company").
- Ageas (UK) – Ageas (UK) Limited, the holding company of Ageas' insurance operations in the UK ("Shareholder").
- Ageas UK – Ageas (UK) and all subsidiary companies.
- TPF – Tesco Personal Finance Plc ("Shareholder").
- Board – the Board of Directors of TU

TU is registered in England and Wales and its registered address is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

Ageas (UK) is registered in England and Wales and its registered address is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

TPF is registered in Scotland and its registered address is 2 South Gyle Crescent, Edinburgh, EH12 9FQ.

TU's auditors are Mazars LLP, Tower Bridge House, St Katharine's Way, London E1W 1DD.

A.1.2 Group Structure and ownership

Tesco Underwriting Limited (TU) is a partnership between Ageas (UK) Limited and Tesco Personal Finance plc, with Ageas (UK) Limited owning 50.1% and Tesco Personal Finance plc 49.9%. Tesco Underwriting Limited is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority.

Contact details are:

The PRA
Bank of England
Threadneedle Street
London
EC2R 8AH

The FCA
12 Endeavour Square
London
E20 1JN

TU's Shareholder Ageas (UK) is in turn owned 100% by Ageas International Insurance NV.

TU's Shareholder TPF is in turn owned 100% by Tesco Personal Finance Group Ltd (the latter owned by Tesco PLC).

Until 4 March 2019 The Law Debenture Trust Corporation plc held Ageas (UK) and TPF's shareholdings in trust. From 4 March 2019 Ageas (UK) and TPF held their shareholdings in TU directly.

A.1.3 Description of our material lines of business and material geographical areas where we write business

The Company underwrites personal Motor and Home insurance policies for Tesco Bank customers and provides these customers with a claims management service.

The Company's policies are written within the United Kingdom and the Channel Islands.

A.1.4 Challenges facing insurers

Technology, digitisation, regulation, capital, reinsurance costs and a highly competitive market remain the largest challenges facing insurers.

New trends surrounding connected homes, wearable technology sensors and autonomous cars will impact the lives of our customers and, therefore, our role as insurer.

Consumer behaviours are also changing. Customers are more discerning, seeking greater control and demanding the highest levels of service. As a part of that evolution, they expect a greater degree of customisation and personalisation. To meet this need, we are investing in data analytics to enable us to support our pricing and customer experience. We will also use the insight from data to engage with our customers at an earlier stage, shifting the emphasis more towards risk prevention.

The Company has considered risks associated with covid-19.

The directors consider that the financial impact of the COVID-19 virus on the UK economy and the company cannot currently be estimated with any degree of certainty. In assessing the potential impact on the company, the directors have prepared various financial projections of impacts including reduced claims costs, investment value variability, operating expenses and premium income on the basis of a UK shutdown lasting around 3 months with a return to normal trading over the following 3 to 6 months and taking account of anticipated management actions and UK government support.

A.2 Underwriting Performance

A.2.1 Non-life Insurance

The overall role of TU is to support the TPF personal lines insurance strategy through innovative underwriting and product initiatives, whilst driving financial returns for the two shareholders by maintaining strong underwriting, risk and financial controls.

TU has defined a business strategy and vision. The core strategy for the business is to optimise the end to end value of the business and the assets and capabilities of the joint venture.

A.2.2 Results and Capital position

The IFRS results of the business are as follows:

Total £'000	2019	2018	Variance
Gross Written Premium	309,953	342,086	(32,132)
Gross earned premiums	328,697	359,401	(30,704)
Reinsurers' share of premiums	(70,014)	(48,686)	(21,328)
Gross incurred claims	(198,221)	(262,001)	63,780
Reinsurers' share of claims	19,924	46,305	(26,380)
Expenses	(68,909)	(88,456)	19,547
Net underwriting result	11,478	6,563	4,915
Other Income	4,497	5,412	(915)
Investment Income	14,514	15,100	(586)
Profit before Tax and interest	30,490	27,075	3,414

An analysis of the individual lines of business (Motor and Home) can be found in QRTs S.05.01.02 (Non-Life and Life) in the Appendix. The IFRS post-tax Profit for the year ended 31st December 2019 was £23m (2018: £19.8m profit).

The underlying performance showed large bodily injury losses experienced in the current year being offset by positive prior year development from claims settlements. With the Motor portfolio, the Ogden discount rate change from -0.75% to -0.25% on 15 July 2019 resulted in a material impact on profit. Within the Home portfolio favourable weather conditions resulted in a positive position compared to plan.

Net Assets on an IFRS basis as at 31st December 2019 were £165.3m (2018: £165.5m).

Solvency II available capital at the end of 2019 was £189.7m (2018: £185.8m) which is 160% (2018: 145%) of the Partial Internal Model Solvency Capital Requirement (PIM SCR).

In March 2019, the Board authorised a dividend payment of £31.3m and a repayment of subordinated debt of £15.7m following a share capital reduction of £16m. Post this reduction, PIM SCR coverage was estimated at 145%.

A.3 Investment Performance

A.3.1 Information about the investment performance

Investment income declined by 3.9% in 2019 as a result of lower market yields on reinvested funds.

A.3.2 Investment performance by asset class:

Investment Income £'000	2019	2018
UK Government Bonds	0	0
Supranational/Agency Bonds	1,248	1,247
Corporate Bonds	12,556	13,533
Property	254	46
Bank Deposits	457	274
Total investment income	14,515	15,100

2019 Investment income including realised gains and excluding investment expenses was £14.5m (2018:£15.1m). Investment income is lower in 2019 compared to 2018 due to lower income from bonds due to a decreased portfolio size in 2019 compared to 2018 as a result of withdrawals made in the year.

During 2019, TU continued to invest in Tritax Property Income Fund Unit Trust, the value at the end of the year being £19.1m.

A.3.3 Gains and losses recognised directly in equity

£'000 Assets available for sale	2019	2018
Unrealised Gains	12,023	122
Unrealised Losses	(2,186)	(13,816)
Total	9,838	(13,694)

During 2019 TU experienced an overall unrealised gain. As a buy and hold investor the portfolio is exposed to the movement in the yield curve as well as spread movements. It is these movements which caused the gains and losses in the period.

A.4 Performance of other activities

There are no other material activities to report upon.

A.5 Any other information

There is no other material information to disclose.

B

SYSTEM OF GOVERNANCE (unaudited)

B.1 General Information on the system of governance

B.1.1 Overall governance framework

Tesco Underwriting ('TU') promotes and sustains high standards of corporate governance, and have therefore established a governance framework, based upon the high level principles as set out within the Prudential Regulation Authority (PRA) Rulebook, the Financial Conduct Authority (FCA) Handbook, the Wates Corporate Governance Principles for Large Private Companies (Wates Principles), the UK Corporate Governance Code (where relevant), aligned to shareholder principles and governance requirements.

The TU Corporate Governance Manual (the "Manual") has been established which incorporates these principles and explains how they are reflected in the organisation and operations of the TU business. The Corporate Governance framework operates through individuals fulfilling their responsibilities, and these are outlined within specific job descriptions, the TU Management Responsibilities Map (where applicable), together with policies, procedures and processes which record accountabilities. Compliance with these standards and requirements will ensure that TU meets not only the expectations of shareholders but also other key stakeholders in the business such as customers, employees, business partners and regulators.

Good corporate governance means that TU maintains the flexibility to adapt its structure to altered circumstances, new legislation and other significant events. The Board will annually, or more frequently when circumstance so require, review the Manual and make such changes as it deems appropriate. The Manual will routinely be updated to reflect changes in governance arrangements, and was last updated in November 2019.

The decision making framework within TU has been defined by the shareholders and in accordance with the terms of the Shareholder Agreement, the TU Board has been delegated responsibility by its shareholders for the overall direction and supervision of the Company. The Board does not delegate or take any decisions that are set out as Board or Shareholder reserved matters respectively. The decision making framework reflects the principle of delegated authority based on competence and appropriate mechanisms and triggers for escalation. The Board delegates authority to certain committees in order that they may monitor and oversee specific aspects of the business without reference to the Board. The committees are accountable to the Board, responsibility rests with the Board. In summary the key responsibilities are:

The TU Board of Directors

The role of the TU Board is to provide oversight of TU's business and exercise control over the business ensuring the direction and performance of the business is aligned to shareholder objectives and is managed competently and prudently in accordance with legislative and regulatory requirements.

The Audit Committee

The role of the Audit Committee is to assist the Board in fulfilling its responsibilities for oversight of the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The Board Risk Committee

The role of the Board Risk Committee is to assist the Board in fulfilling its responsibilities for oversight of the adequacy and effectiveness of risk governance and its capital allocation and models and in particular the risk profile relative to the risk appetite determined by the Board.

The Remuneration Committee

The Remuneration Committee's role is to assist the Shareholders in all matters relating to the remuneration of the TU executive directors. Its primary role is to consider and make recommendations for approval by the Shareholders on any material decision relating to the remuneration, benefits, employment terms and/or pension scheme arrangements of the executive and senior management.

The Model Control Board

The role of the Model Control Board (MCB) is to assist the Board Risk Committee, and in turn the Board, in fulfilling its responsibilities in respect of appropriate model governance, design and operation, providing assurance to the Board via the Board Risk Committee on the appropriateness and effectiveness of the models included on the Model Register (together the “Models”).

The Investment Committee

The Investment Committee oversees the performance of TU investments, identifying, developing and recommending appropriate investment strategies to the TU Board and overseeing the implementation and adherence to the approved investment strategies by TU’s investment advisers.

The Reinsurance Committee

The role of the Reinsurance Committee is to oversee the implementation of the TU reinsurance strategy, identifying reinsurance needs in the context of the overall business strategy, detailing reinsurance requirements, reviewing the appointment of placing brokers, negotiating policy terms and monitoring treaty placement.

Executive Committee

The Executive Committee’s role is to effectively manage the business of TU, ensuring its direction and performance is aligned to shareholder objectives and that all actions agreed with the Board are delivered to agreed standards and timescales and that any actions from the agreed plans are actively managed.

Senior Management

The role of Senior Managers is to manage the business function for which they are responsible in keeping with the values, strategies, policies, plans and budgets confirmed by the Board. Senior managers are required to demonstrate they are accountable and responsible in delivering effective governance, including taking responsibility and being accountable for the decisions they make, and exercising rigorous oversight of the business areas they lead. In exercising this role, Senior Management are responsible for complying with the legal and regulatory framework applicable to the business.

The Board and Chief Executive Officer, as appropriate, will delegate powers to specific individuals within the organisation. This provides a “top down” and “bottom up” reporting and accountability structure within business units and functions. In some instances, the TU Board considers it appropriate for individuals within key TU functions to interact with their counterparts within their Shareholders’ business, for example where there are opportunities to share expertise and to ensure there is alignment with the Shareholder’s strategy.

In February 2020 TU convened a COVID-19 Core Response team from across the business which reports into the TU Executive Committee twice weekly. The situation has developed rapidly and at the time of writing TU has implemented Crisis Management with daily calls and strong focus through the Crisis Management Team. Following Boris Johnson’s announcement on 23rd March, TU has closed its Reigate office whilst maintaining attendance of a proportion of the staff in the Claim operation in Newcastle in order to maintain claims handling which cannot be undertaken remotely. However, staffing is commensurate with the reduced volumes of calls being received which at this point are about 60% less than plan.

B.1.2 Material transactions during the reporting period

At the end of 2019 TU’s subordinated loan advanced by its shareholders was in two tranches:

- £ 28,000,000 which carries an interest rate of LIBOR + 3.5%, payable quarterly

- £ 14,333,333 which carries an interest rate of LIBOR + 4.5%, payable quarterly

The total subordinated loan of £ 42,333,333 is 50.1% with Ageas UK and 49.9% with TPF.

In March 2019 the Board authorised the repayment of £15,666,667 of subordinated loan in the light of the Company's strong capital position. This reduced the total subordinated loan from £58,000,000 to £42,333,333 with the repayment being made from the 3.5% tranche.

TU has related party balances with both shareholders who provide outsourced various services including IT, Claims handling and shared Property costs.

TU does not have any intra-Group reinsurance arrangements.

B.1.3 Material changes in systems of governance over the reporting period

There have been no material changes in TU's systems of governance over the reporting period.

B.2 Fit and proper requirements

B.2.1 Policies and processes to ensure these people comply to fit and proper requirements

In accordance with the requirements of SM&CR, the responsibilities for running TU are allocated across each senior manager and set out within individual Statements of Responsibilities. This allocation includes the Prescribed Responsibilities designated by the PRA and FCA, with each Prescribed Responsibility being allocated to a SMF role holder who is the senior manager wholly accountable for it. The allocation of key responsibilities across TU, including the Prescribed Responsibilities, is shown within the Management Responsibilities Map within the TU Governance Manual.

The Board needs to collectively hold the qualifications, knowledge and experience necessary to run a company of TU's size and complexity.

The obligation to be fit and proper continues for as long as the individual remains a Director, a Senior Manager, a certification function or a key function holder (KFH) and failure to remain fit and proper to perform their controlled function can result in the PRA/FCA prohibiting that individual from performing that function. TU has put in place policies and procedures that provide evidence of fitness and propriety, including a recruitment and appointment process for Directors, Senior Managers, certification functions and KFHs, a regular cycle of appraisals and performance reviews, and up to date training records, in addition to an annual self-certification exercise.

Supporting documentation is collated prior to appointment, and in conjunction with the recruitment and appointment processes, which provides information on the individual's skills and experience and includes, but is not limited to:

- Detail of their personal characteristics (including being of good repute and integrity);
- Their level of competence, knowledge and experience;
- Their qualifications; and
- Confirmation that they have undergone or are undergoing all training; and
- Financial soundness.

Details of TU's key functions and KFHs notified to and approved by the PRA under SM&CR are shown in B2.2.

B.2.2 List of people responsible for key functions as at 31st December 2019

Core Function	Role Holder	SMR/KFH	Reporting Lines
Board Chair	S Machell (INED)	SMF9	N/A
Audit Committee Chair	C Ramsay (INED)	SMF11	N/A
Board Risk Committee Chair	M Cronin (INED)	SMF10	N/A
Remuneration Committee Chair	S Machell (INED)	SMF12	N/A
CEO leadership	S Kingshott (TU CEO)	SMF1	S Machell (Board Chair) (SMF9)
Finance	S Grainge (TU FD)	SMF2	S Kingshott (TU CEO) (SMF1)
Underwriting	C Anthony (CUO)	SMF23	S Kingshott (TU CEO) (SMF1)
Risk Management and Compliance	S Wright (CRO)	SMF4 SMF16 KFH	S Kingshott (TU CEO) (SMF1)
Actuarial	A Collins (Chief Actuary)	SMF20 KFH	S Grainge (TU FD) (SMF2)
IT and Outsourcing	J Gaynor (Head of Business Services & Change)	SMF24	S Kingshott (TU CEO) (SMF1)
Internal Audit	D Simpson (Ageas Director of Internal Audit)	SMF5 KFH	Overseen by Audit Committee Chair
HR	L Nicholls (Ageas HR Director)	SMF18	Overseen by the Board Chair. (The TU Head of HR and Development reports directly to L Nicholls).

B.2.3 Remuneration entitlements over the reporting period

Principles of remuneration policy

TU have established a Remuneration Policy, oversight of which is provided by the TU Remuneration Committee of Independent Non-Executive Directors, who consider and ensure the framework and arrangements that govern the remuneration of the Executive and Senior Management are appropriate, transparent and are aligned to TU's long term business strategy, risk appetite and values, and that the remuneration structure meets statutory, regulatory and shareholder requirements.

Details of Directors' Emoluments that are applicable to TU have been included within the notes to the 2019 financial statements of the company (note 27 Directors' remuneration).

The Remuneration Policy describes the following objectives:

- To be able to attract, retain and motivate our Executives to deliver the required standard of performance;

- Reward contribution to the business as well as reflecting the objectives of the shareholders of the partnership ensuring that all risk exposures are consistent with the Company's formally agreed Risk Appetite;
- Recognise individual performance as well as seeking to reinforce personal behaviours that deliver on TU's values;
- Provide a competitive remuneration package, which is fair and reasonable compared to the market, and in the context of the wider employee population; and
- Provide a remuneration structure which meets statutory and regulatory requirements.

The approach is to provide a combination of fixed and variable pay, consistent with UK market practices. Employees are eligible to participate in TU's Bonus Scheme which consists of two elements – business performance and individual performance. The Scheme includes an element of deferral should certain thresholds be met. All employees in the UK are eligible to join a Group Personal Pension Scheme.

Specific Features of remuneration structure

The following features of the remuneration strategy contribute to ensuring remuneration of staff supplying services to TU is aligned with TU's business strategy, risk profile, objectives, risk management practises and long-term interests:

- Fixed Pay:
    - This represents a sufficient proportion of the remuneration package, so no individual is dependent on variable pay.
    - No element of TU staff's fixed pay is dependent on sales targets and/or volumes.
    - When we decide the salaries we pay for any role, we need to balance remaining competitive enough to attract and retain talent and managing our costs effectively.
    - We work with Ageas to undertake an annual benchmarking of all roles against similar roles in the insurance industry and, for those that aren't unique to insurance, to the wider market. This benchmarking data, together with knowledge of local markets, competitors and recruitment challenges is used to agree a salary range that we believe is fair, competitive and affordable.

- Performance Targets:
    - All TU staff's personal objectives should link back to, and enable them to contribute to the delivery of TU's strategic business objectives.
    - Feedback and process against objectives is reviewed and recorded regularly, supported by regular reviews to enable effective mid-year and end-of-year reviews.
    - To achieve a particular rating, employees must meet specific criteria as described in TU's Performance Management Framework. There will be a combined rating representing Performance Against Objectives and Job Role and secondly TU Values.

- Tesco Underwriting Bonus Scheme:
    - TU's Bonus Scheme document describes the rules that will apply to all eligible colleagues.
    - The Scheme rules are discretionary and apply for performance in 2019, and bonus payments, if triggered, will be payable with salaries in April 2020.
    - There are three measures which are included within the calculation of the bonus, each of which constitutes one third of the total on target or potential bonus payment. These are:
        - Gross written premium - the target for the value of the policies that are sold during the year;
        - Profit - achievement of our net profit target; and
        - Personal Performance as measured by a colleague's year end performance rating.
    - Bonus payment is discretionary and is subject to achievement of business and individual performance targets.
    - On target bonus payments are linked to Work Level.

- Executive Bonus Scheme:
  - TU's Executive Bonus Scheme applies to all TU individuals in an Executive level role and describes the rules that will apply to all eligible colleagues.
  - In accordance with the Remuneration Policy the scheme has a number of features, and performance is linked to the achievement of objectives in a number of areas (including Personal Performance, GWP, Profit, Customer Satisfaction, Employee Satisfaction).
  - There are deferral rules (payments made over 3 years) for bonuses over a specified threshold in order to satisfy the Solvency II Remuneration requirements.

- Share Scheme – TU does not give entitlement of shares and/or share options to any member of staff.

- Supplementary Pension or Early Retirement Schemes – there no are supplementary pension or early retirement schemes for members of the Board or other key function holders.

As part of the Company's commitment to diversity and inclusion it has completed gender pay reporting in line with statutory requirements and has signed the HM Treasury's Women in Finance Charter.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management overview

As a Non-Life insurance provider TU faces a number of risks that, whether internal or external, may affect its operations, its earnings, the value of its investments or the sale of certain products and services. The fundamental principle underlying the Risk Strategy of TU is to maximise shareholder value within the constraints of the Risk Appetite Framework, taking into account the protection of policyholders. To this end, the risk exposures of TU are directed towards businesses that provide attractive risk-adjusted returns.

This chapter therefore conveys how risks are managed. Firstly, TU's Risk Management Framework will be explained through its risk taxonomy and through an explanation of its Risk Appetite Framework. Secondly, TU's Risk Management organisation and governance will be detailed.

In Section C (Risk Profile) TU's main risk exposures and the specific risk management frameworks applicable to them will be presented with regard to financial risks, insurance liability risks, operational risks and other risks.

The embedding of the Risk Strategy takes place in the quarterly Control Risk Self-Assessment (CRSA) process, articulated around the annual Strategic Planning and ORSA (Own Risk and Solvency Assessment) process, supported by relevant modelling approaches.

The Partial Internal Model SCR is calculated by combining the Non-Life SCR calculated using the Internal Model with the Standard Formula SCR for Market and Credit risk types - using the correlation matrices as specified in the Standard Formula calculation. The Standard Formula SCR for Operational Risk is then added as a standalone risk (i.e. assumption that it is 100% correlated) with other risks.

Non-Life Insurance risk is the most significant source of risk (accounting for approximately 60% of capital required), and hence the specifics of TU are best modelled using an Internal Model for this risk. TU's Model Control Board (MCB) ensures that there is an appropriate level of oversight over the TU Capital Model, taking into account internal validation, independent model validation and other relevant assurance assessments.

Independent Model Validation is undertaken by the Ageas Group Validation team and the two reports (one for the Best-Estimate Model and one for the Internal Model) both concluded that the models remain fit for usage. In addition to the Independent Model Validation detailed above, there is various internal validation of the Internal Model.
Ongoing internal quantitative and qualitative analysis demonstrates that the Standard Formula approach is appropriate for TU's Market, Operational and Credit risks.

B.3.2 Risk management framework

TU defines risk as the deviation from anticipated outcomes that may have an impact on the value of assets, capital, earnings, customer or reputation of TU, its business objectives, or future opportunities. TU risk therefore stems from its exposure to both external and internal risk factors in conducting its business activities. TU only seeks to take on risks that:

- It has a good understanding of (i.e. is within current expertise and available information);
- Can be adequately managed at both the individual and overall portfolio level;
- Are affordable (i.e. within the TU risk appetite); and
- Have an acceptable risk-reward trade-off.

The goal of TU's approach to risk management is to ensure that all significant risks are understood and effectively managed through a well-designed risk management framework. The objective of such a framework is to add value to the business as well as ensure adequate systems and controls operate by:

- Ensuring that risks which affect the achievement of objectives are identified, assessed, monitored and managed;
- Defining risk tolerance limits and appetite and ensuring that the risk profile is kept within risk appetite;
- Managing risk to reduce earnings volatility;
- Ensuring that risk of insolvency is at all times kept at acceptable levels;
- Supporting the decision making process by ensuring that consistent, reliable and timely risk information, is available and understood by decision makers;
- Creating a culture of openness and risk awareness in which each Manager carries out their duty to be aware of the risks of their business, to manage them adequately, and report them transparently; and
- Ensuring that an independent assessment of risks is taking place.

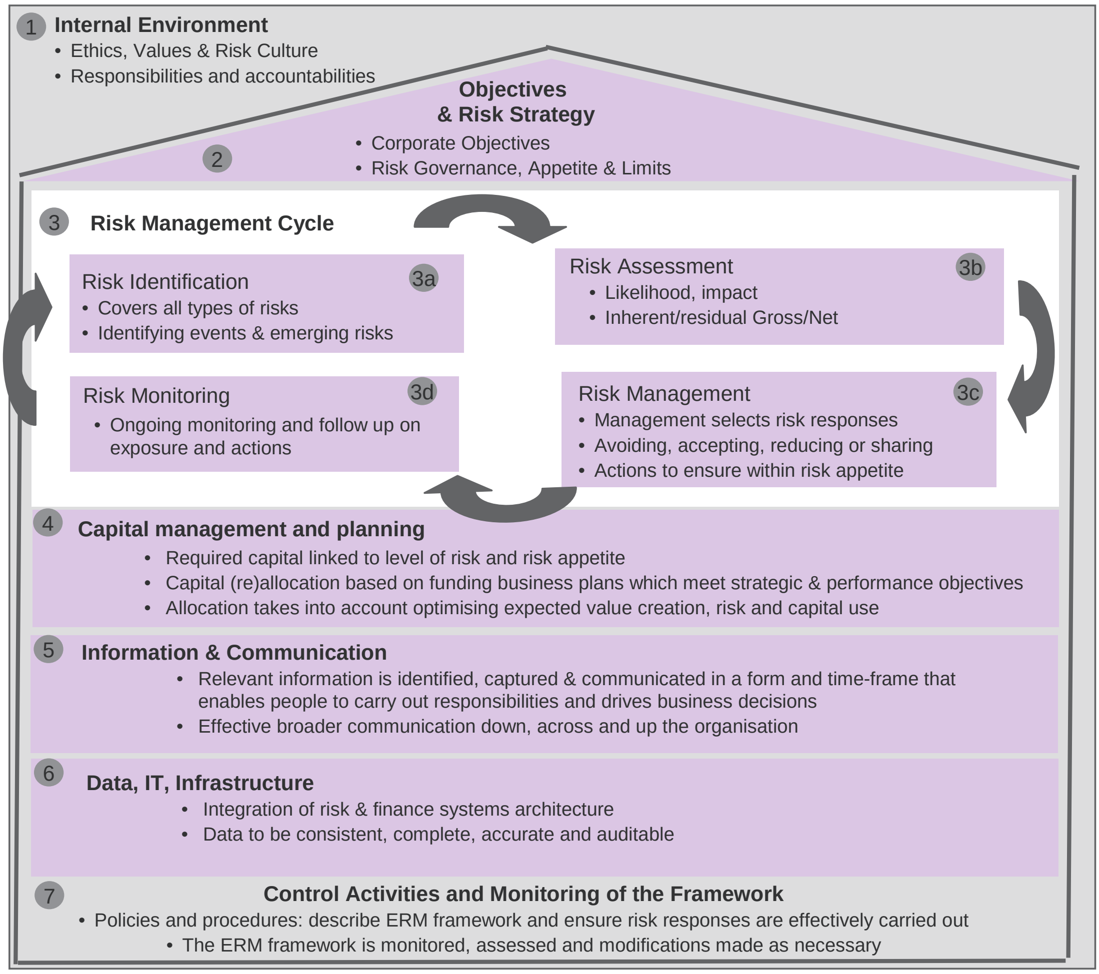
In order to reach this objective TU has a risk management framework in place designed to systematically and comprehensively identify risks to the company's objectives, assess their impacts and implement integrated mitigation strategies to safeguard the objectives. Risk management is a process, carried out by TU's Board of Directors, management and other personnel. It supports the entire strategy lifecycle. It is applied during the strategy setting process as well as in the everyday management of the company. It is designed to identify potential events that may impact TU, manage risks to be within its risk appetite and to provide reasonable assurance regarding the achievement of TU's objectives.

To ensure that the risk management processes are embedded within the business, TU's risk management incorporates:

- A formal structure of Committees, each reviewing different types of risk;
- Risk policies containing defined appetites and tolerance limits for all risk categories;
- Regular management information;
- A three lines of defence risk governance model.

As part of its risk management framework, TU also has a forward looking Own Risk and Solvency Assessment (ORSA) process that takes into account its risk profile, approved risk tolerance limits and business strategy.

At TU, risk management is based on a set of guiding principles, which are captured by the risk management framework (see illustration below from the TU Risk Framework Policy for more detail). TU seeks to ensure that all significant risks are continuously identified, assessed, managed and monitored in accordance with the guidelines and standards, and intended (implicitly) to guide all business conduct within TU.



Risk Taxonomy

The TU Risk Taxonomy is a classification of the risks faced by the business. It is designed to ensure a consistent and comprehensive approach to risk identification, assessment, monitoring and response by highlighting and categorising all identified risks within the company.

Tesco Underwriting's Risk Taxonomy is linked to the overall policy framework and is divided into five broad categories: Operational Risk, Insurance Risk, Market Risk, Counterparty Credit Risk and Strategic Risk. These categories have been aligned with Solvency II risk categories to facilitate our internal and external reporting.

Identified risks, categorised in accordance with the TU risk taxonomy are assessed and reported using a standard likelihood and impact grid which provides an overview of the overall level of concern that each risk represents (i.e. their materiality). The risks are qualitatively assessed in relation to the objectives with which they are associated.

The taxonomy cannot be considered as exhaustive, and it is the responsibility of business management and risk management to ensure that all risks are identified. While the aim is to keep a high degree of stability and consistency over time in this taxonomy, it will be reviewed on at least an annual basis and adjusted if appropriate.

Insurance risk is the most significant source of risk (accounting for approximately 74% of capital required), and hence the specifics of TU are best modelled using an Internal Model for this risk with the others risks appropriately covered by the Standard Formula. As indicated above the Board approves the TU ORSA Report which sets out the justification for TU's modelling approach.

Chapter C (Risk Profile) explains TU's various risk exposures in more detail.

Risk Appetite

TU's Risk Appetite is defined as the level of risk which the TU Board is prepared to accept in order to deliver its Vision and Strategy, which means it can operate effectively in both normal and stressed conditions.

The purpose of the Risk Appetite framework is to ensure that:

- Exposure to several key risks taken by TU remains within known, acceptable and controlled targets, limits and activities;
- Risk appetite criteria are clearly defined so that actual exposures and activities can be compared to those agreed at Board level, allowing monitoring and positive confirmation that risks are controlled and the Board is able and willing to accept the exposures; and
- Risk limits are linked to the actual risk taking capacity of TU in a transparent and straightforward way.

The framework has the following measures:

- Financial: Solvency, Earnings, Market Risk, Liquidity Risk and Counterparty Default Risk; and
- Reputational: Conduct Risk, Operational Losses, Control Confidence, Operational Resilience, Regulatory Risk, People Risk, Information Security Risk, Data Protection Risk and Fraud Risk.

For the Financial Risk Appetite measures TU sets limits on acceptable deviations from these measures, taking into account the clearly defined stress and scenario events that have been applied.

Given the TU specific appropriateness of the Solvency II Partial Internal Model (PIM) calibrations, TU has decided to use these figures as the basis for the stress events within the calibration of the Risk Appetite Framework. The calibration for the Non-Life Insurance risk stress events is performed using the TU Internal Model. For other risk types (i.e. Market and Counterparty Default) a modified Standard Formula model will be used to calibrate the stress events.

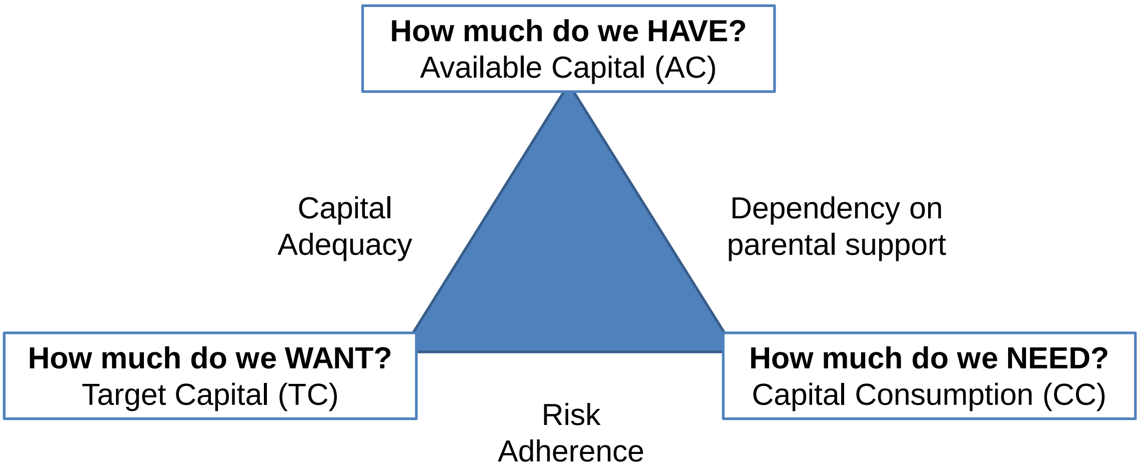
The TU stress events are calibrated to a 20% probability over 1 year ('1-in-5' year event), see the following sections for more detail.

For The Reputational Risk Appetite measures, there are elements that are not easily quantified, but for which boundaries of acceptable activities can be described in a qualitative way. The underlying risk appetite statements are supported by reporting scorecards which contain measures and appropriate limits and tolerances.

Solvency Risk Appetite Statement

Risk exposures must be limited in order to ensure that the following tests are passed at all times:

1. Own Funds (OF) remains above the Target Capital (TC) level, set at 125% PIM SCR.
2. Target Capital (TC) is greater than Capital Consumption (CC).
3. Own Funds (OF) is greater than Capital Consumption (CC) (note that this Test will pass by definition if Tests 1 and 2 are successful)



In these statements:

- RC is the level of economic capital required by TU's current risk profile, consistent with a 1-in-5 year event;
- RA is the level of capital in excess of the Minimum Acceptable Capital (MAC) which is made available to TU in order to take risks;
- CC is the total level of economic capital being consumed by TU based on its current risk profile, defined as the sum of the MAC and the RC;
- TC is the total level of capital being made available to the Group or its subsidiaries for risk taking purposes. It is defined as sum of the MAC and the RA budget; and
- MAC is the level of capital which reflects TU's internal view at which it is able to continue to write business as a going concern at planned business volumes, defined as 100% of the Partial Internal Model SCR.

When Risk Consumption exceeds Risk Appetite, it is the responsibility of management to recommend remedies to the Board for them to take actions. An example of this occurred when the Capital Contingency Plan, which envisages different levels of intervention at different levels of capital coverage, was implemented in February 2017 following the Ogden discount rate announcement.

For each of the following Risk Appetite measures TU's Board may decide to risk accept any deviation provided the rationale is noted in the minutes.

Earnings Risk Appetite Statement

Risk exposures must be limited in order to ensure that the following test is passed at all times:

1. *The deviation from the planned IFRS Profit before Tax due to a 1-in-5 year combined loss event is limited to 125%*

There are two additional tests that are calculated for internal monitoring:

2. *The deviation from the planned IFRS Profit before Tax due to a 1-in-5 year Non-Life risk event is limited to 75%*
3. *The deviation from the planned IFRS Profit before Tax due to a 1-in-5 year Financial risk event is limited to 50%*

Market Risk Appetite Statement

Risk exposures should be limited in order to ensure that the following tests are passed at all times:

TU's Capital impact from a modelled 1-in-5 year Market Risk shock is less than 6% of the Own Funds

TU's Profit impact from the default of its most material Corporate Bond holding (assume 50% Loss given Default) is less than 50% of the planned IFRS Profit before tax.

The Investment committee receives a quarterly update showing the latest position of the Investment portfolio against the Risk Appetite statement..

Liquidity Risk Appetite Statement

Risk exposures should be limited in order to ensure that the following two tests are passed at all times:

- The base liquidity ratio is at least 100%.
- The stressed liquidity ratio is at least 100%.

The Investment committee receives a quarterly update on business cash-flows, including large cash settlements and investment portfolio maturities and reinvestments.

Counterparty Default Risk Appetite Statement

Risk exposures should be limited in order to ensure that the following tests are passed at all times:

- TU's Capital impact from a modelled 1-in-5 year Market Risk shock is less than 3% of the Own Funds
- TU's Profit impact from the default of its most material Single Reinsurer Counterparty exposure (assume 50% Loss given Default) is less than 100% of the planned IFRS Profit before tax.

The reinsurance committee receives a quarterly update showing the reinsurance balance sheet assets and highlighting the key individual counterparty exposures.

Reputational Risk Appetite Statements

TU is committed to provide all its customers with quality service in line with their expectations and recognises the importance of protecting its reputation to ensure its long-term sustainability, and therefore will not accept risks that materially impair its relationship with customers or its reputation.

Each of the Reputational Risk Appetite measures will be supported by an underlying scorecard which includes quantitative and qualitative measures, which are discussed at the appropriate governance meetings.

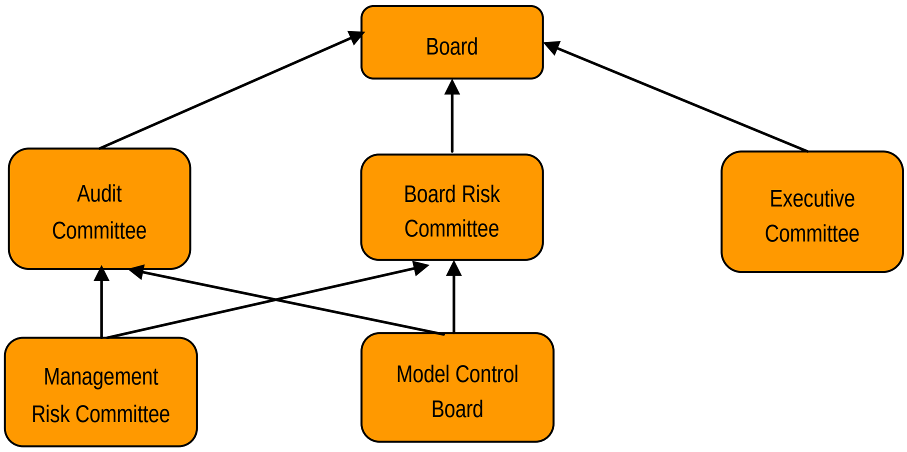
- Conduct Risk Appetite Statement: TU has no appetite for systemic unfair customer outcomes arising from any element of the customer journey and life-cycle.
- Operational Losses Risk Appetite Statement: TU has a limited appetite for financial, customer, regulatory or reputational impacts resulting from inadequacies or failures of internal processes, people or systems.
- Control Confidence: TU has no appetite for significant or recurring findings from assurance reviews,and will ensure that all related actions are completed within the agreed timescales.
- Operational Resilience: TU has a limited appetite for business interruption in excess of the agreed service category Service Level Agreements (SLAs).
- Regulatory Risk: TU has no appetite to be in material breach of regulation and aims to ensure its customers are treated fairly.
- People Risk: TU aims to have a highly engaged and motivated workforce and has no appetite for reportable health and safety incidents.

- Information Security Risk: TU has no appetite for the systemic loss of customer, employee or commercial data arising from a lack of information security controls and a limited appetite for business interruption due to IT resilience and data availability in excess of the agreed service category SLAs.
- Data Protection Risk: TU has no appetite for significant regulatory breaches arising from our processing of personal data (in defining significant, TU will take account of the volume of data subjects and types of data involved).
- Fraud Risk : TU will take all reasonable steps to ensure that all forms of external fraud are identified, reported and managed appropriately.

B.3.3 Risk management organisation and governance

Governance Principles

Risk Management and Governance is an integral part of the business of insurance and is therefore part of the activities of TU. The overall corporate governance requirements can be found in the TU Governance Manual.
Governance of the risk management framework is built around a number of Boards and Committees and those with specific responsibilities for risk have been included within the following structure:



The overriding Governance principles are:

1. TU operates on the principle of delegated authority and escalation.
This applies to the organisation as well as to individual employees. It is the responsibility of the party delegating authority to set authority levels based on competence and to put in place appropriate mechanisms for monitoring and triggers for escalation.

2. Each individual at any level of the management hierarchy is fully responsible and accountable for his or her decisions
TU promotes teamwork, the active seeking of second opinions, and co-operation with specialist teams to support decision-taking processes. Nevertheless, those entrusted to take decisions cannot cede responsibility for their decisions to those that advise them and they remain accountable for their results.

3. Fit and Proper Management

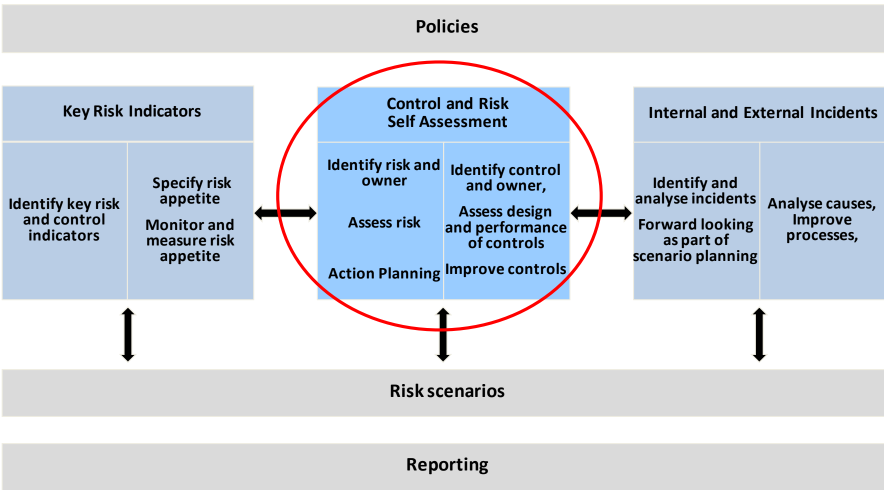
All senior management within the company need to be fit and proper to take on their responsibilities. Oversight of this is maintained by Human Resources.

B.3.4 Risk management processes

In this section the risk management process is described on an aggregated level. In Chapter C the identification, assessment, management and monitoring of the individual sub risks are detailed.

Risk Monitoring and Reporting

The Control Risk Self-Assessment (CRSA) is the quarterly formal assessment and confirmation of the on-going effectiveness of TU systems and controls which ultimately feeds into the year-end financial statements and annual Management Control Statements (MCS).



Business Unit responsibilities:

- Review and where appropriate update the departmental Risk Register;
- Ensure that each recorded risk includes relevant and up-to-date causes, consequences, impact/likelihood scores and appropriate controls and actions;
- Horizon Scan Register items need to be identified and included in the Risk Register – with a view of when and how severely these risks are likely to impact the business;
- Ensuring that all new Risk Incidents have been promptly identified, with owners, estimated monetary loss and action plans in place;
- Review existing Risk Incidents by monitoring in-force action plans;
- Any policies that are due for review in the period have been updated in line with the review schedule;
    - Adequate evidence that each policy has been fully complied with;
    - Where policy breaches have occurred, what action has been taken; and
    - A summary of the departmental view of the effectiveness of their risk management.
- Ensuring that all accepted risks (those items which are outside TU's agreed appetite) have been updated and reported appropriately;
- All data governance documents are up to date;

- All data protection controls operate effectively with appropriate action plans in place as applicable;
- All data protection impact assessments have been completed where required, and any risks identified have been adequately mitigated;
- All actual or alleged data protection breaches were reported in a timely manner;
- Adherence to End User Developed Applications (EUDA) and Conflict of Interest policies.

Risk Team responsibilities:

- Provide the Business Unit with advice and support on the CRSA process, risk management framework and good practice in identifying, assessing, managing, monitoring and governance of risks and incidents;
- Facilitate the reporting and peer challenge to CRSA at the MRC;
- Complete themed risk reviews and dip checks to ensure key policies are understood, adhered to and effectively monitored; and
- Transform the CRSA outputs to satisfy the Ageas Key Risk Reporting (KRR) requirements.

TU Solvency and Risk Appetite Reporting

The TU Risk Report is a quarterly report that provides information to (amongst others) TU, Ageas & Tesco Bank senior management on the current situation of the following:

- Available Solvency II (in some cases local regulatory) capital / own funds trends;
- Required Capital trends;
- Solvency Ratios;
- Adherence to Risk Appetite Statements; and
- Narratives, analysis and recommendations on all of the above.

Management Control Statement (MCS)

The Management Control Statement (MCS) is a formal annual sign-off by each TU Executive Director within the process of on-going risk and control identification and monitoring within the business. The signed MCS is provided at the end of each year to Ageas Group.

The MCS is signed-off by each TU Executive Director on an annual basis, and is underpinned by substantial evidence that all material risks have been identified and that adequate actions have been taken to reduce or to mitigate the identified risks, arising from the risk management framework, for example the Control Risk Self-Assessment (CRSA) process.

Exceptions are highlighted which refer to risks which are not under control and while actions are being undertaken to mitigate the risk, the residual risk remains concerning.

The MCS concludes with a statement that management has designed, operated and monitored an internal control system which is designed to ensure:

- effective & efficient operations;
- quality of information;
- compliance with laws and regulations and with internal policies in respect to the conduct of business;
- safeguarding of assets, and identification and management of liabilities; and
- achievement of the company's objectives while implementing the Ageas strategy.

The MCS should provide assurance that the financial reports are appropriate, and the necessary provisions have been taken to reflect the currently identified risks.

B.3.5 How we fulfil our obligation to invest all our assets in accordance with the prudent person principle

TU's investment framework mentions clearly the need to act as a prudent person. This means that for investments the probable safety of capital as well as the probable income to be derived. The overall investment guidelines for TU are that the investment portfolio is high quality 'A' rated corporate bonds with an overarching 'hold to maturity' strategy guide.

All assets, shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Monitoring of liability durations is maintained to ensure that appropriate asset and liability matching is achieved.

Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer, trading sector or Group of undertakings.

B.3.6 How we verify the appropriateness of external credit assessments from external credit assessment institutions

If TU is investing in credit, there is always a credit analysis being carried out by a professional asset manager who has the necessary credit analysis capacity, as confirmed by a due diligence process.

TU should not rely solely or mechanistically on external credit assessments, and where necessary shall take steps to verify the appropriateness of external credit assessments as part of their risk management – if necessary seeking assistance from Ageas Group.

Where multiple credit ratings are available then second best rating is used. Note that ratings used refer to the rating of the issue. Ratings provided by external asset managers may be used in case no rating is available.

B.3.7 Own Risk and Solvency Assessment (ORSA)

The main purpose of the ORSA is to ensure that TU assess all the risks inherent to its business and in view of its strategy, determine its corresponding capital needs. TU's ORSA covers all the material risks described in TU Risk Taxonomy, both the quantifiable and the non-quantifiable risks. The ORSA is directly embedded into the governance and decision making, strategy and multi-year budgeting processes as detailed in this section and is performed in compliance and consideration of the principles and rules set forth by the TU Risk Appetite Policy as well as Capital Management Policy.

TU's ORSA process involves assessing the appropriateness of the capital calculation methodology and models using an agreed methodology as detailed in the Model Governance Policy. This is applied to all risk types (other than the immaterial Lapse Risk) and provides a quantitative and qualitative approach to confirm that TU's Partial Internal Model approach is appropriate to us as the basis for TU's regulatory capital requirement and no additional capital loading is believed necessary.

The ORSA assessments and processes ensure that:

- The overall solvency needs of TU consider its specific risk profile, approved risk tolerance limits and business strategy;
- TU complies, on a continuous basis, with Minimum (MCR) & Solvency Capital Requirements (SCR) and with technical provisions requirements; and
- The significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement are assessed, documented and taken into consideration.

Forward looking nature of the assessment

The ORSA assessment of overall solvency needs is forward-looking and covers a medium term or long term perspective as appropriate. For TU, this means by default the Multi Year Budgeting (MYB) planning period of 3 years and longer when the risks associated to the strategy could be material over a longer horizon. This is documented in the ORSA reports.

Requirements for Stress Testing

The strategy assessed in the ORSA is subjected to a sufficient wide range of stress tests including reverse stress tests and scenario analyses in order to provide an adequate basis for the assessment of overall solvency needs. The justification of stress testing programs can be found in the ORSA Report, with an overview of the results and conclusions shown in Section C.7 – these show that TU remains solvent relative to regulatory PIM SCR under each of the stress tests performed and after the management actions taken to suspend dividends there is only 2 tests for which the impact is to reduce the Solvency Ratio to below the Target Capital level at its minimum level over the projection period.

A key output of the ORSA process is the ORSA report, this is typically produced annually to summarise the key findings from the ORSA process. Based on this report, the Board will decide whether the risk profile, the approved risk appetite framework and the overall solvency needs (and the link between them) are still appropriate for TU. If this cannot be confirmed, the Board may (amongst other possibilities) decide to:

- Change the Own funds (amount or composition) as described in the Capital Management Policy;
- Change the capital allocation as described in the Capital Management Policy;
- Change the risk profile - this can be done by transferring, mitigating risks, or by modifying the strategy (e.g. terminate or reduce the risky activity) and is described in specific risk management policies as well as in the Risk Appetite Policy;
- Adjust the company's strategy; and
- Resolve other identified deficiencies.

Alignment with other reports & communication to supervisors

The information contained in ORSA reports is consistent with the information found in other reports provided to the Management Risk Committee (MRC), Executive Committee (ExCo), Board Risk Committee, Audit Committee (AC) and Board as well as to Supervisors.

Report and Frequency

TU performs an annual ORSA linking it to its strategic MYB exercise. This frequency takes into account TU's risk profile and the volatility of its overall solvency needs relative to its capital position. It must be justified within each ORSA report.

Non-Regular ORSA triggers are also in place to make-sure that own risk solvency assessments are performed if the situation warrants it outside the above regular ORSA process. The following non-exhaustive list of ORSA triggers are used as a reference (taking into consideration the Risk Appetite Framework in force):

- A significant change in the risk profile;
- A significant change in the composition of Own funds or in capital management / budget assumptions and forecasts;
- An acquisition (or divestment) that significantly changes business, risk or solvency profile;
- A significant change to the strategy, affecting budget assumptions in material ways;
- A significant change in the external business environment;
- A significant change in the liability portfolio;
- A significant deviation from the Risk Appetite indicators (solvency, liquidity, earnings); and
- A (significant) change in regulation.

The non-regular ORSA must explain the expected changes in the risk profile and/or financial situation, the impact on the overall solvency needs and the link to the available Own funds and SCR.

Roles and Responsibilities

The TU Board is the owner of the ORSA and responsible for reviewing and approving the assessments and scope, challenges its results and concluding on the outcome. TU's ExCo, together with the Board steer the preparation of TU's ORSA, namely how its assessments have to be performed, defining their scope, challenging their results, concluding on them and ensuring that instructions and follow-up actions are given and effectively implemented.

Operationally, they are assisted to do so by the Risk Function, the Finance & Strategy Function and the Actuarial Function.

Additional Monitoring

To verify and assess the level of ORSA follow-up and on the field embedding, TU requires the reporting of ORSA action statuses and follow-up given to previous ORSA. Once the ORSA is validated by the Board it is sent to the PRA.

It should be noted that the Solvency II ORSA monitoring of compliance with regulatory capital requirements (SCR, MCR) and Risk Appetite and Capital Management Frameworks are also performed on a quarterly basis through Risk Reporting.

B.4 Internal control function

B.4.1 Internal control system

TU creates value through the acceptance and management of risks that can be properly managed within an appropriate risk framework. Internal controls are in place across all processes in order to mitigate risks.

Internal control should strengthen the operating environment of TU, thereby increasing its capability to deal with events and detect possible process failures. Internal controls support the achievement of the company's strategy by providing one of the methods to mitigate risk. TU ensures there is a clear segregation of duties between business functions to prevent conflicts of interest.

There are also clear escalation and reporting procedures in place, supported by TU's risk governance processes. Breaches of risk appetite, limits and/or tolerances, along with the actions to address the issue, are referred to the relevant governance committee and if necessary the Management/Board Risk Committee. While risk management is the responsibility of TU's management body as a whole, the undertaking is required under Solvency II to designate at least one member of the management body to oversee the risk management system, this being the CRO.

The CRO is responsible for escalating the issue for appropriate oversight, and challenging whether action is inappropriate, insufficient or ineffective.

The system sets the standards for TU's application of an internal controls framework and defines the procedures to assess the efficiency and effectiveness of the framework, and utilises the following principles:

1. Control owners are responsible for executing controls assigned to them

Control procedures are embedded within TU's business processes. Key controls in place are assigned to an owner. Control owners understand the objective of the control, exercise the control with agreed frequency and ensure appropriateness of the control.

The responsibility of the owner is to ensure that these controls are appropriate and that they have been properly carried out and sufficiently documented.

2. Internal controls need to be adequate and effective

Control owners assess controls assigned to them, for adequacy and effectiveness against a defined testing schedule. For interdependent controls within a process, each control owner understands control linkages and dependencies to ensure end to end process control. An appropriate segregation of duties and responsibilities should is in place, both at the individual level and between functions.

3. TU ensures that incentives are managed by internal controls

TU Risk assesses incentives to identify opportunities for inappropriate behaviour. Based on this identification, incentives are removed and, if not possible, reduced through the implementation of internal controls.

4. Proportionality of controls

Controlling all risk is not possible. Internal controls therefore focus on material risks to TU. The frequency of the control activity is appropriate for the nature, size and complexity of the process.

5. Internal controls are documented

Internal controls are designed, approved and documented by the control owner against all key risks in business unit risk registers. To provide assurance to management that the internal control framework in place is adequate and effective, reviews and assessments are performed and documented. Traceability of controls is essential to provide assurance to management and external stakeholders.

6. Outsourcing must be subject to at least equivalent levels of controls

TU relies on external service providers for carrying out various sets of activities. Reliance on external providers does not remove TU's responsibility towards shareholders, policyholders, personnel or other stakeholders. TU has appropriate controls in place and maintains adequate oversight to fulfil these responsibilities.

Three Lines of Defence Model

<u>1st Line of defence - Business Functions:</u>

- TU's business Management Committees, all Executives, senior managers and staff are the first line of defence to ensure that TU does not suffer surprises.
- Responsibilities include the implementation of TU's Corporate Governance and risk management framework, applying and remaining within risk appetite, managing the implementation and operation of TU policies, the identification, measurement, management, and control and reporting of all significant risks faced by TU and, through a process of continuous review, managing risk and capital by means of the ORSA and Use Test.

<u>2nd Line of defence – Risk and Compliance:</u>

- TU's Audit and Board Risk Committee, the Management Risk Committee, and the Risk and Compliance teams are the second line of defence.
- The primary responsibility of second line of defence is to challenge the first line of defence with regard to their responsibilities and provide assurance to the Board through the output of that challenge.
- In addition, second line of defence provides assurance to the Board with regard to the business operating within its agreed risk appetite and tolerance limits, staff compliance with Compliance policies, compliance with agreed risk appetite, ensuring appropriate key risk indicators are developed to aid effective risk management and control, challenge first line risk assessment and quantification, where deemed necessary, report significant breaches, losses or incidents that indicate control breakdown or other business outage and provide effective and accurate MI to the Board.

<u>3rd Line of defence – Internal Audit</u>

- Internal Audit is the third line of defence providing assurance on the proper design and implementation of the risk governance framework and observance of guidelines, policies and processes.
- They are responsible for auditing the risk management framework and ORSA and independently reviewing the nature, operation and outcome of second line risk challenge. They are also responsible for validating risk information and reviewing corrective action plans.
- Internal Audit operates independently from first line management and reports to the Board Audit Committee and Board.

- Internal Audit services are provided to TU by Ageas Audit (UK). Ageas Audit (UK) delegates some of its responsibilities for the provision of the Internal Audit services to Tesco Bank. Full details of Internal Audit's responsibilities are detailed in the Audit Charter. This document is held and maintained by the Head of Internal Audit (Ageas Audit) and is reviewed by the Audit Committee.

Operational independence bars the management body from undue influence on key functions in the exercise of their responsibilities. The management body is ultimately responsible for deciding on how to react to the results, concerns and recommendations presented by the key functions. For example, it could resolve not to act or act differently from suggestions on the findings of a key function. However, it may not exert influence to suppress or tone down key function results in order that there is no discrepancy between the findings of key functions and the management body's actions.

Each function shall be able to communicate on its own initiative with any staff member and must have the necessary authority, resources, expertise and unrestricted access to all relevant information necessary to carry out its responsibilities.

B.4.2 Key procedures in our internal control system

The sections below describe the content requirements for the control assessment:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

All five control components are assessed per business function detailing the key processes, risks, controls and actions. During the assessment, the key risks, controls and actions are the most important elements considered. These components are scored according to a predefined scoring table and aggregated into the Risk Register – this is built based on every organisational unit and the processes, risks and controls.

Finally, the actions to be taken to set-up controls and/or improve existing ones are identified and followed-up on throughout the year. Time constraints are defined depending on the rating of the risk.

The internal control framework is based on the self-assessment performed by the respective control owners.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

Control Environment

The control environment sets the tone of an organisation, influencing the control consciousness of its people. The core of any business is its people (their individual attributes including integrity, ethical values and competence) and the environment in which they operate.

Internal controls are key to prevent operational and other risks before they crystallise into losses, customer detriment or adverse reputational impact by ensuring risks are taken within defined limits.

There is a clear understanding of controls, and objectives which require good understanding of the risks. A balance will be sought between the risks faced and the cost of mitigating these risks. TU's employees will have a clear view on their responsibilities throughout the business processes. A good understanding of their role and of the importance of the controls contributes to the embedding of a risk culture. Management will ensure that the appropriate skill-set and competences are developed to support this objective (e.g. training).

All functions in TU will have appropriate training to ensure staff are familiar with their control processes. The training will ensure staff are aware of controls in place and the rationale for the controls.

Risk Assessment

All risks to which TU is exposed must be assessed. The purpose of this component is to identify the key risks faced when carrying out the business activities related to a process/function.

Control Activities

Control activities are defined by the policies and procedures that help ensure that management directives are carried out, and that necessary actions are taken to address risks in the achievement of the entity's objectives.

Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information & Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about the external events, activities and conditions necessary to inform business decision-making and external reporting.

Monitoring

Internal control systems are monitored and assured. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other action personnel take in the performance of their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal control deficiencies are reported upstream, with serious matters reported to top management and the Board.

All key (residual) risks identified during the quarterly interactions with key process owners (first lines) are captured in the Key Risk Reporting Process. The most material elements of this Key Risk Report are then considered for inclusion in the Management Control Statements signed-off by the CEO.

B.4.3 Approach to the Compliance function

The Compliance Function

The Compliance function is an independent function within Tesco Underwriting providing reasonable assurance that the company and its employees comply with the laws, regulations, internal rules and ethical standards that are relevant to the integrity, and hence to the reputation, of TU.

Compliance Mission

The Compliance function is a key player in the establishment of a compliance culture within the company, and has the following areas of responsibility:

- Ensuring the implementation and execution of the compliance function within TU as defined by the regulatory authorities;

- Ensuring regular updating of legal and regulatory changes;
- Ensuring the translation of the regulatory framework and rules into specific policies and instructions;
- Ensuring monitoring of compliance with these policies and instructions, taking the necessary measures (training, information, sanctions) to reduce potential compliance risks;
- Ensuring adequate reporting both to internal and external stakeholders;
- Ensuring efficient functioning of the Compliance function throughout TU; and
- Ensuring adequate internal fraud investigation according to set principles whenever required.

Compliance Scope

The scope ("Compliance Universe") is a stable feature, depending largely on the nature and location of business activities. It includes:

- Duty of care, product suitability and adequate information to customers, market practices and consumer protection ("Treating Customers Fairly");
- Prevention and detection of criminal activities (e.g. Proceeds of Crime / Counter-Terrorist Financing);
- Corruption and Anti-Bribery;
- Customer identification, acceptance and follow-up;
- Corporate Governance, Fit & Proper rules, Remuneration Policy and Conflicts of Interest;
- Privacy protection; and
- Fair competition.

Compliance Organisation

Compliance is a permanent, independent second-line-of-defence control function.

The suite of TU Compliance Policies describes the Compliance risks, Objectives and scope of the Compliance function (as an independent second-line-of-defence control function, and the risk-based approach), Strategy and Plans, the structure of Compliance within TU, reporting, relationship with regulators, working with other control functions as well as the Compliance Universe. The key objectives of the Compliance function are to provide reasonable assurance that the company and its employees comply with the relevant laws, regulations, internal rules and ethical standards.

TU Compliance has responsibility for implementing the overall Compliance Framework Policy and plans in accordance with the regulatory risks that impact TU.

The TU Compliance plan is produced annually, reflecting the compliance strategy and the regulatory risks of the business. The TU Compliance plan is considered by the TU Management Risk Committee and approved by the Audit Committee. Besides the monthly highlights of Legal and Regulatory Updates, a quarterly update of progress against the plan is discussed in the TU Management Risk Committee and in the TU Audit Committee.

Compliance methodology

In practice Compliance fulfils its mission along a rule-based and risk-based approach.

Rule based approach

The rule-based approach consists of ensuring that the applicable laws, regulations, rules and standards are adequately transposed into clear and precise instructions and procedures, and that first-level-of-defence controls are in place and correctly applied together with the expectation of future changes to laws and regulations.

Risk based approach

The risk-based approach involves identifying and assessing the compliance risks and providing the assurance that every reasonable measure (including instructions, procedures, IT programs, monitoring methods, awareness and training actions, objective setting, incentives, deterrent measures and sanctions) have been taken in order to avoid or reduce the occurrence of the identified compliance risks and to minimise the damage, should one of these risks nevertheless occur. Corrective action is monitored as well.

Starting from a new or updated law or regulation, the Compliance function identifies possible consequences (the inherent risk), weighs the likelihood and impact of occurrence, checks the controls in place and determines the current level-of-concern (the residual risk). It issues specific recommendations and follows up the actions and corrective measures set up by the involved departments, until complete implementation.

In fulfilling its mission, Compliance therefore bears a responsibility for an end result in regard to the adequacy of being-in-control when talking about compliance topics.

To this end, the control results of the operational services are used, supplemented by sample testing, preparation and monitoring of compliance risk indicators, interviews, etc. These “Statements”, together with the follow-up of the above mentioned “Compliance Universe”, are the basis for the TU Compliance plan.

Each item of the Compliance Universe is tackled by Compliance at least once every six years and gives rise to the issue of a completed scorecard if available, a monitoring report, an assessment document, and/or a ‘compliance statement’.

B.5 Internal audit function

B.5.1 Approach to the Internal Audit function

Governance of the Internal Audit function

The Internal Audit function at TU is governed by the Internal Audit policy that defines the role, mission, positioning, deliverables, duties and operational structure of the TU Audit Function.

The TU Board guarantees Internal Audit a status that preserves its autonomy, and functional independence, objectivity and authority necessary to fulfil its role and mission.

The Audit function also has a professional duty to preserve its objectivity and impartiality. Therefore, Audit staff cannot be involved in operational activities or in implementing any organisational or internal control measure, including executing control monitoring. Audit operates within the International Professional Practices Framework established by the Institute of Internal Auditors (IIA) and within the basic guidelines set by the PRA.

Objectives of the Internal Audit function

Internal Audit's role is based on the following main objectives:

- Through independent and professional audit assignments, enable TU to achieve its long-term objectives by:
    - Providing effective and responsive control assurance;
    - Fostering a robust control culture; and
    - Promoting cross-entity knowledge sharing.
- To be a trusted guardian on internal control for the Audit Committee and executive management.

Within TU, Internal Audit assists the Audit Committee, the Executive Committee and other management committees in the effective discharge of their duties, through delivering reasonable assurance about the quality of governance, risk management and control processes, which include management's reporting on internal control and management's annual statements on the effectiveness of internal control.

Recommendations are issued to optimise internal control in its broadest sense.

B.5.2 The Audit Plan

Internal Audit documents its priorities in a formal yearly audit plan, based on a comprehensive risk assessment of processes and functions, using materiality, risk and control related data and input from management and other control functions.

Process relevance, strategic initiatives, regulatory changes, time since last audit, industry and audit trends are additional priority indicators.

The audit plan is submitted to the TU Audit Committee for challenge and final approval.

Audit assignments

Internal Audit plans and executes the audit plan, and appropriately reports on the findings, conclusions and recommendations to the TU Executive Committee (ExCo) and Audit Committee via a quarterly report. Recommendations are followed up and their status is reported.

In each of its audit assignments Internal Audit focuses on the proper design, operation and effectiveness of:

- Governance processes & principles;
- Strategy and objective setting, accountability, ethics and integrity, transparency and adequate competencies;
- Risk identification and assessment;
- Controls as part of risk mitigations, and;
- Information and communication.

Quarterly detailed reports are provided in order to inform the Audit Committee and ExCo on the status of the planning, recent reports issued, staff resources and recommendations.

B.6 Actuarial function

The Actuarial function has specific technical expertise and experience in relation to technical provisions and capital. The skills and experience of the actuarial function provide a different perspective from the underwriting or reinsurance teams' perspectives. The Actuarial function's alignment and collaboration with the other control functions – namely Internal Audit, Risk and Compliance – is elaborated in the TU Model Governance policy. Effective cooperation between these governance functions is fostered in order to avoid overlaps and omissions in roles and responsibilities.

The Actuarial function is critical to the assessment of TU's technical provisions and solvency capital requirements with oversight by the risk function. The key role of the Actuarial Function in the context of SII is to issue Actuarial Function opinions (hereafter the Opinions) and to formulate recommendations for improvement on:

- The reliability and adequacy of technical provisions in Solvency II (local and Group) by assessing methodologies, models, data quality and assumptions, and the consistent calculation of technical provision calculations;
- The appropriateness of underwriting practices when offering insurance products through assessment of the profitability of the portfolio, product pricing (risk/return) and acceptation rules, and benchmarking these to the applicable underwriting policy;
- The appropriateness of the reinsurance arrangements by assessing the adequacy of the reinsurance policy and the alignment of the reinsurance arrangements with the applicable reinsurance policy.

Actuarial Function Report timing

The TU Actuarial Function Report is provided yearly to the TU Board.

Recommendations and their follow-up

When weaknesses are reported, recommendations to mitigate the risks need to be added. All recommendations need to receive a "level of concern" score (HML), an action owner and a realistic target date. The level of concern reflects the potential impact of the identified risk.

The Actuarial Function will assure timely follow-up of the open recommendations and report on these. The recommendations and their characteristics will be approved by relevant senior management committees.

B.7 Outsourcing

TU will only enter into an outsourced arrangement where there is an agreed sound business rationale for doing so and with a provider that is competent (i.e. has the required operational and technical capability, resources and quality standards), is financially sound and has good relevant knowledge and experience of the service it is required to supply. Any decision to outsource activities remains the responsibility of TU management, based upon the agreed strategy. Decisions and core management responsibilities concerning strategy or risk management will not be outsourced.

Oversight of outsourcing is undertaken by a specialist team with management governance through the Head of Business Services and the Business Services Committee. The Outsourcing and Third Party Supply Policy sets out the requirements for any activities which are outsourced and applies wherever Tesco Underwriting appoints a third party (either independent or intra group) for the supply of services which are integral to its main business activities.

TU has entered into service level agreements on the provision of the following services by its shareholders:

- Human Resources, Legal, Secretariat, Compliance (UK Based)
- Information technology (UK Based)
- Specialist claims handling (UK Based)

The TU Outsourcing team provide assurance and oversight on all outsourced or contracted services, ensuring strong relationship management is in place and appropriate measures of supplier performance are adhered to in line with contractual obligations. These are monitored via the Head of Business Services and the Business Services Committee.

TU remains responsible for all activities that are outsourced and requires that robust governance arrangements are in place in relation to the selection, management and oversight of all outsourced arrangements. A strong level of governance is applied to services outsourced to both shareholders and third parties.

TU ensures that outsourcing of critical or important operational functions or activities will not:

- Unduly increase operational risk; or
- Breach applicable legal or regulatory requirements; or
- Materially impair the quality of the system of governance or the ability of its regulators to monitor TU's compliance with its obligations; or undermine continuous and satisfactory service to policyholders.

Oversight arrangements include satisfactory due diligence, robust contractual documentation, allocated business responsibility for oversight of the relationship and performance, supported by appropriate Compliance and Internal Audit monitoring. This information is brought together at the Business Services Committee and reviewed in order to ensure appropriate control is being maintained. Areas monitored include key suppliers, owner of the relationship within TU, the term, notice and the contract value.

B.8 Any other information

There is no other material information to disclose.

C

RISK PROFILE (unaudited)

The Company's primary activity, the acceptance of risk of loss from individuals taking out personal Motor or Home insurance policies, exposes it to a number of risks which may adversely affect the Company's ability to meet its business objectives.

TU is exposed to a wide range of risks, which are categorised in the Risk Taxonomy Policy, whose objective is to ensure that a consistent and comprehensive approach to risk identification, assessment, monitoring and response is in place. The diagram below sets out the different types of risk included within the Risk Taxonomy:

Total Risk

Operational Risk	Insurance Risk	Financial Risk	Strategic Risk
Internal Fraud	Catastrophe risk	Market Risk	Legal & Regulatory risk
External Fraud	Premium risk	Interest rate risk	Competitor risk
Execution, Delivery & Process Management	Reserve risk	Equity risk	Distribution risk
Damage to physical asset	Expense risk	Spread risk	Economic Environment risk
Business disruption and system failures	Lapse risk	Investment Default Risk	Other Environment risks
People Risk		Currency risk	Group Risk
Conduct Risk		Property risk	Change Management Risk
Outsourcing Risk		Liquidity risk	
		Concentration risk	
		Counterparty Default Risk	
		Reinsurer Risk	
		Broker Risk	
		Policyholder Risk	
		Counter Party Concentration Risk	

Quantified in Pillar I SCR

TU calculates its PIM SCR figures using the Non-Life Risk Internal Model (based on the Claims Provisions on the balance sheet at the calculation date and forecast premium volume over the next 12 months) with Standard Formula for all other risks. Risks that are not covered under the PIM SCR are considered under Pillar 2, these are outlined in the ORSA report and briefly described below:

- To-Ultimate volatility: the PIM SCR reflects a one-year view of risk against 1 in 200 year events; this does not allow for potential adverse movement / volatility that may arise after one year (full run-off of the exposure). As part of the Internal Model Sensitivity Tests the SCR has been calculated on an 'Ultimate' time horizon basis (setting emergence factors to 100%) which demonstrates that the Target Capital level covers this - and noting there is an additional buffer from the Risk Margin within the Best Estimate Liabilities.

- Strategic Risks: TU holds no additional Pillar 2 capital adjustments for the Strategic Risks - to justify this we look at the risks within the TU Strategic Risk register and ensure that there is sufficient allowance within other modelled risk types (due to overlap between the definitions). We have assessed these causes and concluded that they are deemed to be appropriately covered within the Non-Life Risk and Operational Risk SCR figures.

The composition of the Solvency II capital solvency requirements can be summarised as follows:

£'000	2019	2018
Market Risk	29,062	30,672
Counterparty Default Risk	8,402	10,114
Non-Life Underwriting Risk	88,708	94,662
Diversification between above mentioned risks	(21,574)	(23,340)
Non Diversifiable Risks	17,332	18,748
Loss-Absorption through Deferred Taxes	(3,402)	(2,433)
Required Capital under PIM SCR	118,529	128,424
Impact of Non-Life Internal Model on Non-Life Underwriting Risk	40,179	51,910
Impact of Non-Life Internal Model on Life Underwriting Risk	685	0
Impact of Non-Life Internal Model on Counterparty Default Risk	(18)	0
Impact of Non-Life Internal Model on Diversification between risks	(1,864)	(1,502)
Capital Solvency Requirements under the SII Standard Formula	157,512	178,832

Available Capital of £189.7m at the end of 2019 (2018: £185.8m) represents 160% (2018: 145%) coverage of SCR PIM. In March 2019 TU returned £47m. This was allowed for in the 2018 year-end available capital figure and so there was no impact on the coverage ratio.

Excluding the use of volatility adjuster at the end of 2019, SII own funds would have been £187.6m, leading to a capital coverage of 158%.

The following sections explain TU's various risk exposures in more detail.

C.1 Underwriting risk

Risk description

The risk of loss or of adverse change in the value of insurance liabilities, due to changes to the underlying assumptions on which pricing and claims estimations have been made. This is the predominant risk to which TU is exposed to – and is comprised of the following sub-risks:

- Catastrophe Risk - the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events and their unpredictable timing.
- Premium Risk - the risk that, in the coming year, claims severity or frequency differs from expectation.
- Reserve Risk - the risk that the cost of settling prior period claims costs differ from expectation.
- Expense Risk - the risk of losses arising from the value of expenses required to settle insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance contracts.
- Lapse Risk - the risk of losses arising from changes in the level of or volatility in the rate of policy lapses.

Risk mitigation

TU manages insurance risks through a combination of its Pricing and Underwriting policy, Reserving policy and Reinsurance policy. The Company's objective for underwriting risk is to manage the risks in line with the strategic plan and deliver the required return on capital and ensure that its plans are aligned to the strategies and plans of its distribution channel Tesco Personal Finance plc.

Premium Risk

The Company's strategy has been to ensure that it charges the right premium for the business underwritten and it focuses on maintaining prices in such difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent. In recent years, the insurance market in general has experienced an increase in the frequency and value of third party injury claims, and in the value of third party property damage claims, arising mainly in the private car market.

These increases have been driven by an increased propensity for the population to be litigious and the extensive activities of companies actively persuading potential victims to instigate claims. In addition, the growth in credit hire has had a significant impact and the Ogden discount rate change from 2017 has also increased costs. The Ogden rate for England and Wales was set at 2.5% until February 2017, then changed to -0.75% until August 2019. Since August 2019 the rate has been set at -0.25%. On each occasion, the change has been adverse to the market consensus view, leading to the potential for higher costs in settling large lump claims than was originally priced for and higher reinsurance costs than assumed within pricing. The Company is aware of these trends and monitors developments closely, adjusting the prices of its products accordingly, to meet its required return on capital.

Reserve Risk

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods.

Such reasons include:

- Changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures and/or the introduction of a new claims system);
- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation) e.g. Legal, Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) and the changes in the Ogden discount rate for valuation of large bodily injury losses (February 2017 and July 2019);
- Changes in mix of business; and
- Random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a related calculation is carried out to estimate the size of reinsurance recoveries. The Company is covered by a variety of excess of loss reinsurance programmes, as well as a quota share reinsurance and adverse development cover. The methods used by the Company take account of historic data, specific details for individual large claims and details of the reinsurance programmes, to assess the expected size of reinsurance recoveries in a range of alternative scenarios.

Recoveries through salvage and subrogation are estimated and recorded as an asset separately based on a combination of suitable benchmark assumptions and the observed development to date.

<u>Reinsurance Risk</u>
The timing and frequency of high severity events are, by their nature, uncertain. They represent a material risk as the occurrence of such an event would have a significant adverse impact on the Company's cash flows and profitability.
The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys primarily excess of loss (i.e. non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Company's risk appetite. In addition, the Company has renewed a Motor Adverse Development Cover and structured quota share covering 15% of Motor new business for underwriting years up to 2019. QS coverage was bound in February 2020 at 45% for the 2020 underwriting year, following approval by the PRA with retrospective coverage for January 2020; the 30% which was subject to PRA approval has not been included in the Bound But Not Incepted as at 31 December 2019.

The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered or by there being gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Company's brokers, and is approved by the Reinsurance Committee and the Board. The failure of a reinsurer to pay a valid claim is categorised as Counterparty Default risk.

<u>Expense Risk</u>
This is managed through regular meetings between Finance and cost centre owners across the business, ensuring that costs are monitored against budgeted spend and any accruals held are still appropriate.

Measures used to assess risk

The management of Non-life risk at TU is in broad conformity with Ageas underwriting and risk taking management guidance. This includes, amongst other things, risk acceptance rules, claims management guidance on claim assessment, reinsurance taking activity and management.

The key Underwriting risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Premium, Reserve, Reinsurance and Expense risk are all explicitly modelled within TU's Risk Profile, and are captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process.

Risks are managed through a combination of policies, processes and reports. Key policies are as follows:

- Insurance Risk Policy;

- Pricing and Underwriting Policy;
- Reserving Policy;
- Reinsurance Policy.

Section C.7 includes further detail on the ORSA Stress & Scenario tests related to Underwriting Risk, Weather event, Under-reserving, Under-pricing, Legislative change and Non-placement of Reinsurance scenarios.

Risk concentration

The Company's insurance portfolio exposes it to a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle. A key aspect of the insurance risk faced by the Company is the degree of concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Concentrations of risk can arise from high-severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration. Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Company models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.

The Company identifies the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures on a regular basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes, and to quantify the net exposure to which the Company is exposed. Additional stress and scenario tests are run using these models during the year.

Material changes over the reporting period

There have been no material changes.

C.2 Market risk

Risk description

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This is the second most significant risk to which TU is exposed to – and is comprised of the following sub-risks:

- Liquidity Risk – see Section C.4
- Concentration Risk - this covers exposure to concentration risk arising from all types of market risk including interest rate, equity, spread, property, and liquidity risks. Like counterparty concentration risk covered under Counter Party risk, it can arise due to high exposure to single to companies or an aggregate of exposures to a number of positively correlated companies for example within one sector or region.
- Interest Rate Risk - this risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures.
- Equity Risk – this risk arises from the level or volatility of market prices for equities or their yield. Note that the current TU investment guidelines prohibit equity investment.
- Spread Risk (Non-Fundamental) – this relates to the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over risk-free interest rates.
- Investment Default Risk – this risk includes the Risk of actual default, rather than spread changes alone. This risk may be covered by the Spread risk category but is included for completeness and to ensure companies consider if and how the impact of actual defaults may differ from spread changes.

- **Currency Risk –** this risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities. Note that TU invests in sterling denominated assets, but could be exposed to immaterial direct exchange rate risk e.g. through claims arising abroad or indirect currency exchange risk.
- **Property Risk –** this risk arises as a result of sensitivity of assets, liabilities and financial investments to the level or volatility of market prices of property or their yield. TU does not currently invest in property, but some indirect risk could arise.

Risk mitigation

Management of Market Risk is built around these key elements:

- Setting risk constraints (related to Risk Appetite and other risk controls).
- Carrying out strategic asset mix studies to determine the optimum investment strategy and limits taking into account the risk constraints.
- Taking action to avoid actual exposure exceeding the limits.
- Taking action in response to developments in economies and markets – i.e. adjusting the investment strategy and limits if needed.
- Investments shall be made with judgement and care. This means only for investment, considering the probable safety of capital as well as the probable income to be derived. See Section B3.5 for more detail on the prudent person principle.
- Governance - TU has a clear definition of duties in the end-to-end investment process.
- A clear segregation needs to be made between setting the strategy, executing the strategy and day-to-day operations and control.

Measures used to assess risk

The key Liquidity risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Liquidity risk is explicitly modelled within TU's Risk Profile and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process. Risks are managed through a combination of policies, processes and reports - the key policy is the Market Risk Policy.

Section C.7 includes further detail on the ORSA Stress & Scenario tests related to Market Risk which include Economic Downturn, Interest Rate shock and Credit Spread scenarios.

Risk concentration

Diversification is an essential element to minimise concentration risk and therefore concentration limits are identified, approved and strictly obeyed. This implies not only boundaries but also early warning limits so that action can be taken in a timely fashion to avoid breaching the concentration limits. These are clearly specified in the TU Market Risk Policy and monitored in the TU Investment Committee.

Material changes over the reporting period

There have been no material changes.

C.3 Credit risk

Risk description

Credit (Counterparty default) risk reflects possible losses due to unexpected default of counterparties and debtors.

The nature of TU's business model means this is a relatively insignificant risk – and is comprised of the following sub-risks:

- Reinsurer Risk - This refers to the risk that a Reinsurer on one of our programmes is unable to meet its liabilities when they fall due.
- Broker Risk - This refers to the risk that a distributor is unable to pay premiums due.
- Policyholder Risk - This refers to the risk that customers default on premiums due.

Risk mitigation

In accordance with the Solvency II requirements, for counterparty default a distinction is made between two types of exposure: type 1 and type 2 exposures:

- Type 1 exposure covers exposures which are less diversifiable and where the counterparty is likely to be rated by a credit rating agency.
- Type 2 exposure represents counterparties that are likely to be unrated but that can usually be diversified.

Reinsurance contracts - With respect to reinsurance contracts, absolute exposure limits are reviewed per contract and reinsurer. Deterioration of the credit standing of a reinsurer can be the trigger for taking action, for example requiring additional guarantees or decrease in reinsurance share.

Receivables from intermediaries - Outstanding amounts due from intermediaries that are above a materiality threshold are monitored on a quarterly basis. Special escalation mechanisms are put in place in case of late payments.

Cash at banks & custody - For the main business bank accounts (with HSBC) no specific limits are in place. TU operates four Liquidity funds in which there is typically up to £25m of cash. This holding is diversified across the funds with each AAA rated fund manager spreading the risk across multiple underlying funds.

Measures used to assess risk

The key Credit risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Credit risk is explicitly modelled within TU's Risk Profile, and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process.

Risks are managed through a combination of policies, processes and reports - the key policy is the Counterparty Default Risk Policy. Counterparty default risks and limits relating to investments operation are monitored and reported monthly to the Investment Committee.
Section C.7 includes further detail on the ORSA Stress & Scenario tests related to Credit Risk which include Reinsurer default scenarios.

Risk concentration

Tesco Bank is our only significant counterparty exposure outside of reinsurance and investment and outstanding balances are reconciled on a weekly basis. Reinsurance counterparty exposure is monitored quarterly through the Reinsurance committee

Material changes over the reporting period

There have been no material changes.

C.4 Liquidity risk

Risk description

The risk that expected and unexpected cash demands of policyholders, and other contract holders cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption. Liquidity risk also covers the risk that any assumed liquidity premium, used to value illiquid liabilities, does not materialise. The nature of TU's business model means this is an insignificant risk and therefore TU's reported expected profit included in future premiums is nil.

Risk mitigation

Liquidity needs to be considered and the overall portfolio at all times needs to be liquid enough to withstand shocks and adverse situations on the resulting cash flows to be made. This is monitored in the TU Investment Committee - TU's business model and current asset portfolio mean that liquidity risk is low in most foreseeable scenarios.

Liquidity needs to be considered and the overall portfolio at all times needs to be liquid enough to withstand shocks and adverse situations on the resulting cash flows to be made. This is monitored in the TU Investment Committee - TU's business model and current asset portfolio mean that liquidity risk is low in most foreseeable scenarios.

TU operates four Liquidity funds in which there is typically up to £25m of cash. This holding is diversified across the funds with each AAA rated fund manager spreading the risk across multiple underlying funds.

Measures used to assess risk

The key Liquidity risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Liquidity risk is explicitly modelled within TU's Risk Profile, and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process. Risks are managed through a combination of policies, processes and reports - the key policy is the Market Risk Policy.

Given this risk is insignificant for TU we don't model any additional liquidity risk Stress & Scenario tests.

Risk concentration

Concentration of liquidity risk is limited within TU.

Material changes over the reporting period

There have been no material changes.

C.5 Operational risk

Risk description

Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. This is the third most significant risk to which TU is exposed to – and is comprised of the following sub-risks:

- Internal Fraud - this is the risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, which involves at least one internal party.

- External Fraud - this is the risk of losses arising due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party without the assistance of an internal party.

- Execution, Delivery & Process Management - this risk refers to losses arising from:
  - Failed transaction processing or process management, including the inability to deliver and execute according to budget and/or strategic plan due to shortage of staff or supplies.
  - Losses arising from the intended misuse of IT-applications, through e.g. misappropriation of access; and
  - Losses arising from disruption of infrastructure or system failures. Note that losses due to not having suitable IT strategy are covered under strategic risks.

- Damage to Physical Assets – this risk refers to losses arising from:
  - Acts of malice, spite, terrorism or the like where there is no profit intention; and
  - Losses arising from loss of, or damage to assets (physical or people) from natural disaster or other events.

- Business Disruption and System Failures - this risk refers to losses arising from:
  - The lack of, or inadequate business continuity plans;
  - The inappropriate or inadequate implementation of business continuity plans;
  - Losses arising from loss or damage to assets (physical or people) from natural disaster or other events; and
  - Materialisation of Cyber risks.

- People Risk – this is the risk of losses arising from :
  - Lack of people skills and or / resources;
  - Inappropriate behaviour by senior management;
  - Unexpected absence of key personnel; and
  - Ill health, accident or injury to people.

- Conduct Risk – this is the risk of losses from unfair outcomes to customers arising from :
  - Product design;
  - Sales and after-sales processes; and
  - Business culture.

  The conduct of business risk to which Tesco Underwriting is exposed falls predominantly to our distributor Tesco Bank. However, Tesco Underwriting has a responsibility to ensure that Tesco Bank is compliant with the regulation.

- Outsourcing Risk – this is the risk of loss arising from the reliance on or, failure of an outsourcer to:
  - Exercise control over major processes, key operations, functions and knowledge that are critical to TU's business;
  - Failure of the outsourcer to comply with TU's Risk Policies; and
  - Failure of the outsourcer to deliver their contractual agreements.

  It also includes the risk of needing to bring back in-house the key operations and not having the capacity to do so.

Risk mitigation

The operational risk management framework aims at identifying, assessing, managing, monitoring and reporting on operational risks. These company-wide processes are:

- Loss data collection;
- Internal control assessment; and
- Key risk identification and assessment process.

Through its Risk Taxonomy TU has classified its potential sources of operational risks and aims to keep these operational risks at appropriate levels by maintaining sound and well-controlled environments in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks they can never completely eliminate them.

Measures used to assess risk

The key Operational risks faced by TU are reviewed quarterly by the Management Risk Committee and subsequently the Board Risk Committee. Operational risk is explicitly modelled within TU's Risk Profile, and is captured by specific risks on the TU Risk Register under TU's Control Risk Self-Assessment (CRSA) process. Risks are managed through a combination of policies, processes and reports. The key policies are the Risk Framework Policy and Operational Risk Policy

The TU ORSA contains further detail on the methodology to calculate the "economic cost" of Operational Risk, in order to determine whether the standard formula-based capital charge allocation for operational risk provides an adequate reflection of the Operational Risk profile. Scenarios are chosen to cover all Operational Risk sub-risks within the TU Risk Taxonomy and each scenario is assessed against the Standard Formula SCR for Operational Risk - the results show that there are no scenarios that indicate that a higher level of capital might be required and therefore the scenarios support the use of Standard Formula for TU.

Risk concentration

Concentration of operational risk is limited within TU.

Material changes over the reporting period

There have been no material changes.

C.6 Other material risks

Strategic Risk description - Strategic risks cover external and internal factors that can impact TU's ability to meet its current business plan as well as how it positions itself to achieve ongoing growth and value creation and is comprised of the following sub-risks:

- Legal & Regulatory Risk - this is the risk that changes to regulations would threaten the current business model.
- Competitor Risk – this arises due to changes in competitor landscape or market position.
- Distribution Risk - this is the risk of a loss due to distribution plans deviating adversely from expectations. This type of strategic risk is particularly applicable due to the exclusive arrangement that TU has with Tesco Bank for the distribution of home and motor insurance. Distribution risk can arise due to a number of causes including lack of alignment of planning, poor stakeholder management, and misaligned strategic goals.
- Reputational Risk - this is the risk of damage to the brand name. Reputational risk can have severe impact on overall value. It can impact value directly by causing an increase in lapses but it can also have much wider impact on future value generation by reducing ability to attract and keep new customers, distribution partners and staff.
- Country Risk – this refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country. As TU operates primarily within the United Kingdom it does not have material direct exposure to this risk.
- Economic Environment Risk – this is the risk that the economic environment encounters changes and the impact this can have on general business environment, customer behaviour, etc. (e.g. the impact of an economic downturn leading to greater incidence of customer fraud at either sales or claims stage).
- Other Environment Risks – these risks cover a range of changes to the external environment not already covered by the categories above.
- Intangible Asset Risk - this is the risk of loss, or of adverse change in the value of intangible assets (such as rights to service properties or software platforms) due to a change in expected future benefits to be gained from the intangible assets.
- Group Risks - these cover various risks associated with TU's shareholders including change in either shareholders strategy; or significant reputational damage to either or both shareholders.
- Change Management Risk - Chance Management Risk is the risk arising from change projects that fail to deliver on objectives, do not deliver on time or budget, or have an unacceptable 'knock-on' impact on business as usual activity.

Strategic Risk Management

As part of the CRSA process, TU maintains a Strategic Risk register - which is owned by the CEO and reviewed on a quarterly basis with the CRO and Head of Strategy. This covers the risks that don't sit within any of the other departmental Risk Registers.

As mentioned in the Section C introduction the TU SCR does not explicitly cover Strategic Risks – to justify this we looked at the risks within the TU Strategic Risk register and ensured that there is sufficient allowance within other modelled risk types (due to overlap between the definitions).

C.7 Any Other Information

Stress and Scenario Testing

A well designed and executed Stress and Scenario Testing (SST) programme is part of TU's Contingency Planning. The ongoing Solvency of TU is key – but the analysis also focuses all applicable Risk Appetite measures. Where a Risk Appetite limit is breached management need to consider options available to recover and specify timescales and relevant owners for each action.

TU also completes the PRA General Insurance Stress Tests (GIST) where applicable and reports on these to the Management Risk Committee.

In the tables below S11 and S13 are the only PRA stress tests.

The 2019 SST exercise was carried out in line with the Ageas UK harmonised approach to Stress and Scenario Testing, which outlines the process and governance for SST exercises.

This section summarises the various tests undertaken which have been selected to ensure appropriate coverage of TU's key risks. The tables below show more detail for these tests – with an assessed return period (where applicable the Non-Life Internal Model has been used):

Insurance Risk Stress and Scenario Tests:

#	Test Name (Return Period)	Description - Insurance Risk Stress Tests	Rationale
S1	Motor Soft Market (1-in-5 Yr)	TU's market competitiveness reduces more than anticipated leading to a reduction in Policies in Force of c.30% over 2020-2022.	To assess the impact of lower profitability from writing lower than expected volumes.
S2	Motor Hard Market (1-in-5 Yr)	TU's market competitiveness improves more than anticipated leading to a growth in Policies in Force of c.20% over 2020-2022.	To assess the new business capital strain from writing higher than expected volumes.
S3	Multiple Weather Events (1-in-200 Yr)	A number of events occurring recurrently over 2020 to 2022 as a result of increasingly aggravating climate changes - each event is below the reinsurance retention, so no recoveries are made.	TU's Catastrophe reinsurance covers up to a 1-in-200 return period. The Non-Life Internal Model shows that multiple smaller events drive the SCR figure.
S4	PPO Severity shock (1-in-30 Yr)	Assume all TU PPO claimants have unimpaired life expectancy. Knock-on impact is that this element of the premium is too low and hence the 2020 Loss Ratio is 3% higher than Plan.	A key assumption in the calculation of the Claims Reserves.
S5	Adverse Large Loss experience (1-in-30 Yr)	Existing BI large loss reserves are insufficient (case reserves run-off neutrally vs. c.20% favourable assumption in ABE). The knock-on impact is that the BI Large loss component of the premium is too low by 20% (relative) and hence the 2020 Loss Ratio is 5% higher than Plan.	A key assumption in the calculation of the Claims Reserves.
S6	Non-Renewal of ADC and Quota Share Reinsurance (1-in-10 Yr)	Significant reserve deterioration (2018 Y/E) leads to a claim on the ADC contract, this leads to an increase in the ADC and Quota Share costs and TU make the decision not to renew the covers on 1/1/2020.	Non-renewal of the reinsurance covers (particularly the ADC) would lead to a significant increase in the SCR figure.

Financial Risk Stress and Scenario Tests:

#	Test Name (Return Period)	Description – Financial Risk Stress Tests	Rationale

S7	Sudden rise in UK Interest Rates (1-in-30 Yr)	A short-term shock to UK Interest rates, increasing to 5% in 2020, 4% in 2021 and 3% in 2022 onwards.	Rising yields would lead to a reduction in TU's bond portfolio valuation.
S8	Flattening of yield Curve (1-in-30 Yr)	The impact of the surge in bond yields following the US Fed turning off one of their Quantitative Easing programs in 2013 (the 'Taper Tantrum') – modelled by P-Solve as part of their Strategic Asset Allocation work.	Rising yields would lead to a reduction in TU's bond portfolio valuation.
S9	Widening of Credit Spreads (1-in-100 Yr)	The impact of the spread widening following the Lehman Collapse in September 2008 – modelled by P-Solve as part of their Strategic Asset Allocation work.	Widening spreads would lead to a reduction in TU's bond portfolio valuation.
S10	Downgrade & Default of Investments and Reinsurer default. (1-in-50 Yr)	A significant economic downturn leads to all Financial Services investment counterparties being downgraded by 1 whole credit grade notch, and the default of TU's largest corporate bond holding. This leads to financial difficulties for a number of TU's lowest rated Motor Reinsurance counterparties (A- & A-rated companies) and TU is forced to write-off 50% of the Motor Reinsurance Recoveries due from these.	Significant Profit impact from Reinsurance Asset write-off and Corporate bond default.
S11	PRA 2019 GIST Scenario 1: Deterioration in the economic environment (1-in-100 Yr)	A parallel downward shift in risk free interest rates of 100 bps; a widening in corporate bond spreads dependent on their current credit rating (e.g. 150 bps for AAA rated assets); and a fall in other asset values (including equities down 30%, commercial property down 40% and residential property down 30%).	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.

Combined Risk Stress and Scenario Tests:

#	Test Name (Return Period)	Description – Combined Risk Stress Tests	Rationale
S12	PPO 'Frequency' increase, Reinsurer default and Reduction in UK Motor Reinsurance capacity (1-in-100 Yr)	New legislation means that all open Large Motor claims over £1m will settle as PPOs. This in conjunction with other significant world-wide Natural Catastrophe events causes Swiss Re (TU's largest Reinsurance Counterparty) experience financial issues and TU is forced to write-off 50% of the Motor Reinsurance Recoveries due from Swiss Re. A number of Reinsurers stop providing cover for the UK Motor market due to fears over spiralling numbers of PPO claims – TU is only able/willing to pay for 50% of the £5m xs. £5m XOL layer to be placed in 2019, 75% in 2020 and 100% in	PPO settlement propensity rate is a key assumption in the calculation of the Claims Reserves. Non-renewal of the reinsurance covers would lead to an increase in the SCR figure.

		2021.	
S13	PRA 2019 GIST Scenario 5: S11 and Natural Catastrophe shock (1-in-500 Yr)	PRA GIST Scenario 1 (S11) and a large UK windstorm and a large UK flood leading to some £22 billion of losses in aggregate to the UK insurance sector.	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.
S14	PRA 2019 GIST Scenario 6: S11 and Liability shock (1-in-10 Yr)	PRA GIST Scenario 1 (S11) and a deterioration in Technical Provisions due to claims inflation (over and above consumer price inflation) being 2.0% p.a. higher than allowed for in the reserving basis.	Consistent with results reported to the PRA as part of the 2019 General Insurance Stress Test Scenario submission.

The table below shows the impact of the Stress and Scenario Tests on TU's Solvency Ratio (relative to PIM SCR):

- The figures under the '**DIVIDENDS PAID'** header represent the Solvency Ratio over the business plan projection period (2020-2022) assuming that the Base Case business plan dividends are paid and no additional management actions are initiated. In each case the figure highlighted in **Bold** represents the minimum Solvency Ratio over the projection period.
- The figures under the '**RESTRICTED DIVIDENDS**' header represent the Solvency Ratio through the suspension of dividends in 2021 and onwards (as specified in the Capital Contingency Plan) over the business plan projection period. In each case the figure highlighted in **Bold** represents the minimum Solvency Ratio over the projection period.
- Stress events are assumed to occur following the anticipated capital release/dividend payment in 2020Q1 for all Stress Tests except **S6 (Non-Renewal of the Adverse Development Cover and Quota Share)** and **S11 (PRA Economic Downturn Scenario)**,
- The modelling is based on the current reinsurance structure - assuming renewal of the existing ADC and Quota Share covers at the current terms.

	DIVIDENDS PAID				RESTRICTED DIVIDENDS			
	Y/E 2019	Y/E 2020	Y/E 2021	Y/E 2022	Y/E 2019	Y/E 2020	Y/E 2021	Y/E 2022
Base Case	146%	151%	150%	151%	146%	151%	150%	151%
S1	152%	161%	161%	158%	152%	161%	161%	158%
S2	140%	138%	133%	132%	146%	151%	150%	151%
S3	146%	139%	120%	96%	146%	151%	150%	144%
S4	143%	130%	126%	127%	146%	147%	150%	151%
S5	143%	128%	123%	123%	146%	146%	150%	151%
S6	129%	137%	138%	141%	140%	151%	150%	151%
S7	146%	136%	137%	140%	146%	150%	150%	151%
S8	146%	141%	142%	145%	146%	151%	150%	151%
S9	146%	122%	122%	124%	146%	136%	150%	151%
S10	140%	132%	130%	131%	146%	151%	150%	151%
S11	102%	105%	102%	102%	113%	130%	149%	151%

S12	144%	124%	122%	122%	146%	140%	150%	151%
S13	79%	83%	81%	81%	90%	109%	130%	149%
S14	139%	120%	120%	122%	146%	141%	150%	151%

The key conclusions are:

- TU's Capital Contingency Plan is part of TU's Capital Management Policy (approved at the February 2019 Board) and details the actions TU would take if the TU Own Funds are at various thresholds (expressed as a % of PIM SCR and Target Capital).
- The results before management actions (grey bars) show that TU remains solvent (relative to regulatory PIM SCR) under each of the stress tests performed – with the exception of tests S3 (Multiple Weather Events) and S11 (PRA Combined Scenario) which result in a minimum Solvency Ratio of 96% PIM SCR and 79% PIM SCR respectively.
- The key management action is to suspend the future dividend payments - for example under test S3 (Multiple Weather Events) the suspension of dividends increases the minimum Solvency Ratio by 48% (from 96% to 144%). The results after this action (green bars) show:
    - There is one test, S13 (PRA Combined Scenario), where the Solvency Ratio remains below the regulatory PIM SCR – with a minimum level over the projection period of 90% PIM SCR.
    - There is one other test, S11 (PRA Economic Downturn Scenario), for which the impact is to reduce the Solvency Ratio to below the Target Capital level (125% PIM SCR) - with a minimum level over the projection period of 113% PIM SCR.
- Our expectation is that both these scenarios would have a significant impact across the UK Market, although for TU the Solvency impact related to unrealised losses through widening Credit Spreads would be unwound over 2-3 years (given the duration of TU's bond holding) if the investments are held to maturity and we assume there are no significant defaults (given the portfolio consists of High-grade Corporate bonds).
- In any scenario where target capital requirements are not met TU would implement its Capital Contingency Plan.

Financial Risk of Climate Change

In its consultation paper, PRA CP23/18 on 'enhancing approaches to managing the financial risks from climate change', the PRA proposed that firms embed the consideration of the financial risks from climate change into their governance framework. The Company has developed an action plan in response, which was discussed at the November 2019 Board Risk Committee. The Company has also allocated SMF responsibility for managing Climate Change financial risks to its Finance Director. Monitoring of climate change risks and the action plan will be undertaken within existing governance arrangements and will be discussed at the Board Risk Committee.

The action plan focuses on ensuring that the Board understands and assesses the financial risks from climate change and oversee these risks within the firm's overall business strategy. The work includes a horizon scanning process that focusses on assessing exposure to physical risks in the context of insurance risk controls and risk appetite as well as to transition risks. Initial conclusions are that physical risks are the most significant, noting that these are substantially mitigated by the Company's reinsurance programme.

Transition Risks are assessed as being less significant due to the Company's investment portfolio materially comprising being a diversified mix of high-grade corporate bonds. During 2020, it is planned that additional investment guidelines will be introduced in order to manage the transition of the investment portfolio to a lower overall carbon footprint, thereby mitigating the risk to value from over-exposure to certain sectors.

The Company is also monitoring the longer-term transition risks arising from the changing Climate relating to the personal lines insurance market.

Risks associated with the outbreak of the COVID19 pandemic "coronavirus"

In the early part 2020 the outbreak of the coronavirus in China quickly gained worldwide attention. On 11th March 2020 the World Health Organisation declared a global pandemic for this disease.

In February 2020 TU convened a COVID-19 Core Response team from across the business which reports into the TU Executive Committee twice weekly. The situation has developed rapidly and at the time of writing TU has implemented Crisis Management with daily calls and strong focus through the Crisis Management Team. Following Boris Johnson's announcement on 23rd March, TU has closed its Reigate office whilst maintaining attendance of a proportion of the staff in the Claim operation in Newcastle in order to maintain claims handling which cannot be undertaken remotely. However, staffing is commensurate with the reduced volumes of calls being received which at this point are about 60% less than plan.

At the same time a series of update communications have commenced to staff across TU. The safety and wellbeing of TU staff is the primary focus alongside ensuring that business systems and processes can continue to serve customers through this period.

Strong co-operation continues between TU, TB and Ageas with TU liaison on the TB and Ageas Crisis Management teams.

The key areas of focus for the TU Executive team are:

- Understanding the dynamic changing advice from the UK Government and Public Health England;
- The alignment to decisions and approach to responses and communications across Tesco Bank and Ageas UK;
- The issue of regular communications to colleagues across the business with advice and guidance as the situation develops;
- The assessment of TU's operational resilience and specifically the operational response required to a series of scenarios; and
- The assessment of the operational resilience of TU's suppliers and partners in the provision of services and support to customers. In relation to this latter point many repairers and suppliers are shutting their operations as a response to government announcements.

As the situation develops TU will continue to monitor the position and take appropriate action through its Crisis Management Team taking contingency actions to protect colleagues whilst continuing to serve customers.

The negative financial impacts of the coronavirus outbreak on the robustness of TU's financial position are currently assessed as limited, but this will be kept under review as the situation develops. A key area of focus is the investment portfolio (£648.7m at December 2019). TU primarily invests in rated Corporate Bonds which typically rise in value during periods of economic uncertainty and in the period to late March 2020 although the value of the portfolio has fluctuated ,unrealised losses have been limited in relation to the size of the portfolio. Wider impacts such as a drop in loss ratios, as well as policy volumes are being assessed as part of a broader financial assessment.

The directors consider that the financial impact of the COVID-19 virus on the UK economy and the company cannot currently be estimated with any degree of certainty. In assessing the potential impact on the company, the directors have prepared various financial projections of impacts including reduced claims costs, investment value variability, operating expenses and premium income on the basis of a UK shutdown lasting around 3 months with a return to normal trading over the following 3 to 6 months and taking account of anticipated management actions and UK government support. On the basis of these projections, the directors have concluded that it is appropriate to prepare the accounts on a going concern basis and to disclose COVID-19 as a non-adjusting subsequent event.

D

VALUATION FOR SOLVENCY PURPOSES

This chapter should be read in conjunction with the market consistent balance sheet (MCBS) of Solvency II as reported in the Quantitative Reporting Template S. 02.01.

This section provides the value separately for each material class of assets, technical provisions and other liabilities; and a description of the bases, methods and main assumptions used for their valuation for solvency purposes. It also provides a quantitative and qualitative explanation of any material differences.

This report also confirms TU meets the required regulatory disclosure requirement related to risk management, which includes:

- TU's Risk Framework includes policies related to Pricing & Underwriting risk, Reserving risk, Market risk (covering Asset-liability management, Investment risk and Liquidity risk) – see the relevant parts of Section C for further detail including description of the risk and measures to assess and mitigate them.
- Loss-making Policies – our valuation methodology requires that loss-making policies are only offset against profit-making policies within the same homogeneous risk group, as specified in our SII Valuation manual and within the TU Liability Adequacy Policy.
- Expected Profit Included in Future Premium (EPIFP) isn't applicable for TU given the nature of its business.

D.1 Assets

The following adjustments have been made to the Statutory Accounts in arriving at the SII Balance Sheet;

- DAC, other intangibles and property, plant & equipment held for own use are excluded from the SII balance sheet as there is no fair value for these items;
- Deferred tax is adjusted to reflect the tax impact of the valuation adjustments;
- Accrued interest on investments is reclassified to the investment value under SII as opposed to any other assets under IFRS;
- Reinsurance assets (claim recoveries) are discounted for SII balance sheet purposes; and
- Insurance & intermediary receivables are reflected as technical provisions for SII balance sheet purposes.

The Company held the following assets:

Assets at 31 December 2019 £'000

	IFRS Statutory Accounts	SII Adjustments	SII Balance Sheet
Assets			
Deferred acquisition costs	10,429	(10,429)	0
Other intangible assets	7,062	(7,062)	0
Deferred tax assets	0	1,834	1,834
Property, plant & equipment held for own use	803	(144)	659
Investments - Bonds	629,535	8,935	638,471
Investments - Property Funds	19,118	223	19,341
Reinsurance recoverables	177,247	(3,874)	173,373
Insurance & intermediaries receivables	35,776	(27,243)	8,533
Reinsurance receivables	1,350	(452)	898
Receivables (trade, not insurance)	0		0
Cash and cash equivalents	51,920		51,920
Other assets	12,690	(10,912)	1,778
Total assets	945,929	(49,124)	896,805

Assets at 31 December 2018 £'000

	IFRS Statutory Accounts	SII Adjustments	SII Balance Sheet
Assets			
Deferred acquisition costs	19,320	(19,320)	0
Other intangible assets	5,584	(5,584)	0
Deferred tax assets	0		0
Property, plant & equipment held for own use	207	(207)	0
Investments - Bonds	679,590	9,467	689,057
Investments - Property Funds	5,447	45	5,492
Reinsurance recoverables	186,624	(16,081)	170,543
Insurance & intermediaries receivables	34,131	(31,009)	3,122
Reinsurance receivables	5,465		5,465
Receivables (trade, not insurance)	0		0
Cash and cash equivalents	86,271		86,271
Other assets	13,475	(12,244)	1,231
Total assets	1,036,114	(74,933)	961,181

D.1.1 Valuation of assets

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.
The table below summarises per material class of asset the basis, methods and main assumptions used for the valuation of assets. For the data, we refer to the Quantitative Reporting Template (S.02.01.01).

Asset class	Revalued	Basis, methods and main assumptions used
Deferred acquisition costs	Yes	Under IFRS DAC is amortised over the period in which the related premiums are earned. DAC is not recognised under SII.
Intangible assets	Yes	Intangible assets consist of computer software and development. Under IFRS they are valued at net book value. Under SII they are valued at nil unless they can be sold separately and a valuation can be derived from a quoted market price.
Property, plant and equipment (PPE) held for own use	Yes	Under IFRS PPE is stated at cost less accumulated depreciation and impairment losses, which is approximated to be its market value. Under SII they are valued at nil apart from Right of Use Assets valued under IFRS 16 and is considered FV under SII.

Deferred tax assets	No	The valuation under the Market Consistent Balance Sheet (MCBS) is based on the difference between the value of the underlying assets and liabilities in the MCBS and the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax assets. The specific tax position is considered in case of a net deferred tax asset position. A net deferred tax asset is only recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Therefore, when an entity has a history of recent losses, it is only able to recognise a deferred tax asset arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.
Corporate Bonds	No	Corporate bonds are valued at fair value under both IFRS and SII. There is a presentation difference between IFRS and SII; accrued interest is included in the investment value under SII but under Other Assets in the IFRS balance sheet.
Insurance & intermediaries receivables	No	The balance represents premiums receivable from the intermediary and are valued at cost value under both IFRS and SII because of the short term nature of the receivables. There is a presentation difference between IFRS and SII; salvage and subrogation recoveries are included in this category under IFRS but netted off against gross technical provisions under SII
Reinsurance Receivables	No	These are short -term and valued at cost under both IFRS and SII.
Cash and cash equivalents	No	Cash and cash equivalents have a term of less than three months. Their face value is taken to approximate fair value under both IFRS and SII.
Other assets	No	Any other assets include accrued income. This is a short-term asset and valued at cost under both IFRS and SII. An amount of £2,732k under IFRS relates to prepaid expenses. Due to the nature of these expenses they are valued at nil under SII.

D.2 Technical provisions

D.2.1 Technical provisions by line of business

Technical Provisions at 31 December 2019 £'000

	Motor vehicle liability insurance	Other motor insurance	Home	Total non-life obligation (per S.17.01)	Annuities stemming from non-life insurance contracts (per S.12.01)	Total technical provisions
Premium Provisions	81,243	25,182	20,951	127,377		127,377
Claims Provisions	368,032	(14,452)	17,514	371,095	120,844	491,938
Total best estimate – gross	449,276	10,731	38,465	498,471	120,844	619,315
Risk margin	22,042	536	2,183	24,762	3,269	28,030
Total gross technical provisions	471,318	11,268	40,649	523,233	124,112	647,345
Total recoverable from reinsurance	98,596	2,202	3,729	104,527	68,846	173,373
Net technical provisions	372,722	9,066	36,918	418,706	55,266	473,973

Technical Provisions at 31 December 2018 £'000

	Motor vehicle liability insurance	Other motor insurance	Home	Total non-life obligation (per S.17.01)	Annuities stemming from non-life insurance contracts (per S.12.01)	Total technical provisions
Premium Provisions	95,652	22,878	17,515	136,045		136,045
Claims Provisions	414,670	(15,415)	21,686	420,941	98,520	519,461
Total best estimate – gross	510,322	7,463	39,201	556,986	98,520	655,506
Risk margin	14,166	312	1,257	15,735	1,572	17,307
Total gross technical provisions	524,488	7,775	40,458	572,721	100,092	672,813
Total recoverable from reinsurance	110,976	0	5,365	116,341	54,202	170,543
Net technical provisions	413,512	7,775	35,093	456,380	45,890	502,270

D.2.2 General comments on valuation of technical provisions

The value of technical provisions under Solvency II is equal to the sum of the best estimate of the liabilities and the risk margin. To calculate the best estimate of the liabilities, the probability-weighted average of the expected present value of all future cash flows based on the risk-free yield curve with volatility adjuster is used whereas the risk margin, which is aimed at ensuring there is sufficient capital to run-off the business, is assessed on the basis of the capital costs of the non-hedgeable risks included in the best estimate.

The time horizon used in the calculation of the best estimate is the full lifetime of the existing (re)insurance liabilities on the date of valuation. The determination of the lifetime of the (re)insurance portfolio is based on contract boundaries and realistic assumptions about when the existing liabilities will be discharged, cancelled or expired. The boundary of the contract is defined following the EIOPA's technical specifications as:

(a) Where the insurance or reinsurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject the premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at some point in the future, any obligations which relate to insurance or reinsurance cover which would have been provided by the insurance or reinsurance undertaking after that date do not belong to the existing contract;

(b) Where the undertaking's unilateral right to terminate the contract or to unilaterally reject the premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined above are applied to this part; and

(c) All other obligations relating to the terms and conditions of the contract belong to the contract.

Discounting cash-flows is performed for all relevant cash–in and cash–out flows, e.g. premiums, claims payments. As a simplification, cash-flows are expected to emerge at mid-year. Discounting is performed based on the prescribed EIOPA interest curves with volatility adjuster as approved by the PRA in 2019.

TU's business is managed in a more granular way than at SII Lines of Business level, so the assumptions are also set at a more granular level.

All expenses to be incurred in servicing insurance and reinsurance obligations are taken into account. They include direct operating expenses, overhead expenses as well as allocated central head-office expenses. Expenses associated with reinsurance contracts are included in the gross calculation of the best estimate.

The allowance for inflation is consistent with the economic assumptions made. Inflation rates are justifiable relative to external sources of information such as Consumer or Retail Price Indices.

The total of allocated commissions represent the actual commissions for the reporting year and cover Acquisition commission, Renewal commission, Bonus commission and claw-back of unearned commission in case of lapse.

D.2.3 Non-life technical provisions

Non-life provisions consist of:

- Claims provisions: cash flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims).
- Premium provisions: the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined below.

Granularity

The best estimate of claims provision and premium provision are calculated separately with a split between gross cash flows and reinsurance related cash flows. The minimum level of segmentation is at homogeneous risk group level with a minimum level being the Solvency II LOBs.

Cash flow projection for claims provisions

The Claims provision includes:

Inward cash-flows

- Recoverables for salvage and subrogation; and

- Recoverables from reinsurance contracts and special purpose vehicles (for calculation of net best estimate).

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries;
- Expenses incurred in servicing insurance obligations; and
- Reinstatement premiums.

The Premium provision includes:

Inward cash-flows

- Premiums to be written until the term of the contract (future premiums);
- Recoverables for salvage and subrogation; and
- Recoverables from reinsurance contracts and special purpose vehicles.

Outward cash-flows

- Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract;
- Commissions to be paid since the valuation date until the term of the contract;
- Reinsurance premium or reinstatement premiums;
- Expenses incurred in servicing (re)insurance obligations;
- Expenses necessary to handle claims until settlement;
- Expenses necessary to administer contracts during the valuation period;
- Acquisition expenses (other than commissions); and
- Investment expenses necessary to administer the assets representing the liabilities related to contracts during the valuation period;

Claims payments

Claims are split into four categories: attritional claims (claims with a cost under a predefined threshold), large claims (claims with a cost above a predefined threshold excluding catastrophe claims), claims arising from natural catastrophe events and claims arising from binary events (restricted to events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims)).

The main reason for isolating Large and Catastrophe claims from others is that, in many cases, large claims require a dedicated valuation technique. The main reason for this is that non-proportional reinsurance applies only to those claims and uncertainty is more important. As a consequence, isolating large and catastrophe losses from other losses warrants an appropriate calculation of best estimate values and of the uncertainty around it, both on a gross and net basis.

Methods to value attritional claims are aggregate methods where claims are grouped per accident period and where payments are grouped by accounting period to form a claims triangle. For large losses various methods are available including specific individual large loss methods. Large losses, including PPO claims are modelled using a combination of aggregate methods and individual large loss projection methods in order to compute the reinsurance recoveries on a claim by claim basis.

Tail Factor

In many loss reserve analyses, especially those involving long-tail branches (losses that do not proceed to final settlement until several years beyond the policy year), the observed historical loss development information may end before all the claims are expected to be settled and before the final costs are known. Assessments, based on the available triangle data, may lead to consider a *tail factor* that estimates the development beyond the last stage of known historical developments.

Reinsurance Recoveries

Recoverables from reinsurance contracts, including recoverables from any special purpose vehicles, are recognised and valued according to the valuation principles for non-life premium and claims provisions and are shown separately on the asset side of the balance sheet (as “recoverables from reinsurance contracts and special purpose vehicles”). The time value of money is taken into account in the calculation of reinsurance recoveries.

TU’s reinsurance programme comprises:

Motor and Home Excess of Loss programmes;

A 15% Motor Quota Share treaty for underwriting years 2018 and 2019. For year 2020 a 45% Quota Share treaty was bound in February 2020, following approval by the PRA with retrospective coverage for January 2020 ; the 30% subject to PRA approval has not been included in the Bound But Not Incepted as at 31 December 2019.

Adverse Development Cover.

Expenses related to the internal processes for reinsurance and SPVs (such as administration or management) are allowed for in the expenses forming part of the gross best estimate.

Expenses

Expenses assumptions are based on experience over the last year or some other recent period. In this respect the past one-off expenses may be more or less adjusted. Expenses are calculated on a going concern basis and also on a run-off basis for comparison purposes.

Commissions

Future commission assumptions are only considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

Acquisition Expenses

Future acquisition costs are valued when regarding cash-flows related to premium provisions and considered differently depending on whether the premium has already been written or not. For the part of provision constituted by premium already written, no acquisition cost is projected since all expenses are considered as having been paid at the drawing up of the contract.

For renewals, acquisition costs are reduced with the part of the cost related to the drawing up of the contract.

Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are first allocated to premium provisions.

Claims Expenses

Claim management expenses which are related to claims that have occurred before the valuation date are considered for the cash-flows related to claims provisions.

Expenses related to claims that will occur in the period covered by the in-force premiums are considered when regarding cash-flows related to premium provisions.

Events Not in Data (ENIDs) – Natural Catastrophe events

The definition of “Catastrophe” or “ENIDs” is restricted to those events with very low frequency-high severity (which could be one large claim or an accumulation of attritional claims) and is not otherwise considered in the best estimate as absent from historical observation, or is considered as an outlier in the valuation methods applicable to attritional or large claims. TU makes a distinction between the claims arising from natural catastrophe events classified as Natural Catastrophe claims and others, called Events Not in data (ENIDs).

Typical Natural Catastrophe events are Earthquakes, Floods, Windstorms, Tsunamis, etc.

Typical ENIDs are latent claims e.g. asbestos; legislative changes e.g. Ogden table changes, etc.

ENIDs must be explicitly considered in premium provisions and claims provisions, in a consistent way. Natural catastrophe events must be explicitly considered in premium provisions. Not all lines of business will be affected to the same extent by ENID and natural catastrophe events. Longer tailed classes of business are more affected by ENIDs. The approach and methods used to calculate the allowance for catastrophe and ENIDs are simplified methods using benchmarking and expert judgment.

Inflation

Inflation is considered when projecting future cash-flows: the cash-flows that are potentially impacted by inflation are:

- Claims costs;
- A 15% Motor Quota Share treaty for underwriting years 2018 and 2019, and a 45% Motor Quota Share treaty for underwriting year 2020;
- Expenses: the biggest part of expenses are salaries that will evolve over time; and
- Inflation that applies to claims, called “claims inflation”.

The assumptions used for valuation are consistent with other uses of Claim inflation.

Contract boundaries

In addition to the generic definition the premium provision is affected by the issues arising with respect to the contract boundary.

This document defines "unincepted business" as those contracts where a legal obligation exists but the coverage period has not started yet and also multi-year contracts.

Options and guarantees/Policyholder behaviour

This is not relevant as TU does not include options and/or guarantees in its non-life book of business.

Management action

TU does not currently consider any management action as policies currently written by TU for non-life products do not include any (discretionary) participating features.

Expert Judgment

Typical areas in non-life where expert judgment is applied are:

- Tail factors as they affect the whole claims portfolio contained in a triangle, it is usually a highly material item;
- Loss ratios affect single years, where the most uncertain parameters for the most recent years typically have the biggest impact. The loss ratio of the current year essentially determines the premium provision and is thus highly material;
- Impact of legislative changes;
- Deviations from current estimates on large claims using individual large loss projection methods; and
- Allowance for ENIDs.

D.2.4 The level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error). A yearly model assessment is performed in order to review any potential modelling feature that is missing in the model and that might be significant to the determination of the Best Estimate.

Such an assessment of the model error may be carried out by expert judgement or by more sophisticated approaches, for example:

- Sensitivity analysis in the framework of the applied model: this means varying the parameters and/or the data thereby observing the range where a best estimate might be located;
- Comparison with the results of other methods: applying different methods gives insights into potential model errors. These methods would not necessarily need to be more complex;
- Descriptive statistics: in some cases the applied model allows the derivation of descriptive statistics on the estimation error contained in the estimation. Such information may assist in quantitatively describing the sources of uncertainty;
- Back-testing: comparing the results of the estimation against experience may help to identify systemic deviations which are due to deficiencies in the modelling; and
- Quantitative assessment scenario as benchmark.

D.2.5 Impact of the reduction of the volatility adjustment to zero

Within the Solvency II regulations it is permissible (with approval) to use a volatility adjustment, which increases the rate used to discount cashflows in the valuation of assets and liabilities. The principle of having a volatility adjustment is that a buy and hold investor who is not impacted by the volatility of assets caused by market fluctuations, is able to use a more appropriate discount rate, reflecting assets held. In 2019 TU submitted, and had approved, an application to use a volatility adjustment within Solvency II reporting. The impact of reducing the volatility adjustment to zero is a reduction in available capital of £2.1m. Excluding the use of volatility adjuster at the end of 2019, SII own funds would have been £187.6m, leading to a capital coverage of 158%.

D.2.6 Material changes in the relevant assumptions made in the calculation of technical provisions compared to previous reporting period

The 2019 IFRS and Solvency II year end figures in this report are based on an Ogden rate of -0.25%, whereas the 2018 Solvency II year end figures were based on an Ogden rate of 0% and IFRS were based on Ogden -0.75%. We consider the current rate to be a best estimate of the expected Ogden rate that will be used in future large loss settlements.

D.2.7 Material differences between the basis, methods and assumptions used for technical provisions in the Solvency II MCBS compared to IFRS

A difference in methodology exists between SII reserving and IFRS reserving. The technical reserves mentioned in Solvency II MCBS are subject to the valuation requirements in delegated acts, implementing technical standards and guidelines as issued by EIOPA. These valuation principles are not the same as those required by local accounting regulations that are still applicable to technical provisions as defined under International Financial Reporting Standards (IFRS 4). The underlying approach towards quantifying reserves under IFRS is disclosed in the 2019 annual accounts of TU.

The principal difference between the IFRS and SII valuations of reinsurance recoverables relates to discounting on a Solvency II basis.

The key differences in the valuations of technical provisions – premiums change from an Unearned Premium Reserve, being the portion of premium that is unearned on an IFRS basis, to a Solvency II basis incorporating the best estimate of claims and expenses arising and the result from unincepted but legally bound premiums.

D.2.8 Matching Adjustment

TU does not apply a matching adjustment to the technical provisions.

D.2.9 Transitional risk-free interest rate term structure

TU does not apply a transitional risk-free interest rate.

D.2.10 Transitional deduction

TU does not apply a transitional deduction to the technical provisions.

D.3 Other liabilities

Subordinated debt within the IFRS balance sheet classified as subordinated liabilities has been reclassified from liabilities to own funds in line with SII requirements. Each of the eligibility criteria required for the subordinated debt to qualify as Tier 2 capital, as set out in Article 73 of delegated regulation (EU) 2015/35 have been met. The debt is fully subordinated in the event of a winding up, with the claims of the holder of the debt subordinated to the claims of the senior creditors (including policyholders and non-subordinated creditors). The subordinated debt is fully available to absorb losses and is free from encumbrances.

The Company had the following liabilities:

Liabilities at 31 December 2019 £'000

	IFRS Statutory Accounts	SII Adjustments	SII Balance Sheet
Liabilities			
Technical provisions	676,142	(28,797)	647,345
Deferred Tax Liability	2,373	(2,373)	0
Deposits from reinsurers	38,062	1,329	39,390
Insurance & intermediaries payables	0		0
Reinsurance payables	1,556	(1,310)	246
Payables (trade, not insurance)	18,074		18,074
Subordinated liabilities in BOF	42,333		42,333
Any other liabilities	2,014		2,014
Total liabilities	780,555	(31,623)	749,403

Liabilities at 31 December 2018 £'000

	IFRS Statutory Accounts	SII Adjustments	SII Balance Sheet
Liabilities			
Technical provisions	759,200	(86,387)	672,813
Deposits from reinsurers	27,932		27,932
Insurance & intermediaries payables	73		73
Reinsurance payables	4,369		4,369
Payables (trade, not insurance)	10,875		10,875
Subordinated liabilities in BOF	58,000		58,000
Any other liabilities	10,151	2,176	12,327
Total liabilities	870,600	(84,211)	786,389

D.3.1 Valuation of other liabilities

Liability class	Revalued	Basis, methods and main assumptions used
Deposits from reinsurers	No	Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short term nature of the payables.
Insurance & intermediaries payables	No	Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short term nature of the payables.
Reinsurance payables	No	Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short term nature of the payables.
Payables (trade, not insurance)	No	Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short term nature of the payables.
Subordinated liabilities in basic own funds	No	The subordinated loans are advanced by shareholders. The loans are floating rate based on a margin above LIBOR. The interest paid changes as the market interest rate changes leaving the market value of the loans materially unchanged. Overall, the market value of the loans will remain very close to the nominal value of the loan. Valuation is the same in both IFRS and SII.
Any other liabilities, not elsewhere shown	No	Valued at amortised cost in both IFRS and SII because of immaterial differences between amortised cost and fair value because of the short term nature of the payables. A lease liability is also measured at the lease commencement date at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

The key estimates and judgements applied are disclosed within the 2019 Annual Report. With respect to Solvency II additional estimation uncertainty is applied mainly in the valuation of technical provisions and reinsurance recoverables.

D.4 Alternative methods for valuation

The table below summarises per material class of asset and other liabilities the material differences between the valuation for Solvency II purposes and the IFRS valuation. For the data we also refer to the Quantitative Reporting Template (S.02.01.02).

Asset class	Different basis, methods and main assumptions used for financial reporting
Deferred acquisitions costs	Under SII included in the valuation of technical provisions. Under IFRS separately valued according to period of earnings.
Intangibles	Under SII all intangibles within TU are valued at nil. Under IFRS TU values its intangibles at amortised cost.
Plant & equipment held for own use	Under SII PPE is valued at nil. For IFRS purposes TU uses the cost approach.

There are no alternatively valued investments relating to inactive markets.

D.5 Any other information

There is no other information to disclose.

E

CAPITAL MANAGEMENT

E.1 Own Funds

E.1.1 Available Capital

During 2019, through a combination of business profitability, and updated modelling of technical provisions reflecting the underlying business, after allowing for capital repayments of £47m, TU's own funds increased from £185.8m to £189.7m.

In more detail basic own funds at 31st December 2019 of £189.7m (2018: £185.8m) represents SII assets of £896.8m (2018: £961.2m), less SII liabilities of £749.4m (2018: £728.4m).

£k	2019	2018
Assets	896,805	961,181
Liabilities	(749,403)	(786,389)
Subordinated Loan	42,333	58,000
Proposed dividend		(31,300)
Proposed Reduction in Sub debt		(15,700)
Own funds	189,735	185,792

E.1.2 Objectives, policies and processes for managing own funds

The multi-year planning process which is reviewed and approved in each 4th quarter of the financial year considers the implications of business performance on the capital of the company over the following 3 years. Following a soft motor market during 2019 and the aim to maintain profitability TU's growth plans have been scaled back in the latest multi-year plan.

The main goal of the capital management process is to protect policyholders, whilst optimising capital structure, composition and allocation of capital, funding profitable growth and protect viability and profitability and fund dividends to its Shareholders.

TU applies a capital management policy which sets rules and ensures discipline on:

- Capital Planning: the capital level the TU Board wants to hold, which is a function of:
    - Legal requirements, and anticipated changes;
    - Growth ambitions, and future capital commitments; and
    - Security buffers to ensure we meet obligations according to our Risk Appetite Policy.

- Capital Allocation: capital use that TU foresees, which is a function of:
    - Optimisation of risk reward; and
    - Measured performance;

- Dividend policy (and future capital raising).

Capital management policies and processes are included in the risk management system, ORSA process and internal control environment as disclosed in Section B Governance.

There have been no material changes to the objectives for managing own funds in the period.

E.1.3 Information about the structure, amount and quality of basic own funds and ancillary own funds

The position at 31st December 2019 is:

TIERING

in GBP mln	2019			2018		
	ACTUAL	% Tier 1	% Own funds	ACTUAL	% Tier 1	% Own funds
Tiering						
Tier 1 (unrestricted)	148	80%		128	80%	
Tier 1 (grandfathered hybrids)	37	20%		32	20%	
Total Tier 1 capital	185	100%	97%	160	100%	86%
Tier 2 hybrid capital	5		3%	26		14%
Tier 3	0		0%	0		0%
Total Own funds	190		100%	186		100%

At the end of 2019;

- 97% of the Own funds are of the highest Tier 1 quality and able to fully absorb losses.
- The sum of the grandfathered (restricted) Tier 1 components amounts to 20% of total Tier 1 capital fulfilling the 20% regulatory limit.
- Tier 3 capital represents the part of Own Funds equal to the recognised Deferred Tax Assets (DTA) in the market consistent balance sheet.

Own funds at year-end 2019 do not contain ancillary Own Funds.

E.1.4 Eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Capital Requirement classified by tiers

31 December 2019 £'000

	Total	Tier 1	Tier 2	Tier 3

Total eligible own funds to meet the SCR	189,735	184,252	5,483	0

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the MCR	189,735	184,252	5,483	

31 December 2018 £'000

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the SCR	185,792	159,740	26,052	0

	Total	Tier 1	Tier 2	Tier 3
Total eligible own funds to meet the MCR	171,299	159,740	11,559	0

E.1.5 Quantitative and qualitative explanation of any material differences between equity as shown in the undertaking's financial statements and the available own funds as calculated for solvency purposes

Differences between equity in the IFRS financial statements and the excess of assets over liabilities as calculated for Solvency II purposes (Own Funds) are explained in detail in Section D and mainly stem from the following sources:

- Reclassification of subordinated liabilities;
- Valuation differences due to assets and liabilities not recorded at fair value under IFRS;
- Liabilities arising from insurance and investment contracts also need to be recognised at market-consistent values;
- De-recognition of other intangibles under Solvency II.

The reconciliation from IFRS equity to Solvency II Own Funds is as follows (see also note 2 (vi) in the 2019 annual accounts of TU):

RECONCILIATION IFRS EQUITY TO OWN FUNDS *in £'000*	Actual 2019	Actual 2018
IFRS Equity	165,379	165,514
Subordinated liabilities	42,333	58,000
Total valuation differences	(32,938)	(37,721)
Removal of DACs	(10,429)	(19,320)
Derecognition of tangible and intangible assets	(7,206)	(5,791)
Derecognition of prepayments	(1,754)	(2,732)
Net discounting to PV of insurance assets	(4,350)	(16,081)
Net best estimate of liabilities	1,554	55,379
Tax impact on valuation differences	(4,208)	(2,176)
Foreseeable dividend and debt repayment	-	(47,000)
Total Solvency II Own Funds (PIM)	189,735	185,793

During 2019 through a combination of business profitability, and updated modelling of technical provisions reflecting the underlying business, after allowing for subordinated debt and dividend repayments of £47m, TU's own funds increased from £185.8m to £189.7m.

No items have been deducted from own funds, and there are no restrictions in relation to the availability and transferability of own funds.

See section D for further detail on the adjustments made between IFRS and Solvency II.

E.2 Solvency Capital Requirement and Minimum Capital requirement

E.2.1 Quantitative information on our SCR split by risk modules where standard formula is used and by risk category where an internal model is applied (unaudited)

The composition of the Solvency II capital solvency requirements can be summarised as follows:

	2019	2018
Market Risk	29,062	30,672
Counterparty Default Risk	8,402	10,115
Non-Life Underwriting Risk	88,708	94,662
Diversification between above mentioned risks	(21,574)	(23,340)
Non Diversifiable Risks	17,332	18,748
Loss-Absorption through Deferred Taxes	(3,402)	(2,433)

Required Capital under PIM SCR	**118,529**	**128,424**
Impact of Non-Life Internal Model on Non-Life Underwriting Risk	40,179	51,910
Impact of Non-Life internal Model on Life Underwriting Risk	685	0
Impact of Non-Life internal Model on Counterparty Default Risk	(18)	0
Impact of Non-Life Internal Model on Diversification between risks	(1.864)	(1,502)
Capital Solvency Requirements under the SII Standard Formula	157,512	178,832

Available Capital of £189.7m at the end of 2019 (2018: £185.8m) represents 160% (2018: 145%) coverage of SCR PIM. In March 2019 TU returned £47m of capital to shareholders, taking coverage to around 145%.

TU's PIM covers the entirety of TU's business in respect of Non-Life underwriting risk. The main sub-components of the model are Premium Risk and Reserve Risk. Within Premium Risk and Reserve Risk there are separate components for TU's lines of business and different claim types. For the purpose of the SCR, it is calibrated to assess the risk at the 99.5th percentile over a one year time horizon. Market risk, counterparty default risk and operational risk are calculated using the Solvency II Standard Formula. Within the standard formula no simplifications are used and no Undertaking Specific Parameters (USPs) are used.

Outside of the setting of the SCR, TU's PIM is used for capital allocation, which feeds into Pricing, for reinsurance purchases and reinsurance optimization, as a tool to support the ORSA and to support investment modelling with a view to matching assets and liabilities and assessing the risk/return trade-off.

The PIM uses a variety of methods and assumptions in generating an overall probability distribution forecast. The model is composed of a number of components, which are appropriate for modelling variability by line of business for Premium and reserve risk. For example, within reserve risk, historic reserve variability, combined with bespoke large loss modelling and TU's reinsurance arrangements are used together. Within premium risk, allowance is made for variability of attritional claims using TU's own data with overlays to include natural catastrophes, man-made catastrophes and variability of individual large losses where the frequency and severity are modelled. A matrix structure is used to aggregate the components using correlations determined by experts in the business, with reference to the standard formula.

The SCR has decreased over the year primarily as a result of the reduced scale of the business.

The impact of Non-life Internal Model on Non-life Underwriting Risk relative to the Standard Formula has increased since 31 December 2016 as a result of the introduction of adverse development cover reinsurance, although the impact has reduced during 2019 as a result of the reduced scale of the business.

The Minimum Capital Requirement (MCR) at the end of 2019 is £53.3m (2018: £57.8m). The MCR has been calculated using the outputs from the SCR PIM, premiums and technical provisions. The result of the calculation at 31 December 2019 is that the cap of 45% of the PIM SCR is applied.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement (unaudited)

This is not applicable for TU.

E.4 Differences between the standard formula and any internal model used (unaudited)

On the 23rd December 2015, Tesco Underwriting was granted authorisation to use its partial internal model to calculate its Solvency Capital Requirement with some terms and conditions. These terms and conditions have been fully satisfied as at 31 December 2019. The scope of the partial internal model is the Underwriting component of the Standard Formula.

The Standard Formula has been calibrated to be appropriate for an average EU insurer. Given TU's relative size and straightforward approaches to investment, counterparty and other risk types, the Standard Formula is reasonably well aligned to TU.

TU uses the PIM to calculate its SCR and uses the Standard formula SCR calculation to monitor portfolio and model changes, including model drift.

The key drivers of the differences between the Standard Formula SCR and Internal Model SCR are as follows:

- Different calculation basis on underwriting risks: The Standard formula uses a deterministic shock based approach to assess a 99.5% loss, whereas the partial internal model generates a distribution using stochastic simulations. From this distribution, the 99.5% loss is assessed.
- Dependency Structure – Correlation and diversification: The Standard Formula has been developed for an average European insurer and uses a relatively simple approach for combining different risk types. The line of business risks at the 99.5% level are combined and aggregated using EIOPA specified correlation matrices. The PIM, by comparison takes a more granular approach to losses before combining them. For example, large losses and attritional losses are dealt with separately and reinsurance is assessed in each simulation to generate distributions both gross and net of reinsurance.

Reserve risk:
Split into Motor Liability (attritional and large), Motor Other and Household. A bespoke model is used for large Motor liability claims taking into account the modelling of PPO propensity, longevity and inflation, interacting with TU's reinsurance programmes. Outside of these reserves, TU's historic variability is used to calibrate loss distributions for each line of business. The distributions are then combined using correlation matrices to produce a reserve risk distribution.
Settled PPO claims are dealt with under Life Underwriting Risk within the Standard Formula.

Premium Risk:
Split into Motor liability (attritional and large), Motor Other and Household. Loss ratios and historic variability are used to calibrate loss distributions outside of ML large. For ML large, TU's own data, combined with market data and expert judgement are used to calibrate the frequency and severity of large losses. The above distributions are then combined using correlation matrices to produce a premium risk distribution.

Catastrophe Risk (Natural and Man-Made):
TU's exposure is fed into an external catastrophe model – as agreed with Ageas Group. This is used to generate a number of natural catastrophe losses in different locations and with different impacts. Man-made losses are generated from a study into historic man-made CAT losses. Reinsurance is calculated in line with the relevant programmes for each of the losses generated from the above simulations. The results from CAT risk are combined using a correlation matrix.

Each of Reserve Risk, Premium Risk and Catastrophe Risk are combined using a correlation matrix to arrive at an overall distribution for Insurance risk within the PIM.

The parameterisation of the model is driven largely by TU's own experience on shorter tailed classes of business. The policy and claims data used within the model parameterization is of good quality and is fit for purpose. For the submissions done during the reporting period under consideration, it was ensured that the data feeding into the PIM and SCR calculation has been reviewed in detail by Finance before each of quarterly and annual submissions.

The PIM is governed by TU's Model Control Board (MCB) and validated by the independent Ageas Group Model validation team. The MCB assesses the appropriateness of models and methodologies and ensures compliance with the Solvency II regulations and any terms and conditions imposed by TU's regulators (PRA in UK and NBB in Belgium, who are the Ageas Group model regulator).

The adverse development cover reinsurance contains a benefit of £15m as at Dec19.The Quota Share cover has a £4.4m benefit.

TU uses the Standard Formula for market risk, counterparty default risk and operational risk, having determined that this is appropriate for the business. The combination of the risks and non-life underwriting risk is done using the same correlation matrix as the Standard Formula

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement (unaudited)

There is no non-compliance with either the Minimum Capital Requirement or the Solvency Capital Requirement.

E.5.1 Capital contingency plan

TU operates a Capital Contingency Plan which gives the business guidance on actions / considerations at different SII capital coverage levels. For example, TU successfully implemented its Capital Contingency Plan in the first quarter of 2017 following the announcement of the reduction in the Ogden discount rate from 2.5% to minus 0.75% on 27th February 2017. Together with 2017 profitability and the implementation of additional reinsurance this increased TU's coverage from 101% to 169% at the end of 2017. The change in the Ogden discount rate in August 2019 from -0.75% to -0.25% for England and Wales was adverse to expectations, but did not materially change TU’s capital position.

E.5.2 Other information regarding capital management (unaudited)

At the end of 2019 TU had SII own funds of £189.7m. With the TU SCR PIM at £118.5m at the end of 2019 this resulted in capital coverage of 160%.

E.6 Any other information

There is no other additional information.

Appendix
ANNUAL QUANTITATIVE REPORTING TEMPLATES (QRTS)

S.02.01.01
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	1,834
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	659
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	657,811
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	638,471
R0140	*Government Bonds*	72,303
R0150	*Corporate Bonds*	566,168
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	19,341
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	173,373
R0280	*Non-life and health similar to non-life*	104,527
R0290	*Non-life excluding health*	104,527
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	68,846
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	68,846
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	8,533
R0370	Reinsurance receivables	898
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	51,920
R0420	Any other assets, not elsewhere shown	1,777
R0500	**Total assets**	896,805

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	523,233
R0520	*Technical provisions - non-life (excluding health)*	523,233
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	498,471
R0550	*Risk margin*	24,762
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)	124,112
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)*	124,112
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	120,844
R0680	*Risk margin*	3,268
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	39,390
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	246
R0840	Payables (trade, not insurance)	18,074
R0850	Subordinated liabilities	42,333
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	42,333
R0880	Any other liabilities, not elsewhere shown	2,014
R0900	**Total liabilities**	749,402
R1000	**Excess of assets over liabilities**	147,403

S.05.01.01

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	
		C0040	C0050	C0070	C0200
	Premiums written				
R0110	*Gross - Direct Business*	211,543	49,299	49,111	309,953
R0120	*Gross - Proportional reinsurance accepted*				0
R0130	*Gross - Non-proportional reinsurance accepted*				0
R0140	*Reinsurers' share*	62,970	0	4,441	67,411
R0200	*Net*	148,573	49,299	44,670	242,542
	Premiums earned				
R0210	*Gross - Direct Business*	227,637	53,050	48,010	328,697
R0220	*Gross - Proportional reinsurance accepted*				0
R0230	*Gross - Non-proportional reinsurance accepted*				0
R0240	*Reinsurers' share*	65,594	0	4,419	70,013
R0300	*Net*	162,043	53,050	43,591	258,684
	Claims incurred				
R0310	*Gross - Direct Business*	112,075	49,774	24,408	186,257
R0320	*Gross - Proportional reinsurance accepted*				0
R0330	*Gross - Non-proportional reinsurance accepted*				0
R0340	*Reinsurers' share*	7,549	0	163	7,712
R0400	*Net*	104,526	49,774	24,245	178,545
	Changes in other technical provisions				
R0410	*Gross - Direct Business*				0
R0420	*Gross - Proportional reinsurance accepted*				0
R0430	*Gross - Non-proportional reinsurance accepted*				0
R0440	*Reinsurers' share*				0
R0500	*Net*	0	0	0	0
R0550	**Expenses incurred**	40,139	9,355	19,415	68,909
R1200	**Other expenses**				
R1300	**Total expenses**				68,909

S.05.01.01

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations	Life reinsurance obligations	
		Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Life reinsurance	Total
		C0260	C0280	C0300
	Premiums written			
R1410	*Gross*			0
R1420	*Reinsurers' share*			0
R1500	*Net*	0	0	0
	Premiums earned			
R1510	*Gross*			0
R1520	*Reinsurers' share*			0
R1600	*Net*	0	0	0
	Claims incurred			
R1610	*Gross*	11,964		11,964
R1620	*Reinsurers' share*	12,211		12,211
R1700	*Net*	-247	0	-247
	Changes in other technical provisions			
R1710	*Gross*			0
R1720	*Reinsurers' share*			0
R1800	*Net*	0	0	0
R1900	**Expenses incurred**	0	0	0
R2500	**Other expenses**			
R2600	**Total expenses**			0
R2700	**Total amount of surrenders**			0

S.05.02.01

Premiums, claims and expenses by country

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Non-life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - non-life obligations**					**Total Top 5 and home country**
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	*Gross - Direct Business*	309,953						309,953
R0120	*Gross - Proportional reinsurance accepted*							0
R0130	*Gross - Non-proportional reinsurance accepted*							0
R0140	*Reinsurers' share*	67,411						67,411
R0200	*Net*	242,542						242,542
	Premiums earned							
R0210	*Gross - Direct Business*	328,697						328,697
R0220	*Gross - Proportional reinsurance accepted*							0
R0230	*Gross - Non-proportional reinsurance accepted*							0
R0240	*Reinsurers' share*	70,014						70,014
R0300	*Net*	258,683						258,683
	Claims incurred							
R0310	*Gross - Direct Business*	186,257						186,257
R0320	*Gross - Proportional reinsurance accepted*							0
R0330	*Gross - Non-proportional reinsurance accepted*							0
R0340	*Reinsurers' share*	7,713						7,713
R0400	*Net*	178,544						178,544
	Changes in other technical provisions							
R0410	*Gross - Direct Business*							0
R0420	*Gross - Proportional reinsurance accepted*							0
R0430	*Gross - Non-proportional reinsurance accepted*							0
R0440	*Reinsurers' share*							0
R0500	*Net*	0						0
R0550	**Expenses incurred**	68,909						68,909
R1200	**Other expenses**							
R1300	**Total expenses**							68,909

S.05.02.01

Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - life obligations**					**Total Top 5 and home country**
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*							0
R1420	*Reinsurers' share*							0
R1500	*Net*	0						0
	Premiums earned							
R1510	*Gross*							0
R1520	*Reinsurers' share*							0
R1600	*Net*	0						0
	Claims incurred							
R1610	*Gross*	11,964						11,964
R1620	*Reinsurers' share*	12,211						12,211
R1700	*Net*	-247						-247
	Changes in other technical provisions							
R1710	*Gross*							0
R1720	*Reinsurers' share*							0
R1800	*Net*	0						0
R1900	**Expenses incurred**							0
R2500	**Other expenses**							
R2600	**Total expenses**							0

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	Total (Life other than health insurance, including Unit-Linked)
		C0090	C0150
R0010	**Technical provisions calculated as a whole**		0.00
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		0.00
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	**Gross Best Estimate**	120,844	120,844
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	68,846	68,846
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	51,998	51,998
R0100	**Risk margin**	3,268	3,268
	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**	124,112	124,112

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			Total Non-Life obligation
		Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	
		C0050	C0060	C0080	C0180
R0010	**Technical provisions calculated as a whole**				0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				0
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross	81,243	25,182	20,951	127,377
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	15,134	3,500	2,118	20,753
R0150	**Net Best Estimate of Premium Provisions**	66,109	21,682	18,833	106,624
	Claims provisions				
R0160	Gross	368,032	-14,452	17,514	371,095
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	83,462	-1,299	1,611	83,774
R0250	**Net Best Estimate of Claims Provisions**	284,570	-13,153	15,903	287,320
R0260	**Total best estimate - gross**	449,276	10,731	38,465	498,471
R0270	**Total best estimate - net**	350,680	8,529	34,736	393,945
R0280	**Risk margin**	22,042	536	2,183	24,762
	Amount of the transitional on Technical Provisions				
R0290	Technical Provisions calculated as a whole				0
R0300	Best estimate				0
R0310	Risk margin				0
R0320	**Technical provisions - total**	471,318	11,267	40,649	523,233
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	98,596	2,202	3,729	104,527
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	372,722	9,065	36,919	418,706

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
	Year					**Development year**								**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior											-		-	-
R0160	N-9	-	-	-	-	-	-	-	-	-	-			-	-
R0170	N-8	121,593	94,798	37,131	16,112	9,339	4,365	964	300	543				543	285,145
R0180	N-7	229,507	145,234	45,573	34,813	17,918	8,742	7,819	1,513					1,513	491,119
R0190	N-6	175,965	84,670	29,605	21,028	18,115	8,047	836						836	338,266
R0200	N-5	170,382	65,345	28,612	26,132	15,150	8,930							8,930	314,551
R0210	N-4	158,082	65,206	21,877	19,341	20,648								20,648	285,154
R0220	N-3	151,071	54,990	32,248	19,264									19,264	257,573
R0230	N-2	134,629	51,805	20,439										20,439	206,873
R0240	N-1	133,013	54,742											54,742	187,755
R0250	N	122,445												122,445	122,445
R0260													**Total**	249,360	2,488,881

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Year						**Development year**							**Year end (discounted data)**
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											-		-
N-9	-	-	-	-	-	-	-	-	-	-			-
N-8	-	-	-	-	-	-	2,951	2,351	3,636				3,182
N-7	-	-	-	-	-	22,335	13,227	13,317					11,719
N-6	-	-	-	-	19,738	5,524	5,346						4,765
N-5	-	-	-	54,399	39,131	8,903							7,718
N-4	-	-	93,645	47,050	20,278								17,733
N-3	-	158,161	79,108	57,957									50,253
N-2	162,779	103,067	61,917										51,156
N-1	162,385	100,941											91,069
N	148,302												133,359
												Total	370,954

S.23.01.01
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	129,668	129,668			
R0030	Share premium account related to ordinary share capital	0				
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0				
R0050	Subordinated mutual member accounts	0				
R0070	Surplus funds	0				
R0090	Preference shares	0				
R0110	Share premium account related to preference shares	0				
R0130	Reconciliation reserve	17,734	17,734			
R0140	Subordinated liabilities	42,333		36,850	5,483	
R0160	An amount equal to the value of net deferred tax assets	0				
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0				
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0.00				
R0290	**Total basic own funds after deductions**	189,735	147,402	36,850	5,483	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	189,735	147,402	36,850	5,483	0
R0510	Total available own funds to meet the MCR	189,735	147,402	36,850	5,483	
R0540	Total eligible own funds to meet the SCR	189,735	147,402	36,850	5,483	0
R0550	Total eligible own funds to meet the MCR	189,735	147,402	36,850	5,483	
R0580	**SCR**	118,529				
R0600	**MCR**	53,338				
R0620	**Ratio of Eligible own funds to SCR**	160%				
R0640	**Ratio of Eligible own funds to MCR**	356%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	147,402
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	129,668
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	17,734
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0.00

S.25.02.01

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0090	C0120
1	50101I	Premium risk (Attritional)	25,882		9	
2	50102I	Premium risk (Large Losses)	17,717		9	
3	50201I	Reserve risk	37,316		9	
4	50301I	Non-life catastrophe risk (CAT NAT)	37,731		9	
5	50302I	Non-life catastrophe risk (CAT Man Made)	5,518		9	
6	50401I	Non-life lapse risk	609		9	
7	59901I	Diversification within non-life underwriting risk	-36,065		9	
8	10200I	Interest rate risk up	4,099		9	
9	10400I	Equity risk	0		9	
10	10600I	Property risk	4,731		9	
11	10700I	Spread risk	26,112		9	
12	10800I	Concentration risk	164		9	
13	10900I	Currency risk	0		9	
14	19900I	Diversification within market risk	-6,044		9	
15	20100I	Type 1 counterparty credit risk	4,004		9	
16	20200I	Type 2 counterparty credit risk	4,971		9	
17	20300I	Diversification within counterparty credit risk	-573		9	
18	70100I	Operational risk	17,333		9	
19	80300I	Loss absorbing capacity of deferred taxes	-3,401		9	

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	140,104
R0060	Diversification	-21,574
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	118,530
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	118,530

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	3,401
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R0460	Net future discretionary benefits	

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	54,880

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**	α	β	α.B + β.C
		C0020	C0030			
R0020	Medical expense insurance and proportional reinsurance	-		4.7%	4.7%	-
R0030	Income protection insurance and proportional reinsurance	-		13.1%	8.5%	-
R0040	Workers' compensation insurance and proportional reinsurance	-		10.7%	7.5%	-
R0050	Motor vehicle liability insurance and proportional reinsurance	350,680	156,687	8.5%	9.4%	44,536
R0060	Other motor insurance and proportional reinsurance	8,529	41,185	7.5%	7.5%	3,729
R0070	Marine, aviation and transport insurance and proportional reinsurance	-		10.3%	14.0%	-
R0080	Fire and other damage to property insurance and proportional reinsurance	34,736	44,670	9.4%	7.5%	6,615
R0090	General liability insurance and proportional reinsurance	-		10.3%	13.1%	-
R0100	Credit and suretyship insurance and proportional reinsurance	-		17.7%	11.3%	-
R0110	Legal expenses insurance and proportional reinsurance	-		11.3%	6.6%	-
R0120	Assistance and proportional reinsurance	-		18.6%	8.5%	-
R0130	Miscellaneous financial loss insurance and proportional reinsurance	-		18.6%	12.2%	-
R0140	Non-proportional health reinsurance	-		18.6%	15.9%	-
R0150	Non-proportional casualty reinsurance	-		18.6%	15.9%	-
R0160	Non-proportional marine, aviation and transport reinsurance	-		18.6%	15.9%	-
R0170	Non-proportional property reinsurance	-		18.6%	15.9%	-
				TS MCR.12		54,880

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	497

		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			3.7%	0
R0220	Obligations with profit participation - future discretionary benefits			-5.2%	0
R0230	Index-linked and unit-linked insurance obligations			0.7%	0
R0240	Other life (re)insurance and health (re)insurance obligations	23,655		2.1%	496,761
R0250	Total capital at risk for all life (re)insurance obligations			0.07%	-
				TS MCR.13	496,761

	Overall MCR calculation	C0070
R0300	Linear MCR	55,377
R0310	SCR	118,529
R0320	MCR cap	53,338
R0330	MCR floor	29,632
R0340	Combined MCR	53,338
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	53,338