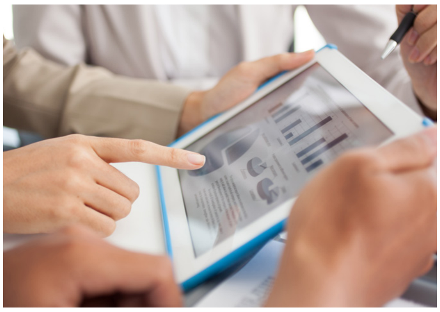
Covéa Life Limited

Solvency and Financial Condition Report

31st December 2020



Prepared by:
Covéa Life Limited
Norman Place
Reading
RG1 8DA

covea Life

Contents

Approval of the Solvency and Financial Condition Report

Approval by the Board

The Board acknowledges its responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Prudential Regulation Authority (PRA) rules and the Solvency II Regulations.

The Board is satisfied that:

- throughout the reporting period, Covéa Life Limited ('the Company') has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the Company; and
- it is reasonable to believe that, at the date of publication of the Solvency and Financial Condition Report, the Company has continued so to comply, and will continue so to comply in future.

Note: During 2018, the PRA removed the external audit requirements for small Solvency II firms. Covéa Life Limited falls within the threshold limits for the audit exemptions and is not required to obtain an independent audit of this Solvency and Financial Condition Report.

On behalf of the Board

Signatory: James Reader

Position: Chief Executive Officer

Date: 30th March 2021

Summary

Business and Performance

Business

Covéa Life Limited ('the Company'), is a limited company incorporated in England and Wales. It is a wholly-owned subsidiary of MMA Holdings UK plc, a company registered in England and Wales.

The Company is a UK subsidiary of leading French mutual insurance group Covéa, which is a leader for property and liability insurance in France serving over 11.5 million policyholders.

Covéa Life handles the life insurance needs of almost 900,000 lives assured ; delivering financial reassurance through its Standard & Poor's AA- stable rating, as a subsidiary of Covéa. The Covéa group SFCR report can be found at covea.eu.

The business conducted by the Company principally relates to Term Life, Critical Illness, Whole of Life, Creditor (Payment Protection) and Group Life products.

Performance

The performance of the Company for the year ended 31st December 2020, with prior year comparison, is as follows:

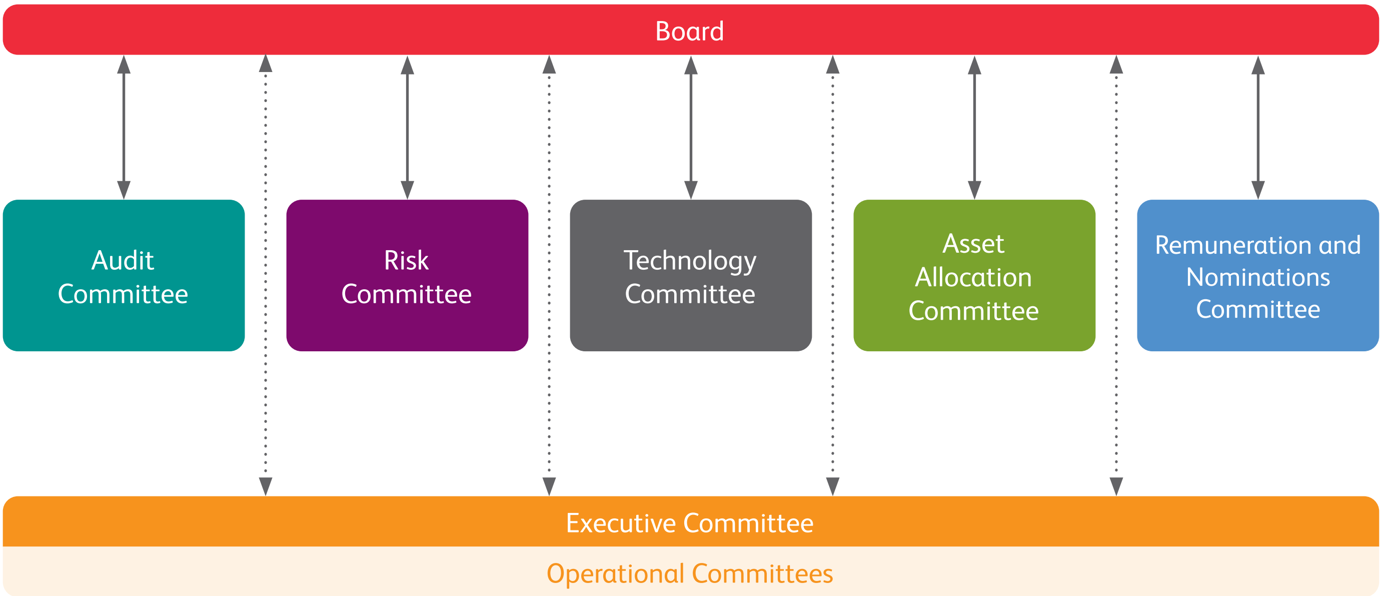
	2020 £'000	2019 £'000
Gross written premium	14,296	14,200
Net earned premium	12,300	12,303
Profit after tax	2,229	3,401

Gross premiums written are broadly unchanged year-on-year with the book of business remaining largely composed of group schemes and the life insurance element of creditor insurance products. New schemes are increasingly contributing to premiums written as older schemes run off. The lower profit after tax result in 2020 is largely driven by an adverse movement in the net long term business provision, partly offset by lower net operating expenses.

Summary

System of Governance

The Company has an effective system of governance in place which provides for the sound and prudent management of the business. The Board has overall responsibility for governance within the Company. It is supported by a number of sub-committees as shown here:

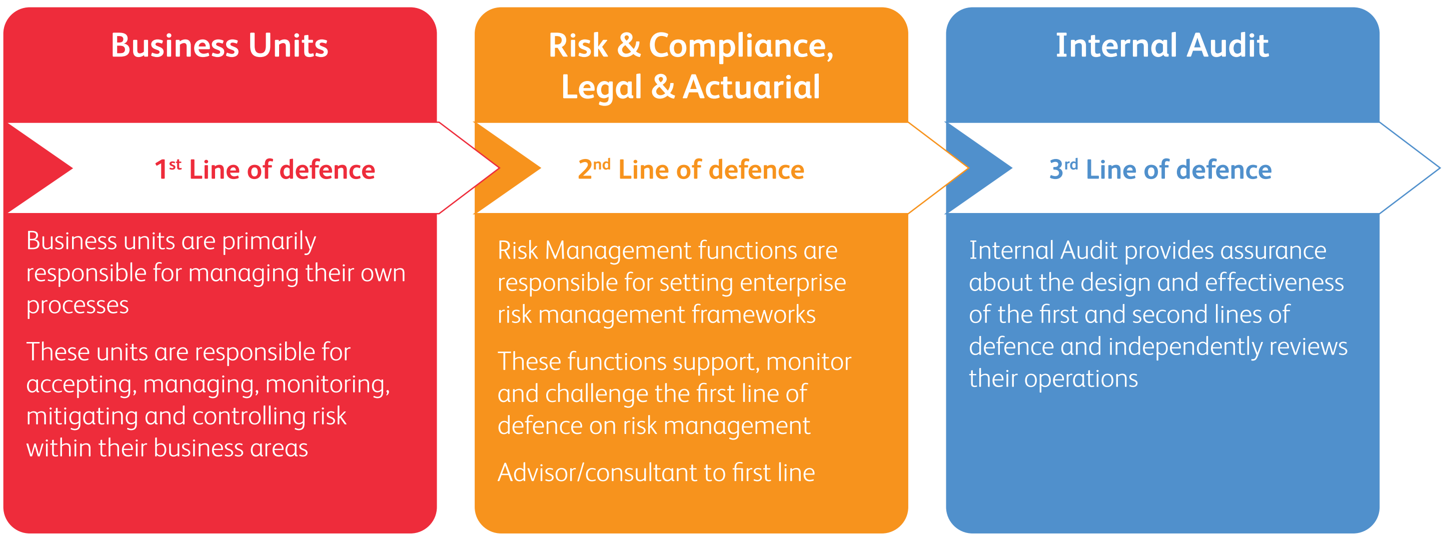


The membership of the Board and sub-committees comprises Executive Committee members, Independent Non-Executive Directors and Parent Company representatives. All committees have terms of reference which define their roles and responsibilities.

The day-to-day management of the Company is delegated by the Board and sub-committees to the Executive Committee.

The Company ensures that all persons who effectively run the organisation or hold a key function have the appropriate skills, experience, knowledge and professional qualifications.

The Company uses the three lines of defence governance model:



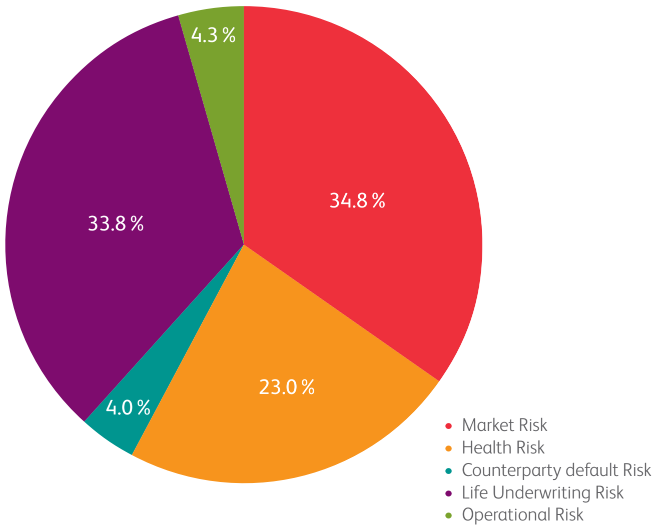
Summary

Risk Profile

As an insurance company, Covéa Life is in the business of actively seeking risk with a view to adding value by managing it.

The Company uses the Standard Formula to measure risk. The Standard Formula is a standardised calculation method which aims to capture the material quantifiable risks that an insurance company is exposed to; it is not tailored to the Company. The analysis performed by the Company confirms that the Standard Formula is appropriate and broadly aligned to its risk profile.

At 31st December 2020, the components of the Company's Solvency Capital Requirement (pre diversification) are as follows:



Life underwriting risk (including Health risk) is the largest component of the Company's risk profile. This arises from the uncertainty associated with the valuation of life insurance liabilities. This can arise through assumptions made about policyholder health and behaviour, and mortality.

Market risk is the second largest exposure. This is the risk of loss arising from the fluctuation in the market value of the Company's investment assets.

The Company is exposed to Counterparty default risk in respect of amounts recoverable from reinsurers and policyholders and overnight cash deposits.

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

The Company utilises a number of methods to ensure the robustness of its business model and to plan for unexpected events. These include stress testing, sensitivity testing and scenario analysis.

Valuation for Solvency purposes

The assets and liabilities within the Solvency II balance sheet have been valued in accordance with Solvency II regulations and represent the amounts for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction. The excess of assets over liabilities is referred to as the Company's Own Funds under Solvency II. Own Funds is the amount of available capital the Company has to meet the Solvency Capital Requirement.

The valuation of the Company's balance sheet on a statutory accounting basis is different to the Solvency II balance sheet mainly due to the difference in the valuation of the technical provisions. The Company is not using any transitional arrangements in the valuation for solvency purposes.

Capital Management

The Solvency position of the Company at 31st December 2020, with prior year comparison, is as follows:

	2020 £'000	2019 £'000
Own Funds (all Tier 1)	26,507	27,081
Solvency Capital Requirement (SCR)	9,193	8,448
Own Funds in excess of SCR	17,314	18,633
Solvency coverage	288.3 %	320.6 %
Minimum Capital Requirement (MCR)	3,338	3,187
Own Funds in excess of MCR	23,169	23,894
MCR coverage	794.2 %	849.7 %

The Company has complied with the MCR and SCR at all times in the reporting period.

A. Business and Performance

A.1 Business

A.1.1 General Information

Covéa Life Limited ('the Company') is a Life insurance company located in the United Kingdom.

The Company is a limited company incorporated in England and Wales. The address of its registered office is Norman Place, Reading, Berkshire, RG1 8DA.

The Company is managed alongside its fellow subsidiary, Covea Insurance Plc. Both companies share a common executive management team and all staff members are employed by another fellow subsidiary, Covéa Insurance Services Limited.

At 31st December 2020, Covéa Insurance Services Limited employed 1,952 people across 8 offices throughout the UK.

Regulators

The Company is regulated in the UK by the Prudential Regulation Authority (PRA) whose registered address is 20 Moorgate, London, EC2R 6DA.

The Company is also regulated by the Financial Conduct Authority (FCA) whose registered address is 12 Endeavour Square, London, E20 1JN.

The Company is a member of the Covéa Group. The Group's head office is in Paris, France. Covéa Group is regulated by the French Prudential Supervision and Resolution Authority whose registered address is 61 rue Taitbout, 75009, Paris.

External Auditors

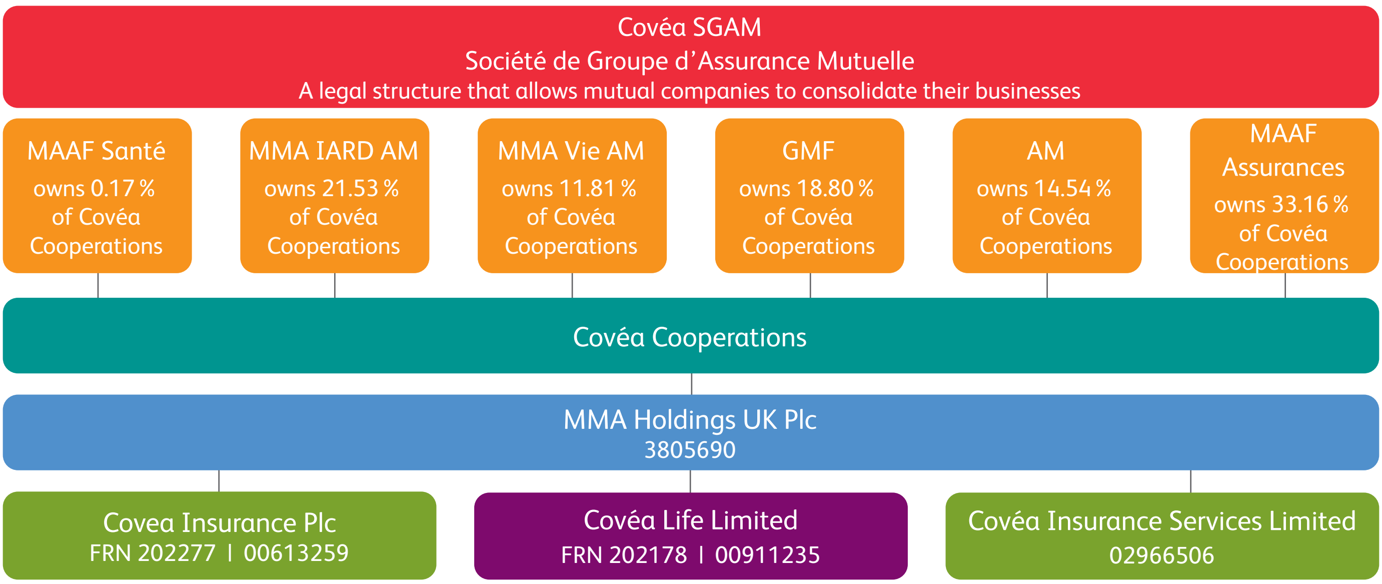
The Company's independent auditors are PricewaterhouseCoopers LLP. Their address is 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH.

A.1.2 Ultimate Parent Company

The Company is part of the French mutual insurance group Covéa, one of the leading property and liability insurance providers in France. As a result of its financial strength, the Covéa group has attained a Standard and Poor's AA- Stable rating.

The Company is a wholly-owned subsidiary of MMA Holdings UK plc, a company registered in England and Wales.

The ownership structure of the Company is as follows:



A. Business and Performance

The authorised share capital of the Company at 31st December 2020 is:

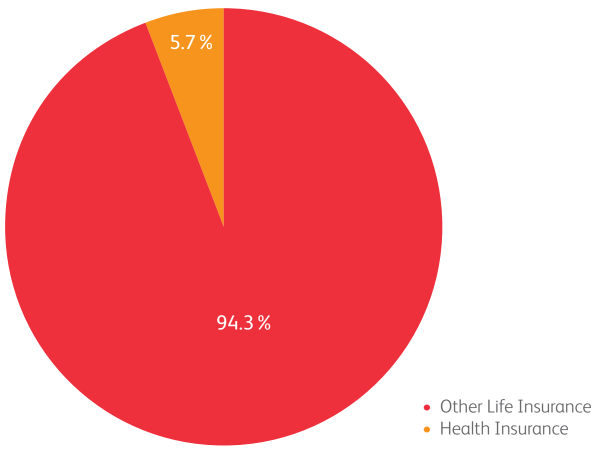
	£'000
Alloted, called up and fully paid (Ordinary £1 shares)	7,500

A.1.3 Activities of the Company

The principal activity of the Company is the underwriting of life and health insurance business.

The business conducted principally relates to Term Life, Critical Illness, Whole of Life, Creditor (Payment Protection) and Group Life products. The Company has has nearly 900,000 lives insured across the United Kingdom, Channel Islands, and the Isle of Man. The Company does not underwrite any annuity business.

Under Solvency II, these products are split into homogenous risk groups. The portfolio mix by Solvency II lines of business (based on gross written premium) at 31st December 2020 is as follows:



The following table provides information on how the regulatory Solvency II lines of business map to the Company's core product lines used by the Company for managing its business.

Solvency II Line of Business	Risk Type Covered	Covéa Insurance Product Line
Other Life Insurance	Life insurance excluding with profits, unit linked or annuity	Term life, Whole of life, Group life
Health Insurance	Health insurance similar on a technical basis to life insurance	Critical illness and Creditor (Payment Protection)

The business of the Company falls entirely into Classes I (non-profit life) and IV (health) and is provided as protection and not savings business. Covéa Life does not have any participating (with profit) or unit linked business.

A.2 Underwriting performance

A.2.1 Current year performance

The Company's Statutory Accounts are prepared in compliance with United Kingdom Accounting Standards, including the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The following information on performance is aligned to the position reported in the Company's Statutory Accounts.

The performance of the Company for the year ended 31st December 2020, with prior year comparison, is as follows:

	2020 £'000	2019 £'000
Gross written premium	14,296	14,200
Net earned premium	12,300	12,303
Profit after tax	2,229	3,401

Gross premiums written are broadly unchanged year-on-year with the book of business remaining largely composed of group schemes and the life insurance element of creditor insurance products. New schemes are increasingly contributing to premiums written as older schemes run off. The lower profit after tax result in 2020 is largely driven by an adverse movement in the net long term business provision, partly offset by lower net operating expenses.

A.3 Investment performance

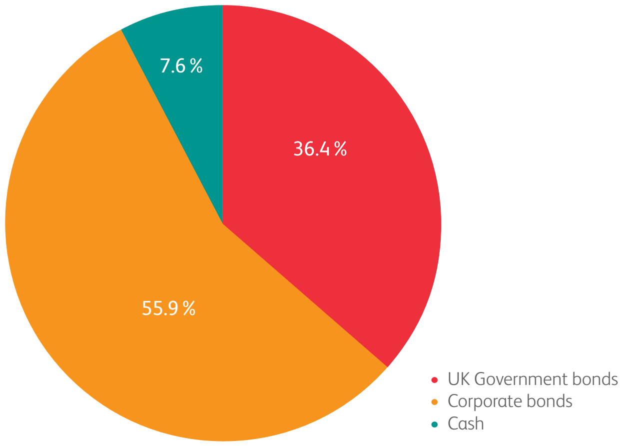
A.3.1 Investment portfolio

The Company's investment portfolio contains a range of high-quality assets including UK government bonds, corporate bonds and cash holdings. Assets are diversified in such a way as to avoid excessive reliance on any particular asset class, issuer or group of undertakings, or geographical area and also to avoid excessive accumulation of risk in the portfolio as a whole.

The Company's strategy is to buy and maintain assets matched to its underlying liabilities. The objective for the fund is to optimise long-term rates of total return, consistent with the need to protect the security of both policyholder funds and the capital base of the Company.

A. Business and Performance

The composition of the investment portfolio at 31st December 2020 is as follows:



A.3.2 Investment performance

Total investment performance by asset class for the year ended 31st December 2020, with prior year comparison, is as follows:

	2019 £'000	2019 £'000
Bonds	5,461	4,895
Government Bonds	1,848	1,749
Corporate Bonds	3,613	3,146
Others	(4)	(29)
Money Market	4	20
Other	(8)	(49)
Total Investment Return	5,457	4,867

Total investment return for 2020 is £0.6m higher than the prior reporting period. Bond yields have fallen during the year, resulting in upward market value movements in both Government and Corporate Bonds.

Bonds

The Company's holdings are in UK government bonds and high-quality corporate bonds. Total performance for the year includes interest income and market value movements.

Money Market and other income

The Company's cash holdings are invested in overnight deposits with a range of high-quality financial institutions. Total performance for the year reflects interest income received.

A.3.3 Investments in securitisation

The Company has a well-diversified investment portfolio and holds some securitised assets in the form of asset-backed and mortgage-backed securities. These holdings are predominantly in senior tranche, A rated bonds. At 31st December 2020, securitised assets made up c7.1 % of the overall bond portfolio (including government bonds).

A.4. Performance of other activities

There is no other material information to report on the performance of other activities.

A.5 Any other material information

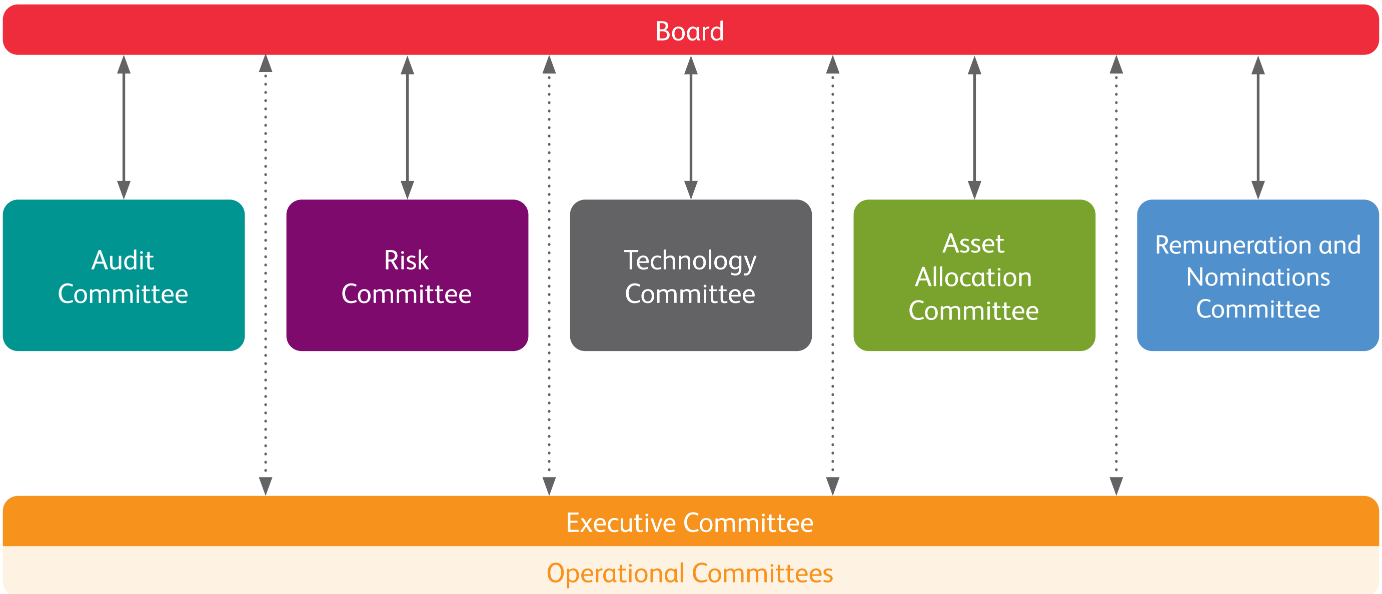
There are no other material items of information to be reported regarding the business and its performance over the reporting period.

B. System of Governance

B.1 General information

B.1.1 General Information on the system of governance

The Board has overall responsibility for governance within the Company and is supported by a number of sub-committees as follows.



The membership of the Board and sub-committees comprises Executive Committee members, Independent Non-Executive Directors and Parent Company representatives. The Chair of the Board is a Parent Company representative and those of the Audit, Asset Allocation, Risk, and Remuneration and Nominations Committees are Independent Non-Executive Directors.

All committees have terms of reference which define their roles and responsibilities. The terms of reference are reviewed annually and updated accordingly. Performance and effectiveness against the terms of reference is also monitored at least annually.

Minutes of each committee meeting are circulated and shared with the Board and other committees as appropriate.

B.1.2 Board of Directors

It is the responsibility of the Board to ensure that the Company is appropriately managed and that it achieves its objectives. It has overall responsibility for:

- Establishing and implementing the Company's strategy;
- Reviewing and approving the Company's business plans and updates to such plans;
- Ensuring an appropriately skilled and experienced executive team is in place to enable delivery of the strategy and business plans, and that adequate succession plans are in place in respect of that team;
- Leading the development of the Company's culture and ensuring that it is embedded across the Company's operations;
- Monitoring and overseeing the Company's operations ensuring competent and prudent management and that appropriate resources are in place to enable delivery of the strategy and business plans;
- Ensuring that the Company has in place appropriate systems of corporate governance and internal control to ensure compliance with regulatory requirements and other relevant legislation;
- Ensuring that the key risks facing the Company are identified, monitored and appropriately managed;
- Ensuring that the Company maintains an appropriate level of capital, taking into account the risks that it faces and regulatory requirements;
- Establishing committees with appropriate membership and terms of reference to assist the Board in fulfilling its duties;
- Approving the Company's Own Risk and Solvency Assessment (ORSA), risk appetite and risk management framework.

In carrying out their duties, the Board and Directors act in accordance with all relevant and applicable legislation and regulations. The Board regularly assesses its terms of reference, skills, effectiveness and training needs.

B. System of Governance

At 31st December 2020, the Board comprised the following individuals:

Dominique Salvy	Chair, Non-Executive Director (Parent Company Representative)
Nicholas Caplan	Independent Non-Executive Director
Stephen Clarke	Senior Independent Non-Executive Director
Jane Dale	Independent Non-Executive Director
James Gearey	Managing Director, Personal Lines and Protection
François Josse	Non-Executive Director (Parent Company Representative)
Maria Leighton	Chief Financial Officer
Pierre Michel	Non-Executive Director (Parent Company Representative)
Karl Murphy	Independent Non-Executive Director
James Reader	Chief Executive Officer

On 15th March 2021, Karl Murphy resigned his position as Independent Non-Executive Director.

On 17th March 2021, Christopher Moat was appointed as an Independent Non-Executive Director.

All relevant Board members have received FCA and PRA approval for their roles under the Senior Managers Regime. Independent Non-Executive Directors have a wide range of skills, knowledge and experience that complements that of the Executive Committee and Parent Company Representatives.

In 2020, the Board met 7 times and the attendance rate of members was 96%.

There are five sub-committees that report directly to the Board. These are the Risk Committee, Audit Committee, Asset Allocation Committee, the Technology Committee, and the Remuneration and Nominations Committee. Their responsibilities are noted in sections B.1.3 to B.1.7. These committees are chaired by Independent Non-Executive Directors.

The day-to-day management of the Company is delegated by the Board and sub-committees to an Executive Committee. Its responsibilities are shown in B.1.8.

For reasons of effectiveness and efficiency, many aspects of governance operate across both Covéa Insurance and Covéa Life. Given its relatively small size the Company benefits from this arrangement through access to a significantly higher level of resource and expertise than might otherwise be the case.

B.1.3 Risk Committee

The Risk Committee is established to ensure an independent oversight of risk and capital adequacy. The Committee oversees the Company's Risk Governance Framework and is responsible for the oversight of the Own Risk and Solvency Assessment (ORSA), the Risk Management System, the Internal Control system and the Compliance system.

At 31st December 2020, the Risk Committee comprised 9 members, of whom 5 are either Parent Company Representatives or Independent Non-Executive Directors.

In 2020, the Risk Committee met 4 times, and the attendance rate of members was 94%.

B.1.4 Audit Committee

The Audit Committee is established to ensure there is an appropriate control and governance framework in place. Responsibilities include oversight of the financial reporting process, the external audit function, the system of internal financial controls and the Internal Audit function.

The Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer, the Chief Life Actuary and representatives of the Company's internal and external auditors are normally invited to attend meetings of the Committee. At each meeting that is attended by them, the Committee has the opportunity to meet with the external or internal auditors without an Executive Committee member being present.

At 31st December 2020, the Audit Committee comprised 5 members, all of whom are either Parent Company Representatives or Independent Non-Executive Directors.

In 2020, the Audit Committee met 5 times and the attendance rate of members was 100%.

B.1.5 Asset Allocation Committee

The Asset Allocation Committee is established to ensure the appropriate management of the Company's investment portfolio. The Committee, primarily through oversight of the Investment Committee (see B.1.9) sets investment strategies, manages asset allocation, and has responsibility for appointing and monitoring the performance of fund managers. It ensures that appropriate processes and controls are in place for the governance of investments.

At 31st December 2020, the Asset Allocation Committee comprised 5 members, of whom 3 are either Parent Company Representatives or Independent Non-Executive Directors.

In 2020, the Asset Allocation Committee met 3 times and the attendance rate of members was 100%.

B. System of Governance

B.1.6 Remuneration and Nominations Committee

The Remunerations and Nominations Committee is established to oversee the design, implementation and operation of the Company's Remuneration Policy, practices and the appointment of Directors and other key management.

As detailed in Section A.1.1, all of the Company's management and staff are employed by a sister company, Covéa Insurance Services Limited, which provides services to the Company under a management services agreement. The remit of the Committee covers the remuneration of all such employees.

At 31st December 2020, the Committee comprised 4 members, all of whom are either Independent Non-Executive Directors or Parent Company Representatives.

In 2020, the Remuneration and Nominations Committee met 5 times, and the attendance rate of members was 100%.

B.1.7 Technology Committee

The Technology Committee has responsibility for establishing and overseeing the Company's technology strategy and any significant investments in support of that strategy. The Committee supports the Risk Committee in overseeing the Company's exposure to, and management of, technology risk.

At 31st December 2020, the Technology Committee comprised 7 members, of whom 2 are Independent Non-Executive Directors.

In 2020, the Technology Committee met 6 times and the attendance rate of members was 95%.

B.1.8 Executive Committee

The day-to-day management of the Company is delegated by the Board and sub-committees to members of the Executive Committee, which is a joint committee with responsibility for both Covéa Life and its sister company Covéa Insurance.

The Committee, chaired by the Chief Executive Officer, has responsibility for implementing the Company strategy and ensuring that the Company performs in line with agreed strategies and financial plans. The Committee ensures that an effective internal control environment is in place and that the risks facing the Company are appropriately and effectively managed in accordance with the Board approved Risk Appetite. The Committee is also responsible for ensuring that the Company operates within regulatory capital requirements and continuously monitors its solvency position.

B.1.9 Other committees

There are a number of other committees in place. These committees contribute to the risk governance framework as follows:

- The Life Reserving and Solvency Committee is established to consider reserve analyses conducted by the Life Actuarial Team, and to ensure the adequacy of reserves and the solvency position of the Company;
- The Protection Product Council is established to lead and govern the trading, underwriting and pricing activities for the Company's portfolio of insurance products. The Committee also ensures that any conduct risks are identified and appropriately managed;
- The Reinsurance Committee is established to ensure that appropriate reinsurance arrangements in accordance with the agreed strategy and policies are in place;
- The Customer Steering Group is in place to oversee and drive forward the Company's customer experience agenda, including the Treating Customers Fairly and Vulnerable Customer initiatives;
- The Investment Committee is established to manage the allocation of investments within the policies and limits approved by the Asset Allocation Committee, and to manage liquidity.

B.1.10 Key Functions

The key functions within the organisation and their main roles and responsibilities are as follows:

Risk Management function

The Chief Risk Officer is the function holder responsible for the Risk Management function and reports to the Risk Committee. The function holder is supported by an experienced team who have a range of skills and expertise, including risk management and the UK regulatory environment. The principal role of the function is to ensure that risks to the Company and the interests of stakeholders are identified, understood, controlled, monitored and reported upon. The function is responsible for carrying out the ORSA process, including assessing the overall solvency needs and ensuring continuous compliance with capital requirements.

Compliance function

The Chief Risk Officer is the function holder responsible for the Compliance function and reports to the Risk Committee. The function holder is supported by an experienced team who have a range of skills and expertise, including the UK regulatory environment, compliance and data protection. The function is responsible for providing assurance that the Company operates in compliance with all relevant regulatory obligations (including those overseen by the PRA, FCA and Information Commissioners Office) and legislative requirements.

B. System of Governance

Internal Audit function

The Head of Internal Audit is the function holder responsible for the Internal Audit function and reports to the Audit Committee. All members of the function either hold or are in training for accredited internal audit (IIA) or other relevant qualifications. The function is responsible for designing, seeking approval for, and implementing the annual Internal Audit programme of work.

Actuarial function

The Chief Life Actuary is the function holder responsible for the Life Actuarial function and reports to the Board and the Audit Committee. The function holder is supported by an experienced team who are appropriately skilled in actuarial matters.

The function is responsible for calculating Statutory Accounts best estimate claims reserve and Solvency II technical provisions, providing an opinion on the underwriting policy and reinsurance arrangements, assessing the adequacy and quality of data and contributing to the effective implementation of the Risk Management System.

Key functions authority

The culture and organisational structure in place ensures that the key functions have the necessary authority, resources and operational independence to carry out their tasks. All key functions have a direct reporting line into the Board and/ or sub-committees of the Board.

Other functions

Other functions considered to be of specific importance to the sound and prudent management of the firm are as follows:

- Underwriting and Pricing;
- Claims management;
- Financial Management and Accounting;
- Investment Management;
- Information Technology;
- Human Resources;
- Reinsurance; and
- Money Laundering Reporting.

B.1.11 Material changes in the Governance structure

There have been no material changes to the governance structure over the reporting period.

B.1.12 Remuneration Policy

As noted in section A.1.1, all employees are employed by Covéa Insurance Services Limited (CISL). CISL provides management services to a number of fellow subsidiary companies in the UK.

CISL has a remuneration policy in place that applies to all its employees, including those supporting Covéa Life. The purpose of the policy is to clearly set out CISL's approach to remuneration and to assist employees in understanding their entitlements in relation to the total remuneration and benefits offered by the Company. Maintenance of the policy is the responsibility of the Remuneration & Nominations Committee in support of the Board.

CISL is committed to providing a salary and benefits package, including performance-related bonuses, that:

- is open and transparent;
- recognises the contribution of individual employees;
- attracts and retains committed and talented people;
- is aligned to the business's strategy, risk profile and long-term interests;
- promotes effective risk management and does not encourage excessive risk taking; and
- avoids conflicts of interest.

All employees receive a salary and benefits package including performance-related bonuses. Salaries and benefits are reviewed regularly to recognise the performance of individual employees, the success of the Company and latest market practice.

All employees are entitled to participate in an annual performance bonus scheme which is payable against the achievement of individual objectives and the Company's financial performance. The bonus is more weighted towards the achievement of individual objectives with the aim of promoting effective risk management that does not encourage excessive risk-taking.

For employees carrying out a Head of Department, Director of Function, or Executive Committee role within a control function (being Actuarial, Risk, Compliance and Internal Audit), performance bonus payments are based solely on individual performance.

In addition to the annual performance bonus scheme, employees falling into the categories below are entitled to participate in a Long-Term Incentive Plan (LTIP):

- Executive Committee members;
- Directors of functions; and
- Heads of departments.

The LTIP plan is based on performance over a three year period and operates to defer, for a period of three years, a proportion of the total variable remuneration payable to those individuals in respect of each financial year. For individuals employed in a control function, LTIP payments are based solely on individual performance.

B. System of Governance

No stocks or shares are provided to employees by the Company as a form of compensation for their duties.

CISL operates a Group Flexible Retirement plan for all employees through a Defined Contribution Scheme.

B.1.13 Material transactions with the Shareholder

During the reporting period, the Company has made a dividend payment of £1.0m to the Shareholder in respect of the accounting year ending 31st December 2019.

There have been no other material transactions with the Shareholder over the reporting period.

B.1.13 Adequacy of the system of governance

The Board has overall responsibility for governance within the Company. The Company routinely assesses the adequacy of its system of governance, taking into account the nature, scale and complexity of the risks inherent to its business. The Internal Audit function periodically reviews the Company's system of governance. This is reported to the Audit Committee, and challenged and approved by the Board.

The Company maintains effective cooperation, internal reporting and communication of information at all levels across the Company. The organisational and operational structures in place support the Company's strategic objectives and operations. They also ensure that there is an appropriate segregation of responsibilities. The Board and sub-committees' terms of reference require a quorum to be present for any meeting to take place. This ensures that any significant decision of the Company involves at least two persons 'running the organisation' before being implemented.

The items noted ensure that the Company has an effective system of governance in place which provides for the sound and prudent management of the business.

B.2 Fit and Proper requirements

B.2.1 Fit and Proper policy

A Board-approved Fit and Proper Policy is in place. The policy applies to members of the Board, other executives who are not on the Board and other specific senior managers referenced in the policy. The policy is aligned to Covéa Group policy.

B.2.2 Specific requirements

Fitness and propriety generally refers to the following characteristics in respect of a person:

- Personal characteristics, including honesty, integrity and reputation;
- Their level of competence, knowledge and experience;
- Qualifications;
- Financial soundness.

The Fit and Proper policy states that the Board must collectively have the skills, experience, knowledge and professional qualifications to ensure that it operates effectively, and can apply appropriate challenge to the Executives. The knowledge set includes the following areas:

- Insurance and financial markets;
- Governance;
- Strategy and business models;
- Financial accounting and actuarial analysis;
- Specialist areas relevant to a particular role (e.g. legal, regulatory, taxation, reinsurance, audit and internal control, commercial, marketing, distribution, human resources, IT, claims administration and underwriting).

Upon appointment, and at least every three years thereafter, the Chair arranges for each Board member to complete an assessment of skills, knowledge and experience. At a minimum, the assessment will cover the areas noted. This enables a review to take place to identify whether the Board has adequate coverage of the key knowledge areas, or if a particular skill set is lacking.

Corporate governance arrangements are periodically reviewed by Internal Audit.

Board effectiveness is assessed at least every three years. This assessment enables the Board to judge whether, as a collective group, it has the appropriate skills to meet the challenges the Company faces. The results of the assessment are reviewed by the Chair and tabled at the next Board meeting for discussion and to identify any actions arising.

B.2.3 Process for assessing fitness and propriety

Fitness and propriety assessments form part of the overall suite of systems and controls that the Company has in place to ensure good corporate governance.

The Fit and Proper policy sets out the approach the Company has adopted to ensure all persons requiring approval by the Regulators are assessed as fit and proper for the position they intend to hold, and how those standards are maintained thereafter.

The following form part of the current process for assessing fitness and propriety of the persons concerned:

- Human Resources undertake specific screening checks at the point of recruitment. These depend on the role in question but can include provision of a CV, previous employment references or regulatory clearances, credit checks and disclosure and barring service checks (criminal record checks);

B. System of Governance

- All persons required to be approved by the Regulators have to complete and sign an appropriate application form. This includes a questionnaire concerning fitness and propriety issues;
- Selected annual checks are conducted on all approved persons including credit checks, directorship search, bankruptcy/insolvency, County Court Judgement and sanction search;
- A basic disclosure and barring service (criminal record check) is carried out every year for approved persons.

B.3. Risk Management System

B.3.1 The Risk Management System – strategy, objectives, implementation, processes and reporting procedures

The Company has an established Risk Management System in place. The purpose of the Risk Management System is to ensure that the Company has a robust and consistent approach to identifying, assessing, monitoring, controlling and reporting the risks that it faces. This system also supports and informs key business decisions and ensures the appropriate management of capital resources.

The Risk Management System is based upon the principles and detail contained within the Risk Management policy. This policy is aligned to the Covéa Group policy.

The key aims of the Risk Management System are to ensure that:

- There is a robust and consistent approach to the management of risk; as described in Section C of this report;
- The Company has a clearly defined Risk Appetite and operates within the agreed limits;
- Procedures are in place covering the identification, assessment, monitoring, controlling and reporting of risks;
- Where issues or incidents are identified, there are action plans established, agreed and tracked that mitigate identified issues and reduce the propensity for future similar incidents;
- All staff are aware of their responsibilities for the establishment and operation of effective systems and internal controls; and for the running of the business in compliance with statutory and regulatory requirements.

The Board's objective in establishing systems and controls is that they should assist in:

- Safeguarding the assets of the Company;
- Identifying and managing the Company's liabilities;
- Maintaining the efficiency and effectiveness of the Company's operations;
- Ensuring the reliability and completeness of all accounting, financial and management information;
- Ensuring compliance with internal policies and procedures and applicable laws and regulations;
- Embedding an operational resilience culture around core business processes to minimise potential customer harm, and ensure continued operation of core business processes.

The following processes support the Risk Management system:

- Defining the strategy and associated risk appetite, which manifest in strategic decision making and the business plans;
- The individual risk management policies, tolerances and operational limits;
- The identification, measurement, management, monitoring and reporting of risk as part of the Own Risk and Solvency Assessment including emerging risks and horizon scanning;
- Maintenance and reporting of risk registers;
- Provision of MI in the form of Key Risk Indicators, Risk Dashboards and quarterly Business Unit Reports;
- Actuarial reporting;
- An incident reporting and resolution process.

The Risk Management System is embedded within the Company's overall System of Governance as detailed in Section B.1 of this report. Ultimate responsibility for the Risk Management System rests with the Board. Risk Management activities and processes are conducted through the Board sub-committees; most notably the Risk Committee, Executive Committee, Technology Committee, operational committees and more broadly, through all business departments and employees within the Company. The overall implementation of the Risk Management System is entrusted to the Chief Executive Officer.

Other business teams also contribute to the Company's Risk Management System. In particular:

- The Actuarial team – through business planning, solvency projections, supporting the ORSA process, determining the technical provisions, and calculating the Solvency Capital Requirement;
- The Finance team – through regulatory reporting and balance sheet management;
- Internal Audit – the internal audit programme is designed to give independent assurance that the risk management processes and internal controls are operating effectively;
- Other functions such as Compliance, Data Protection, Information Security, and the Group Audit function.

B. System of Governance

B.3.2. Own Risk and Solvency Assessment (ORSA)

The ORSA is a significant process within the Risk Management System and is the central tool and operational mechanism to identify, analyse, measure, manage, monitor and report the risks to which the Company is exposed over its business plan period.

A Board-approved ORSA policy is in place that ensures that the Company carries out its Own Risk and Solvency Assessment and that its solvency needs are met at all times. The policy is aligned to the Covéa Group policy.

The key elements of the ORSA process are:

- The forward looking assessment of risk, capital and solvency; the capital aspect of the forward looking assessment is intrinsically linked to the assessment of the Company's risk profile;
- The identification and assessment of risks the Company is exposed to;
- The preparation of scenarios, stress tests and sensitivities looking at a range of alternative, plausible outcomes around the central business plan;
- The continuous monitoring of the solvency position of the Company.

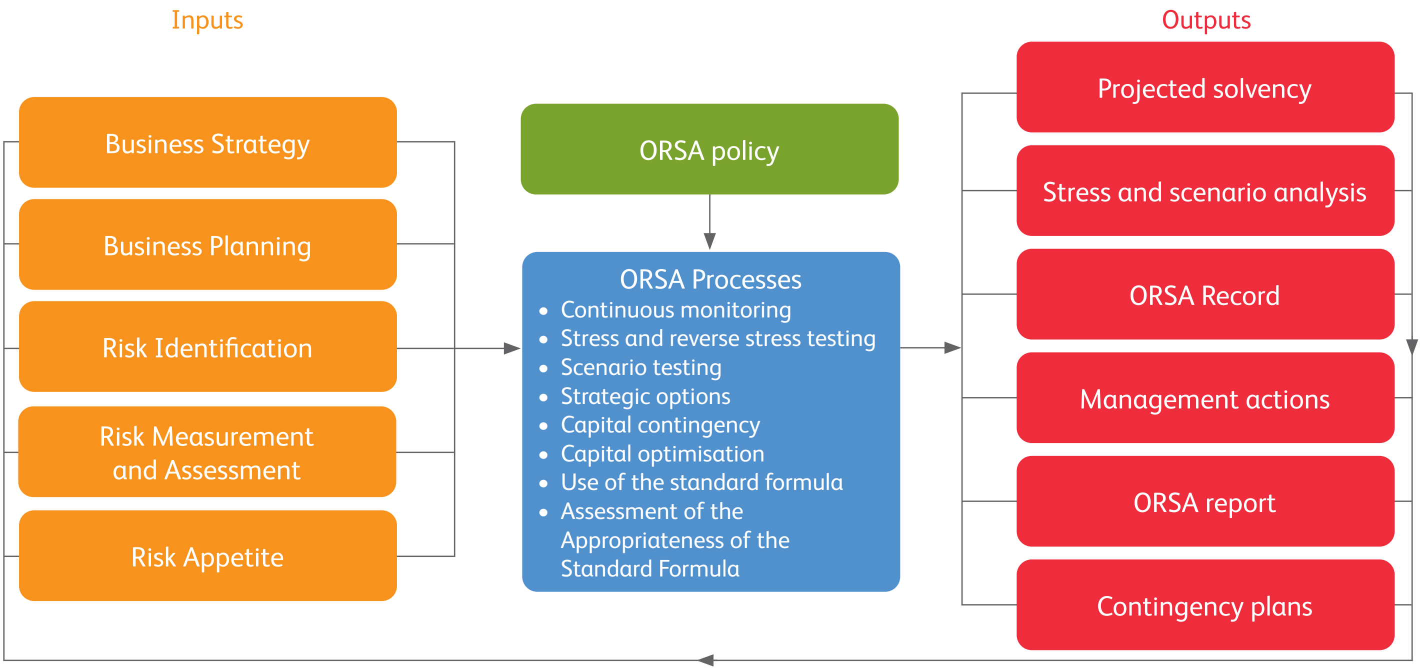
By undertaking these processes, the Company is able to document, understand and demonstrate its solvency requirements, taking into account the underlying risk profile of the Company and the future requirements in accordance with the business plan.

The results of the ORSA process are documented in the ORSA report and are provided to the Risk Committee, the Board, Covéa Group and to the PRA. A report is produced at least annually and more frequently when there is a material change in circumstances.

All changes made to the Risk Appetite and Risk Registers during the reporting period are documented within the ORSA Record. This is also provided to the Risk Committee, the Board, Covéa Group and to the PRA.

As the Company is using the Standard Formula to calculate its capital requirement, an assessment of the appropriateness of the Standard Formula for quantifying its regulatory capital requirement is performed on an annual basis. This assessment considers the significance with which the Company's risk profile deviates from the assumptions within the Standard Formula.

The ORSA is integrated into the decision-making processes as follows:



B. System of Governance

The Board takes an active role in the ORSA process through:

- Steering the process;
- Determining how the process is to be performed;
- Challenging the results;
- Approving the results.

The Board discusses elements of the Company's ORSA process throughout the year; and reviews and approves the annual ORSA report and record.

B.4 Internal control system

B.4.1 Internal Control

The internal control system is a component of the overall Risk Management System focusing primarily on the identification, assessment, management, mitigation and control of risk.

A Board approved Internal Control policy is in place and is aligned to Covéa Group policy. The purpose of the policy is to set out the arrangements the Company has put in place to ensure an internal control system that meets regulatory, legislative and other requirements is implemented and maintained.

The key elements of the Company's internal control system are:

- Corporate Governance. The arrangements in place ensure there is clear accountability and responsibility for all key business activities at all levels – Board, Board sub-committee, Executive Committee members, and Senior Management;
- Three lines of defence model. This model ensures business unit responsibility for effective systems and controls, an oversight process undertaken by Risk and Compliance, also involving the Actuarial and the Legal functions, and an independent internal and external audit review;
- Company policies. These document the arrangements by which all key business activities are assigned, managed, overseen, scrutinised, challenged and reported on.

The Company promotes the importance of maintaining appropriate internal controls by ensuring that all staff members are aware of their role in the internal control system. This is undertaken via a number of channels including training, a Risk Champion Forum and control monitoring.

The Covéa Group has an Internal Control function which operates in an oversight role over the Internal Control framework operating within the Company.

B.4.2 Implementation of the Compliance function

The Chief Risk Officer is responsible for the Compliance function and reports to the Risk Committee.

The purpose of the Compliance function is to control the risk of non-compliance. This is defined as 'the risk of legal or regulatory sanctions, financial loss, or damage to reputation from failure to comply with laws, regulations, rules or codes of conduct.' As such, the scope covers the obligations of both a legal and regulatory nature, both instructions and recommendations specific to insurance and other related activities. The Compliance function utilises resources, skills and expertise from a number of operational committees, key functions and other teams to assist them with their responsibilities.

The Compliance function maintains records of operational activity to ensure appropriate reporting can be made to the Chief Risk Officer, Executive Committee and Risk Committee. Records include:

- Annual Compliance plans – these identify the key aspects of the annual Compliance programme of work;
- Compliance reports – detailing the outcomes of compliance monitoring undertaken and other significant work performed;
- Company policies. These document the arrangements by which all key business activities are assigned, managed, overseen, scrutinised, challenged and reported on.

The Covéa Group Compliance function also operates in an oversight role on the Compliance function operating within the Company.

B.5 Internal Audit function

B.5.1 Activities and objectives of the Internal Audit Function

The aim of the Internal Audit function is to provide the Board and Executive Management of the Company with assurance over the adequacy and effectiveness of internal controls and systems, and other elements of the system of governance.

The objectives of the Internal Audit function are to:

(a) Establish, implement and maintain an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of the Company;

(b) Take a risk-based approach in deciding its priorities;

(c) Report progress towards completion of the audit plan to the Audit Committee;

(d) Issue recommendations based on the result of work carried out in accordance with point (a) and submit a written report on its findings and recommendations to the Audit Committee and Board on at least an annual basis;

(e) Verify compliance with the decisions taken by the Audit Committee and Board on the basis of those recommendations referred to in point (d).

B. System of Governance

B.5.2 Organisation and scope of the Internal Audit Function

The Head of Internal Audit is responsible for the Internal Audit function and reports directly to the Audit Committee. Administratively, the Head of Internal Audit reports to the Chief Executive, and on a functional basis to the Group Chief Audit Executive of the Covéa Group. This ensures that the function is objective and independent from the other functions within the Company.

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives.

Internal Audit will perform assurance reviews from the validated audit plan and also specific audits at the request of the Audit Committee.

Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to Senior Management, including financial crime risks, governance issues, and other matters needed or requested by the Audit Committee.

B.5.3 Independence and Objectivity of the Internal Audit function

Members of the Internal Audit function do not carry out any other key function responsibilities within the Company.

The Internal Audit function is provided to the Company through the business' own Internal Audit resources, supported when appropriate by external firms specialising in internal audit processes.

The Internal Audit function is established via a charter that has been approved by the Audit Committee. The charter states the objective and scope of the Internal Audit Function and includes, but is not restricted to, the following requirements:

- it will operate under the oversight of the Audit Committee;
- it will be free to independently perform its audits and evaluate and report its audit results;
- it will have unrestricted access to all areas of the business, all information and data, and all members of staff as required.

The Internal Audit charter also includes a detailed scope of responsibilities to be discharged, along with reporting, monitoring and quality assurance requirements.

The Internal Audit function governs itself by adherence to The Institute of Internal Auditors' (IIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit function's performance.

Relationship with Covéa Group Internal Audit

In addition to discharging its responsibilities under relevant UK regulations and guidance, as set out in the Internal Audit Charter, Internal Audit has a relationship with Covéa Group Internal Audit function which enables the latter to discharge its own obligations for supervision of local Internal Audit functions.

This includes:

- Compliance with Group Internal Audit Policy;
- Submission of UK Group annual and 5 year audit plans for review;
- Adherence in material respects to the Group Internal Audit Framework (audit charter, procedure manual, reporting, audit issue rating and escalation procedures);
- Timely communication of audit work and findings to local governance committees;
- Quarterly reporting of status against the audit plan and follow-up of open audit issues;
- Regular communication with the Group Chief Audit Executive.

B.5.4 Implementation of the Internal Audit function

The Company makes use of specialist third parties to support some of its internal audit work and the function is responsible for managing the relationship with external providers.

The Internal Audit plan is based on a prioritisation of the audit universe using a risk-based methodology, including input from Senior Management and the Audit Committee.

Written reports are produced for each audit performed that include:

- An Executive Summary for the review providing an overall opinion on the effectiveness of the control environment reviewed;
- Scope of the areas and processes of the business subject to audit;
- The approach adopted and the depth of testing;
- Observations made regarding the adequacy and effectiveness of internal controls and systems;
- Any issues or deficiencies identified and the implications for the business;
- The recommendations and timescales for remedial action.

The reports also include recommendations to management for improvements, rated as "key" or "other". Agreed actions are assigned owners and timelines which are then tracked by Internal Audit until completion. Regular reporting to Executive

B. System of Governance

Management and the Audit Committee includes an ageing of actions and any which require modification. Audit Committee approval must be given to extend deadlines or alter the nature of the action originally agreed.

The Internal Audit function reports on a regular basis to the Audit Committee and to Covéa Group Internal Audit.

B.6 Actuarial function

B.6.1 Implementation of the Actuarial function

The Chief Life Actuary is responsible for the Actuarial function and reports to the Board and to the Audit Committee. The function regularly liaises with the Covéa Group Actuarial function.

The Actuarial function is responsible for:

- Coordinating the calculation of technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Comparing best estimates against experience;
- Informing the Audit Committee of the reliability and adequacy of the calculation of technical provisions;
- Ensuring appropriate data quality and application of approximations for technical provisions;
- Expressing an opinion on the overall underwriting policy;
- Expressing an opinion on the adequacy of Reinsurance arrangements;
- Contributing to the effective implementation of the Risk Management System, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

The Actuarial function produces and submits a range of reports to the Board, Audit Committee and Risk Committee providing information on the tasks that have been undertaken, their results and any relevant recommendations.

B.7 Outsourcing

B.7.1 Outsourcing Policy

The Company has a number of outsourcing arrangements in place. However, it only outsources activities where there is a clear business rationale to do so and appropriate oversight and safeguards are in operation. The Company aims to ensure a high level of service to customers, clients and business partners is maintained whether the service is provided directly by the Company, or through a third-party outsourced arrangement.

A Board-approved Outsourcing Policy is in place that ensures that the Company has a robust and consistent approach to assessing, appointing and monitoring the performance of outsourced services. The policy is aligned to the Covéa Group Outsourcing Policy.

The Outsourcing Policy includes:

- The process for determining whether a function or activity is critical or important;
- The process for appointing an outsourcer, including how and how often its performance and results are assessed;
- The details required to be included in written agreements;
- The roles and responsibilities of persons and committees involved in the outsourcing arrangements.

An outsourcing framework is in operation and is overseen by the Compliance function.

The performance of appointed outsourcers is monitored as part of the ongoing risk management and business processes. This includes maintaining an outsourcing register that details the arrangements in place, the reviews undertaken and any relevant information on the status of the arrangement. A risk-weighted scoring matrix that identifies outsourcing relationships that are deemed 'High Risk' is presented to the Risk Committee each quarter.

B.7.2 Outsourcing of critical or important activities and functions

The Company does not outsource any critical functions, being Risk Management, Compliance, Actuarial and Internal Audit. The following important operational activities are outsourced:

Outsourcing Activity	Location of Outsourcer
Investment Management	UK
Intra Group staff/asset services	UK
Premium and policy administration for an affinity scheme now in run off	UK
Managed delivery/disaster recovery services	UK
Media storage and destruction services	UK
Cloud based services	UK
Communications suppliers	UK
Data centre providers	UK

B.8 Any other material information

B.8.1 Whistleblowing

The company has an established Whistleblowing process in place.

B. System of Governance

This process is based on the Whistleblowing Policy, which sets out the Company's approach to ensuring support to individuals in raising concerns about risk, wrongdoing or malpractice witnessed at work. The policy includes a description of the principles, and the rights and responsibilities of those individuals.

The Company is committed to providing an open environment where employees can raise concerns of this nature in an appropriate way.

B.8.2 Other material items on system of governance

Whilst there have been no material changes to the Company's system of governance as a result of the COVID-19 pandemic, there have been a number of operational changes as the majority of employees continue to work from home. The Company has robust contingency plans in place to deal with the ongoing disruption of the COVID-19 outbreak and has implemented the necessary steps to continue to deliver good customer service throughout this period.

There are no other material items of information to be reported on the Company's system of governance.

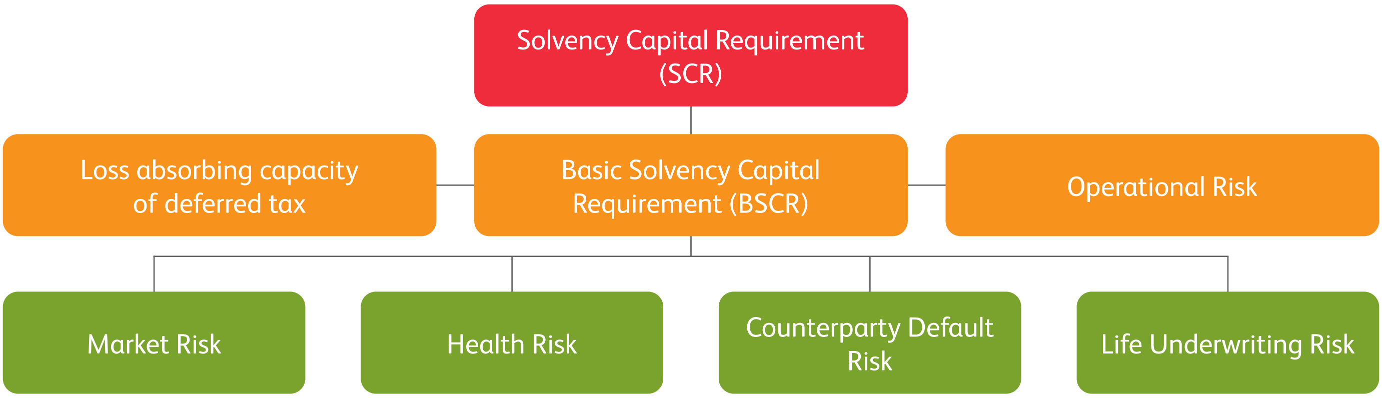
C. Risk Profile

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it.

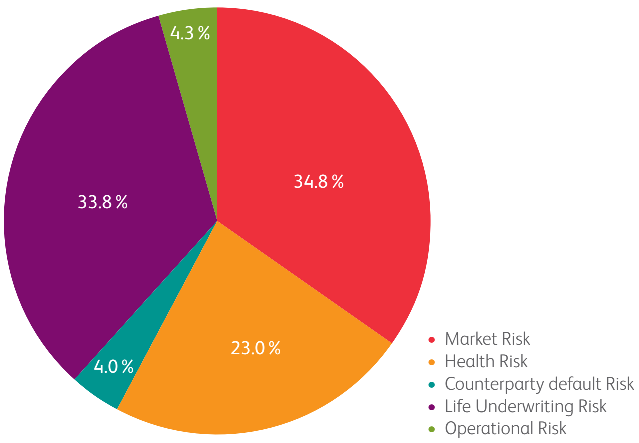
The Board is responsible for establishing the Company's strategy and its appetite for the risks that arise in the implementation of that strategy.

The Company uses the Standard Formula to measure risk. The analysis performed by the Company confirms that the Standard Formula is appropriate and broadly aligned to its risk profile.

The following categories of risk are applicable to Covéa Life for Standard Formula measurement purposes:



At 31st December 2020, the components of the Company's Solvency Capital Requirement (SCR) are as follows:



The following narrative summarises the key risks to the Company and how they are managed and measured Information is also included on the most significant risks that are not captured within the Company's SCR that are also monitored and managed as part of the overall control system.

C.1.Underwriting risk

Life insurance underwriting risk arises from the uncertainty associated with the valuation of life insurance liabilities. This can arise where actual experience differs from the assumptions made about policyholder health and mortality. The Company is also exposed to the risk of occurrence of mass-fatality accidents or events.

In exchange for the premiums received and to be collected, the Company holds reserves to guarantee the payment of benefits to policyholders. For the purposes of valuing its liabilities, the Company relies on a set of assumptions about future cash flows (including premium, claims and expenses). Any deviation in relation to these assumptions generates underwriting risk.

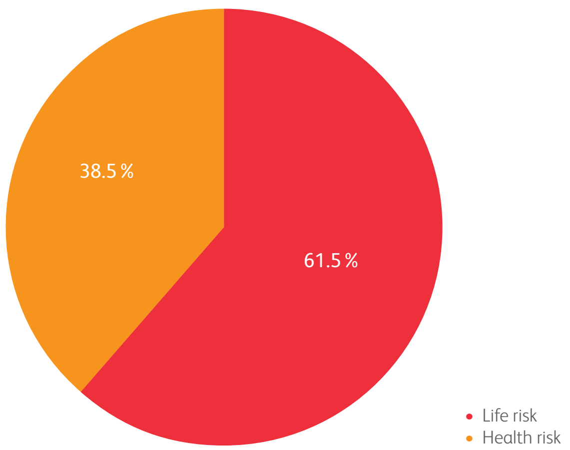
The Company's exposure to underwriting risk can be found in the quantitative reporting templates attached to this report in Section F. Notably S.05.01.02 "Premiums, claims and expenses by business line" and S.12.02.01 "Life and Health SLT provisions". These templates provide information on the underwriting performance of the Company and the technical provisions by Solvency II lines of business.

Within the Standard Formula, underwriting risk breaks down into the following sub-risk modules for the Company:

- Life underwriting risk;
- Life catastrophe risk;
- Health underwriting risk;
- Health catastrophe risk.

C. Risk Profile

At 31st December 2020 the Standard Formula measure for the underwriting risks noted is as follows:



Life underwriting risk

The annual cash flows in respect of life policies are determined by using assumptions for future mortality, persistency and administration expenses. The Company is exposed to:

- Mortality risk – this arises from the risk of loss or adverse change in insurance liabilities due to higher than expected mortality rates;
- Lapse risk – this arises from the risk of loss or adverse change in insurance liabilities due to a change in the rate of policy lapses;
- Expense risk – this arises from the variation in the expenses incurred in maintaining policies, including the servicing of claims;

Changes in assumptions for the above elements determine the risk measure.

Each of the above sub modules are aggregated and correlated. The risk measure is based on the net of reinsurance risk exposure.

Life catastrophe risk

The Life catastrophe risk module covers the risk of loss or adverse change to benefits as a result of a pandemic event (an epidemic of infectious disease that has spread across a large region). The risk charge is based on the total benefits due under the scenario.

Health underwriting risk

The risk charge for the Company's Critical Illness and Creditor (Payment Protection) policies is assessed within the Health underwriting risk module.

The Company is exposed to:

- Disability (morbidity) risk – this arises from the risk of loss or adverse change in insurance liabilities due to a change in disability, sickness or morbidity rates;
- Expense risk – this arises from the variation in the expenses incurred in maintaining policies, including the servicing of claims;
- Lapse risk – this arises from the risk of loss or adverse change in insurance liabilities due to a change in the rate of policy lapses.

Changes in assumptions for these elements determine the risk measure.

Each of the sub-modules are aggregated and correlated. The risk measure is based on the net of reinsurance risk exposure.

Health catastrophe risk

The Health catastrophe risk module covers the risk of loss from an adverse change in the value of insurance liabilities resulting from a mass accident. The risk charge is based on the total benefits due under each policy underwritten.

Concentration

The Company's risk appetite provides details on permissible underwriting risks. All business underwritten is for risks where the insured is a resident of the United Kingdom (including Northern Ireland).

The Company also operates a scheme providing life coverage to Armed Forces Service Personnel.

Mitigation

The Company has a number of reinsurance contracts in place to mitigate exposure to individual risks and events, and to reduce result volatility. The maximum retention per risk or event is specified in the Company's Risk Appetite.

The main reinsurance contracts in place are as follows:

- Life Catastrophe reinsurance provides cover for mass accident events where 2 or more lives insured by the Company are lost in the same event;
- Protection is in place for the scheme offering life coverage to Armed Forces Service Personnel. The Company is reimbursed for operational deaths in excess of a limit determined relative to the number of lives exposed under the scheme, as well as benefiting from proportional reinsurance protection below this limit.
- Quota share arrangements are in place with a number of highly rated reinsurers. These contracts provide cover ranging from 40 % to 90 % per contract.

On an annual basis the Actuarial Function Holder assesses and provides an opinion on the effectiveness of the reinsurance programme in place. The findings are reported to the Board in the Actuarial Function Holder report.

C. Risk Profile

Sensitivity

The Company utilises a number of methods to ensure the robustness of its business model and to plan for unexpected events. These include stress testing, reverse stress testing and sensitivity analysis.

Stress testing provides an instant measure of the sensitivity to risk, allowing the Company to understand the impact on solvency, and provide the opportunity to review and refine the risk appetite as appropriate. The stress tests undertaken reflect the material risks to the business and consider both plausible and more extreme events

Sensitivity testing demonstrates to management how changes in the Company's risk profile can impact the solvency position of the Company.

During the year the Company has undertaken the following stress tests and sensitivity tests in relation to Life underwriting risk:

Test	Impact on Solvency Coverage %
10% increase in mortality rates	-27.3%
10% increase in morbidity rates	-14.0%
20% increase in lapse rates	+52.4%
20% decrease in lapse rates	-49.3%

The results of these exercises are presented to Executive Management and discussed at the Risk Committee meetings throughout the year. The Company can withstand these shocks and would take action to ensure the solvency ratio returns to the level required by the Company's Capital Management Policy.

C.2 Market risk

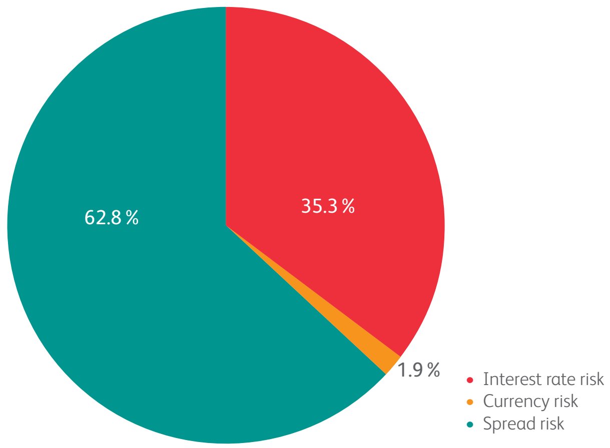
The Company is exposed to Market risk through its investment fund holdings. The risk assesses the impact on the Company's investment assets and insurance contracts due to changes in market prices.

The Company's investment portfolio consists of high-quality government bonds, corporate bonds and cash deposits.

All bond holdings are Sterling-denominated and have a time to maturity period that is consistent with the estimated duration profile of the Company's liabilities. Government bond holdings are in UK Government bonds. Corporate bond exposures are in high-quality bonds and are well diversified across sectors and issuers.

Information on the value of the Company's investment assets can be found in quantitative reporting template S.02.01.02 located within Section F of this report.

The Standard Formula measurement for market risk at 31st December 2020 is as follows:



Interest rate risk

This risk applies to the discounted cash flows originating from the Company's assets and liabilities as described above. The risk measures the sensitivity of a change in the Risk-Free interest rate curve on those assets and liabilities. To calculate this, an upward and downward shock is applied to the discount rate as at the reporting date. The scenario that generates the largest loss is the amount assessed for the risk.

Currency risk

The Company has some exposure to currency risk in respect of liabilities denominated in Euros and Norwegian Krone. There is also some very small legacy exposure to Danish Krone and US dollars.

The risk measurement is based on a change in the value of assets and liabilities arising from a change in exchange rates as at the reporting date. Upward and downward shock scenarios are performed to evaluate the risk. The scenario that generates the greatest loss is used for the risk measurement.

Spread risk

This is the risk that a change in the market value of bonds and term cash deposits is different from the change in the market value of equivalent Risk-Free assets.

The risk charge evaluates the potential reduction in market values resulting from an increase in yields over the Risk-Free rate as at the reporting date.

Concentration and Mitigation

The Company has a well-diversified investment portfolio and manages its investments using the Prudent Person principle. Investments are only made in assets and instruments that are understood, and can be properly managed to take into account the Company's overall solvency needs in a way that ensures the security, quality, liquidity and profitability of the portfolio as a whole.

C. Risk Profile

The Asset Allocation Committee is responsible for recommending investment strategy and asset allocations to the Board. Exposure to investment asset classes is limited through the use of asset class portfolio weightings. For each category of investment, a target allocation and a range is specified. Limits for individual bond issuers (except UK Government) are in place and noted in the risk appetite.

The Company obtains and monitors the external credit ratings for all of its bond and cash exposures. In addition, the Company utilises the services of an external investment manager to manage its bond portfolio. The investment manager has a large team of credit analysts who assess the credit quality of individual counterparties on a daily basis. Information on their external view of the credit quality of counterparties is provided to the Company on a regular basis. The Company utilises this information to validate assessments obtained from rating agencies.

Asset liability matching techniques are utilised to ensure that the assets held to cover liabilities are invested in a manner that bears in mind the nature and duration of the liabilities, in line with the risk appetite. This ensures that an appropriate investment strategy is adopted to mitigate the risks related to the valuations of the Company's commitments.

Sensitivity

The Company undertakes stress testing and sensitivity testing exercises to assess the potential impact a range of events could have on the solvency position of the Company.

During the year the Company has undertaken the following stress tests and sensitivity tests in relation to market risk:

Test	Impact on Solvency Coverage %
50 bps rise in interest rate	+30.1%
50 bps fall in interest rate	-30.0%
50 bps widening of credit spreads	-12.4%

The results of these exercises are presented to Executive Management and discussed at the Risk Committee meetings throughout the year. The Company can withstand these events and would take action to ensure the solvency ratio returns to the level required by the Company's Capital Management Policy.

Whilst the Company has seen changes in the value of its investments in line with market volatility, the Company's prudent investment approach ensures that highly liquid assets are held at all times to meet expected claims payments.

C.3 Credit risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to Credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily of the same type) with a single counterparty.

The Company is exposed to Credit risk in respect of amounts recoverable from reinsurers, intermediaries and policyholders and overnight cash deposits (Investment Credit risk is considered within Market risk above).

Credit risk is measured within Counterparty Default risk in the Standard Formula. The risk measure is based on the balance sheet exposures at the reporting date. The risk valuation per the Standard Formula splits counterparty exposures into:

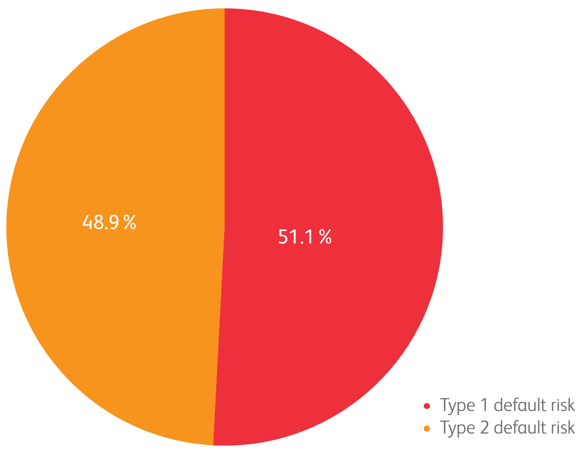
Type 1

Type 1 default risk arises from possible losses in the event of default of reinsurers and banks during the next twelve months.

Type 2

Type 2 default risk arises from possible losses in the event of default during the next twelve months with respect to amounts receivable from intermediaries or policyholders. These exposures attract a higher risk charge than type 1 exposures.

The Standard Formula measurement for Counterparty Default risk as at 31st December 2020 is as follows:



Concentration

The Company sets minimum credit ratings for cash deposits to reduce credit risk from the Company's investment portfolio. Maximum exposure limits and durations to any single counterparty are also set, which are monitored and reported against.

C. Risk Profile

Reinsurance Credit risk is spread among a number of reinsurers, with the Risk Appetite limiting the absolute exposure to any one reinsurer. Intermediary and reinsurance debtor balances are monitored to ensure that monies are received in line with agreed payment terms.

Mitigation

Cash holdings are only deposited with banks which are considered to provide good levels of security based upon external credit ratings. Monetary limits for investments with individual banks or banking groups are set by the Asset Allocation Committee and are reviewed periodically in order to manage liquidity, credit and concentration risk. Sufficient foreign currency is held in cash to match foreign currency liabilities.

A diversified reinsurance programme is in place to ensure there is limited exposure to an individual reinsurer.

Sensitivity

The Company undertakes stress testing and sensitivity testing exercises to assess the potential impact a range of events could have on the solvency position of the Company.

The results of these exercises are presented to Executive Management and discussed at the Risk Committee meetings throughout the year.

C.4 Liquidity risk

Liquidity risk is the risk that the Company cannot make payments as they become due because there are insufficient assets in cash form. This risk is not captured in the Company's SCR position, however the following narrative includes details on how this risk is monitored and managed.

The Company encounters potential liquidity risk exposures from its different business activities. It principally arises from its insurance contracts and the timing of the associated policyholder commitments. In the life insurance business there is the potential for increased demand for cash, above normal claims expense patterns, for example to meet claims arising after a catastrophe event.

The Board sets the Company's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Asset Allocation Committee, which approves the Company's liquidity policy and procedures. Management is responsible for managing the Company's liquidity position on a day to day basis. Reports, including exceptions and remedial action taken, are submitted regularly to management and the Asset Allocation Committee.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Concentration and Mitigation

The Company aims to have liquid funds available from maturities, interest and trading cash flows to meet projected cash payments over a rolling 12 month period.

As noted in Section C.3, exposures to individual counterparties and bond issuers are limited which ensures the Company is not overly reliant on one entity for liquidity purposes.

Asset liability matching exercises are regularly performed to ensure cash flows from the assets held are sufficient to finance the cash flow requirements of its liabilities. This mitigates exposure to interest rate risk.

C.4.1 Profit in future premium

Within the Company's Own Funds, premium arising from negative best estimate liabilities is included.

As at 31st December 2020, the expected profit on these future premiums included within the Company's Own Funds is less than £0.2m, pre-tax..

C.5 Operational risk

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

The Company is exposed to a number of operational risks including those relating to the failure of processes or controls, business continuity, information security and fraud. These risks are managed through the maintenance of a comprehensive internal control environment, including the operation of a "three lines of defence model", with Internal Audit and the Risk and Compliance functions supplementing the control activities of management.

The risks to the Company posed by the COVID-19 pandemic are monitored closely, from both an operational and a financial perspective. The Company's operational resilience has been maintained by ensuring that all staff are able to work remotely during periods of lockdown. Further plans are being put in place to enable a transition back to working in office locations in a 'COVID-secure' manner at the appropriate time.

The Company's culture encourages incident reporting so that Operational risk losses are minimised, matters are dealt with effectively, lessons are learned and internal controls enhanced.

Given the diverse nature of Operational risk, the approach adopted by the Standard Formula is to apply a risk charge based on a fixed percentage of the Company's gross earned premiums or gross technical provisions; whichever is the higher; at the reporting date.

C. Risk Profile

C.6 Other material risks

The Company's risk profile also includes risks not captured within the Standard Formula that are monitored and controlled as part of the overall Risk Management System.

Conduct risk

Conduct risk refers to the risk of not treating customers fairly at all times through the nature and value provided by the Company's products. This could be due to failures in corporate governance, organisational culture, life cycle product governance, policies, processes and procedures, systems and controls or inadequate oversight over the Company's products and their distribution by third parties.

The Company places a keen emphasis on its conduct. A Customer Steering Group is in place to oversee and drive forward the firm's customer experience agenda, including the Treating Customers Fairly and Vulnerable Customer initiatives. A monthly Customer Experience Pack is circulated that provides management with assurance that the six customer outcomes are being delivered.

A Product Governance policy is in place to provide the framework for all areas of the business to ensure that conduct matters are fully considered. The Company's conduct is a key concern in the development and launch of new products. In addition, all products are subject to review from a conduct perspective on a regular basis, including where third parties are involved in the design and distribution of the Company's products.

All business areas have appropriate audit and review processes established to ensure that third parties, whether acting as delegated authorities or as distributors, have appropriate conduct standards in place to ensure customers are treated fairly at all times.

The Management committees referred to in Section B.1.9 place a key emphasis on review of activities from a conduct perspective.

Cyber risk

Cyber risk refers to the risk of financial loss, disruption or damage to the reputation of a firm from some form of failure of its information technology systems. Cyber risk is a significant risk for Financial Services companies.

The Company is investing time and resource to combat cyber risk. Due to the constant evolution and potential impact of a cyber-breach, the Company continues to ensure that the necessary controls are in place to mitigate any potential threat. The Company has also responded quickly and effectively to adapt and enhance controls as a result of the shift to homeworking. Education plays a key part in providing people with the skills and knowledge they need to be more resilient to cyber threats, both at home and at work. This will continue to be an area of focus as the Company adapts to new ways of working.

The Technology Committee is responsible for reviewing cyber-security risk exposures and the steps management is taking to monitor, mitigate and control such exposures.

Reputational risk

This is the risk of loss resulting from damage to a firm's reputation from an adverse event. The most significant areas relevant to the Company are:

- Customers are not treated fairly according to the FCA's 6 consumer outcomes;
- Escalation of customer grievances;
- Information security: data or systems security is compromised;
- Non-compliance with data protection legislation and regulation.

Reputational risk is an area considered within the Risk Management framework. The Company has appropriate controls and procedures in place to mitigate these risks.

Emerging risks

Emerging risks are defined as "a condition, situation or trend that could significantly impact the Company's strategy, reputation or liquidity over the business planning period and beyond".

Emerging risks relate to new risks whose impact and likelihood of materialisation are surrounded by strong uncertainty. These would typically crystallise over a period of time, rather than cause an instantaneous shock or loss of capital which would allow time for management to react.

The risks considered most likely to impact the Company are documented within an Emerging Risk Register, which describes the risk and its potential impact on the Company, and also potential management responses, should the risk crystallise. These are regularly discussed by management and the Risk Committee.

Strategic risk

Aside from the risks that the Company takes on as part of its strategy, risks that could impact upon or change the Company's strategy are recorded in the Risk register.

These risks would crystallise over a period of time and would therefore allow time for management to react. In an extreme case, the strategic business plan would be reviewed and an ORSA undertaken.

Data Protection

The 2018 Data Protection Act provides individuals more rights and control over how their data is used and held by companies.

Failure to comply with data protection requirements could have a detrimental impact on the financial resources of the Company through fines and potential legal action brought by data subjects, as well as causing reputational damage.

C. Risk Profile

The Company has a dedicated Data Protection team in place that has embedded a data protection governance structure across the organisation. As part of this governance structure the following have been implemented:

- Data Protection champions across the organisation, complemented by regular forums where data protection items are routinely discussed;
- Training has been provided to all staff to ensure everyone is aware of their role and responsibilities for data protection;
- Data protection registers have been established;
- Policies and procedures have been put in place to manage, report and monitor data protection risks.

C.7 Any other material information

The risks to the Company posed by the COVID-19 pandemic continue to be assessed and monitored, from both an operational, and a financial perspective. The Company has taken a variety of steps to mitigate these risks, including planning for the transition back to 'COVID-secure' office locations.

There is no other material information to be reported regarding the Company's risk profile.

D. Valuation for Solvency

The assets and liabilities within the Solvency II balance sheet have been valued in accordance with Solvency II regulations and reflect the amounts for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

D.1 Assets

The valuation of the Company's assets at 31st December 2020 under both Solvency II and Statutory accounting bases is as follows:

Assets	Solvency II Value £'000	Statutory Accounts Value £'000	Valuation differences £'000
Deferred acquisition costs	-	1,507	(1,507)
Deferred tax assets	-	114	(114)
Investments (Bonds)	57,087	57,087	-
Government Bonds	22,515	22,515	-
Corporate Bonds	30,522	30,522	-
Collateralised Securities	4,050	4,050	-
Reinsurance recoverables	1,713	5,954	(4,241)
Insurance and intermediaries receivables	485	485	-
Reinsurance receivables	275	275	-
Cash and cash equivalents	4,759	4,759	-
Total assets	64,319	70,181	(5,862)

The following narrative describes the bases, methods and main assumptions used in the valuation for Solvency purposes. It also highlights the rationale behind the variances when compared to the Statutory Accounts valuation.

Deferred acquisition costs

In the Statutory Accounts, acquisition costs; comprising commission and other direct costs related to the acquisition of insurance contracts; are deferred for income statement recognition in future periods. These costs, £1.5m, are eliminated in the Solvency II valuation.

Deferred tax asset

This is eliminated under Solvency II. The deferred tax asset is offset against a deferred tax liability within the Solvency II valuation. See section D.3 for further information.

Investments

The Company's investment portfolio contains a range of assets including UK Government bonds, Corporate bonds and cash deposits:

- Government Bonds and Corporate Bonds - the Company values its investment assets at fair value. FRS 102 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:
  - Level 1 – quoted prices for an identical asset in an active market. Quoted in an active market in this contect means quoted prices are readily available and those prices represent actual and regularly occuring market transactions on an arm's length basis. The quoted price is usually the current bid price. This level includes listed debt instruments on exchanges (e.g. London Stock Exchange)
  - Level 2 – when quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place
  - Level 3 –if the market for the asset is not active and recent transactions are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique.

The hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible. The Company's bond holdings are valued using level 1 and level 2 inputs.

- Cash and cash equivalents - the Company invests monies with a range of highly-rated financial institutions. The Company values these assets as the original deposit plus accrued interest.

Investment assets are valued on the same basis within both the Statutory Accounts and the Solvency II valuation.

D. Valuation for Solvency

Reinsurance recoverables

These are the amounts that the Company expects to recover from reinsurers in respect of claim events that have occurred as at the reporting date. The difference between the Statutory Accounts value and the Solvency II valuation of £4.2m reflects the different bases of valuation (see section D.2.3 for further information).

Insurance and Intermediaries' receivables

These are the amounts owed by intermediaries and policyholders as at the valuation date. There are no differences in the valuation of these assets between the Statutory Accounts and the Solvency II valuation.

Reinsurance receivables

These are recoveries due from reinsurers in respect of paid claims. There are no differences between the Statutory Accounts and the Solvency II valuation.

Cash and cash equivalents

These are overnight cash deposits and include accrued interest. There are no differences in the valuation of these assets between the Statutory Accounts and the Solvency II valuation.

D.1.1 Changes to recognition and valuation bases

There have been no changes to the recognition and valuation bases used during the reporting period.

D.1.2 Active markets for financial assets

The Company values its investment assets at fair value. At the reporting date, all investment assets were valued in accordance with FRS 102 hierarchy valuation techniques. The Company's Investment Policy ensures that only investments that are admitted to trading on a regulated financial market are permissible. See section D.1 for further information.

D.1.3 Operating and financial lease arrangements

The Company does not have any finance or operating lease arrangements in place.

D.2 Technical provisions

The value of the technical provisions in the Solvency II valuation reflects the current amount that the Company would have to pay if it immediately transferred its insurance obligations to another insurer.

The technical provisions consist of a best estimate and a risk margin. These elements are calculated separately.

These provisions are valued differently in the Company's Statutory Accounts. The principal differences are as follows:

- The reserves within the Statutory Accounts include a margin for prudence in addition to the best estimate. This is eliminated in the Solvency II valuation;
- Solvency II uses the PRA Risk-Free rate to discount liabilities. The discount rate used in the Statutory Accounts valuation is based on yields derived from bonds held by the Company;
- All negative reserves are set to zero at the policy level in the Statutory Accounts;
- There is no risk margin in the Statutory Accounts.

In summary, the Technical Provisions by key line of business at 31st December 2020 are as follows:

	Other Life £'000	Health £'000	Total £'000
Gross best estimate	15,117	10,640	25,757
Reinsurance	(1,892)	179	(1,713)
Net best estimate	13,225	10,819	24,044
Risk Margin	2,916	2,562	5,478
Net technical provisions	16,141	13,381	29,522

D.2.1 Gross Best Estimate Liabilities

The best estimate liability corresponds to the prospective value of future expected cash flows. For the Company these are calculated on a policy-by-policy basis as the future cash flows depend on the biometrical risk of each policyholder. The cash flows take into account premiums, claims, commission, expenses and lapses. Negative reserves are permitted.

The anticipated cash flows for the elements above are discounted using the PRA Risk-Free rate to obtain the present value.

The main assumptions used in the calculation of the best estimate liabilities for the Company are as follows:

Claims

The key claims assumptions revolve around mortality and morbidity rates. Mortality relates to the rate of deaths, and morbidity to the rate of illness. Each element is considered independently per scheme or per product, based on experience.

The mortality and morbidity assumptions do not include any allowance for trend. This approach is considered to be proportionate to the nature of the business and is expected to lead to a higher amount of technical provisions than would be the case if trends were explicitly allowed for.

D. Valuation for Solvency

Inflation

For the Company, claims liabilities are not dependent on levels of inflation, therefore there is no inflation assumption.

An expense inflation assumption is set based on implied market levels of retail price inflation.

Lapses

Lapse assumptions are set with reference to experience and vary by scheme or product, and by duration.

Provision for future expenses

Future expenses that will be incurred in the servicing of expected insurance obligations are included within the best estimate liability. These expenses are considered on a going concern basis and are based on the management services agreement with Covéa Insurance Services Limited as the Company does not bear any direct expense.

D.2.2 Use of Matching Adjustment, Volatility Adjustment or transitional measures for valuation

The Company is not applying the matching adjustment or the volatility adjustment to its discounted Solvency II Technical Provisions. Transitional measures are not used.

D.2.3 Amounts recoverable from Reinsurers

As noted in Section C.1, the Company utilises reinsurance as a tool to limit individual risk exposures and exposures to mass accident events. The amounts recoverable from reinsurers are calculated as the difference between the best estimate liabilities without reinsurance ("gross liabilities") and the best estimate liabilities that allow for reinsurance cash flows ("net liabilities").

At 31st December 2020, the amounts recoverable were predominantly in relation to quota share contracts. The Company has a number of quota share arrangements in place with cover ranging from 40%-90% per contract.

The amounts recoverable are reduced to take account of expected losses due to counterparty default, whether this arises from insolvency, dispute or another reason. The expected cash flows are discounted using the PRA Risk-Free rate.

As at the reporting date, there were no premiums due and no outstanding claims relating to the Life Catastrophe program.

D.2.4 Risk Margin

This is the amount above the best estimate liability that another insurance undertaking would require in addition to the expected current value of the cash flows required to meet the Company's insurance obligations.

The Risk Margin is calculated using a cost of capital approach based on the SCR for each future year until the business is fully run-off. The cost of capital rate is set by the PRA and is currently 6%.

The SCR excluding market risk and overnight cash counterparty risk is used as the basis for the calculation. The SCR for future years is estimated and based on the projection of the net best estimate liabilities.

The risk margin is calculated as a whole and then allocated to Solvency II lines of business in a way that reflects their contribution to the SCR over the lifetime of the insurance obligations.

D.2.5 Level of uncertainty associated with the value of the Technical Provisions

Uncertainty primarily relates to how future actual experience will differ from the best estimate assumptions used to calculate the Solvency II Technical Provisions.

Actuarial estimates are subject to uncertainty from various sources, including mortality, morbidity, lapses, investment returns and expenses. It should therefore be expected that the actual future cash flows will vary from any estimate. The Company considers the following to be the main contributors of uncertainty associated with the value of the technical provisions:

- Lower levels of future lapse rates relative to those used to set best estimate liabilities;
- Higher levels of future mortality relative to those used to set best estimate liabilities;
- Higher levels of future morbidity relative to those used to set best estimate liabilities;
- Changes in the PRA Risk-Free yield curve. The technical provisions are discounted using the PRA Risk-Free yield curve. Changes in the yield curve will change the net discounted technical provisions.

For new products that have recently launched, there is limited data available to be able to assess actual experience against expected experience. For these products, there is a higher degree of uncertainty associated with their value in the technical provisions.

The Company undertakes stress testing exercises to assess the impact on the best estimate liabilities from a change in the underlying assumptions. The stress tests undertaken include:

- Changes in mortality rates;
- Changes in morbidity rates;
- Changes in lapse rates.

The results of these exercises are presented to Executive Management and discussed at the Risk Committee meetings during the year.

D.2.6 Changes in assumptions in calculation of technical provisions

There have been no material changes in the relevant assumptions used in the calculation of technical provisions compared to the previous year.

D. Valuation for Solvency

D.3. Other liabilities

The valuation of the Company's liabilities at 31st December 2020 under both Solvency II and Statutory accounting bases is as follows:

Liabilities	Solvency II Value £'000	Statutory Accounts Value £'000	Valuation differences £'000
Technical Provisions Best Estimate	25,757	-	-
Technical Provisions Risk Margin	5,478	-	-
Technical provisions total	31,235	39,126	(7,891)
Deferred tax liabilities	288	1	(287)
Insurance & intermediaries payables	1,301	1,301	-
Reinsurance payables	361	361	-
Payables (trade, not insurance)	2,370	2,370	-
Total liabilities	35,555	43,159	(7,604)

The following narrative describes the bases, methods and main assumptions used in the valuation for Solvency purposes. It also provides information on the valuation differences between the Company's Statutory Accounts and Solvency II valuation (excluding technical provisions).

Deferred tax liability

A deferred tax liability is recognised in the Solvency II valuation. This reflects tax due on future profits arising from the conversion to Solvency II. At 31st December 2020, the Own Funds deferred tax liability was £0.3m. The calculation of the deferred tax liability is as follows:

	£'000
Statutory Accounts deferred tax asset	115
Statutory Accounts deferred tax liability	(1)
Tax due in respect of difference recognised on conversion to Solvency II	(402)
Total deferred tax liability per Own Funds	(288)

Insurance and intermediaries' payable

In the Solvency II valuation, an additional accrual of less than £0.1m has been established in relation to profit share amounts due on the conversion of the best estimate provisions into technical provisions.

Reinsurance payables

These are the amounts due to reinsurers as at the valuation date. They are valued on the same basis in both the Statutory Accounts and the Solvency II valuation.

Payables (trade not insurance)

These are valued as the amounts due at the valuation date in the Statutory Accounts and the Solvency II valuation.

Other liabilities

The balance in the Statutory Accounts relates to a reinsurance deferred acquisition cost. This is eliminated in the Solvency II valuation.

D.3.1 Changes to recognition and valuation bases

There have been no changes to the recognition and valuation bases used during the reporting period.

D.4 Alternative methods for valuation

The Company has not valued any of its assets or liabilities using alternative valuation methods.

D.5 Any other material information

There are no other material items of information to be included regarding the Company's valuation for solvency purposes.

E. Capital Management

E.1 Own Funds

E.1.1. Own Funds objectives, processes and policy

The Company has a Board-approved Capital Management Policy in place. The policy sets out the Company's approach to capital management and capital distribution. The objective of the Capital Management Policy is to ensure that an appropriate level of solvency is maintained in accordance with regulatory requirements and the interests of stakeholders; including policyholders, claimants and the shareholder.

The Company manages its available capital resources (Own Funds under Solvency II) to exceed the relevant regulatory requirements at all times. In addition, the Capital Management Policy targets a higher level of capital coverage to provide both capacity to support growth and a degree of protection against unexpected events which might otherwise cause a breach of the regulatory requirement. Through this approach, the Company seeks to ensure its ongoing financial viability, enable effective implementation of a sustainable growth strategy, and secure the continued confidence of its stakeholders.

A full calculation of the Company's solvency position, including Own Funds, is carried out every six months. Whenever a business plan (or forecast) is prepared the Company projects its SCR and Own Funds. The current strategic business plan covers the period 2021 – 2025. Current and projected Own Funds are classified and monitored by Tier (as appropriate).

There have been no material changes to the objectives, processes and policies in the reporting period.

E.1.2. Own Funds

The Company's core capital consists of unrestricted Tier 1 capital. This includes the share capital from the Statutory Accounts and the reconciliation reserve. The reconciliation reserve is calculated as the total excess of assets over liabilities and includes the following:

- Retained profit as reported in the Statutory Accounts;
- Valuation differences between the Statutory Accounts and the Solvency II balance sheet for assets and liabilities;
- Tax on future profits arising from the conversion to Solvency II.

The Company's Own Funds at 31st December 2020, with the prior year comparison, is as follows:

	Tier 1 unrestricted 2020	Tier 1 unrestricted 2019	Movement
Ordinary share capital (gross of own shares)	7,500	7,500	-
Reconciliation reserve	19,007	19,851	(574)
Total basic Own Funds after deductions	26,507	27,081	(574)
Total available own funds to meet the SCR	26,507	27,081	(574)
Total available funds to meet the MCR	26,507	27,081	(574)
Total eligible own funds to meet the SCR	26,507	27,081	(574)
Total eligible funds to meet the MCR	26,507	27,081	(574)

The movement in the available Own Funds position during the year is all due to the reconciliation reserve. The movements are as follows:

	2020 £'000
Net retained profit during the year	2,229
Payment of a dividend in respect of the year ending 31st December 2018	(1,000)
Movement in Solvency II valuation adjustments	(1,803)
Total Movement	(574)

E.1.3. Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. Further information regarding the sensitivities that can impact the excess of assets over liabilities which forms part of the Own Funds calculation are set out in Section C of this report. Any volatility in profitability, be it derived through trading conditions or the uncertainties disclosed within this report, can impact the Company's reconciliation reserve.

The following table shows the component parts of the Company's reconciliation reserve at 31st December 2020:

	£'000
Net retained profit per financial statements	19,522
Foreseeable dividend in respect of year ended 31st December 2020	(2,229)
Profit recognised on conversion to Solvency II	1,714
Reconciliation reserve	19,007

E. Capital Management

In line with the Capital Management Policy, the Company has chosen to pay an increased dividend in respect of the financial year ended 31st December 2020. The proposed dividend is an amount equivalent to the reported profit after tax for the year.

The loss recognised on the conversion to Solvency II is made up of the following items:

	£'000
Differences in the valuation of technical provisions, net of reinsurance	3,623
Elimination of deferred acquisition costs	(1,507)
Movement in deferred tax	(402)
Dividend payable	(2,229)
Total net loss recognised on conversion to Solvency II	(515)

The aggregate reduction in equity under Solvency II is predominantly derived as a result of key differences in valuation principles, as follows;

- The reserves within the Statutory Accounts include an explicit margin for prudence in addition to the best estimate. This is eliminated from the Solvency II Technical Provisions;
- Solvency II uses the PRA Risk-Free Rate to discount liabilities. The equivalent Statutory Accounts valuation is based on yields derived from bonds held by the Company;
- All negative reserves are set to zero at the policy level in the Statutory Accounts;
- There is no risk margin on a Statutory Accounts basis.

Additionally, under Solvency II Deferred Acquisition Costs are eliminated.

As a result of the changes above, the deferred tax asset included in the Statutory Accounts valuation becomes a deferred tax liability in the Solvency II valuation (see Section D.3 for further information).

E.2. Solvency Capital Requirement & Minimum Capital Requirement

As previously noted, the Company is using the Standard Formula to calculate its Solvency Capital Requirement (SCR).

E.2.1 Solvency Capital Requirement

The Company's SCR position at 31st December 2020, along with the prior year comparison, is as follows:

	2020 £'000	2019 £'000
Market risk	4,656	4,044
Counterparty default risk	539	505
Life underwriting risk	4,524	4,765
Health underwriting risk	3,080	3,323
Diversification	(3,861)	(3,822)
Basic Solvency Capital Requirement	8,938	8,814
Operational Risk	572	548
Loss-absorbing capacity of deferred taxes	(317)	(934)
Solvency Capital Requirement	9,193	8,848

The SCR has increased by £0.3m over the year due to:

- An increase in Market risk reflecting changes in market values and the ratings of some bond-holdings;
- Reductions in both Health and Life underwriting risk are driven by changes in the lapse rate for some term life policies;
- A small increase in Operational risk reflects premium growth in the year.
- A reduction in the LACDT benefit recognised.

E.2.2 Minimum Capital Requirement

The Minimum Capital Requirement (MCR) represents the minimum level of security below which the amount of financial resources of the company should not fall.

The Company's MCR position at 31st December 2020, with the prior year comparison, is as follows:

	2020 £'000	2019 £'000
Minimum Capital Requirement	3,338	3,187

The MCR is calculated in line with Solvency II regulations. For the Company, the charge is based on the absolute floor. The absolute floor is equal to €3,700,000 converted using the euro exchange rate at the reporting date as determined by Solvency II regulation.

E. Capital Management

The MCR has increased marginally in the year reflecting the movements in the underlying exchange rate.

Further information on the inputs used to calculate the Company's MCR can be found in quantitative reporting template S.28.01.01 "Minimum Capital Requirement" included in Section F of this report.

E.2.3 Use of simplified calculations and undertaking specific parameters

The Company is not using any simplified calculations or undertaking specific parameters in its Solvency Capital Requirement calculation.

E.2.4 Recognition of capital add on

The Company is not subject to a capital add-on.

E.2.5 Non-compliance with the MCR or SCR

There have been no instances of non-compliance with the SCR or MCR over the reporting period.

E.3. Any other material information

There is no other material information to be reported regarding the capital management of the Company.

F. Quantitative Reporting Templates

S.02.01.02 Balance Sheet £'000

Assets	Solvency II Value
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	
Investments (other than assets held for index-linked and unit-linked contracts)	57,087
Property (other than for own use)	
Holdings in related undertakings, including participations	
Equities	
Equities - listed	
Equities - unlisted	
Bonds	57,087
Government Bonds	22,515
Corporate Bonds	30,522
Structured notes	
Collateralised securities	4,050
Collective Investments Undertakings	
Derivatives	
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	1,713
Non-life and health similar to non-life	
Non-life excluding health	
Health similar to non-life	
Life and health similar to life, excluding index-linked and unit-linked	1,713
Health similar to life	(179)
Life excluding health and index-linked and unit-linked	1,892
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	485
Reinsurance receivables	275
Receivables (trade, not insurance)	
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	4,759
Any other assets, not elsewhere shown	
Total assets	64,319

F. Quantitative Reporting Templates

S.02.01.02 Balance Sheet £'000 (continued)

Liabilities	Solvency II Value
Technical provisions - non-life	
Technical provisions - non-life (excluding health)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - health (similar to non-life)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - life (excluding index-linked and unit-linked)	31,235
Technical provisions - health (similar to life)	13,202
TP calculated as a whole	
Best Estimate	10,640
Risk margin	2,562
Technical provisions - life (excluding health and index-linked and unit-linked)	18,033
TP calculated as a whole	
Best Estimate	15,117
Risk margin	2,916
Technical provisions - index-linked and unit-linked	
TP calculated as a whole	
Best Estimate	
Risk margin	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	288
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	1,301
Reinsurance payables	361
Payables (trade, not insurance)	2,370
Subordinated liabilities	
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	
Total liabilities	35,555
Excess of assets over liabilities	28,764

F. Quantitative Reporting Templates

S.05.01.02 Premiums, claims and expenses by line of business £'000

Life	Line of Business for: life insurance obligations		
	Health insurance	Other life insurance	Total
Premiums written			
Gross	815	13,482	14,297
Reinsurers' share		1,996	1,996
Net	815	15,478	16,293
Premiums earned			
Gross	815	13,482	14,297
Reinsurers' share		1,996	1,996
Net	815	15,478	16,293
Claims incurred			
Gross	604	6,781	7,385
Reinsurers' share		296	296
Net	604	7,077	7,681
Changes in other technical provisions			
Gross	1,257	3,594	4,851
Reinsurers' share		2,154	2,154
Net	1,257	5,748	7,005
Expenses incurred	329	5,441	5,770
Other expenses			
Total expenses			5,770

F. Quantitative Reporting Templates

S.05.02.01 Premiums, claims and expenses by country £'000

Life	Home Country	Top 5 countries (by amount of gross written premiums) - life obligations Life reinsurance obligations		Total Top 5 and home country
		Ireland	Denmark	
Premiums written				
Gross	14,228	50	19	14,297
Reinsurers' share	1,987	4	5	1,996
Net	16,215	54	24	16,293
Premiums earned				
Gross	14,228	50	19	14,297
Reinsurers' share	1,987	4	5	1,996
Net	16,215	54	24	16,293
Claims incurred				
Gross	7,295	90		7,385
Reinsurers' share	295	1		296
Net	7,590	91		7,681
Changes in other technical provisions				
Gross	5,360	(509)		4,851
Reinsurers' share	2,188	(34)		2,154
Net	3,172	(475)		2,697
Expenses incurred	5,743	20	8	5,771
Other expenses				
Total expenses				5,771

F. Quantitative Reporting Templates

S.12.01.02 Life and Health SLT Technical Provisions £'000

	Total (Life other than Health Insurance, incl Unit-linked)	Total (Health similar to life insurance)
Technical provisions calculated as a whole		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
Technical provisions calculated as a sum of BE and RM		
Best estimate		
Gross Best Estimate	15,117	10,640
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,892	(179)
Best estimate minus recoverables from reinsurance/SPV and Finite Re	13,225	10,819
Risk margin	2,916	2,562
Amount of the transitional on Technical Provisions		
Technical Provisions calculated as a whole		
Best estimate		
Risk margin		
Technical provisions - total	18,033	13,202

F. Quantitative Reporting Templates

S.23.01.01 Own Funds £'000

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/3	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital (gross of own shares)	7,500	7,500			
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
Subordinated mutual member accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	19,007	19,007			
Subordinated liabilities					
An amount equal to the value of net deferred tax assets					
Other own fund items approved by the supervisory authority as basic own funds not specified above					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	26,507	26,507			
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					

F. Quantitative Reporting Templates

S.23.01.01 Own Funds £'000 (continued)

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Available and eligible own funds					
Total available own funds to meet the SCR	26,507	26,507			
Total available own funds to meet the MCR	26,507	26,507			
Total eligible own funds to meet the SCR	26,507	26,507			
Total eligible own funds to meet the MCR	26,507	26,507			
SCR	9,193				
MCR	3,338				
Ratio of Eligible own funds to SCR	288.3 %				
Ratio of Eligible own funds to MCR	288.3 %				
Reconciliation reserve					
Excess of assets over liabilities	28,736				
Own shares (held directly and indirectly)					
Foreseeable dividends, distributions and charges	2,229				
Other basic own fund items	7,500				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
Reconciliation reserve	19,007				
Expected profits					
Expected profits included in future premiums (EPIFP) - Life business	178				
Expected profits included in future premiums (EPIFP) - Non- life business					
Total Expected profits included in future premiums (EPIFP)	178				

F. Quantitative Reporting Templates

S.25.01.21 Solvency Capital Requirement - for undertakings on Standard Formula £'000

	Gross solvency capital requirement	USP	Simplifications
Market risk	4,656		
Counterparty default risk	539		
Life underwriting risk	4,524	9	
Health underwriting risk	3,080	9	
Non-life underwriting risk		9	
Diversification	(3,861)		
Intangible asset risk			
Basic Solvency Capital Requirement	8,938		
Calculation of Solvency Capital Requirement			
Operational risk	572		
Loss-absorbing capacity of technical provisions			
Loss-absorbing capacity of deferred taxes	(317)		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
Solvency Capital Requirement excluding capital add-on	9,193		
Capital add-ons already set			
Solvency capital requirement	9,193		
Other information on SCR			
Capital requirement for duration-based equity risk sub-module			
Total amount of Notional Solvency Capital Requirements for remaining part			
Total amount of Notional Solvency Capital Requirements for ring fenced funds			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
Diversification effects due to RFF nSCR aggregation for article 304			

F. Quantitative Reporting Templates

S.28.01.01 Minimum Capital Requirement - Only life or non-life insurance or reinsurance activity £'000

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

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance		
Income protection insurance and proportional reinsurance		
Workers' compensation insurance and proportional reinsurance		
Motor vehicle liability insurance and proportional reinsurance		
Other motor insurance and proportional reinsurance		
Marine, aviation and transport insurance and proportional reinsurance		
Fire and other damage to property insurance and proportional reinsurance		
General liability insurance and proportional reinsurance		
Credit and suretyship insurance and proportional reinsurance		
Legal expenses insurance and proportional reinsurance		
Assistance and proportional reinsurance		
Miscellaneous financial loss insurance and proportional reinsurance		
Non-proportional health reinsurance		
Non-proportional casualty reinsurance		
Non-proportional marine, aviation and transport reinsurance		
Non-proportional property reinsurance		

Linear formula component for life insurance and reinsurance obligations	
MCR_{L} Result	2,137

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) total capital at risk
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations	24,044	
Total capital at risk for all life (re)insurance obligations		2,330,955

Overall MCR calculation	
Linear MCR	2,137
SCR	9,193
MCR cap	4,137
MCR floor	2,298
Combined MCR	2,298
Absolute floor of the MCR	3,338
Minimum Capital Requirement	3,338

G. Glossary

Term	Defintion
Best Estimate	This is the total amount of money that the Company expects to pay to settle all claims that have occurred as at the reporting date.
Deferred Tax	Deferred tax arises from timing differences due to the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the statutory accounts.
Deferred Acquisition Costs (DAC)	Costs, comprising commission and other related direct costs, of acquiring new business during the current reporting period. A portion of the cost is deferred to the balance sheet at the reporting date and will be recognised in a future period profit and loss statement, when it is matched to revenue recognised.
Excess of Loss Reinsurance	Excess of loss reinsurance is where the Company limits its exposure to certain types of claims in excess of a certain amount. This amount is often referred to as the retention level. All costs to settle a claim/claim event in excess of the retention level are recovered by the reinsurer.
Financial Conduct Authority (FCA)	The FCA is the conduct regulator for the financial services industry in the UK. They ensure that the Company treats customers fairly.
FRS 102	"The Financial Reporting Standard applicable in the UK and Republic of Ireland". This FRS applies to financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure) for a period.
Gross incurred claims	This is the total amount of money that the Company expects to pay to settle all claims that it has been notified about as at the reporting date.
Gross written premium	This is the amount of money that is charged by the Company to the customer for an insurance policy. It excludes insurance premium tax.
Insurance Premium Tax (IPT)	This is an amount of tax that is required to be added onto all insurance premiums. The tax is collected by the Company and passed onto HM Revenue and Customs.
Investment return	This is the total amount of return that has been received from investment holdings. It includes interest income, dividend income and market value movements.
Minimum Capital Requirement (MCR)	This represents the minimum level by which the financial resources (Own Funds) of the Company should not fall.
Own Funds	This relates to the amount of excess assets that the Company has after deducting its liabilities as calculated in line with Solvency II regulations.
ORSA	This is the Own Risk and Solvency Assessment, and is defined under the Solvency II regulation as a set of processes constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.

G. Glossary

Term	Defintion
Prudential Regulation Authority(PRA)	This is the prudential regulator for the Company. The PRA is part of the Bank of England and is responsible for the prudential regulation and supervision of 1,500 banks, building societies, credit unions and insurers in the UK.
Quota share	Quota share is a type of Reinsurance contract. Typically this is a reinsurance contract where the insurer and reinsurer share premiums and losses according to a fixed percentage.
Reinsurance	Insurers use reinsurance to transfer underwriting risk to another entity.
Risk-Free rate (RFR)	The risk free rate is the theoretical rate of return that could be received on a risk free investment. A risk free investment is considered to be free from the risk of monetary loss.
Securitised assets	These are assets that are backed by the pooling of certain debt cash flows, for example, mortgages.
Solvency Capital Requirements (SCR)	The capital that an insurance company is required to hold as calculated in line with Solvency II regulation.
Solvency II regulations	The Solvency II regulations are derived from the Solvency II Directive (2009/138/EC). The Directive is a European Union law that codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.
Standard Formula	The Standard Formula is a standardised calculation method which aims to capture the material, quantifiable risks that an insurance company is exposed to.

Covéa Life Limited

Solvency and Financial Condition Report

31st December 2020

If you would like to request a printed copy of this report please contact us.

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Covéa Life Limited
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