SOLVENCY AND FINANCIAL CONDITION REPORT
Year ended 31 December 2017

CIS GENERAL INSURANCE LIMITED

Insurance

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Executive Summary

1. Introduction

The Directors are pleased to present the Solvency & Financial Condition Report for the year ended 31 December 2017.

The Report contains detailed qualitative and quantitative information on the undertaking's Business and Performance, System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management, together with standardised Quantitative Reporting Templates with respect to the reporting period.

This Executive Summary provides an overview to assist the Company's policyholders and other stakeholders in understanding the nature of the business, how the business is managed and its solvency position.

Amounts are presented in thousands of pounds, sterling (£000), unless otherwise stated.

The document makes reference to the Annual Report and Accounts, which also provides relevant information about the Company, a copy of which can be found at www.co-opinsurance.co.uk/investor-relations/financial-results/annual-results-2017.

2. Business & Performance (Summary of Section A)

2.1 Business Model & Strategy

CIS General Insurance Limited, operating under the brand of Co-op Insurance, is a wholly owned subsidiary of Co-operative Group Limited (the Group), one of the largest consumer co-operatives in the world. As well as having clear financial and operational objectives, the Group is recognised as a leader for its social goals and community-led programmes.

Co-op Insurance underwrites Home and Motor business supplemented with business where the Company acts as a distributor. Business is sold directly to customers through telephone and internet channels, through web-based aggregators and through third party brokers.

Co-op Insurance holds the Co-operative Group purpose at the heart of its strategy, developing a range of diversified and customer centric propositions focused on the aim of meeting more of the insurance needs of more Co-op members. The ambition is for members and customers to have access to the products they need and for them to find it increasingly easy to do business with Co-op Insurance.

2.2 Significant events

Business Transformation

In 2014 Co-op Insurance recognised the need to replace and upgrade its core IT systems and separate the systems of Co-op Insurance and Co-operative Bank. In July 2015, Co-op Insurance launched a programme of activity, focussed on the implementation and operation of a fully managed IT platform, with IBM as the primary supplier of services. Co-op Insurance reported in 2016 that delivery of the programme had been delayed and that discussions had been held with IBM about the future direction of the programme. In July 2017 it was announced that the contract with IBM had been terminated. Co-op Insurance has subsequently initiated proceedings against IBM (in relation to the terminated contract) and these proceedings are ongoing as at the date of this report. Since the termination of the contract, significant progress has been made through a focus on selective investment to improve specific areas of the current IT estate, deliver systems separation from Co-operative Bank, and improve technology resilience.

Quota Share Reinsurance

At the start of 2017 a new reinsurance arrangement was placed to enhance the capital position of the business. This quota share arrangement cedes 30% of business earned and the related risk to reinsurers. This significantly reduces the amount of the Solvency Capital Requirement (SCR) by reducing exposure to both premium and catastrophe risk in respect of business that will earn in 2018 and reducing reserve risk in respect of business earned in 2017.

The decision to purchase quota share reinsurance is part of Co-op Insurance's strategy in respect of capital management, focussing on maintaining a solvency coverage ratio which is in line with the Board's risk appetite and is significantly higher than the required regulatory limits.

2.3 Performance

Lines of Business and Geographical Areas

Lines of business which are material to the performance of Co-op Insurance are defined in the table below:

Line of Business	Definition
Motor vehicle liability insurance (Motor)	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land.
Other motor insurance (Other Motor)	Insurance obligations which cover all damage to or loss of land vehicles.
Fire and other damage to property insurance (Home)	Insurance obligations which cover all damage to or loss of property due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.

All business is conducted in the UK, Isle of Man and the Channel Islands.

Overall Performance

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	473,187	(141,892)	331,295	439,012	34,175	(107,717)
Underwriting result	97	(3,973)	(3,876)	(2,076)	2,173	(1,800)
Net investment income	14,447	0	14,447	13,289	1,158	1,158
Operating profit/(loss) before transformation costs and tax	5,994	(3,973)	2,021	2,634	3,360	(613)
Operating loss before tax	(16,993)	(3,973)	(20,966)	(26,117)	9,124	5,151

Co-op Insurance's loss before tax for 2017 was £20,966k (2016: £26,117k) which includes the cost of the new quota share reinsurance arrangement (£3,973k) and the ongoing costs of business transformation activities.

Operating profit excluding the impact of the quota share arrangement, transformation costs and taxation increased by £3,360k to £5,994k (2016: £2,634k), reflecting an improvement in the current year underwriting result and lower prior year reserve releases.

Net earned premium excluding the impact of the quota share arrangement increased by £34,175k to £473,187k, the increase being driven by growth in the Motor book which saw the benefits of targeted investment in new pricing technologies and data analytics capabilities. The number of Home policies grew in 2017, although the financial result was impacted by the cost of a proactive initiative to harmonise the terms of long standing customers.

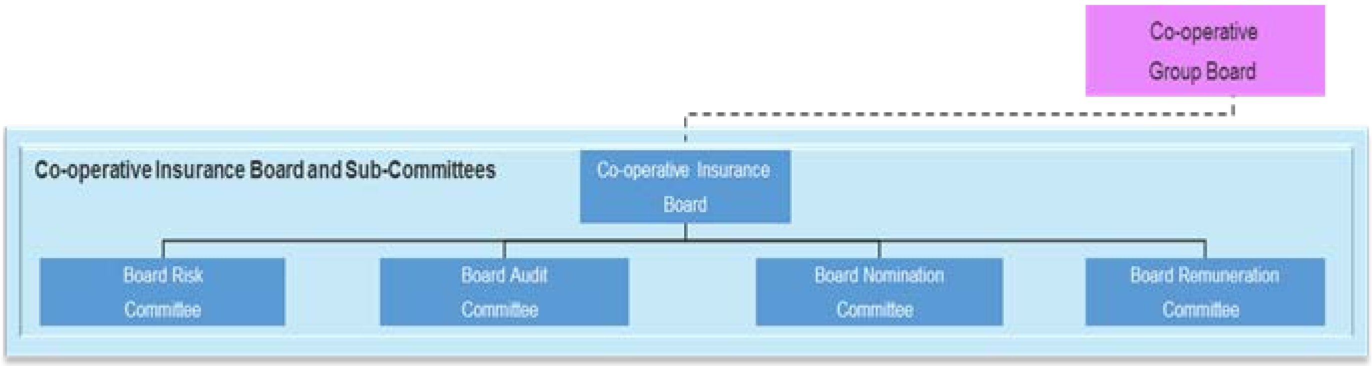
Investment income, net of investment expenses, increased by £1,158k to £14,447k (2016: £13,289k), driven by realised gains of £2,799k (2016: £1,361k) from the sale of investment assets during 2017, however this was partly offset by lower investment returns in the year, reflecting the post-Brexit yields available in the market.

3. System of Governance (Summary of Section B)

3.1 Governance Framework

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

Co-op insurance has established a strong governance framework that includes a formal committee structure, consisting of the Board and its sub-committees (shown in the diagram below), Executive Management committees and Advisory committees, enabling effective interaction to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business.



The Board owns and approves the Risk Strategy, the Risk Appetite Statements and the Risk Management Framework, setting the thresholds and approach to risk taking activities. To assist the Board in carrying out its functions and to ensure that there are effective internal controls and risk management, the Board has established four sub-committees and delegated certain responsibilities to them. All Board sub-committees have Terms of Reference which document the membership, their accountabilities and describe the authority delegated to them by the Board. The Board ensures that each committee is provided with sufficient resources to enable it to undertake its duties.

In a change to the governance framework, the Board Transformation Committee ceased in the reporting period. The purpose of the Committee was to oversee Co-op Insurance's Transformation Programme, to advise and make recommendations to the Board regarding material matters and their impact on the delivery of the Strategic Plan. As the Company focuses on selective investment to improve specific areas of the current IT estate, deliver systems separation from Co-operative Bank, and improve technology resilience, change activity will be overseen across the existing governance structure.

3.2 Key elements of the System of Governance

Appropriate Responsibility and Accountability

A 'Three Lines of Defence' governance model is used to ensure appropriate responsibility and accountability is allocated to the management, reporting and escalation of risks. The three elements of this model include the following:

- The Chief Executive Officer with the Executive and wider Business Management of Co-op Insurance have responsibility for the management of risk in day to day operations and implementing effective monitoring and control of risks ('1st Line of Defence').
- The Risk function assists the Chief Risk Officer and Board to formulate risk appetite, strategies, policies and limit structures for the management of risk and provides independent objective challenge, oversight and support of risk management activity ('2nd Line of Defence').
- The Audit function provides independent and objective assurance on the effectiveness of the adequacy of risk management and the overall system of internal control ('3rd Line of Defence').

Fitness & Propriety of Key Function Holders

Co-op Insurance has identified each function within the firm it considers to be a Key Function, being the four mandatory Solvency II Key Functions (see table below) and any such function that amounts to 'effectively running the firm'. Key Functions, as defined by Solvency II regulation are those functions if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm's system of governance has identified those persons who are responsible for the key functions (known as Key Function Holders), along with their lines of accountability.

Persons who effectively run the business or who are responsible for other key functions within the business must be 'fit and proper' at all times. This means that these persons must have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity. Co-op Insurance has established a fit and proper policy and processes which comply with the Senior Insurance Manager's Regime.

Robust Risk Management Framework

Co-op Insurance operates within a Risk Management Framework that sets out how the business manages risk throughout the organisation and how the framework will be maintained.

The Risk Management Framework is designed to aid the business in implementing a set of risk management policies and supports consistent management of risks at all levels in the business in accordance with the 'Three Lines of Defence' model.

The role each component of the Risk Management Framework plays in risk management and the supporting requirements are documented including the processes, ownership, responsibilities and oversight required to support effective implementation of risk management across the business.

4. Key Risks (Summary of Section C)

Co-op Insurance's primary activity, providing Home and Motor insurance exposes the Company to a number of risks which could adversely affect its performance and its ability to meets its objectives. These risks include:

Risk	Definition
Insurance Risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure. NOTE: Co-op Insurance's key financial risks are insurance-related: premium risk, reserve risk and catastrophe risk.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.
Market Risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.
Counterparty Risk, including Credit Risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. During 2017, credit insurance was purchased to mitigate exposure to credit risk.
Liquidity Risk	The current and prospective risk to earnings or solvency arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk is explicitly excluded from the Standard Formula Solvency Capital Requirement.

Risks are captured within the Standard Formula calculation of the Company's Solvency Capital Requirement (SCR). The table below shows the value of capital held for each risk as calculated in the Standard Formula SCR calculation.

	At 31 December 2017 £000	At 31 December 2016 £000	Movement £000
Insurance Risk - Non Life	142,294	167,195	(24,901)
Insurance Risk - Life	4,389	3,356	1,033
Operational Risk	54,695	54,554	141
Market Risk	21,771	23,159	(1,388)
Counterparty Risk	6,562	6,807	(245)
Diversification	(22,045)	(22,329)	284
SF SCR	**207,666**	**232,743**	**(25,077)**

Overall there has been a reduction in risk in the year, resulting in a decrease of £25,077k in the Standard Formula SCR since 2016, largely as a result of the new quota share reinsurance arrangement which lowers Insurance risk.

Insurance risk is managed by ensuring that business is underwritten and priced in accordance with agreed strategy and through claims reserving and modelling approaches. Insurance risk is also mitigated through the use of appropriate reinsurance, including the new quota share reinsurance arrangement, which cedes 30% of business earned to reinsurers, reducing both reserve risk and premium risk capital requirements. Insurance risk (Non Life and Life) has reduced by £23,868k in the year to £146,683k (2016: £170,551k).

Operational risks are identified, measured, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning and mitigated through corporate insurances. Operational risk has remained stable year on year at £54,695k (2016: £54,554k).

Market risk (credit-spread and default risks) from corporate bonds are managed through defined limits for exposure to credit-ratings and individual counterparties. Other risk mitigation strategies employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. Market risk has reduced in the year to £21,771k (2016: £23,159k), largely due to the fall in overall asset holdings and by holding fewer securitisations.

The value calculated for each individual risk is the estimated loss that would be incurred in an adverse scenario for that specific risk. As not all of these negative outcomes would be expected to occur within a short time frame the Standard Formula SCR calculation allows for a diversification benefit which is an estimate of the total reduction in the overall level of risk. The effect of diversification in 2017 has remained similar to 2016 at £22,045k (2016: £22,329k).

The impact of changes in the risk profile of the company on capital management is explained in Section 6 of this Summary.

5. Valuation for Solvency purposes (Summary of Section D)

Assets and liabilities within the Solvency II balance sheet are valued in accordance with Solvency II regulations. The principle that underlies the valuation methodology is that assets and liabilities are valued at amounts for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The table below shows the valuation of assets and liabilities on both an IFRS and Solvency II basis as at 31 December 2017. The valuation of the Company's balance sheet on a Statutory accounting basis is different to the Solvency II balance sheet, predominantly due to the reclassification of accrued interest, the elimination of intangible assets and the difference in the valuation of the technical insurance provisions, including the treatment of the quota share reinsurance arrangement.

	IFRS (£000)	Reclassifications (£000)	Restatements (£000)	Solvency II value (£000)
Assets				
Intangible assets	1,723	-	(1,723)	-
Deferred acquisition costs	29,979	-	(29,979)	-
Property, plant & equipment held for own use	567	-	-	567
Investments	861,854	7,797	-	869,651
Reinsurance recoverables	58,466	-	59,221	117,687
Deposits to cedants	24	-	-	24
Insurance and intermediaries receivables	191,990	-	(190,604)	1,386
Receivables (trade, not insurance)	20,999	(7,797)	-	13,202
Cash and cash equivalents	15,200	-	-	15,200
Total assets	**1,180,802**	**-**	**(163,085)**	**1,017,717**
Liabilities				
Total Technical Provisions/IFRS Insurer Contract Liabilities	749,929	-	(159,066)	590,863
Provisions other than technical provisions	1,714	-	-	1,714
Deferred tax liabilities	5,590	-	(5,590)	-
Debts owed to credit institutions	5,915	-	-	5,915
Insurance & intermediaries payables	7,760	-	-	7,760
Reinsurance payables	3,784	-	50,445	54,229
Payables (trade, not insurance)	20,723	-	(15,393)	5,330
Subordinated liabilities	67,909	-	3,763	71,672
Any other liabilities, not elsewhere shown	24,660	-	-	24,660
Total liabilities	**887,984**	**-**	**(125,841)**	**762,143**
Excess of assets over liabilities	**292,818**	**-**	**(37,244)**	**255,574**

The excess of assets over liabilities of £255,574 (2016: £268,986) forms the basis of the Company's Own Funds under Solvency II, which is the amount of available capital the Company has to meet the Solvency Capital Requirement.

6. Capital Management (Summary of Section E)

At 31 December 2017 the key Solvency II capital measures were:

	2017 (£000)	2016 (£000)	Movement (£000)
Own Funds before Volatility Adjustment	323,029	335,442	(12,413)
Affect of Volatility Adjustment	4,217	9,162	(4,945)
Own Funds	327,246	344,604	(17,358)
SCR before Volatility Adjustment	208,087	234,319	(26,232)
Affect of Volatility Adjustment	(421)	(1,576)	1,155
SCR	207,666	232,743	(25,077)
Solvency Coverage Ratio before Volatility Adjustment	155%	143%	12%
Solvency Coverage Ratio	158%	148%	10%

Solvency coverage has improved by 10% (£7,719k) between 31 December 2016 and 31 December 2017.

Own Funds have reduced by £17,358k, driven by the operating loss for the year (see Section 2), partially offset by a reduction in valuation differences between IFRS and Solvency II.

As described in Section 4, the SCR has fallen to £207,666, an improvement of £25,077k, largely due to a decrease in insurance risk driven by the quota share reinsurance arrangement, which reduces the reserve risk and premium risk capital requirements.

Co-op Insurance applies a Volatility Adjustment in calculating solvency coverage which has improved solvency coverage by 2%. The Volatility Adjustment is a transitional measure designed by the European Insurance and Occupational Pensions Authority to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. Co-op Insurance does not apply other transitional measures of a matching adjustment, transitional deduction to the technical provisions or the transitional risk-free interest rate.

The table below shows the value of Own Funds eligible to meet the Minimum Capital Requirement (MCR) and SCR at 31 December 2017, classified by tier.

	2017						
	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)	2016 Total (£000)	Movement (£000)
Ordinary share capital (gross of own shares)	268,000	268,000	0	0	0	268,000	0
Reconciliation reserve	(12,426)	(12,426)	0	0	0	986	(13,412)
Subordinated liabilities	71,672	0	0	71,672	0	75,618	(3,946)
An amount equal to the value of net deferred tax assets	0	0	0	0	0	0	0
Total basic own funds after deductions	**327,246**	**255,574**	**0**	**71,672**	**0**	**344,604**	**(17,358)**
Ancillary own funds	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total available own funds to meet the SCR	**327,246**	**255,574**	**0**	**71,672**	**0**	**344,604**	**(17,358)**
Total available own funds to meet the MCR	**327,246**	**255,574**	**0**	**71,672**	**0**	**344,604**	**(17,358)**
Total eligible own funds to meet the SCR	**327,246**	**255,574**	**0**	**71,672**	**0**	**344,604**	**(17,358)**
Total eligible own funds to meet the MCR	**268,644**	**255,574**	**0**	**13,070**	**0**	**284,715**	**(16,071)**
SCR	**207,666**					**232,743**	**(25,077)**
MCR	**65,349**					**78,643**	**(13,293)**

Tier 1 Own Funds relate to share capital and the reconciliation reserve and equate to the value of the excess of assets over liabilities in the Solvency II balance sheet. The reconciliation reserve represents the changes resulting from valuation differences between IFRS versus Solvency II and also retained earnings and other reserves.

Tier 2 Own Funds relate to subordinated liabilities. In May 2015 £70,000k of Callable Dated Deferrable Tier Two Notes were issued. The debt is repayable at par in May 2025, with an option for Co-op Insurance to call the debt in 2020. The coupon rate of the debt is 12%. This instrument helps to support the Company's strategic plan implementation whilst maintaining its regulatory capital buffer at an appropriate level.

In line with Solvency II regulations the subordinated debt has been revalued at a value for which the liabilities could be transferred between knowledgeable willing parties in an arm´s length transaction, excluding an adjustment to take account of changes in the undertaking's own credit standing after initial recognition.

Transitional arrangements, lasting a maximum of ten years from 1 January 2016, have been introduced to the Solvency II regime to provide a smooth transition between Solvency I and Solvency II requirements. Under these transitional arrangements the subordinated debt held by Co-op Insurance, which met the eligibility criteria under Solvency I, are classified as Tier 2 Own Funds under Solvency II and will continue to be so until the date of repayment.

Co-op Insurance does not hold any other Own Funds which are subject to transitional arrangements.

Non-compliance with the MCR occurs when the value of basic Own Funds falls below the MCR. As at 31 December 2017, Co-op Insurance has exceeded the MCR with coverage of 411% (2016: 362%) of the MCR. Co-op Insurance has been compliant with the MCR throughout the reporting period.

Non-compliance with the SF SCR occurs when the value of basic Own Funds falls below the SF SCR. As at 31 December 2017, Co-op Insurance has exceeded the SF SCR with coverage of 158% (2016: 148%) of the SCR. Co-op Insurance has been compliant with the SCR throughout the reporting period.

Directors' Report

The Directors of Co-op Insurance during the financial year are listed below and all appointments were for the full period unless otherwise stated.

Non-Executive Directors:
Peter Hubbard (Chair) (Appointed 21 September 2017, Regulatory approval granted 30 November 2017)
Caroline Fawcett
Graham Singleton
Julie Hopes
Diane Buckley
Alistair Asher
Bob Newton (Chair) (Resigned 24 August 2017)
Neil McKenzie (Senior Independent Director) (Resigned 31 August 2017)
David Lister (Non – Executive Director) (Resigned 26 February 2018)

Executive Directors:
Mark Summerfield (Chief Executive Officer)
Damien Duffy (Chief Financial Officer) (Appointed 1 July 2017)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Prudential Regulation Authority Rules and the Solvency II Regulations.

Each of the Directors confirm that, to the best of their knowledge:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the Prudential Regulation Authority Rules and the Solvency II Regulations as applicable to the Company; and

b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue to comply in future.

By order of the Board:

Peter Hubbard
Chair

24 April 2018

Independent Auditors Report

Report of the external independent auditor to the Directors of CIS General Insurance Limited ("Co-op Insurance") pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by Co-op Insurance as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Co-op Insurance as at 31 December 2017**, ('the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.25.01.21, S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report ('**the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Co-op Insurance as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

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

- the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about Co-op Insurance's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter – Basis of Accounting & Restriction on Use
We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority.

This report is made solely to the Directors of Co-op Insurance in accordance with Rule 2.1 of External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other Information
The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based which have been supplemented by the approval to apply a volatility adjustment to the relevant risk-free interest rate term structure granted by the PRA under Section 138A of FSMA on 18 November 2015 and as disclosed in Section D.2.6 of the Solvency and Financial Condition Report.

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.** The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements.

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

Ernst & Young LLP
Manchester

24 April 2018

The maintenance and integrity of the Co-op Insurance web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

A. Business and Performance

A.1 Business

A.1.1 Legal Form, Ownership and Registered Address

Co-op Insurance is a society registered in England under the Co-operative & Community Benefit Societies Act 2014 and not a company registered under the Companies Act. The registered office is Miller Street, Manchester, M60 0AL and the registered number is 29999R.

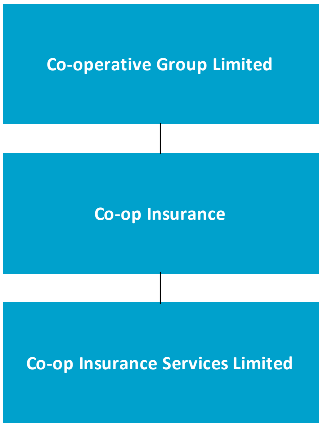
Co-op Insurance underwrites Home and Motor business supplemented with business where the Company acts as a distributor. Business is sold directly to customers through telephone and internet channels, through web-based aggregators and through third party brokers.

A.1.2 Simplified Group Structure, Description of Holders of Qualifying Holdings in the Company and Material Related Undertakings

Co-op Insurance is a wholly owned subsidiary of Co-operative Group Limited (the Group). The Group holds 267,999,999 Ordinary Shares of £1.00 each in Co-op Insurance. This represents a 99.9% ownership. As registered societies are required to have at least two members, 1 Ordinary Share of £1.00 is held by Co-operative Group Holdings (2011) Limited, a subsidiary of Co-operative Group Limited. The registered office of Co-operative Group Limited is 1 Angel Square, Manchester, M60 0AG.

Co-operative Group Limited is one of the world's largest consumer co-operatives, with interests across food, funerals, insurance, electrical and legal services. It has 4.6 million members, 64,000 colleagues and an annual turnover of approximately £9.5 billion.

A simplified group structure is shown below:



Co-op Insurance's only subsidiary undertaking is Co-op Insurance Services Limited (CISL). CISL was incorporated on 17 May 2017 and is FCA regulated. Co-op Insurance holds 99,999 Ordinary Shares of £1.00 each in CISL. 1 Ordinary Share of £1.00 is held by Co-operative Group Holdings (2011) Limited, a subsidiary of Co-operative Group Limited. The registered office of CISL is Miller Street, Manchester, M60 0AL.

Co-op Insurance does not have any other subsidiaries or branches. Co-operative Group Limited has several other subsidiary companies, including CFS Management Services Limited (see Section A.1.3).

A.1.3 Employees

Co-op Insurance has no employees. All colleagues are employed through the Group or CFS Management Services Limited (CFSMS Limited), a subsidiary of the Group which provides administrative and other services, with a management charge payable to cover these costs.

A.1.4 Name and Contact Details of External Auditors

The Company's auditors are Ernst & Young LLP (registered no. OC300001), whose registered office is 1 More London Place, London SE1 2AF.

A.1.5 Name and Contact Details of Supervisory Authority and Regulator

Co-op Insurance is authorised and regulated by the Prudential Regulatory Authority (PRA) in the United Kingdom, whose offices are at 20 Moorgate, London, EC2R 6DA and regulated by the Financial Conduct Authority, whose head office is at 25 The North Colonnade, London, E14 5HS.

A.1.6 Significant Business or Other Events

Business Transformation

In 2014 Co-op Insurance recognised the need to replace and upgrade its core IT systems and separate the systems of Co-op Insurance and Co-operative Bank. In July 2015, Co-op Insurance launched a programme of activity, focussed on the implementation and operation of a fully managed IT platform, with IBM as the primary supplier of services. Co-op Insurance reported in 2016 that delivery of the programme had been delayed and that discussions had been held with IBM about the future direction of the programme. In July 2017 it was announced that contract with IBM had been terminated. Co-op Insurance has subsequently initiated proceedings against IBM (in relation to the terminated contract) and these proceedings are ongoing as at the date of this report. Since the termination of the contract, significant progress has been made through a focus on selective investment to improve specific areas of the current IT estate, deliver systems separation from Co-operative Bank, and improve technology resilience.

Quota Share Reinsurance

At the start of 2017 a new reinsurance arrangement was placed to enhance the capital position of the business. This quota share arrangement cedes 30% of business earned and the related risk to reinsurers. This significantly reduces the amount of the Solvency Capital Requirement (SCR) by reducing exposure to both premium and catastrophe risk in respect of business that will earn in 2018 and reducing reserve risk in respect of business earned in 2017.

The decision to implement the quota share arrangement is part of Co-op Insurance's ongoing strategy in respect of capital management, focussing on maintaining a solvency coverage ratio which is in line with the Board's risk appetite and is significantly higher than the required regulatory limits.

Other

Co-op Insurance has delivered a series of improvements as part of the Company's strategy to service the insurance needs of Co-op members and customers. These are described within the Operational Developments section of the Strategic Report on page 3 of the Company's Annual Report and Accounts.

A.2 Underwriting Performance

A.2.1 Business Performance

The table below shows the performance of the Company in both the current financial year and preceding financial year.

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	473,187	(141,892)	331,295	439,012	34,175	(107,717)
Net policyholder claims and benefits	(330,814)	94,567	(236,247)	(293,911)	(36,903)	57,664
Fee and commission income	16,264	43,352	59,616	13,015	3,249	46,601
Fee and commission expenses	(26,612)	0	(26,612)	(27,114)	502	502
Acquisition and administrative expenses	(131,928)	0	(131,928)	(133,078)	1,150	1,150
Underwriting result	**97**	**(3,973)**	**(3,876)**	**(2,076)**	**2,173**	**(1,800)**
Net investment income	14,447	0	14,447	13,289	1,158	1,158
Finance costs	(8,550)	0	(8,550)	(8,579)	29	29
Operating profit/(loss) before transformation costs and taxation	**5,994**	**(3,973)**	**2,021**	**2,634**	**3,360**	**(613)**
Costs in respect of Transformation Programme	(22,987)	0	(22,987)	(28,751)	5,764	5,764
Operating loss before taxation	**(16,993)**	**(3,973)**	**(20,966)**	**(26,117)**	**9,124**	**5,151**
Claims ratio	**(69.9%)**		**(71.3%)**	**(66.9%)**	**(3.0%)**	**(4.4%)**
Commission and expense ratio excluding transformation costs	**(30.1%)**		**(29.9%)**	**(33.5%)**	**3.5%**	**3.7%**

The 2017 full year financial result was a loss before taxation of £20,966k (2016: £26,117k), including the cost of the new quota share reinsurance arrangement and the ongoing costs of business transformation activities. Reported operating profit for 2017 was £2,021k (2016: £2,634k), however excluding the cost of the quota share reinsurance arrangement reported operating profit was £5,994k, reflecting an improvement in the current year underwriting result and lower prior year reserve releases.

Net earned premium, before the impact of the quota share reinsurance arrangement, increased by £34,175k to £473,187k, reflecting the benefits of improved segmental analysis in the Motor book, offset by competitive conditions in the Home market.

Policyholder claims and benefits have increased from £293,911 to £330,814, reflecting lower prior year reserve releases and significant inflationary pressure, caused by the impact of Sterling depreciation due to Brexit and higher cost of claims.

Commission income is generated through policy administration fees and the sale of ancillary products. It is also generated through a number of reinsurance arrangements in place including quota share. This contract allows for a percentage of the premium ceded to the Reinsurer to be repaid to Co-op Insurance. The percentage applied to premium ceded is dependent on the associated loss ratio, with more commission repaid in the event of a low loss ratio. Fee and commission income has increased compared to 2016 largely due to commission from the quota share arrangement of £43,352k (2016: £nil).

The value of commission expenses, being commission relating to the sales of policies through both web-based aggregators and third party brokers, was similar to the value seen in 2016 at £26,612k (2016: £27,114k).

Investment income improved year on year, driven by realised gains of £2,799k (2016: £1,361k) from the sale of investment assets during 2017, with investment income reflecting the post-Brexit yields available in the market. In the context of increased execution risk as a result of the ongoing programme of business transformation, the Board investment risk appetite investment strategy remains low risk and continues to focus on lower rated corporate bonds being sold and the proceeds reinvested in gilts and cash which generate lower returns.

Cost management remained a key focus during 2017, with the underlying commission and expense ratio (excluding transformation costs) improving to 30.1% (2016: 33.5%).

A.2.2 Underwriting Performance

Analysis of the Company's underwriting performance by line of business is presented below. No geographic segmental reporting analysis is presented as all business is conducted in the UK, Isle of Man and the Channel Islands.

Motor Vehicle Liability Insurance (Motor)

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	270,682	(81,807)	188,875	244,101	26,581	(55,226)
Net policyholder claims and benefits	(209,576)	60,971	(148,605)	(200,412)	(9,164)	51,807
Acquisition, administrative and commission expenses	(80,046)	0	(80,046)	(84,513)	4,467	4,467
Fee and commission income	10,514	24,994	35,508	7,836	2,678	27,672
Underwriting performance	**(8,426)**	**4,158**	**(4,268)**	**(32,988)**	**24,562**	**28,720**
Claims ratio	**(77.4%)**	**(74.5%)**	**(78.7%)**	**(82.1%)**	**4.7%**	**3.4%**

** includes £3,200k (2016: £4,900k) of net earned premium relating to the 'Legal expenses' Solvency II line of business (SII LOB). All other figures relate to the 'Motor vehicle liability insurance' SII LOB.*

The performance of the Motor book of business improved significantly year on year. Excluding the impact of quota share, net earned premium increased by £26,581k to £270,682k (2016: £244,101k), driven by the benefits of targeted investment in new pricing technologies and an ongoing pricing strategy to grow profitability.

Net policyholder claims and benefits, excluding the impact of quota share, increased by £9,164k to £209,576k (2016: £200,412k), with 2016 benefitting from the favourable impact of prior year reserve releases, which were not repeated in 2017.

In February 2017, the Ministry of Justice announced a change to the discount rates applied to long term claims, an estimate of which was reflected in the 2016 financial result. In September 2017, following a period of consultation, the Ministry of Justice announced that measures to change the legislation which dictates the discount rate would be implemented, with a range of outcomes noted. A prudent assessment of the impact of this change has been estimated and included in the 2017 result.

Other Motor Insurance (Other Motor)

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	90,387	(26,514)	63,873	77,884	12,503	(14,011)
Net policyholder claims and benefits	(66,244)	19,761	(46,483)	(59,059)	(7,185)	12,576
Acquisition, administrative and commission expenses	(25,943)	0	(25,943)	(24,963)	(980)	(980)
Fee and commission income	3,511	8,101	11,612	2,500	1,011	9,112
Underwriting performance	**1,711**	**1,348**	**3,059**	**(3,638)**	**5,349**	**6,698**
Claims ratio	**(73.3%)**	**(74.5%)**	**(72.8%)**	**(75.8%)**	**2.5%**	**3.1%**

An improved underwriting performance (before the impact of quota share) was also seen within the Other Motor line of business, with increased net earned premiums being only partly offset by an increase in net policyholder claims and benefits.

As with motor vehicle liability insurance above, the cost of net policyholder claims and benefits in 2017 compared to the prior year is impacted by lower prior year reserve releases than in 2016, changes to the Ogden rate, and inflationary pressure on claims costs.

Fire and Other Damage to Property Insurance (Home)

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	111,904	(33,571)	78,333	116,800	(4,896)	(38,467)
Net policyholder claims and benefits	(51,808)	13,835	(37,973)	(44,303)	(7,505)	6,330
Acquisition, administrative and commission expenses	(51,836)	0	(51,836)	(50,092)	(1,744)	(1,744)
Fee and commission income	42	10,257	10,299	384	(342)	9,915
Underwriting performance	**8,302**	**(9,479)**	**(1,177)**	**22,789**	**(14,487)**	**(23,967)**
Claims ratio	**(46.3%)**	**(41.2%)**	**(48.5%)**	**(37.9%)**	**(8.4%)**	**(10.5%)**

The Home line of business continues to see competitive market conditions. The number of Home policies grew in 2017 but net earned premium reduced by £4,896k, excluding the impact of quota share, to £111,904k (2016: £116,800k), impacted by the decision to undertake a proactive initiative to harmonise the terms of long standing customers.

Underwriting performance, excluding the impact of quota share, reduced by £14,487k to £8,302k (2016: £22,789k). Net policyholder claims and benefits increased due to significant inflationary pressure in 2017, including the impact of Sterling depreciation due to Brexit, and increased escape of water claims costs.

Other

	Year ended 31 December 2017 (excluding Quota Share) (£000)	Impact of Quota Share (£000)	Year ended 31 December 2017 (£000)	Year ended 31 December 2016 (£000)	Variance (excluding Quota Share) (£000)	Variance (£000)
Net earned premiums	214	0	214	228	(14)	(14)
Net policyholder claims and benefits	(3,186)	0	(3,186)	9,863	(13,049)	(13,049)
Acquisition, administrative and commission expenses	(715)	0	(715)	(624)	(91)	(91)
Fee and commission income	2,197	0	2,197	2,296	(99)	(99)
Underwriting performance	**(1,490)**	**0**	**(1,490)**	**11,763**	**(13,253)**	**(13,253)**

This category includes the aggregate of all other lines of business which are not material to disclose separately. The underwriting result for the year is largely due a strengthening of prior year General Liability claims reserves caused by an increase in the expected number of mesothelioma and hearing loss cases, which has been seen across the industry.

A.3 Investment Performance

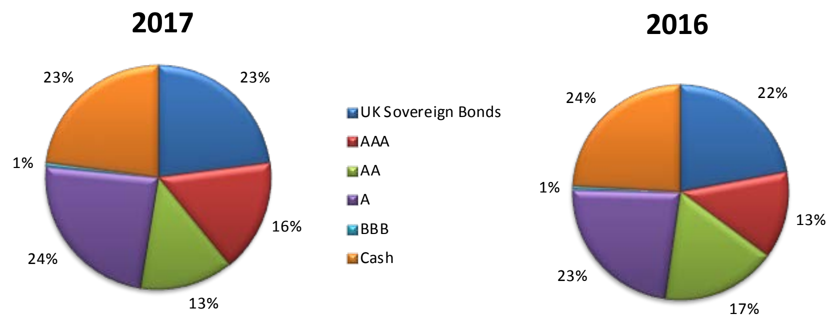
A.3.1 Investment Income and Expenses

The table below analyses Co-op Insurance's investment income and expenses in total, as all investments are in the same asset class:

	Year to 31 December 2017 (£000)	Year to 31 December 2016 (£000)
Investment income from cash deposits	383	687
Investment income from government bonds	1,680	2,332
Investment income from corporate bonds	7,595	7,815
Investment income from collaterised securities	373	1,410
Investment income from structured products	2,586	749
Investment income	**12,617**	12,993
Gains less losses arising from financial instruments	2,799	1,361
Investment expenses	(969)	(1,065)
Investment return	**14,447**	13,289

Co-op Insurance has a low investment risk appetite, with a portfolio of investments entirely comprised of UK listed investment grade bonds denominated in sterling.

All proposed investments are screened against Co-op Insurance's Ethical Policy and existing investments are re-screened every 2 years. The Ethical Policy identifies four areas: Human Rights, Ecological Impact, International Development and Animal Welfare.



Investment income, before gains less losses arising from financial instruments, decreased by £376k to £12,617k (2016: £12,993k) as focus remains on the sale of lower rated corporate bonds with proceeds reinvested in gilts and cash which generate lower returns. The pie charts above show the strengthening of the portfolio within the period. UK Sovereign bonds now account for 23% (2016: 22%) and AAA corporate bonds account for 16% (2016: 13%) of the portfolio, while the level of BBB rated bonds remains at 1% of the portfolio. Profit realised on disposals of investment assets was £2,799k (2016: £1,361k).

Free cash balances are placed on deposit with approved financial institutions, backed with collateralised short term investment.

A.3.2 Investment Gains and Losses Recognised Directly in Equity

Co-op Insurance has adopted a policy of recognising investment assets on an 'available for sale' basis in order to avoid fluctuations in reported operating result driven by volatility in the market value of investments held. As a result movements in the market values of these assets, other than impairment losses, are recognised in other comprehensive income. The annual value of movement in these assets is shown in the Statement of Comprehensive Income on page 22 of the Company's Annual Report and Accounts.

A.3.3 Investments in Securitisations

Co-op Insurance does not hold any investments in securitisations which, due to their nature, are subject to specific regulations under Solvency II.

A.4 Performance of Other Activities

A.4.1 Leasing Arrangements

Co-op Insurance has operating lease arrangements relating to occupied property. The annual cost of these lease arrangements is approximately £1,700k per annum.

A.5 Any Other Information

A.5.1 Related Party Transactions

Co-op Insurance is a subsidiary of the Co-operative Group Limited, and during the course of normal business enters into arms length transactions with other Group companies. This includes operational support such as IT, Legal and Human Resources and the provision of employees from CFSMS Limited (See Section A.1.3).

Further information relating to related party transactions, including key management compensation, can be found in Note 29 to the Company's Annual Report and Accounts.

B. System of Governance

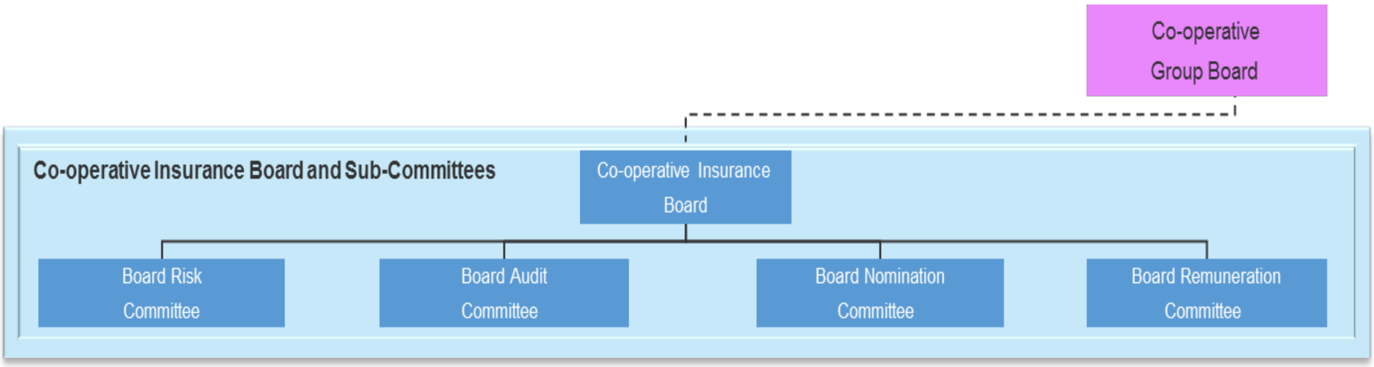
B.1 General Information on the System of Governance

B.1.1 Governance Structure

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

Co-op Insurance has established a strong governance framework that includes a formal committee structure, consisting of the Board and its sub-committees (shown in the diagram below), Executive Management committees and Advisory committees, enabling effective interaction to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business. The governance framework is managed using a 'Three Lines of Defence Model' (see Section B.3.1.3).

The diagram below illustrates how the Board and its sub-committees operate within the governance structure.



The sections below outline the main roles and responsibilities of the Board and its sub-committees.

Committee	Overview	Responsibilities
Co-op Insurance Board (Board)	The Board is responsible for leading and providing direction by determining a strategy for Co-op Insurance which is consistent with its purpose and Co-operative Values and Principles, in order to meet the needs of its members.	See Page 9 of the Annual Report and Accounts
Co-op Insurance Board Risk Committee (BRC)	The purpose of the BRC is to oversee and advise the Board on current and potential risks and the overall risk framework. The committee also oversees Co-op Insurance's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed.	See Page 13 of the Annual Report and Accounts
Co-op Insurance Board Audit Committee (BAC)	The purpose of the BAC is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors.	See Page 12 of the Annual Report and Accounts

Committee	Overview	Responsibilities
Co-op Insurance Board Nomination Committee (NOMCO)	The purpose of NOMCO is to review and make recommendations on the Board composition, succession planning for Executive Directors, Non-Executive Directors and members of the Executive, to identify and nominate candidates for Board vacancies and evaluate candidates for the Board.	See Page 14 of the Annual Report and Accounts
Co-op Insurance Board Remuneration Committee (REMCO)	The purpose of the Remuneration Committee is to determine and oversee the Remuneration Policy for Co-op Insurance in respect of its Executive and Key Function Holders. Reward and remuneration arrangements for other colleagues are maintained by the Group, with appropriate input from the Committee.	See Page 13 of the Annual Report and Accounts

B.1.2 Key Functions

Co-op Insurance has identified each function within the firm it considers to be a Key Function, being the four mandatory Solvency II Key Functions (see table below) and any such function that amounts to ‘effectively running the firm’. Key Functions, as defined by Solvency II regulation are those functions if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm’s system of governance has identified those persons who are responsible for the key functions, known as Key Function Holders (KFHs), along with their lines of accountability.

Key Function	Key Function Holder	Section Reference
Risk management function	Chief Risk Officer	B.3
Compliance function	Head of Regulatory Risk*	B.4.2
Internal Audit	Head of Internal Audit	B.5
Actuarial function	Chief Actuary	B.6

* The Head of Regulatory Risk is the KFH in relation to compliance with conduct requirements. Compliance with Solvency II requirements is currently dealt with by a combination of Co-op Insurance’s Enterprise Risk, Actuarial and Finance teams.

Details on how each Key Function has the necessary authority, independence and resources needed to carry out tasks and report to the Board is located under the section references noted in the above table.

B.1.3 Material Changes

Transformation Committee

The Board Transformation Committee (BTC) ceased in October 2017. The purpose of the BTC was to oversee Co-op Insurance’s Transformation Programme, to advise and make recommendations to the Board regarding material matters and their impact on the delivery of the Strategic Plan. Future change activity will be coordinated across the existing governance structure.

Board Composition

Peter Hubbard was appointed as Chair of the Board in September 2017, replacing Bob Newton. The selection process was led by the Group with support of independent executive search consultants. Following his appointment, Peter undertook a comprehensive induction programme. Peter is an experienced Chief Executive Officer having spent the last 16 years leading AXA and UK General. Prior to joining Co-op Insurance, Peter held a number of Non-Executive roles.

Other changes to the board composition in the year were:

- Neil McKenzie (Senior Independent Director) - Resigned 31 August 2017.
- David Lister (Non – Executive Director) - Resigned 26 February 2018.
- Damien Duffy (Chief Financial Officer) - Appointed 1 July 2017.

B.1.4 Remuneration

The Co-op Insurance Remuneration Policy documents the remuneration principles of Executives and KFHs of the business. The policy is governed by the Co-op Insurance Remuneration Committee (REMCO) and follows the Co-operative Group Remuneration Policy. The remuneration of colleagues who are not covered by the Co-op Insurance policy are governed by the Group's remuneration policies.

The Co-op Insurance Remuneration Policy is designed to support the Co-operative Group's purpose, in championing a better way of doing business for customers, colleagues and communities and to support the Co-op Insurance strategy of championing a better kind of insurance, providing peace of mind for our members and our communities. The Remuneration Policy reflects this by promoting a competitive but not excessive employment offer which achieves an appropriate balance between fixed and variable pay and which promotes sound and sustainable decision-making through effective risk management.

In determining Co-op Insurance Executive and KFH remuneration, the Policy takes into account a number of principles including the following:

- The Policy has been designed to ensure that overall levels of remuneration are sufficient to attract, retain and motivate individuals of the quality necessary to manage Co-op Insurance effectively and successfully, but are not excessive in comparison to the relevant external market.
- The Policy aims to align the remuneration of Co-op Insurance Executives and KFH with balanced business judgement, in order to ensure that customers are placed first, and sustainable decisions and actions are taken in their best interests. Therefore, Co-op Insurance Executives and KFH are not remunerated solely on the basis of the sales and profits of Co-op Insurance, and behaviours that generate successful customer outcomes are promoted.
- The Policy works in conjunction with the Co-operative Group Remuneration Policy, and REMCO will maintain a dialogue with the Co-operative Group Remuneration Committee to support this.
- In alignment with Co-operative Group remuneration philosophy, REMCO will seek to maintain a market-aligned and sustainable remuneration structure for Co-op Insurance Executives and KFH.
- Any performance conditions attached to annual and long term incentive awards will be appropriate, stretching and support the strategy and purpose of Co-op Insurance and Co-operative Group.
- REMCO should ensure that performance conditions do not encourage excessive risk taking and protect the delivery of fair customer outcomes.
- In line with the rules of Co-operative Group’s annual and long term incentive plans, variable remuneration will be subject to appropriate claw-back and, where appropriate, malus arrangements.
- Remuneration for new hires should be sufficient to attract Executives and KFH of the required calibre using the same policies that apply to current Co-op Insurance Executives and KFH.
- If Co-op Insurance Executives or KFH depart Co-operative Group, REMCO will aim to ensure colleagues are treated fairly whilst minimising the cost to Co-op Insurance.

Long term incentive awards and supplementary pension and early retirement schemes

As noted in Section A.1.3 Co-op Insurance has no employees. All employees (excluding the CEO who is paid through Co-operative Group) including Directors and KFH are paid through CFS Management Services Limited, a subsidiary of Co-operative Group. Co-op Insurance does not directly issue any long term incentive awards, although such schemes are provided by the Group to some Directors and KFH. No supplementary pension or early retirement schemes are offered.

Remuneration paid to Non-Executive Directors

The Board delegated responsibility for determining the remuneration paid to Non-Executive Directors (under Rule 7.10 of the Co-op Insurance Rule Book), to the Chair and the CEO. The fees were last reviewed in March 2016 following a benchmark exercise conducted by a specialist external consultancy.

Further information relating to Remuneration including fees paid to Non-Executive Directors' and REMCO is included in the Report of the Board of Directors on pages 12 and 13 of the Company's Annual Report and Accounts.

B.1.5 Material Transactions

Co-op Insurance's ownership structure is detailed in Section A.1.1 and A.1.2 above. As explained in Section A.5, information relating to transactions with related companies, including key management compensation, can be found in Note 29 to the Company's Annual Report and Accounts.

B.2 'Fit and Proper' Requirements

Persons who effectively run the business or who are responsible for other key functions within the business must be 'fit and proper' at all times. This means that these persons must have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity.

B.2.1 Process for Assessing Fitness and Propriety

Co-op Insurance has established a fit and proper policy and processes which comply with the Senior Insurance Manager's Regime (SIMR). The process comprises of two stages:

1. Pre-appointment

To assess an individual's fitness and propriety to perform a role the following steps are undertaken:

- Executive search consultancy utilised to identify the best candidates for the role.
- Request a formal application along with a full and comprehensive CV.
- Request and review evidence of relevant qualifications, where appropriate.
- Interviews conducted by individuals with appropriate expertise and seniority within the firm and parent company.
- Obtain regulatory references from previous employers. These must include the minimum information as prescribed by our regulators. Personal references may also be obtained.
- Criminal records checks.
- Credit checks to establish an individual's financial soundness.
- Other due diligence from other publically available sources, for example Financial Services Register, Companies House (to establish any conflicts of interest) and media searches.

Co-op Insurance will only recruit individuals to a position of significant influence who have the appropriate skills, knowledge and experience. Where any minor development needs are identified these will be addressed as part of a development plan and the individual will be provided with appropriate support.
Co-op Insurance will also ensure that any appointments to the Board contain an appropriate mix of skills and experience, and the right mix of both financial industry capability and critical perspective from high-level experience in other major businesses.

2. On-going (post appointment)

Co-op Insurance monitors an individual's fitness and propriety on an on-going basis via regular performance appraisals. In addition, an assessment is conducted and documented by HR on an annual basis using the following information:

- Results of performance appraisals, including adherence to the conduct standards outlined by SIMR.
- Progress against development plans, where appropriate.
- Self-certification by the individual as to their fitness and propriety.

B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

B.3.1 Risk Management System

Co-op Insurance considers risk management as a key function in the System of Governance and has integrated it into the organisational structure and the decision making processes.

Co-op Insurance operates within a Risk Management Framework that sets out how the business manages risk throughout the organisation and how the framework will be maintained. The Risk Management Framework includes the risk culture of Co-op Insurance which is defined by the Board. The Board actively ensure the risk culture is articulated and embedded within the business. The role each component of the Risk Management Framework plays in risk management and the supporting requirements are documented in order to identify processes, ownership, responsibilities and oversight required to support effective implementation of risk management across the business.

The Risk Management Framework comprises of six key components:

- Risk Vision & Strategy.
- Risk Management Framework Policy.
- Risk Appetite Statements.
- Risk Policies.
- Control Standards.
- Business Unit Process and Procedure documents that enact the Risk Policies and the associated Control Standards.

The Risk Management Framework is designed to aid the business in implementing a set of risk management policies and supports consistent management of risks at all levels in the business in accordance with a 'Three Lines of Defence' model (B.3.1.3.1).

B.3.1.1 Risk Vision & Strategy

The Risk Vision & Strategy emulates the overarching Co-op Insurance business strategy. It is supported by bringing transparency, clarity and insight through getting Risk Management right, by cultivating a strong risk culture and adopting the following strategic principles:

- Empower colleagues to do what matters most to ensure consistent fair outcomes for customers are delivered.
- Build and maintain a strong reputation through effective relationships with customers, regulators and investors.
- Effective management of capital adequacy in order to generate an appropriate return that supports the business's strategic plans.
- A clearly defined and embedded RMF, Risk Appetite and Risk Accountability.
- Risk as well as reward is embedded in everyday decision making processes.
- Ensuring a robust Systems of Governance is in place which determines the way in which the business is directed and controlled.

B.3.1.2 Risk Management Process

The risk management process outlines the key requirements including roles and responsibilities for the way in which risk management is conducted across Co-op Insurance. The risk management process consists of five stages:

1. Identification.
2. Measurement.
3. Management.
4. Monitoring.
5. Reporting.

The purpose and requirements for each stage of the risk management process are outlined in the section below.

Stage	Purpose	Requirement
Risk Identification	To identify the current and emerging risks that may impact Co-op Insurance.	The process requires in-depth knowledge of Co-op Insurance's strategic and operational objectives, business, markets and structure.
Risk Measurement	To quantify the risks to Co-op Insurance in a consistent manner.	Risks within Co-op Insurance are assessed by considering the 'likelihood' of the risk materialising and the 'impact' should it materialise. Risks within Co-op Insurance are assessed using a 5 x 5 Risk Assessment Matrix.
Risk Management	To carry out an appropriate strategy to address the risk in question.	Risk management processes demonstrate clear and documented consideration of the expected return and associated risk. They also demonstrate the alternatives considered. An appropriate risk management approach is selected and approved as necessary by the required individuals or committees and minimum control requirements outlined in the relevant Control Standards.
Risk Monitoring	To ensure that the selected risk management approach is effective, and to keep track of any changes which may impact the risk environment and the level of exposure over time.	Exposure by risk type is monitored on a regular basis. The frequency will depend upon the materiality of the risk.
Risk Reporting	To provide the Board, Executive and senior management with an accurate, timely and clear account of the current risk exposure and to highlight any risks to achievement of business objectives.	Reporting requirements for each Level 1 and 2 Risks are set out in individual Risk Policies and Control Standards.

B.3.1.3 Integration of Risk Management System

Effective risk management is essential for the achievement of business success and is everyone's responsibility. The Board owns and approves the Risk Strategy, the Risk Appetite Statements and the Risk Management Framework, setting the thresholds and approach to risk taking activities. A 'Three Lines of Defence' governance model is used to ensure appropriate responsibility and accountability is allocated to the management, reporting and escalation of risks. The three elements of this model (three lines of defence) are described below.

B.3.1.3.1 Three Lines of Defence

1st Line of Defence – Executive and Business Management:
The 1st Line own the risks associated with the delivery of business plans. The 1st Line Risk personnel are responsible for supporting the Risk Framework Owner's (RFO's) accountability to the Board which is to assist in the management of risk in day to day operations and implement effective monitoring and control processes.

Responsibilities include:

- Implementing and embedding the requirements of the Risk Policies and relevant Control Standards within their business area/function.
- Ensuring the requirements of the Risk Management Framework are communicated, understood and adhered to by all staff as appropriate.
- Effective managing of the risks that reside within their business area/function on a day-to-day basis.
- Implementing and undertaking effective monitoring and control testing processes to ensure that the business's risk profile is understood and maintained within appetite.
- Timely escalation and reporting of control failures and breaches of policy or appetite.
- Establishing and managing remediation action plans to address control weaknesses or instances of risk exposures outside of appetite.
- Producing and submitting timely and accurate regular and ad hoc risk reports as required.
- Support completion of the semi-annual Risk and Control Self-Assessment (RCSA) and certification process as required by the relevant RFO.

2nd Line of Defence – Chief Risk Officer and Risk Function
The 2nd Line Risk function is responsible for supporting the Chief Risk Officer's accountability to the Board which is to assist in the effective operation of an adequate, sound and appropriate Risk Management Framework across Co-op Insurance.

Responsibilities include:

- Oversees the consistent and effective implementation of the Risk Management Framework by the 1st line, including monitoring of adherence to Risk Policies and associated Control Standards.
- Monitors and challenges Risk Management information submitted to 2nd line committees.
- Independently monitors completion of the semi-annual RCSA and certification process and reports on the control effectiveness to the Executive Risk Committee (ERC) and Board Audit Committee (BAC).
- Providing oversight and review of the activities and responsibilities as documented in the Governance Map.
- Ownership and design of the ORSA policy, process and production of the ORSA report.
- Ownership and facilitation of stress and scenario testing, including reverse stress testing.
- Owning and validating the Internal Model.

Accountability, Authority and Independence
The 2nd Line Risk function, acting within the Chief Risk Officer's accountability, has authority to carry out their tasks through unfettered access to any parts of the Co-op Insurance business capable of having an impact on risk profile. The function acts independently in order to provide advice to the Board on risk strategy, including the oversight of current risk exposures of the business. The function is free from any restriction on the scope of its work and will report on areas of risk, both on its own initiative and following requests from the Board.

Resources

The Chief Risk Officer is responsible for ensuring that there is an adequately resourced Risk Management function in place, staffed with appropriately qualified individuals to ensure achievement of risk management accountabilities and compliance with required standards.

3rd Line of Defence – Audit Function

Internal Audit is the third line of defence, independently challenging the overall management of the framework and providing assurance to the BAC and senior management on the adequacy of both the 1st and 2nd lines.

Internal Audit is responsible for independently verifying that the Risk Management Framework has been implemented as intended across the business and is embedded and functioning effectively. In addition, the BAC will receive reports on the design and operating effectiveness of the control requirements in line with the Audit function's risk-based approach to audit planning.

Further detail of the Audit function including key responsibilities, authority and independence is referenced in Section B.5.

B.3.1.3.2 Policies and Control Standards

Risk Policies

Co-op Insurance has developed a set of risk policies to manage risk across the business. Each risk policy is owned by a designated RFO. These policies outline the principles that the RFO expects the business to follow when managing that particular risk category across Co-op Insurance, including risk appetite, definitions, specific accountabilities, and principles for the identification, measurement, management, monitoring and reporting of risk.

The individual risk policies must be reviewed and updated by the RFO annually, as a minimum, to ensure on-going relevance and effectiveness against business strategy and organisational design, or any changes in external regulatory requirements. Level 1 risk policies are approved by the Board, whilst Level 2 risk policies are approved by the relevant RFO. The risk policies form an important part of the control environment and its effectiveness.

The risk polices should:

- Set out clear definitions for that risk.
- Reference relevant external regulatory requirements.
- Outline specific requirements, roles and responsibilities in respect of the risk management process.
- Define the risk appetite for that risk.
- Define the principles for identifying, escalating and reporting breaches within that risk's control framework.

Control Standards

Each risk policy has one or more control standards appended to it. Each of the control standards are owned and approved by the relevant RFO, however they may choose to delegate the authoring and upkeep of the document to a subject matter expert within their area. The control standards should:

- Clearly define the minimum requirements that the RFO expects the business to meet to enable the principles outlined in the risk policy.
- Provide sufficient guidance to the business so they are able to be implemented via documented processes and procedures.
- Identify individual business areas that are targets for control requirements.
- Typically span a number of functions/departments while remaining detailed enough to inform implementation.

Details of the management of material risks can be found in Section C.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA is the totality of all processes used to identify, measure, manage, monitor and report the short term and long term risks Co-op Insurance faces or may face and the Own Funds necessary to ensure solvency requirements are met on a continuous basis.

Co-op Insurance has a governance structure to ensure the necessary technical expertise to provide input to and challenge the ORSA.

- The Board has ultimate responsibility and accountability for the ORSA, including providing direction for the overall approach.
- The overall responsibility for the conduct and documentation of ORSA lies within the Chief Risk Officer and the Risk function. The Chief Risk Officer will provide oversight across the overall Co-op Insurance Risk Management Framework for all risks and related processes and controls.
- 1st Line business areas are responsible for providing requested documentation in support of the underlying ORSA process and production of reports.

B.3.2.1 ORSA Policy

The ORSA policy sets out Co-op Insurance's approach to the conduct of the ORSA and its reporting. The policy outlines the framework approved by the Board to ensure that:

- The overall capital needs of the business are correctly assessed given the risk profile of Co-op Insurance and approved risk appetite limits.
- Risk is effectively and appropriately identified, measured and managed within the risk appetite of Co-op Insurance.
- The core principles underpinning Co-op Insurance's approach to risk management are compliant with regulatory requirements.
- Co-op Insurance's Board and Executive are aware of all risks the business faces regardless of whether the risk is included in the Solvency Capital Requirement (SCR) calculation or whether they are easily quantifiable or not.
- The ORSA is an integral part of business planning, strategy and decision making.
- The Board has an active role in directing the ORSA process and challenging the output.

All Co-op Insurance employees are required to comply with the requirements of the ORSA Policy and to report any breaches in accordance with the guidance contained within the Risk Management Framework Policy.

B.3.2.2 ORSA Principles

The ORSA policy is founded on the following principles:

Process	1. The ORSA is a holistic process that stretches across Co-op Insurance, forming an integral part of Co-op Insurance's decision-making processes 2. The ORSA is forward-looking and closely linked with business planning 3. The ORSA considers the link between the risk profile, approved risk appetite limits and overall solvency needs 4. The ORSA encompasses all material quantitative and qualitative risks that may impact Co-op Insurance 5. The ORSA includes stress tests, sensitivity analyses and reverse stress tests
Report and Documentation	6. The full ORSA report documents the ORSA process, conclusions and implications, providing links to further evidence 7. A full ORSA report is produced annually alongside Co-op Insurance's Strategic Plan 8. Ad hoc updates to the ORSA report are produced following material changes to Co-op Insurance's current and/or projected risk profile, business model or solvency position
Roles and Responsibilities	9. The ORSA is ultimately the responsibility of the Board, which will review and approve the ORSA policy and ORSA reports and provide direction for the overall approach 10. The Chief Risk Officer owns the ORSA policy and has responsibility for the production of ORSA reports 11. The 1st line operate the decision-making processes and support the production of the ORSA report

B.3.2.3 ORSA Process

The ORSA process is the on-going process by which Co-op Insurance manages and assesses its risk and solvency (both regulatory and internal) within its decision-making processes.

ORSA Methodology & Assumptions

- The ORSA considers all risks to which Co-op Insurance is exposed in both qualitative and quantitative terms. The ORSA will assess exposure to these risks against the risk appetite limits set by Co-op Insurance Board.
- Risk and solvency is considered and projected over (at least) Co-op Insurance's medium-term planning horizon. The ORSA considers emerging risks, the impact of the business plan on its risk profile, and the extent to which the strategic plan aligns with risk appetite.
- The Economic Capital Requirement is based upon the Internal Model and reflects an economic internal view, including all Co-op Insurance's risks. This may require adjustments to output from the Internal Model.
- The ORSA considers capital and solvency on all relevant regulatory and internal bases, including reconciliations and explanation for differences.
- The ORSA includes an analysis of Co-op Insurance's Internal Model against the risk register, including justification where no capital is held against identified risks. Where Co-op Insurance uses the Solvency II Standard Formula for regulatory capital, the ORSA includes analysis of the Standard Formula against Co-op Insurance's risk-profile.

- The ORSA documents and explains the change in the risk-profile, capital and solvency from the previous exercise. This assessment includes confirmation of continuous solvency over the period from the previous ORSA report.
- The ORSA considers the quantity and quality of its Own Funds over the business planning period and the composition of Own Funds across tiers.
- Stress and scenario tests (SSTs) are performed at least annually, normally as part of the Strategic Planning process, and additionally on an ad hoc basis if appropriate. These will include multi-year economic scenarios, individual stress events and sensitivities to key assumptions. The SSTs will include reverse stress tests which are events or combination of events that would lead to business failure. The SST analysis includes the impact upon the risk profile, profits and solvency. This will provide management with information on the potential vulnerabilities faced by Co-op Insurance so they can identify appropriate management actions.

Key Activities

Process	Key activities that form part of the ORSA process
Business Planning	• Reviewing and updating risk appetite. • Setting planning stresses and scenarios. • Projections of risk, capital and solvency. • Assessment against risk appetite. • Production of full ORSA report.
Ad Hoc Strategic Processes	• Reviewing risk, capital and solvency implications of mergers, acquisitions and other strategic activity. • Production of ad hoc ORSA reports.
Reinsurance	• Assessing the risk and solvency impact of possible reinsurance strategies.
Investment	• Assessing the risk and solvency impact of possible investment strategies and decisions.
Pricing and Underwriting	• Consideration of risk, capital and solvency upon the pricing of business being written.
Risk Management	• Maintenance of a risk register. • Risk quantification, including capital modelling. • Risk management actions and contingency plans. • Risk monitoring, including against risk appetite and risk-capital limits. • Risk (and capital) reporting.
Capital Management	• Identification of risk-factors that could impact solvency. • Continuous monitoring of regulatory and internal solvency. • Solvency management actions and contingency plans. • Regulatory and internal solvency reporting.
Performance Management	• Profitability of business and how this impacts risks and future solvency.

Production and Review Frequency

Strategic Planning is the key process for the ORSA as it is this process that sets risk appetite, produces projections of capital and solvency, and considers stresses and scenarios. Reinsurance Purchase and Investment Strategy processes link closely with Strategic Planning. They are based on planned forecasts for the following year and help to meet performance objectives within risk appetite. Consequently, a 'full ORSA' report will be produced annually as part of the Strategic Planning process, and approved alongside the production of the annual strategic business plan. An annual frequency is considered appropriate to update the full ORSA report in normal circumstances given Co-op Insurance's stable business-model and risk-profile.

Co-op Insurance's current risk-profile and solvency position is monitored continuously with reporting provided on a monthly basis to Advisory committees, Executive and Board. The quarterly re-forecast process updates the assumptions underlying the strategic plan and the projections. Therefore, an 'ad hoc ORSA' is principally where an assessment of future risk and solvency is also required. This will flow through to targets and risk appetite metrics where the operational/business plan is altered. The Chief Risk Officer is responsible for recommending to the Board when an ad hoc ORSA assessment and report should be carried out, which may also be carried out upon request by the Board or the PRA.

The table below shows drivers and triggers that are likely to result in an ad hoc ORSA:

Change driving ad hoc ORSA		Trigger
Business Model	• A significant change to Co-op Insurance's strategy or medium-term plan. • A merger, acquisition or divesture.	• Board-approved change to the strategic plan.
Risk Profile and Solvency	• An event that significantly impacts the current/projected risk profile or solvency, including: - Market stress. - Catastrophe or cluster of large claims. - Change in liability portfolio and reserves. - Failure of reinsurance partner or other key 3rd party. - Regulatory breach resulting in disciplinary measures and/or sanctions.	• Risk Appetite status for a principle risk or solvency becoming red. • Fundamental change to the Risk Management Framework.

B.4 Internal Control System

Section C.2.3 of the UK Corporate Governance Code has a requirement that companies carry out a review of their risk management and internal control systems.

Whilst the requirements apply to listed companies, Co-op Insurance views this as good practice, and an important part of demonstrating the embedding of the Risk Management Framework and control as an on-going discipline.

The controls operating in a business area include all measures and practices used to reduce exposures for all types of risk that could prevent an organisation from achieving its objectives. A strong and effective control framework is fundamental to effective management of risk, allowing management to reduce risks to acceptable levels.

Each control must be assessed in terms of its design and performance. Such assessment is required to determine how effective the control is in reducing either the impact or likelihood of each risk, and enable the determination of the residual risk, after taking into account the operation of all controls.

As part of Co-op Insurance's Risk Management Framework the following internal processes are performed by the Executive Team:

- They understand the risks and controls in their area of accountability.
- They have assessed the risk and controls where they are a RFO.
- They have implemented and embedded the requirements of the Risk Policies and associated Control Standards within their business area/function.
- They have undertaken a Risk and Control Self-Assessment process, including assessments of control effectiveness with suitable evidence having been retained to support test results (see Section B.4.1).
- Material risks have been reported through appropriate governance, and are being mitigated or have been formally risk accepted.
- All risk events within their area of accountability have been reported and are being managed through to closure, understand the root cause and improve controls.
- There are no further risk management or internal control matters that require disclosure.

B.4.1 Risk and Control Self-Assessment (RCSA)

Each Executive is required to undertake an RCSA, which identifies the risks to the achievement of their key objectives and the controls against these risks, together with an assessment of the effectiveness of the controls (Design and Performance) with appropriate testing of control performance.

The RCSA's cover all material controls including financial, operational, regulatory, conduct and compliance controls and also cover the minimum requirements outlined in Co-op Insurance's risk policies and control standards.

The Chief Risk Officer ensures that RCSA's are reviewed and challenged by the 2nd line risk function to ensure these provide reasonable assurance over the material accuracy of the Executive and RFO assurances.

Co-op Insurance also operates a single joined up process to capture and assess the impact of all risk events for all risk categories and a risk acceptance process to ensure that there is a consistent procedure to provide transparency, challenge and oversight of risks where no further mitigation action is being taken.

In addition to this, Co-op Insurance maintains regular dialogue with both the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) to ensure that they are updated on any material control issues.

Risk and control assessments must be provided by each Executive Director for all of their areas of accountability. This procedure of producing assessments is required on a six monthly cycle.

B.4.2 Compliance Function

Within the 2^{nd} line risk function of Co-op Insurance, there is a Regulatory Risk team which focuses on Conduct Risk matters and reports to the Chief Risk Officer.

The Regulatory Risk team works with the Board, Executive and senior management to identify and manage the regulatory risks and any consequent reputational impact and to help management meet their responsibilities for complying with applicable regulations so as to protect the good reputation of the Company.

The Regulatory Risk team's primary objectives are to:

- Seek constant and proactive dialogue with the business to understand its needs and objectives.
- Ensure an ethical approach is taken by Co-op Insurance and that its policies and procedures allow staff to act with integrity, even where their actions are not governed by specific rules or requirements.
- Seek to work with the business in order to promote successful compliance solutions, as opposed to simply dictating requirements.
- Ensure an infrastructure is in place that is capable of providing for compliance with relevant requirements.
- Oversee and challenge the 1st line in its day to day management and control of regulatory risks, reporting and escalating key regulatory risks and issues to Board where necessary.
- To constantly seek to improve regulatory procedures in order to add value to the business.

Key Responsibilities

The Regulatory Risk team comprises of two teams, 'advice' and 'monitoring'. The advice team also provide regulatory liaison and upstream risk identification and reporting. The monitoring team carry out independent audits in all areas of the business against FCA requirements and other guidance. The team also provides Data Protection and Financial Crime oversight.

Accountability

The Regulatory Risk team is accountable to the Co-op Insurance Board.

Authority and Independence

Regulatory Risk receives its authority from the Co-op Insurance BRC, endorsed by the Chief Risk Officer.

Regulatory Risk acts independently from the business and performs is activities objectively. Regulatory Risk is authorised to have direct access to persons with sufficient authority to be in a position to intervene if Co-op Insurance's regulatory health is at stake, for example the Board, the CEO and non-executive directors.

Regulatory Risk has wide ranging access to information that the Board or Head of Regulatory Risk considers necessary to enable the team to meet its responsibilities.

All records, documentation and information accessed in the course of undertaking regulatory risk activities will be used solely for the conduct of these activities. The Head of Regulatory Risk is responsible and accountable for maintaining the confidentiality of the information received during the course of the function's work.

Regulatory Risk is free from any restriction on the scope of monitoring work and can set audit objectives and allocate resources required to achieve the monitoring plan.

Resources

The Regulatory Risk team is led by the Head of Regulatory Risk.

The Senior Monitoring Manager is responsible for preparing the Annual Regulatory Risk Compliance Monitoring Plan in consultation with the Head of Regulatory Risk and submitting the plan and resource plan for review and approval by the BRC.

The Senior Regulatory Advice and Upstream Risks Manager is responsible for leading and operating a function which delivers clear, timely, independent and pragmatic regulatory advice to Co-op Insurance.

The regulatory risk team does not contain the technical expertise in relation to PRA matters. PRA matters are currently dealt with by a combination of Co-op Insurance's Enterprise Risk, Actuarial and Finance teams.

Reporting

In addition to the individual Regulatory Risk Monitoring reports, Regulatory Risk produces a report on a monthly basis which provides updates on:

- Regulatory Risk appetite status.
- Regulatory liaison and actions.
- Regulatory notifications.
- Monitoring plan progress.
- Regulatory outlook.
- Financial crime issues.
- Data protection issues.

The report is also used to escalate any other significant issues which the Regulatory Risk team deems appropriate.

The report is submitted to the quarterly ERC and the quarterly BRC.

Quality Assessment

Quality assessments of the Regulatory Risk team and/or the team's processes are conducted by the third line of defence, Co-op Insurance Internal Audit. The results of the audit are presented to the BAC.

B.5 Internal Audit function

B.5.1 Overview of the Internal Audit Function

The role of Internal Audit is established by the Board Audit Committee on behalf of the Board of Directors of Co-op Insurance.

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of Co-op Insurance's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives.

In setting its scope, Internal Audit takes into account business strategy, forming an independent view as to whether the key risks to the Company have been identified and assessing how effectively these risks are being managed. Internal Audit assesses whether all significant risks are identified and appropriately reported by management and the risk function to the Board and Executive Management; assessing whether they are adequately controlled; and challenges management to improve the effectiveness of governance, risk management and internal controls. All of Co-op Insurance's activities, including outsourced activities, are within the scope of Internal Audit. There is no aspect of Co-op Insurance from which Internal Audit is restricted as it delivers its mandate.

Internal Audit determines which areas within its scope should be included within the annual audit plan by adopting an independent risk based approach and including assurance over those areas previously assessed as 'unsatisfactory'. Internal Audit does not necessarily cover all potential scope areas every year.

The audit plan is developed to reflect Internal Audit's view of the risk profile of the organisation and its control environment.

The Head of Internal Audit is responsible for preparing the annual audit plan (in consultation with the Board Audit Committee, senior management and the Director of Group Internal Audit), submitting the audit plan, Internal Audit budget, and resource plan for review and approval by the Board Audit Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Board Audit Committee and senior management. Internal Audit will provide assurance over specific areas as requested by Regulators.

The Head of Internal Audit reviews the audit plan regularly in light of Internal Audit's on-going assessment of risk. Any material changes to the audit plan proposed by the Head of Internal Audit are submitted for approval by the Board Audit Committee, including any impact on resource requirements.

B.5.2 Rights and Authority

The Internal Audit function of Co-op Insurance derives its authority from the Board through the Board Audit Committee. The Head of Internal Audit is authorised by the Board Audit Committee to have full and complete access to any of the organisation's records, properties and personnel. The Head of Internal Audit is also authorised to designate members of the audit team to have such full and complete access in the discharging of their responsibilities, and will engage external experts to perform certain engagements which will be communicated to management.

B.5.3 Roles and responsibilities in the Risk Management Framework

As described in Section B.3.1.3, Co-op Insurance operates a 'three lines of defence' governance model to ensure appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management is the first line of defence. It is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. The Risk function, including Regulatory Risk, operates as the second line of defence. The Risk function owns the Risk Management Framework, oversees and challenges its implementation and operation by the first line of defence, and considers current and emerging risks across Co-op Insurance.

Internal Audit is the third line of defence within the Co-op Insurance structure. Internal Audit's responsibility is to independently challenge the overall design and operation of the Risk Management Framework and provide assurance to the Board Audit Committee and senior management on the adequacy of both the first and second lines of defence, including the quality of their work.

B.5.4 Independence and Objectivity

Internal Audit colleagues remain independent of the business and they report to the Head of Internal Audit who, in turn, reports to the Chair of the Board Audit Committee.

Internal Audit colleagues do not carry out any other functions outside of Internal Audit and have no direct operational responsibility or authority over any of the activities they review.

Co-op Insurance has a contract in place with a co-source audit firm to provide specialist skills in relation to certain audit assignments, as determined by the Head of Internal Audit. The Head of Internal Audit will ensure the adequate rotation of staff on repeated audit assignments, to ensure independence and judgement is not impaired. Internal Audit colleagues with real or perceived conflicts of interest must inform the Head of Internal Audit, then the Board Audit Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

Audits are carried out in accordance with the Chartered Institute of Internal Auditors' Code of Ethics, which provides principles on rules and conduct under the headings of Integrity, Objectivity, Confidentiality and Competency.

B.6 Actuarial Function

The CEO has delegated the accountability for the Actuarial Function to the Chief Actuary (via the Chief Financial Officer (CFO)) as a key component of the Co-op Insurance governance framework.

The Chief Actuary is approved by the PRA as the Actuarial Function Holder (SIMF20) under the Senior Insurance Managers' Regime. He holds a Practising Certificate issued by the Institute and Faculty of Actuaries as a Chief Actuary (Non-Life without Lloyd's).

Independence is essential for the effectiveness of the Actuarial Function. The apportionment of the CEOs accountability to the Chief Actuary demonstrates that the Chief Actuary is assigned accountabilities which do not compromise independence; for example no revenue-generating accountabilities are assigned. In addition the Chief Actuary has authority and independence through unfettered access to the Board and to any Functions, and the Actuarial Function has the freedom to remain objective in performing its work.

Resourcing requirements are regularly reviewed to ensure the department is adequately resourced. In addition, the resource is benchmarked with other companies.

The Actuarial Function is one of the four key defined functions under Pillar II of the Solvency II regulations as defined in the Level 1 framework directive text Article 48. As such the Actuarial Function is responsible for:

- Ensuring calculation of Technical Provisions (TP's) is undertaken using appropriate actuarial techniques.
- Validation of the calculation process and outputs (comparing expected experience against emerging experience).
- Providing opinion on the availability and suitability of data for the calculation of TP's.
- Communicating the results of the TP exercise to Management and the Co-op Insurance Board.
- 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).
- Preparing (at least) an annual report to be submitted to the BRC stating how the requirements of the Actuarial Function have been discharged.

B.7 Outsourcing

Co-op Insurance's approach to its outsourcing activity is documented within its Third Party Supplier Risk Policy. Where Co-op Insurance outsources critical or important operational functions, services and activities it remains fully responsible for discharging all of its regulatory obligations. To do this Co-op Insurance sets the following high level principles:

- Co-op Insurance management will exercise due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing of an activity to a third party supplier. This is governed through a Supplier Management Framework which sets out a specific set of principles by which Co-op Insurance manages Third Party Service Provider Risk in a way that is consistent with its overall risk appetite and aligns with its purpose, values and vision.
- Any outsourcing must not result in the delegation of responsibility by senior Co-op Insurance management.
- Co-op Insurance's relationship with and obligations to its customers must not be altered.
- The conditions for the authorisation of the regulated entities within Co-op Insurance must not be undermined.

Key activities outsourced are:

- Claims handling & loss adjusting (for example; Motor, Home & personal injury).
- Claims supply chain (for example; building, car and car windscreen repairs).
- Distribution and associated activities (for example; Retail pricing and administration).
- Design and delivery of non-core products.
- Group insourced activities (including; IT Services).
- Co-operative Bank insourced activities (including; IT Services).
- Software development & maintenance.
- Investment Management.

All key activities listed above fall within UK regulated jurisdiction with the exception of the initial notification of European Motor Breakdown, which is within the EU.

B.8 Any Other Information

B.8.1 Adequacy of the System of Governance

The system of governance is adequate based on the nature, scale and complexity of the risks inherent in the business.

C. Risk Profile

Risks are classified into Level 1 and Level 2 categories. The Level 1 risks are the highest category of inherent financial and non-financial risks to which Co-op Insurance is exposed. This section explains these risks, including how each of these risks is covered within the Standard Formula Solvency Capital Requirement (SF SCR). Business activity can be exposed to one or a combination of the following risk types.

Level 1 Risks	Definition	SF SCR Section Reference
Insurance (Premium) Risk.	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure.	See Sections E.2.3.1 (Premium), E.2.3.2 (Reserve), E.2.3.3 (Catastrophe), E.2.3.5 (Lapse).
Insurance (Reserving) Risk.	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements.	
Market Risk.	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.	See Section E.2.3.4 (Market).
Credit Risk.	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.	See Section E.2.3.6 (Counterparty Default).
Liquidity Risk.	The current and prospective risk to earnings or solvency arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses.	Risk is explicitly excluded within SF SCR.
Operational Risk.	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.	See Section E.2.3.7 (Operational).
Strategic & Business Risk.	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.	Risk is explicitly excluded within SF SCR.
Reputational Risk.	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders.	Risk is explicitly excluded within SF SCR.
Conduct Risk.	The risk that Co-op Insurance's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.	Risk is allowed for in the SF SCR within operational risk. See section E.2.3.7.
Regulatory Risk.	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation Co-op Insurance may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities.	Risk is allowed for in the SF SCR within operational risk. See section E.2.3.7.
Pension Risk.	The risk to Co-op Insurance capital and profitability from CFSMS's exposure to the PACE scheme due to employees seconded from CFSMS to Co-op Insurance.	The SF SCR does not allow for any pension risk for Co-op Insurance. This is because Co-op Insurance do not participate in the PACE pension scheme. See Section C.10.
Group Risk.	The risks that arise through being part of Co-operative Group.	Risk is expressed as impacting a number of other risks.

C.1 Insurance Risk

Description

Insurance risk comprises the risk of loss resulting from future claims events other than catastrophes (Premium Risk), adverse change in the value of insurance liabilities (Reserve Risk), natural or man-made catastrophe events (Catastrophe Risk) and the assumptions underlying expenses are not borne out in practice (Expense Risk).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. Co-op Insurance takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Co-op Insurance manages this risk through the Reserving Committee which supports the Chief Finance Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

Risk Management Objective

Co-op Insurance manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity.

Risk Exposure

- Key risks under Motor policies are bodily injury to third parties, accidental damage to property including policyholders', third parties' vehicles and theft of or from policyholders' vehicles.
- The most significant factors affecting the frequency and severity of Motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims.
- Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.

All risks under general insurance policies cover a 12 month duration.

Risk Mitigation

Mitigation technique	Explanation
Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with underwriting strategy and priced to reflect the underlying risk.	Underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.
Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches.	All claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation, fraud databases and the use of claims specialists.
Mitigating risk through the use of appropriate reinsurance arrangements.	Reinsurance is used to manage insurance risk and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its Motor account. The appropriate level of reinsurance is proposed by Management and approved by the Board, using Co-op Insurance's Internal Model to inform decision making. In 2017, Co-op Insurance had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both Motor and Home business.

Co-op Insurance does not use Special Purpose Vehicles (SPV's) as a means of mitigating risk.

Risk Concentration

At the statement of financial position date there were no significant concentrations of insurance risk.

C.2 Market Risk

Description

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

Risk Management Objective

Co-op Insurance's objective is to achieve acceptable returns through the use of highly rated UK government and corporate bonds while minimising exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

Risk Exposure

- The value of, or income from, investments held is subject to volatility from changes in both market interest-rates and additional spreads related to the specific credit-worthiness of the issuer ("credit-spreads").
- Proceeds from maturing investments are subject to risk over the future return on reinvestment.
- Exposure to market interest-rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and regulatory basis.
- There is no direct exposure to currency risk as contracts of insurance are written only in the United Kingdom, insurance liabilities and borrowings are denominated in sterling and funds are invested solely in assets denominated in sterling.
- Exposure to market risks (including interest rate, credit spread, equity and property), of the Co-operative Group pension scheme (PACE). While Co-op Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFS Management Services Limited (CFSMS) that are assigned to work for Co-op Insurance.

Risk Mitigation

Mitigation technique	Explanation
Management of risk through governance and the investment mandate.	The investment mandate is approved by the Board and sets strategic asset allocation and limits of investments types and duration. The mandate is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business, which relies on outputs from Co-op Insurance's Internal Model.
Management of credit-spread and default risks from corporate bonds.	Through setting limits for exposure to credit-ratings and individual counterparties and transacting only through a diversified range of authorised counterparties. Ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee (CLIP) support the CFO in overseeing the monitoring and management of these risks and exposures against limits.

Mitigation technique	Explanation
Management of interest-rate risk through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts.	Co-op Insurance seeks to match the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of financial assets is measured against the Co-op Investment mandate and remained within these boundaries during the period. Index-linked investments and other specific debt securities are used to match periodic payment orders (PPO's) and provisions relating to exposure within the historic liability claims from the electric industry by amount and duration. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings.

Risk Concentration

The investment mandate controls the exposure to concentration risk via limits on individual counterparties and credit ratings, as described above. Mean durations for these exposures are:

Duration in years	2017 (years)	2016 (years)
Insurance liabilities	**2.7**	2.7
Financial assets	**3.3**	3.2

Periodical payments (PPO)	Amount (£000)	Duration (years)
Insurance liabilities	**23,351**	**17.7**
Financial assets	**44,110**	**15.9**

Historic liability claims from the electric industry	Amount (£000)	Duration (years)
Insurance liabilities	**2,140**	**9.7**
Financial assets	**2,628**	**8.6**

Sensitivity Analysis

The most significant aspect of market risk to which Co-op Insurance is exposed is the effect of changes in credit-spreads on corporate bonds. The resulting movements in the market values of corporate bonds directly affect Co-op Insurance's solvency.

An increase of 100 basis points in credit-spreads would reduce the value of Co-op Insurance's assets at the end of the financial year by £22,200k (2016: £21,200k). This would reduce Co-op Insurance's solvency by £18,300k net of tax (2016: £17,500k), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

Prudent Person Principle

The EU Solvency II Directive Article 132 states that all Insurance undertakings should invest their assets in line with the Prudent Person Principle. The requirements specified in Article 132 that are relevant to Co-op Insurance are summarised below.

- All assets shall be invested in such a manner to ensure the security, quality, liquidity and profitability of the portfolio.
- Only invest in assets whose risks can be properly identified, measured and monitored.
- Assets should be held in a manner appropriate in nature and duration of the insurance liabilities.
- Investments in assets should not expose the undertaking to excessive concentration.

Co-op Insurance's Investment Management procedures are governed by the Market Risk Policy and Market Risk Control Standard. These documents set out the process of identification, measurement, management, monitoring and reporting of risk relating to Co-op Insurance's investments, and reviewing and setting an appropriate investment strategy.

The investment strategy review is an annual process where market and Co-op Insurance specific risks are measured against the Co-op Insurance risk appetite. This assessment of risk appetite enables a selection of potential portfolios to be derived.

The potential portfolios are then subject to stress testing with historical and hypothetical prospective scenarios applied to each of them. From the results of this analysis, an Investment Mandate is drawn up which gives the optimal balance of investment return and capital protection. This analysis and proposed mandate is then presented to the Board for approval. The review of the investment strategy, and assessment of Co-op Insurance specific risks, includes reviewing the target duration for the portfolio. This target is aligned to the discounted mean term of the short term liabilities as calculated by the Co-op Insurance reserving function. Long term liabilities have specific investments with a similar duration held against them. For each of the asset risk rating classes a counterparty exposure limit is also defined in the mandate, to limit excessive concentration.

Subsequent to a Board approved mandate becoming operational, the current portfolio is then monitored against the mandate using specific metrics that are either approved by the Board or the CLIP. Any breaches of these metrics or other issues with the portfolio are reported to CLIP in the first instance and potentially escalated.

C.3 Credit Risk

Description

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.

Risk Management Objective

Co-op Insurance's objective is to minimise potential losses arising from credit risk. Co-op Insurance does not aim to earn a return from credit risk, hence its credit risk appetite is very low.

Risk Exposure

Co-op Insurance's key credit risk exposure is from the default or delay in respect of insurance receivables. This could arise from the following:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries.
- Default or delay of repayment of loans and receivables.
- Insurance counterparties failing to meet financial obligations.

Co-op Insurance manages credit risks associated with cash and corporate bonds as part of market risk (see Section C.2).

Risk Mitigation

Mitigation technique	Explanation
Co-op Insurance manages credit risk through setting limits for exposure to credit-ratings and individual counterparties.	Operationally, credit risk is managed by setting robust contract terms and having in place cashflow management processes with all counterparties. The CLIP Committee support the CFO in overseeing the monitoring and management of credit risk and exposures against limits.
Co-op Insurance places limits over exposure to a single reinsurance counterparty or counterparty group, based upon their credit-worthiness.	Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. These limits apply when reinsurance is initially placed, usually annually, and are then regularly monitored by CLIP. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

Risk Concentration

Insurance receivables and other assets held are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with Co-op Insurance's Credit risk policy.

Co-op Insurance has a credit exposure of up to £60,000k (2016: £60,000k) with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance was purchased during 2017 to mitigate against this exposure to within risk appetite.

Co-op Insurance has no direct exposure to the sovereign debt of European countries and exposure to European countries arising from corporate bonds. Co-op Insurance has no exposures to European countries as a result of repo arrangements.

Further information (including a table showing an analysis of assets held by Co-op Insurance, by asset rating) can be found on pages 41 and 42 of the Company's Annual Report and Accounts.

Sensitivity Analysis

Stress Test and Scenario testing is captured within section C.7.1.

C.4 Liquidity Risk

Description

Liquidity risk is the current and prospective risk to earnings or solvency arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses.

Risk Management Objective

Co-op Insurance's objective is to maintain at all times, liquidity resources which are adequate to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

Risk Exposure

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year UK windstorm loss before reinsurance recoveries. The ultimate cost is calculated based upon the catastrophe component of Co-op Insurance's Internal Model.

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm as £113,800k (2016: £104,300k), giving a minimum requirement for £22,800k (2016: £20,900k) of liquid assets against actual liquid assets of £738,600k (2016: £773,100k).

Liquid assets are considered to be:

Asset type		Value included as liquid assets
Gilts		100%
Cash		100%
Corporate bonds:	AAA	85%
	AA	85%
	A	50%
	BBB	50%
All other investments		0%

Risk Mitigation

Mitigation technique	Explanation
Governance structure to monitor liquidity.	The level of cash and other assets held are monitored regularly and managed through CLIP, with oversight by the BRC and Board. This includes monthly reporting of liquid assets against risk appetite limits including forecasts for 2018.
The investment mandate controls the exposure to concentration risk.	By setting limits on individual counterparties and credit ratings.

Risk Concentration

A table indicating the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity) and insurance liabilities (based upon estimated timing of amounts recognised in the statement of financial position) can be found on page 41 of the Annual Report and Accounts.

Expected Profits Included in Future Premiums

Solvency II regulations require the calculation of "Expected profits included in future premiums" (EPIFP). EPIFP are profits which result from the inclusion in Technical Provisions of premiums on existing (in force) business that will be received in the future, but that have not yet been received. It can be considered as the future premium receivable less the anticipated net claims and expenses, related to this future premium only, and is calculated at Solvency II segment level for those classes producing a profit. The value of EPIFP has been estimated at £7,747k.

The approach taken by Co-op Insurance to calculate EPIFP is to firstly ascertain the discounted profit by line of business on the unearned premium (including legally obliged premium and allowing for cancellations). For each line of business the EPIFP is calculated as the proportion of discounted profit (subject to a minimum of zero) that relates to the future premium receivable.

Sensitivity Analysis

Stress Test and Scenario testing is captured within section C.7.1.

C.5 Operational Risk

Description

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

Risk Management Objective

Co-op Insurance's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people, technology and due to external events.

Risk Exposure

Co-op Insurance has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own policy, approved by the Risk Framework Owner (RFO) and is supported by underlying control standards:

• Financial Reporting Risk.	• Model Risk.
• Technology Risk (including Cyber Risk).	• Premises and Physical Security Risk.
• Third Party Supplier Risk.	• Change Risk.
• Product Governance Risk.	• Information Risk.
• Financial Crime Risk.	• People Risk.
• Legal Risk.	• Business Disruption Risk.
• Health & Safety Risk	

Risk Mitigation

Mitigation technique	Explanation
Operational risks are identified, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning	Operational risks and key controls are regularly reviewed by individual Executive Leadership Team meetings and various risk forums. Significant operational risks are reported to the Executive Risk Committee (ERC), Board Risk Committee (BRC) and Board.
Transfer of Risk	Co-op Insurance has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which includes; property and business interruption, financial crime, employer's liability and directors and officers. In addition, Co-op Insurance has also taken out Cyber Insurance (Forensic & Investigation costs, Business Interruption, Cyber Theft, Cyber Extortion, Telephone Hacking, PR expenses and Notification expenses).

Sensitivity Analysis

Stress Test and Scenario testing is captured within section C.7.1.

C.6 Other Significant Risks

C.6.1 Strategic & Business Risk

Description

Strategic & Business risk is the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.

Risk Management Objective

Co-op Insurance's financial objective in managing these risks is to generate a sufficient, stable and sustainable return on equity.

Risk Exposure/Mitigation

To support strategic and business objectives the Board recognises the need to improve the IT infrastructure. As a result there has been a focus on selective investment to improve specific areas of the current IT estate, deliver systems separation from Co-operative Bank, and improve technology resilience. The IT estate will continue to be improved where specifically required and funds have been allocated within the business plan to the high-level risks. The Board have defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC, BRC and Board.

C.6.2 Reputational Risk

Description

Reputational risk is the risk associated with an issue which could in some way be damaging to the brand of Co-op Insurance among all or any stakeholders either through its strategic decisions, business performance, an operational failure or external perception.

Risk Management Objective

Co-op Insurance's objective is to maintain a strong reputation in line with its values and principles through robust operational standards, continual monitoring of corporate reputation and brand.

Risk Exposure/Mitigation

As part of the assessment and control of this risk, business performance and risk profile across all risk types are closely monitored and reviewed. Co-op Insurance proactively monitors and manages media, public and customer opinion and works closely with external rating agencies to ensure fair and balanced representation. This approach helps maintain member, customer and market confidence and the risk is regularly monitored and reported to the ERC, BRC and Board.

C.6.3 Conduct Risk

Description

Conduct risk is the risk that Co-op Insurance's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.

Risk Management Objective

Co-op Insurance's objective is to conduct business in a way that results in consistent fair outcomes for our customers.

Risk Exposure/Mitigation

Conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with increasing scrutiny from the FCA. Co-op Insurance operates a robust conduct risk strategy and framework and the application of systems and controls in conjunction with on-going oversight and monitoring from risk functions.

C.6.4 Regulatory Risk

Description

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation Co-op Insurance may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities.

Risk Management Objective

Co-op Insurance's objective is to be compliant with all relevant regulatory requirements and manage its regulatory risks so as to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.

Risk Exposure/Mitigation

Continued reliance on the legacy infrastructure has restricted the ability to respond precisely to some aspects of prescriptive regulation which have been mitigated by manual workarounds and open communication with customers. Activity has been undertaken to reduce risk exposure with fixes in legacy systems and solutions to address other areas of non-compliance included in the business plan.

C.6.5 Pension Risk

Description

Pension risk is the risk to Co-op Insurance's capital and profitability from CFSMS's exposure to the PACE scheme, due to employees seconded from CFSMS to Co-op Insurance.

Risk Management Objective

Co-op Insurance actively engages with Group with the aim that Co-op Insurance's non-standard exposure to Pension Risk is understood and appropriately managed.

Risk Exposure/Mitigation

While Co-op Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFSMS, a wholly owned subsidiary of the Co-operative Group, that are assigned to work for Co-op Insurance. This means that Co-op Insurance is exposed to pension risk through the Co-operative Group pension scheme (PACE), a defined benefit scheme. Co-op Insurance is exposed to potential future increases in required contributions. The impact is assessed under Co-op Insurance's Risk Management Framework and Internal Model and capital requirements also allow for this. Co-op Insurance engages with the Group to actively manage the volatility in the pension funding position by continuous monitoring, adjustments to scheme contributions, engagement of external advisors and review of investment and pension strategies.

C.6.6 Group Risk

Description

Group risk is the risk that arises through being part of the Co-operative Group.

Risk Management Objective

Co-op Insurance actively engages with the Co-operative Group with the aim that Group risks are appropriately managed.

Risk Exposure/Mitigation

Co-op Insurance currently receives operational resources and certain services from Co-operative Group and CFSMS, a wholly owned subsidiary of the Co-operative Group. Co-op Insurance is therefore subject to third party supplier risk of managing CFSMS and Co-operative Group as intergroup suppliers. Co-op Insurance ensures clear identification of Group risks and actively engages with the Co-operative Group to ensure that Group risks are appropriately managed in a robust control environment.

C.7 Any Other Information

C.7.1 Stress Test and Sensitivity Analysis

Co-op Insurance uses Scenario Analysis, Sensitivity Analysis and Reverse Stress-Testing to analyse the impact of scenarios and changes in assumptions on Solvency, as well as understanding the events that would have to occur to cause Solvency Coverage to be below the Company's risk appetite.

Method	Description
Scenario Analysis	Analysis to understand the impact of plausible events which could have a material impact on SCR coverage.
Sensitivity Analysis	Analysis to understand the impact of a change in the key planning assumptions that profit is most sensitive to. Sensitivities are not complex scenarios but rather a defined percentage change in key assumptions.
Reverse Stress-Testing	A review as to whether there is a scenario which gives a loss which would leave SCR coverage below Co-op Insurance's risk appetite after management actions, and how extreme or unlikely this scenario is to occur in reality.

Co-op Insurance's approach to stress and scenario testing is as follows:

The table below shows the scenarios considered, which Risks the scenario takes into account, the assumptions used and the impact of the scenario on capital if the stressed scenario were to occur.

Scenario	Description	Primary Risks Affected	Assumptions	Future management actions	Impact on Capital	
					£000	% of SF SCR
Economic	Inflation increase due to Brexit	Market Risk Credit Risk Insurance Risk	Widening of credit spreads Claims inflation	Extra marketing and Pricing actions	20,000-30,000	10-15%
Group	Adverse publicity for other Group Company	Group Risk Reputational Risk	Loss of customers Fall in Membership	Extra marketing to retain customers	0-10,000	0-5%
Market Disrupter	New competitor	Insurance Risk	New competitor undercuts premiums	Extra marketing and Pricing actions	20,000-30,000	10-15%
Cyber Risk	Ransomware attack	Operational Risk Reputational Risk	Disruption to IT systems Customers lost due to reputational impact	Cyber Insurance to be used	10,000-20,000	5-10%
IT	Third party service provider no longer supports shared services	Operational Risk	Increase in staff costs	Extra marketing costs to combat reputational impact and staff recruited	0-10,000	0-5%
Insurance Loss	A series of "small" weather losses	Insurance Risk	Series of weather related events.	Excess of Loss and Quota Share Re-insurance used	20,000-30,000	10-15%

The table above states the impact on available capital and the impact on the solvency ratio. We have also considered the impact on required capital (the SF SCR). For the Economic and Insurance Loss scenarios the SF SCR would be expected to increase as a result of increased reserves and assets. However, the increase would be minimal (less than £5,000k) and therefore has not been shown in the table above. The other scenarios are not expected to lead to a change in the SF SCR as the factors that they impact, for example expenses, do not feature in the calculation.

The scenarios above were also reviewed from a reverse stress-test viewpoint. None of the above scenarios, taken is isolation, were found to lead to the SCR coverage dropping below the Board's risk appetite after management actions. A reverse stress was only found to be possible where a very extreme fall in solvency coverage occurred, for example through a combination of an economic downturn and multiple weather related insurance losses, or through a very extreme impact on the reputation of Co-op Insurance such that the Company's proposition could not be recovered. Such scenarios are extremely unlikely.

The results of the Scenario analysis undertaken show that Co-op Insurance has a robust Business Model which would be able to withstand the impact of plausible events that have a material, detrimental impact, on SCR coverage.

D. Valuation for Solvency Purpose

The table below shows the balance sheet at the end of the reporting period calculated under both a Solvency II and an IFRS basis. A description of the differences between the two valuation methods is included in section D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities) below.

A description of the bases, methods and main assumptions used for valuation of each material class of:

- Asset is included in section D.1.
- Technical Provision is included in section D.2.
- Other Liability is included in section D.3.

	IFRS (£000)	Reclassifications (£000)	Restatements (£000)	Solvency II value (£000)
Assets				
Intangible assets	1,723	-	(1,723)	-
Deferred acquisition costs	29,979	-	(29,979)	-
Deferred tax assets	-	-	-	-
Property, plant & equipment held for own use	567	-	-	567
Investments	861,854	7,797	-	869,651
Holdings in related undertakings, including participations	100	-	-	100
Bonds	591,504	7,531	-	599,035
Government Bonds	191,104	1,737	-	192,841
Corporate Bonds	383,799	5,412	-	389,211
Collateralised securities	16,601	382	-	16,983
Deposits other than cash equivalents	197,190	-	-	197,190
Assets held for index-linked and unit-linked contracts	73,060	266	-	73,326
Reinsurance recoverables	58,466	-	59,221	117,687
Deposits to cedants	24	-	-	24
Insurance and intermediaries receivables	191,990	-	(190,604)	1,386
Receivables (trade, not insurance)	20,999	(7,797)	-	13,202
Cash and cash equivalents	15,200	-	-	15,200
Total assets	**1,180,802**	**-**	**(163,085)**	**1,017,717**
Liabilities				
Total Technical Provisions/IFRS Insurer Contract Liabilities	749,929	-	(159,066)	590,863
Best Estimate	-	-	562,351	562,351
Risk margin	-	-	28,512	28,512
Provisions other than technical provisions	1,714	-	-	1,714
Deferred tax liabilities	5,590	-	(5,590)	-
Debts owed to credit institutions	5,915	-	-	5,915
Insurance & intermediaries payables	7,760	-	-	7,760
Reinsurance payables	3,784	-	50,445	54,229
Payables (trade, not insurance)	20,723	-	(15,393)	5,330
Subordinated liabilities	67,909	-	3,763	71,672
Any other liabilities, not elsewhere shown	24,660	-	-	24,660
Total liabilities	**887,984**	**-**	**(125,841)**	**762,143**
Excess of assets over liabilities	**292,818**	**-**	**(37,244)**	**255,574**

D.1 Assets

D.1.1 Valuation Bases and Assumptions

Intangible Assets

Intangible assets are valued at £nil under Solvency II (2016: £nil) as the intangibles cannot be sold separately and it is not possible to demonstrate that there is value for the same or similar assets that can be derived from quoted prices in active markets.

Deferred Acquisition Costs

Deferred acquisition costs are costs relating to the acquisition of insurance contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods relating to the unexpired periods of risks. Under IFRS they are initially valued at cost and amortised over the period to which they relate. Under Solvency II the cashflows relating to deferred acquisition costs are taken into account within Technical Provisions.

Property, Plant & Equipment Held For Own Use (PPE)

PPE includes computer equipment, furniture and other equipment. PPE is valued at cost less depreciation and impairment under IFRS. For Solvency II purposes PPE is valued at fair value, which is deemed to be aligned to the IFRS value.

Investments (Bonds)

Co-op Insurance holds a portfolio of low risk investments, being holdings in debt securities (government bonds and corporate bonds). Initial measurement is at fair value, being purchase price upon the date on which Co-op Insurance commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value, using quoted market prices in active markets of the same asset. Where there is evidence of impairment, the extent of any impairment loss is recognised.

The criteria used to assess whether markets are active is based on the IFRS 13, 'Fair Value Measurement', definition. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

In the Solvency II balance sheet the value of the investment includes accrued interest, which is classified within receivables under IFRS.

Investments (Deposits Other Than Cash Equivalents)

These are short-term deposits held with highly rated banks and other financial counterparties. Valuation is at the par amount of the deposit made plus any attaching accrued interest.

Assets held for index-linked and Unit-linked Contracts

These are assets held for insurance products where the policyholder bears the risk. Valuation is at fair value. The valuation for solvency purposes is consistent with the value under IFRS.

Holdings in Related Undertakings

Co-op Insurance's investment in its subsidiary undertaking, Co-op Insurance Services Limited (CISL), is valued at the underlying value of assets and liabilities held by CISL calculated on a Solvency II basis.

Deferred Tax Asset

Deferred tax assets and liabilities are recognised and valued in accordance with IFRS (IAS12), except that deferred tax assets and liabilities in respect of temporary differences are valued based upon the difference between the values ascribed to assets and liabilities on the Solvency II balance sheet (recognised and valued in accordance with Article 75 to 86 of Directive 2009/138/EC) and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

In accordance with IAS12 principles, the amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that:

- There are appropriate deferred tax liabilities against which the asset can be net against.
  Or
- It is considered probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The assessment as to whether future taxable profits are available uses future profits from the Company's Board approved 5 year Strategic Plan as its basis, which includes a detailed business planning period of 3 years and projections for a further 2 years. Based on forecast profits and realisation of profits from the equalisation reserve, Co-op Insurance recognises the element of the deferred tax asset that it believes will be utilised within the planning horizon.

The net £nil deferred tax asset on the Solvency II balance sheet is comprised as shown in the table below:

Item	Solvency II (£000)	IFRS (£000)	Further details
Claims equalisation reserve	3,447	3,447	Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016 and provided transitional arrangements for the release of the reserve to be brought into tax equally over a 6 year period from 1 January 2016. This deferred tax liability reflects the balance of the reserve still to be brought into tax over the next 4 years.
Available for sale assets	2,457	2,457	The loan relationship tax rules changed with effect from 1 January 2016. Under the new rules, fair value movements in loan relationships recognised in OCI are only be brought into tax when they are recycled to the income statement. Transitional arrangements ensure there is no double taxation/deduction of amounts recognised in OCI but not recycled to the income statement prior to 1 January 2016. This deferred tax liability reflects the expected future tax arising when gains on AFS assets recognised in OCI are recycled to the income statement taking into account the relevant transitional arrangements.
Capital allowances and other IFRS temporary differences	(314)	(314)	This deferred tax asset principally comprises expected future capital allowances in excess of depreciation in relation to fixed assets.
IFRS to SII temporary differences	(5,590)	-	This deferred tax asset relates to differences between the value of assets and liabilities on the Solvency II balance sheet and their value on the IFRS balance sheet (See sections D1.4, D2.4 and D3.5 for further details). The value of the temporary differences are capped at the level of IFRS deferred tax liabilities available to offset.
Net deferred tax (asset)/liability	**-**	**5,590**	

Reinsurance Recoverables

This balance represents contracts with reinsurers that give rise to a significant transfer of insurance risk. The value of such items is calculated alongside the value of Technical Provisions (see Section D.2). Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the balance sheet.

The reinsurance recoveries balance incorporates the new quota share arrangement. Under IFRS 4 the recoveries, and amounts payable to the reinsurer, are not recognised as the contract contains rights of set off. A withheld funds account is used to record the balance held on behalf of the reinsurer, and at the commutation of the contract any remaining amounts within the account would be settled.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

Insurance and Intermediary Receivables

This balance relates to amounts due and past-due for payment by policyholders, insurers, and others linked to insurance business, that are not included in cash-in flows of Technical Provisions. All insurance and intermediary receivables are annual and therefore, as recoverable within one year, are deemed to be short term in nature. The valuation is based on the outstanding amount owed to the business at the end of the reporting period, less appropriate allowance for estimated irrecoverable amounts.

Trade Receivables

This category includes any non-insurance amounts that are receivable from business partners. This includes commissions due from aggregators, brokers and other outsourcing partners. For Solvency II purposes fair value is deemed to be aligned to the IFRS valuation, as these receivables are short term in nature.

Financial and Operating Lease Assets

Co-op Insurance does not hold any assets relating to financial or operating leases.

Cash and Cash Equivalents

This category includes cash held in bank accounts to meet short-term cash commitments, rather than for investment or other purposes. There are no valuation differences for cash between SII and IFRS.

D.1.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

No changes were made to the recognition and valuation bases used or estimations during the reporting period.

D.1.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of assets.

D.1.4 Analysis of Differences Between the Valuation of Assets on a Financial Statements Basis (IFRS) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of assets on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to assets are described below:

- Intangible assets are recognised at cost under IFRS. Such assets are valued at £nil for Solvency II as the intangible cannot be sold separately and it cannot be demonstrated that there is value for the same or similar assets that can be derived from quoted prices in active markets.

- Deferred Acquisition Costs are also recognised at cost under IFRS and are then amortised over the period of the Insurance contract. For Solvency II purposes such assets are valued within Technical Provisions on a future cash flow basis.

- The value of investments under Solvency II includes the value of interest earned but not received (accrued interest). Under IFRS the valuation of accrued interest is the same but this is categorised under 'receivables (trade, not insurance)'.

- Deferred tax is recognised under both IFRS and Solvency II, however the value of the balance is different due to the differences in values of the assets and liabilities to which the deferred tax balance relates. Deferred tax is calculated on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Solvency II (or IFRS for Financial Reporting purposes) and the values ascribed to assets and liabilities as recognised and valued for tax purposes (see Section D.1.1).

- Insurance and intermediaries receivables recognised on an accruals basis under IFRS, are not recognisable as assets under Solvency II. The balance is replaced, within Technical Provisions, by future premium receivable calculated on a cash flow basis, relating to amounts not yet due at the balance sheet date.

- Reinsurance recoverables incorporate the new quota share reinsurance arrangement. Within the reinsurance agreement, monies due to or from the reinsurer under the 'Right of Offset' are reported within a withheld funds balance with any remaining balances settled at commutation of the contract. Under IFRS, the quota share withheld funds balance held on behalf of the reinsurer is recognised on an accruals basis and reported net of the associated reinsurance liability. Under Solvency II, the withheld funds are deemed a non-insurance cashflow and therefore recognised as a Reinsurance Payable (see Section D.3.1).

D.2 Technical Provisions

D.2.1 Value of Technical Provisions

Technical Provisions (TPs) are represented by the sum of Best Estimate liabilities and Risk Margin.

The value of Best Estimate liabilities equates to the estimated net outwards cash flows in respect of business earned to date (Claim Provisions) and business to be earned in future but for which Co-op Insurance have entered into a legal obligation with the customer (Premium Provisions).

The Risk Margin (RM) is an additional provision prescribed by the regulator which insurance companies are required to hold in addition to the Best Estimate liabilities.

The table below shows a summary of the level of Technical Provisions by line of business at the end of 2017.

SII Technical Provisions										
	Motor Liability	Motor Other	Fire & Other Damage	General Liability	Legal Expenses	Miscellan-eous	Non- Life Annuities (PPO)	Non Proportional Inwards Reinsurance		Total
								Casualty	Property	
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
Claims Provision (Net)	307,905	2,249	18,154	13,171	-946	87	51,451	205	3	**392,279**
Premium Provision (Net)	36,226	9,957	7,157	0	-961	5	0	0	0	**52,385**
Best Estimate Liabilities (Net)	*344,131*	*12,206*	*25,311*	*13,171*	*-1,907*	*92*	*51,451*	*205*	*3*	*444,664*
Risk Margin	15,859	498	1,817	1,447	32	13	8,819	27	0	**28,512**
Total Technical Provision (Net)	359,990	12,704	27,128	14,618	-1,874	105	60,270	232	4	**473,176**
Reinsurance Recoverables	64,974	-2,961	18,830	1,310	948	183	34,404	0	0	117,687
Total Technical Provision (Gross)	424,964	9,742	45,958	15,928	-926	288	94,674	232	4	590,863

A description of the bases, methods and main assumptions used to calculate the Claims Provisions, Premium Provisions and Risk Margin is included below.

D.2.1.1 Claims Provisions

Claims Provisions relate to events that occurred on or before the reporting date and comprise all material future in and out going cash flows.

Claims Provisions are calculated by line of business and key claim type, by suitably qualified personnel, using a combination of recognised actuarial and statistical techniques in order to calculate the total cost of claims, which then form the main part of the provision. These techniques include:

- Projecting historic numbers of claims, claims payment, recoveries and incurred data – Chain Ladder technique.
- Average cost per claim methods are used for additional insight in certain areas.
- Bornhuetter-Ferguson/Cape Cod techniques based on cost per policy, cost per claim and loss ratio.
- Large value Motor claims are projected on an individual basis in order to calculate expected reinsurance recoveries.

Extensive analysis of detailed claims data, including individual case estimates, is made to derive patterns in claims costs (for example, the accuracy of an initial estimate for the claim at different points throughout its lifetime). The most common method used to derive patterns is called the Chain Ladder method.

A degree of judgement is required in selecting the most suitable trends to apply. Where it is not deemed suitable to use the Chain Ladder method, for example for claims reported in recent months/years (which require a greater degree of judgement), the Bornhuetter-Ferguson/Cape Cod method is used. This method uses some prior expectation of the ultimate claims cost (such as percentage of premium) and combines this with the Chain Ladder Approach.

Once an estimate of the future claims cost has been calculated, the timing of future cash payments is estimated. This is based on past claims payment experience. These future payments are then discounted using a discount rate prescribed by EIOPA and adjusted to take into account the following items which are described in more detail below:

- Reinsurance claims.
- Expenses.
- Events not in data (ENID). For example Latent claims.

Reinsurance – A provision is included to allow for the expected amount of reinsurance premium payable and is dependent upon the volumes of business written during the year of cover. The estimated premium will be in respect of exposure to claim events occurring on or before the balance sheet date. This provision is partially offset by the expected claims costs to be paid by the reinsurer.

Expenses – A provision is held for the expected expenses associated with settling the existing claims. These are made up of claims handling expenses and an allocation of other management and administration costs relating to the settlement of the outstanding claims costs.

ENID – There is a possibility that claims could arise in future from causes which are not yet known about. Scenarios have been created of possible events leading to ENID latent claims. Past examples are Asbestosis or Industrial deafness claims, where claims were made several years after the events.

High level assumptions underlying the Claims Provisions are agreed and signed off by senior management. These include:

- Ogden – It is assumed that all relevant Bodily Injury claims to be settled after the end of 2018 are based on a prudent estimate of the discount rate following the Ministry of Justice's announcement in September 2017 (see Section A.2.2).
- In respect of existing Periodic Payment Order (PPO) cases it is assumed that care costs will increase in line with expected earnings or inflation as appropriate for each case. In addition, allowance is made for possible future PPO cases by assessing which claims are likely to result in PPO settlement and what would be the associated costs. Such costs are then discounted at the Risk Free Rate in line with known PPO claims.
- Inflation – in respect of calculating Gross Reserves, judgement is required as to whether future inflation of claims costs is in line with that implicit in the base data. Any difference is allowed for explicitly in the calculation of the undiscounted reserves. Likewise, explicit inflation is allowed for in deriving the reinsurance recoveries for Motor claims by indexing both the claims cost and reinsurance retention until settlement.
- Expenses – The level of expenses to be incurred in respect of the business included within the Claims Provisions needs to be allowed for until all such liabilities have been settled.

The Key Assumptions in the projection analysis carried out are as follows:

- The development factors selected for the Best Estimate projections reflect the mean expectation of future development.
- The groupings chosen by product and claims description code/payment code/peril code are broadly homogeneous.
- The development ratios in the data, after making appropriate allowance for known trends, will be repeated in future.
- No significant events occurring after the cut-off point of data being used were missed.

D.2.1.2 Premium Provisions

Premium Provisions are associated with events occurring after the valuation date for policies that are legally bound as at the valuation date.

A Technical Provision is required to be calculated in respect of business written prior to the balance sheet date but earned after that date and any legally obliged business. The calculation approach is based on the same principles discussed in the Claims Provisions.

Significant items that form the Premium Provision are:

- Future Best Estimate Claims.
- Future Premiums.
- Reinsurance.
- Expenses.

Future Best Estimate Claims – The claims cost expected to arise in respect of future earned business relating to written and legally obliged business at the balance sheet date is derived by applying an agreed assumed loss ratio to the Unearned Premium Reserve and future projected premium respectively.

Future Premiums – Allowance is made in the cash flows for future premiums in respect of business already written and legally obliged business. In respect of business already incepted, these premiums relate to business which is written by direct debits and are paid on a monthly basis. In respect of legally obliged business the future premium cash flow allows for the total premium of such policies.

Reinsurance – Allowance is made in respect of the reinsurance premium which will be payable in respect of unexpired period of risk for business written prior to the balance sheet date and for the legally obliged business. Associated costs relating to reinsurance are also taken into account. Allowance is also made for the expected claims to arise on the business included within the Premium Provision and consequential reinsurance recoveries.

Expenses – The most recently experienced administration and claims handling expense ratios, calculated using figures from the business plan, are applied to the future expected claims costs.

D.2.1.3 Risk Margin

Risk Margin is the additional amount of provision prescribed by the regulator which insurers are required to hold over and above the value of the Best Estimate liabilities. The Risk Margin is described in more detail in section D.2.2.

D.2.2 Simplifications

One significant simplification has been made in deriving the Technical Provisions. This is a simplified approach to the calculation of the Risk Margin.

The Risk Margin is set to the cost of holding regulatory capital while liabilities run off with the purpose of making the overall Technical Provisions equal to the amount that another company would require to take over and meet the insurance liabilities.

The main part of the calculation is estimating the regulatory capital at each point in the run-off. The method used estimates this for each key risk type and each longer-tailed (claims which take longer to settle) class of business projected separately. The approach adopted assumes that the future SCR, for each risk type and sector of the business, is proportional to a part of the Best Estimate Technical Provisions most suited to the driver of the SCR for that risk type, i.e. underwriting risk proportional to overall TPs net of reinsurance; and operational risk proportional to overall TPs gross of reinsurance. Life risk has an additional increase applied as this should decrease less quickly than the net TPs.

The Risk Margin is based on existing commitments (policies that are already written or quoted), like the rest of the TPs.

The calculation depends heavily on discounting, so it is sensitive to the EIOPA risk free rate. Also, it depends on the mix of business. Longer-tailed classes of business need to be supported by capital for longer, and tend to add more to the Risk Margin.

Finally, because the Risk Margin is based on insurance liabilities and relates to a situation where ‘another company’ takes on the risk of the liabilities, the Risk Margin is not adapted to reflect Co-op Insurance’s own exposure to market risk, pension risk or heightened operational risk.

D.2.3 Uncertainty

The uncertainty existing within Technical Provisions is primarily due to the random nature of how claims develop and is impacted by both external and internal factors. For example, inflation may be higher or lower than expected or claims may be settled more quickly or slower than anticipated.

Assessment of the uncertainty of key assumptions through sensitivity testing of plausible alternative views gives management a clearer understanding of the key risks and provides an indication of the level of confidence in the reported reserves. Sensitivity analysis is performed to understand the effect of key inputs which include ASHE Indexation (Annual Survey of Hours and Earnings), life expectancy, probability of future PPO settlements, future Motor loss ratio and future claim notifications relating to legacy Liability business. The results of the sensitivity analysis on the value of the technical provisions are shown below:

Uncertainty	Alternative View	Impact on Net CPs and PPs £000
ASHE Index	Increase in the ASHE index of (i) 0.5% for both (a) Known PPOs and the (b) impact on the "Top 50"	9,963
Life Expectancy	A reduction of 20% in the life impairment values for existing and potential PPOs	5,501
Future PPO Settlements	The level of future PPO settlements is as the rate assumed relating to an Ogden rate of 2.5%	10,701
Motor Loss Ratio	The Motor Loss Ratio which feeds into the PP is 5% higher	6,185
Future Claims Notifications From Past Liability Business	A change in the rate of decrease in future Mesothelioma claims notifications	14,246

D.2.4 Analysis of Differences Between the Valuation of Technical Provisions on a Financial Reporting Basis (IFRS) and Valuation on a Solvency II Basis

Technical Provisions are calculated differently under Solvency II and IFRS.

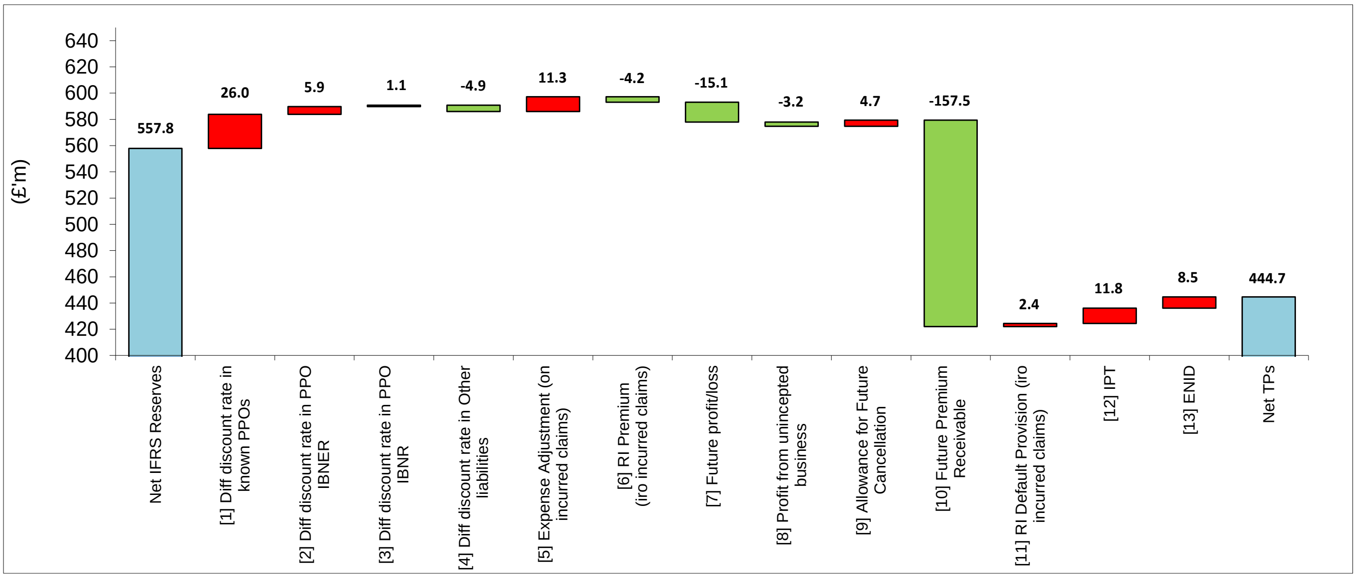
In respect of Claims Provisions the main difference in the calculation of the Solvency II Technical Provisions compared with the IFRS basis is in respect of discounting. The Solvency II Technical Provisions are discounted for all claim types at the prescribed rate, whereas for IFRS reserves only the known PPO claims and historic liability claims from the electric industry claims are discounted and these are discounted at the rate supported by the investments held.

In respect of Premium Provisions there are many differences in the valuation method to that used in IFRS.

Premium Provisions are based on a cashflow approach under Solvency II. Allowance is made for all incoming and outgoing cashflows such as future premium payments and includes policies that the insurer is obligated to at the valuation date including policies which have not yet been incepted; whereas the IFRS valuation need only allow for policies in force at the valuation date.

The other significant difference is that, under Solvency II, allowance in the provision for profits arising from future earned business may be taken. This is not the case under IFRS.

The following diagram shows all the differences between the Technical Provisions held for IFRS reporting purposes and those for Solvency II purposes, as at the end of the reporting period. Net IFRS reserves are the IFRS Insurer Contract Liabilities as shown in the balance sheet, net of reinsurance recoverables, deferred acquisition costs, management margin and other such items. Net TPs are Technical Provisions as shown in Section D.2.1, before Risk Margin and net of reinsurance recoverables.



The elements of the bridge are described below. Where appropriate values are shown for Motor (including the Motor liability and Other motor insurance lines of business) and Non-Motor (mainly the Fire and other damage to property insurance line of business). The elements described affect all lines of business unless specifically noted.

- [1] to [3] The discount rate prescribed by EIOPA for Solvency II is lower than that used for IFRS. The PPOs are discounted in IFRS reserves using the actual investment yield. As a result there is an adverse impact of £33,043k when moving to the lower Solvency II discount rate.

- [4] Other than PPOs and some Employer's Liability Claims, IFRS liabilities are not discounted, so there is a discounting benefit of £4,867k (Motor £4,211k, Non-Motor £656k) when moving to the Solvency II basis.

- [5] The Technical Provisions include a £11,302 (Motor £7,458k, Non-Motor £3,844k) provision for overhead expenses until all existing liability has run-off. These expenses are not held under claim liabilities on the IFRS balance sheet.

- [6] There is a reinsurance premium payable of £2,469k in respect of earned exposure, which reflects adjustment premiums payable in respect of the 2017 Cat XOL and Motor XOL contracts, as well as reinstatement premium still outstanding on the 2015 contract. In addition £6,682k of reinsurance commission is expected to be received from the quota share agreement in respect of incurred claims, leading to an overall reduction of £4,213k (Motor +£6,208k, Non-Motor -£10,421k).

- [7] to [9] The recognition of future profit/loss (includes impact of overhead expenses) from unearned business leads to a reduction in overall provisions of £13,627k (Motor £2,430k, Non-Motor £11,197k). The IFRS basis only recognises future losses and not future profits.

- [10] £157,462k (Motor £117,728k, Non-Motor £39,734k) of future premium receivable is recognised under Solvency II. This relates to outstanding direct debit premium and pipeline premium. These are accounted for as assets on the IFRS balance sheet but are reported as negative liabilities within Technical Provisions under Solvency II.

- [11] Reinsurance default provision of £2,368k. Solvency II requires insurers to hold an additional provision relating to the risk that a reinsurer may default on all or part of the reinsurance recovery. In IFRS an allowance is made only where there is a known risk of default from a reinsurer.

- [12] Insurance Premium Tax of £11,757k is held elsewhere on the IFRS balance sheet and has minimal impact on Own Funds.

- [13] There is an additional £8,526k (Motor £7,195k, Non-Motor £1,331k) provision allowed for in Technical Provisions in respect of ENID under Solvency II, whereas under IFRS, reserves only allow for events that are reasonably foreseeable as opposed to allowing for extreme outcomes.

D.2.5 Matching Adjustment

Co-op Insurance does not apply a Matching Adjustment.

D.2.6 Volatility Adjustment

A Volatility Adjustment has been used (as approved by the PRA) to discount all future cash flows in respect of the Claims Provisions. The Volatility Adjustment reduces Best Estimate Technical Provisions, net of reinsurance by £4,217k, reduces the Standard Formula Solvency Capital Requirement (SF SCR) by £421k and leads to an increase in solvency coverage of £4,638k.

The table below sets out the impact on Own Funds, Risk Margin and SF SCR, further information on which is included in Section E.2.2.

	Impact of VA (£000)
Best Estimate Technical Provisions	6,203
Effect of reinsurance	(1,986)
Risk Margin	0
Own Funds	**4,217**
SF SCR	421
Capital surplus	**4,638**

The impact on the Minimum Capital Requirement is a reduction of £208k.

D.2.7 Transitional Interest Rate

Co-op Insurance has not applied the transitional risk-free interest rate.

D.2.8 Transitional Deduction

Co-op Insurance has not applied the transitional deduction to the Technical Provisions.

D.2.9 Impact of Reinsurance and Special Purpose Vehicles

The quantitative impact of taking out reinsurance contracts is a reduction in Technical Provisions required of £117,687k.

Co-op Insurance does not use Special Purpose Vehicles.

D.2.10 Material Changes in Assumptions from Previous Reporting Period

There have been no material changes in assumptions since the previous reporting period. An explanation of the movement in Net Technical Provisions in the year is detailed below.

The reduction in Net Technical Provisions from 2016 to 2017 is largely owing to the quota share arrangement introduced at the start of 2017, which has had a reducing effect on claim provisions of £52,567k.

There were also a number of other smaller, broadly offsetting movements, the most notable of which are:

- An increase in Technical Provisions of £13,703k due to an increase in IFRS claims reserves (excluding PPO elements), largely owing to a strengthening on prior years.
- A reduction in Technical Provisions of £12,349k due to an increase in insurance receivables.
- A reduction in Technical Provisions of £7,407k due to a reduction in the overall unearned gross loss ratio. This has been particularly driven by the reduction in the assumption for the unearned gross loss ratio for motor leading to a reduction in Technical Provisions of £5,989k for the Motor Liability and £1,893k for the Motor Other classes of business.
- An increase in Technical Provisions of £5,279k due to higher Unearned Premium Reserve and Legally Obliged Premium, both reflecting the change in business volumes.

D.3 Other Liabilities

D.3.1 Valuation Bases and Assumptions

Details of Co-op Insurance's liabilities, other than Technical Provisions (see section D.2), including the valuation bases and main assumptions used (where applicable) are shown below by material class of liability.

Contingent Liabilities

Contingent liabilities in existence at 31 December 2017 are detailed in Note 26 of the Company's Annual Report and Accounts.

The expected value of each contingent liability reflects all expectations of possible cash flows and not the single most likely or the expected maximum or minimum cash flow. However, the more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the expected value (probability weighted cash flow method).

Co-op Insurance review all contingent liabilities using the following definition of materiality; "contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities."

The contingent liability in existence at 31 December 2017 is immaterial, as calculated using the probability weighted cash flow method.

Provisions Other Than Technical Provisions

This category relates to liabilities of uncertain timing or amount. Provisions are recognised when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Valuation is based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Subordinated Liabilities

Subordinated liabilities are repayable in 2025 with an option for Co-op Insurance to call the debt in 2020 and bear an interest rate of 12%. The value is calculated using a cashflow model which seeks to estimate the market value, adjusting for changes in Co-op Insurance's own credit standing in the period between 31 December 2017 and date of issue. The model assumes the debt will be called in 2020.

Debts Owed to Credit Institutions

This is predominantly a cash book balance for amounts paid relating to claims which have not yet cleared bank accounts. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

Insurance and Intermediaries Payable

This balance comprises commission payable on premiums not yet received and premiums collected in advance of the due date. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

Reinsurance Payables

As explained in section D.1.1 above contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Under IFRS, for the Excess of Loss programme, reinsurance payables relate to premiums due to reinsurers and amounts payable under such contracts are recognised in the same period as the related premium. Premiums, claims and receivables are presented on a gross basis in the balance sheet. As noted in D.1.1 the quota share reinsurance arrangement is not recognised in the balance sheet. As recoveries on the Technical Provisions are recognised in deriving Own Funds the withheld funds balance is recognised as a separate liability. It is recognised in this manner as the balance is not expected to be paid to the reinsurer and hence is excluded from the technical provisions and associated recoveries.

Trade Payables

This balance relates to liabilities due to suppliers which are not insurance related. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

Employee Benefit Liabilities

Co-op Insurance has no employees, with all sales effected through brokers and employees of CFSMS, which also provides administrative and other services. As such the Company does not have any employee benefit related liabilities.

Financial and Operating Lease Liabilities

Co-op Insurance has operating lease liabilities relating to occupied property. Commitments relating to these leases are disclosed in Note 27 of the Annual Report and Accounts.

Deferred Tax Liabilities

Details regarding deferred tax liabilities are set out in section D.1.1.

Other Liabilities

This is a category for all liabilities not captured elsewhere. The balance is predominantly IFRS expense accruals, which are short term in nature, and as the purchases are recent can be shown under the Solvency II Delegated Act to reflect a market price valuation.

D.3.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

The model used to value subordinated liabilities has been improved in the year to include a more accurate estimate for changes in the market value of the liabilities excluding changes in Co-op Insurance's own credit standing. These changes do not materially change the value of the liabilities in either 2016 or 2017 but lead to a more robust model.

D.3.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of other liabilities.

D.3.4 Expected Timing of any Outflows of Economic Benefits

The expected timing of cash outflows relating to contingent liabilities is unknown, due to their nature. However, there are currently no material contingent liabilities. Subordinated liabilities will be repaid in 2025, or in 2020 if the Company takes up the option for early repayment. Debts owed to credit institutions, insurance and intermediaries payable and other liabilities are settled throughout the year with all such balances due in less than one year.

D.3.5 Analysis of Differences Between the Valuation of Other Liabilities on a Financial Reporting Basis (IFRS) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of other liabilities on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to other liabilities are described below:

- Subordinated liabilities - recognised initially at fair value under IFRS, which equates to issue proceeds net of transaction costs incurred. Borrowings are then subsequently stated at amortised cost. In line with Solvency II guidance, a 'bottom up' approach has been adopted to value the Co-op Insurance subordinated liability whereby, at each reporting date, it is stated at a market consistent value adjusted for changes in the Company's own credit standing at 31 December 2017.

- Reinsurance payables – the withheld funds balanced arising from the 'Right of Offset' within the quota share reinsurance arrangement is recognised on an accruals basis and reported within Reinsurance Recoverables under IFRS. On a Solvency II basis, the withheld funds are deemed to be a non-insurance cashflow and are reported within Reinsurance Payables on the balance sheet.

- Other reinsurance contracts are also recognised on an accruals basis under IFRS; under Solvency II this liability is replaced by an additional liability within Technical Provisions, recognised on a future cash flow basis.

- Trade payables - Under Solvency II future IPT payable is held as part of the Technical Provisions, rather than as Trade Payables under IFRS.

D.4 Alternative Methods for Valuation

The valuation of subordinated liabilities, as described ion Section D.3.1, is a market approach to valuation, as allowed under Article 10(7) of the Solvency II Delegated Regulation.

D.5 Any Other Information

There is no other information on the valuation of assets and liabilities for solvency purposes to disclose.

E. Capital Management

E.1 Own Funds

E.1.1 Objectives, Policies and Processes for Managing Own Funds

E.1.1.1 Background and Objectives

Own Funds correspond to Co-op Insurance's available financial resources (capital) which can serve as a buffer against risks and absorb financial losses.

Co-op Insurance's strategy in respect of capital management is to maintain its financial strength by ensuring that the following objectives are met:

- There is sufficient capital to meet all regulatory requirements – i.e. the value of Own Funds is greater than the Solvency Capital Requirement (see E.2) and will continue to be throughout the business planning period.
- There is additional capital ("solvency coverage") to meet internal Board agreed thresholds which are significantly above regulatory requirements. This ensures that policyholders are protected and also that the Board's risk appetite is met.
- Subject to the above objectives being met, the required return on equity is made.

The policies and processes employed by Co-op Insurance are designed to benefit policyholder protection by giving management an accurate understanding of the amount and quality of the Company's Own Funds. This helps the Company ensure that sufficient Own Funds are held to absorb unexpected losses and maintain solvency. This is a key focus in the Company's 3 year business planning period.

E.1.1.2 Policies and Processes

The Co-op Insurance Board sets capital risk appetite, which defines how much additional capital Co-op Insurance should hold over and above its regulatory capital requirement. This coverage in excess of 100% provides an additional cushion well beyond the regulatory capital requirement, providing additional security for policyholders by ensuring that the Company can survive even the most severe unexpected losses.

Co-op Insurance has maintained capital above all its regulatory requirements throughout 2017. It has also maintained sufficient capital to exceed the Board's capital risk appetite that was in force over 2017.

Co-op Insurance reviews solvency regularly, with reports provided to the Executive Risk Committee and Board periodically, and more frequent monitoring of key components. In the event that Co-op Insurance falls below its risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk albeit often resulting in reduced returns; for example through quota share reinsurance arrangements.

E.1.2 Analysis of Own Funds by Tier

Under Solvency II regulations, all Co-op Insurance's Own Funds are classified as basic Own Funds. The excess of assets (other than deferred tax assets) over liabilities is classified as Tier 1 capital, subordinated debt held by the Company is classified as Tier 2 capital and deferred tax assets, to the extent they are recognised, are classified as Tier 3 capital.

In reaching the above conclusion Co-op Insurance's Own Funds have been assessed against the key features prescribed for the classification of funds in Articles 71, 73 and 77 of the level 2 regulatory text (Commission Delegated Regulation 2015/35).

The table below shows the Company's Own Funds by tier and amount of eligible Own Funds versus the SCR and MCR at the end of the reporting period.

	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)
Ordinary share capital (gross of own shares)	268,000	268,000	0	0	0
Reconciliation reserve	(12,426)	(12,426)	0	0	0
Subordinated liabilities	71,672	0	0	71,672	0
An amount equal to the value of net deferred tax assets	0	0	0	0	0
Total basic own funds after deductions	**327,246**	**255,574**	**0**	**71,672**	**0**
Ancillary own funds	**0**	**0**	**0**	**0**	**0**
Total available own funds to meet the SCR	**327,246**	**255,574**	**0**	**71,672**	**0**
Total available own funds to meet the MCR	**327,246**	**255,574**	**0**	**71,672**	**0**
Total eligible own funds to meet the SCR	**327,246**	**255,574**	**0**	**71,672**	**0**
Total eligible own funds to meet the MCR	**268,644**	**255,574**	**0**	**13,070**	**0**
SCR	**207,666**				
MCR	**65,349**				

100% of Own Funds held at the end of the reporting period were eligible to meet the SCR. In line with Solvency II regulations, all Tier 1 items are eligible to meet the SCR, whilst the value of Tier 2 and Tier 3 items is not permitted to exceed 50% of the value of own funds eligible to meet the SCR.

100% of Own Funds held at the end of the reporting period were eligible to meet the MCR. In line with Solvency II regulations, all Tier 1 items are eligible to meet the MCR, whilst 20% of Tier 2 basic Own Funds and 0% of Tier 3 basic Own Funds are eligible.

E.1.2.1 Tier 1

Share Capital

Co-op Insurance has issued 268,000,000 ordinary shares of £1 each. Each shareholder has one vote and an additional vote for every 50 shares or fraction or part held by it in excess of the first 50 shares held. As noted in Section A.1.2, 1 share is held by Co-operative Group Holdings (2011) Limited with the Co-operative Group Limited owning the remainder.

Reconciliation Reserve

The reconciliation reserve is derived by taking the excess of assets over liabilities from the balance sheet and reducing it by the value of ordinary share capital and deferred tax assets. As such it represents both the changes resulting from valuation differences (IFRS versus Solvency II), but also retained earnings and other reserves.

The reconciliation reserve is calculated as follows:

	(£000)
Excess of assets over liabilities	255,574
Less:	
Share capital	(268,000)
Reconciliation reserve	**(12,426)**

The value of the reconciliation reserve is directly related to the value of the excess of assets over liabilities and is therefore subject to potential volatility of those assets and liabilities. Regular Solvency II balance sheet forecasting is undertaken to monitor the expected future value of assets and liabilities. Where risks are identified management actions are undertaken to mitigate any impact on solvency coverage.

E.1.2.2 Tier 2

Subordinated Debt

Subordinated debt relates to £70,000k of Callable Dated Deferrable Tier Two Notes due 2025 at par, raised on 8 May 2015 with a coupon rate of 12%. There is an option for Co-op Insurance to call the debt in 2020. In line with Solvency II regulations the value of the subordinated debt has been revalued at a value for which the liabilities could be transferred between knowledgeable willing parties in an arm´s length transaction, excluding an adjustment to take account of changes in the undertaking's own credit standing after initial recognition. The subordinated debt is subject to transitional arrangements (see Section E.1.3.3).

E.1.2.3 Tier 3

Deferred Tax

A deferred tax asset is recognised when future taxable profits are deemed available within the planning horizon to utilise the asset. The deferred tax asset recognised by Co-op Insurance as detailed in Section D.1.1 is offset by the deferred tax liability and therefore a net nil deferred tax asset is reported at 31 December 2017.

E.1.2.4 Changes in Own Funds by Tier Over the Reporting Period

Total basic own funds after deductions	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)
Previous year	**344,604**	**268,986**	**0**	**75,618**	**0**
Movement in IFRS reserves - operating loss after tax	(16,975)	(16,975)	0	0	0
Movement in IFRS reserves - other comprehensive expense	(4,770)	(4,770)	0	0	0
Change in valuation differences between IFRS and Solvency II	8,333	8,333	0	0	0
Change in market value of subordinated debt	(3,946)	0	0	(3,946)	0
Current year	**327,246**	**255,574**	**0**	**71,672**	**0**

Own Funds have reduced by £17,358k between 31 December 2016 and 31 December 2017.

Tier 1 Own Funds have reduced by £13,412k largely as a result of the operating loss for the year described in Section A.2, but also includes unrealised gains on investments, as reported in the statement of comprehensive income within the Annual Report and Accounts, and the sum of valuation differences between IFRS and Solvency II.

The change in valuation differences between IFRS and Solvency II is mainly as a result of Solvency II Technical Provisions increasing by approximately £4,000k less between 2016 and 2017 than the equivalent IFRS balances, and the fair value (Solvency II value) of subordinated liabilities decreasing by £4,119k more than the amortised cost (IFRS value).

Tier 2 Own Funds have decreased by £3,946k due to a decrease in the market value of subordinated debt.

The deterioration in Own Funds is in line with expectations as the Company continues to invest in transforming the business.

E.1.2.5 Development of Own Funds Over the Business Planning Period

Co-op Insurance holds the Co-operative Group purpose at the heart of its strategy over the 3 year business planning period, developing a range of diversified and customer centric propositions focused on the aim of meeting more of the insurance needs of more Co-op members.

Solvency projections play a key part in the Company's strategy. This is especially the case as the Company makes significant progress in replacing and upgrading its core IT systems, delivering systems separation from Co-operative Bank and improving technology resilience. To enhance the capital position during this time the Company has issued £70,000k of subordinated debt (see Section E.1.2.2) and entered into a two year quota share reinsurance arrangement.

The subordinated debt continues to support Co-op Insurance's strategic plan implementation by increasing the value of Own Funds, whilst the quota share arrangement significantly reduces the amount of the Solvency Capital Requirement (SCR) by reducing exposure to premium, reserve and catastrophe risks.

These actions are part of Co-op Insurance's strategy in respect of capital management, focussing on maintaining a solvency coverage ratio which is in line with the Board's risk appetite and is significantly higher than the required regulatory limits.

The on-going investment in transformation activities is projected to improve the value of Own Funds in the medium term by enabling cost reduction through exiting legacy platforms, simplifying business processes and enabling more customers to engage online with all aspects of the customer journey.

E.1.3 Other Information in Relation to Own Funds

E.1.3.1 Loss Absorbency Mechanisms

Co-op Insurance does not have any Own Funds relating to paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account or paid-in subordinated liabilities included in Tier 1 capital and therefore disclosure of loss absorbency mechanisms to comply with Article 71 (1)(e) of the Solvency II Delegated Regulation is not relevant.

E.1.3.2 Total Equity Under IFRS versus Basic Own Funds Under Solvency II

	(£000)
Total Equity per Annual Report and Accounts	292,817
Difference in valuation of assets and liabilities	(37,243)
Subordinated debt	71,672
Own Funds	**327,246**

Differences in valuation of assets and liabilities between IFRS and Solvency II are described in Sections D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities). The adjustments described have the effect of reducing the value of Own Funds by the same value as the reduction in net assets, £37,243k. Overall, Own Funds are £34,429k higher than Equity under IFRS as subordinated debt is added back to the value of Own Funds under Solvency II.

E.1.3.3 Transitional Arrangements

Transitional arrangements, lasting a maximum of ten years from 1 January 2016, have been introduced to the Solvency II regime to provide a smooth transition between Solvency I and Solvency II requirements. Under these transitional arrangements the subordinated debt held by Co-op Insurance, which met the eligibility criteria under Solvency I, are classified as Tier 2 Own Funds under Solvency II.

E.1.3.4 Ancillary Own Funds

Co-op Insurance holds no "ancillary" own-funds, which are potential loss-absorbing items such as unpaid share capital or letters of credit, and would require prior supervisory approval to be recognised under Solvency II.

E.1.3.5 Items Deducted from Own Funds

No items have been deducted from Own Funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Under the Solvency II regime, an insurance company is required to hold sufficient capital to cover unexpected losses. These additional funds held reduce the chance of insurers running out of funds, thus protecting policyholders. There are two capital requirements; the Solvency Capital Requirement and the Minimum Capital Requirement.

E.2.1 Minimum Capital Requirement (MCR)

The MCR is calculated using a prescribed formula using the value of Best Estimate Technical Provisions split by Solvency II line of business and the value of net written premium, including bound but not incepted, over a rolling 12 month period up to the reporting date, also split by Solvency II line of business. The MCR is then subject to a minimum value (floor), which is equal to 25% of the SCR, and maximum value (ceiling), which is equal to 45% of the SCR. The MCR also has an absolute floor, set at €3,700k and converted to pounds sterling.

E.2.2 Solvency Capital Requirement (SCR)

The SCR should be sufficient to protect the Company from unexpected losses over the following year – losses that are so severe that they are not expected more often than once every 200 years – and still be able to honour its claims. There are two ways of calculating the SCR. Insurers can use their own model (Internal Model) with approval from the PRA. Otherwise, they can use a standard approach (Standard Formula) defined by the regulations. However, even using the Standard Formula, the standard approach must be appropriate for the Insurer. When the regulator believes the standard approach does not adequately capture the risk of their business the regulator can approve a 'capital add-on' to be included within the Standard Formula SCR (SF SCR).

Co-op Insurance use the standard approach defined by the regulations, i.e. the SF SCR.

Under Article 51 of EIOPA's Solvency II directive Member States may provide that insurance companies need not separately disclose the capital add-on during a transitional period ending no later than 31 October 2020. The PRA, being the supervisory body of the Member State of the UK, have chosen to make such provision for financial years ending on or before 31 December 2017. As such no capital add-on is disclosed separately within this document.

The table below shows the SF SCR by risk as at 31 December 2017 and as at 31 December 2016. The SCR, and in particular, non-life underwriting risk, has reduced between 31 December 2016 and 31 December 2017. Section E.2.3 below explains each risk, including reasons for movements in the year. Note that the 31 December 2017 SCR is still subject to supervisory assessment by the PRA.

SF SCR	At 31 December 2016 (£000)	At 31 December 2017 (£000)	Change (£000)
Premium Risk	78,598	64,074	(14,524)
Reserve Risk	97,719	87,282	(10,437)
Catastrophe Risk	34,048	23,828	(10,221)
Lapse Risk	19,930	21,634	1,704
Diversification	*(63,100)*	*(54,524)*	*8,576*
Non Life Underwriting Risk	**167,195**	**142,294**	**(24,901)**
Market Risk	23,159	21,771	(1,388)
Counterparty Default Risk	6,807	6,562	(246)
Life Underwriting Risk	3,356	4,389	1,032
Health Underwriting Risk	0	0	0
Operational Risk	54,554	54,695	141
Diversification	*(22,329)*	*(22,045)*	*284*
Diversified SCR	**232,743**	**207,666**	**(25,077)**

The table shows that Co-op Insurance's key financial risks are insurance-related: Premium Risk and Reserve risk.

E.2.3 Material Change to the SCR and to the MCR over the Reporting Period

At the end of the reporting period the Company's MCR is £65,349k (2016: £78,643k), a decrease of £13,294k since 31 December 2016 reflecting the reduced exposure to insurance risk as a result of placement of the quota share reinsurance arrangement.

At the end of the reporting period the Company's SCR is £207,666k (2016: £232,743k), a decrease of £25,077k since 31 December 2016. The remainder of Section E.2 describes the reasons for the reduction in the SCR over the reporting period.

E.2.3.1 Premium Risk

Premium risk relates to policies that will be earned over the coming 12 months. At 31 December 2017 this includes policies which will earn over 2018, and the claims that may be incurred on these policies. The risk is that expenses and losses for these claims are higher than expected.

The SF SCR uses the net earned premium (NEP) expected over the coming 12 months as a driver for the premium risk, but also uses the previous 12 months NEP to set a minimum level of premium risk. The minimum is applied separately for each Solvency II line of business (LOB). This means that recent and future sales are key inputs to determine premium risk. In general, more net premium means higher claims and greater risks.

A two year quota share reinsurance arrangement has been in force since 1 January 2017, reducing the risk on business earned over 2017 and 2018. For the calculation of premium risk as at 31 December 2017, this has reduced both the historic and future NEP, causing a significant reduction in premium risk relative to that calculated at 31 December 2016. Within the premium risk calculation at 31 December 2017, Motor NEP in 2018 is forecast to be slightly higher than 2017, whereas Home NEP is forecast to be slightly lower. Therefore, forecast NEP is used for Motor and NEP over the last 12 months is used for Home within the premium risk calculation as at 31 December 2017.

The following table shows the change in the net earned premium measure and premium risk for each Solvency II LOB between 31 December 2016 and 31 December 2017.

£000's	Net Earned Premium in 2016	Net Earned Premium in 2017	Change %	2016 Premium Risk	2017 Premium Risk	Change %
Motor Liability	239,235	198,999	(17%)	57,416	47,760	(17%)
Other Motor	77,884	67,385	(13%)	18,692	16,172	(13%)
Fire & other damage to property	116,800	80,528	(31%)	22,426	15,461	(31%)
General liability	0	0	-	0	0	-
Legal expense	4,866	3,328	(32%)	1,022	699	(32%)
Assistance	0	0	-	0	0	-
Medical Expense	0	0	-	0	0	-
Miscellaneous	304	214	(30%)	119	84	(30%)
Diversification	-	-	-	*(21,076)*	*(16,102)*	(24%)
Total	**439,088**	**350,454**	**(20%)**	**78,598**	**64,074**	**(18%)**

Premium risk has decreased between 31 December 2016 and 31 December 2017. If the quota share was not placed, premium risk would be significantly higher, and closer to the risk at 31 December 2016.

E.2.3.2 Reserve Risk

Reserve risk arises from losses from the past. Insurers hold reserves to cover these losses (claims provisions), but the amount that claims will eventually settle for, and how many more claims are still to be reported, are uncertain. The risk is that claims payments exceed the current level of reserves, so the claims provisions (net of reinsurance) are used as a key input for the reserve risk.

The following table shows the change in the net claims provisions and reserve risk for each Solvency II LOB between 31 December 2016 and 31 December 2017.

£000's	Net Claim Provisions in 2016	Net Claim Provisions in 2017	Change %	2016 Reserve Risk	2017 Reserve Risk	Change %
Motor Liability	342,716	307,905	(10%)	92,533	83,134	(10%)
Other Motor	2,874	2,249	(22%)	690	540	(22%)
Fire & other damage to property	30,829	18,154	(41%)	9,249	5,446	(41%)
General Liability	11,298	13,171	17%	3,728	4,347	17%
Legal expense	13	-946	(7,347%)	5	-	(100%)
Assistance	-	-	-	-	-	-
Medical Expense	-	-	-	-	-	-
Miscellaneous	122	87	(29%)	73	52	(29%)
Non-Prop. RI	592	208	(65%)	355	125	(65%)
Diversification	-	-	-	*(8,914)*	*(6,361)*	(29%)
Total	**388,444**	**340,828**	**(12%)**	**97,719**	**87,282**	**(11%)**

Net claim provisions have fallen for Motor and Home, mainly caused by the accrual of quota share recoveries on losses incurred during 2017. This is partially offset by an increase in general liability net claim provisions.

E.2.3.3 Catastrophe Risk

Catastrophe risk arises from extreme events such as major windstorms and large fires. It is divided into natural and man-made catastrophe risks:

- Natural catastrophe events such as windstorms which result in home damage and floods which cause both home and motor damage.
- Man-made catastrophe events arise from motor liability and fire risks.

Catastrophe risk has decreased significantly between 31 December 2016 and 31 December 2017.

The decrease in catastrophe risk reflects the higher level of cover under the 2018 catastrophe excess of loss reinsurance programme. A further reduction has taken place following a recalibration of the effect of the quote share arrangement to reflect the expected loss ratio for 2018. This has been slightly offset by increases in Home exposure.

E.2.3.4 Market Risk

Market risk has decreased between 31 December 2016 and 31 December 2017.

Co-op insurance is exposed to the following Standard Formula market risks:

- Interest rate risk, which is the risk that the value of an asset or liability will change due to a change in interest rates. Interest rate risk is calculated by determining the impact on the balance sheet of either increasing or decreasing interest rates. The higher of the two impacts is the interest rate risk.
- Spread risk, which is the risk that a widening of credit spreads reduces the value of assets.
- Concentration risk, which arises when a significant investment is made in a single company, or closely related companies. This increases the risk that the money invested is not paid back.

The table below shows the allocation of assets by credit rating:

	Allocation of Assets 2016	Allocation of Assets 2017	Change %
Cash	24%	24%	(4%)
Gilt	22%	23%	1%
AAA	13%	16%	21%
AA	17%	14%	(18%)
A	23%	24%	4%
BBB	1%	1%	9%

Market risk has fallen. This is driven by a fall in spread risk which dominates market risk and offset by increases in interest rate and concentration risks. The fall in spread risk is largely due to the fall in investments held from £922,141k to £869,651k (6%), and compounded by holding fewer securitisations and a slight increase in the proportion of bonds held in the highest credit ratings. Interest rate risk has increased reflecting a shortening of the liability profile which provides less matching against the asset stress.

E.2.3.5 Lapse Risk

Lapse risk is the risk that the Company makes less profit because of people cancelling existing policies or not taking out policies that the Company have committed to write. Therefore, lapse risk increases with the amount of business the Company expects to write.

Lapse risk has increased due to a reduction in expected loss ratio in the premium provisions. This has been partially offset by an increase in the rate of motor policy cancellations assumed within the Technical Provisions (TPs).

E.2.3.6 Counterparty Default Risk

Counterparty default risk relates to the losses arising when reinsurers and other debtors (counterparties) fail to pay what they owe (default). These counterparties include reinsurers, banks with which cash is deposited and trade receivables.

Counterparty default risk has decreased, largely reflecting that the counterparty for cash deposits is rated higher. This has been partially offset by an increase in expected reinsurance recoveries.

E.2.3.7 Life Underwriting Risk

Life risk is the risk associated with life insurance obligations. In the case of Co-op Insurance, this relates to annuities stemming from the non-life insurance obligations, i.e. Periodic Payment Orders (PPOs). The most material risk is longevity risk where payments may be paid for a longer period than previously expected. Longevity risk has increased over the reporting period due to a newly settled PPO claim and discount rate changes.

E.2.3.8 Operational Risk

Operational risk is the risk of loss arising from inadequate and failed internal processes, or from people and systems, or from external events. This is basically the risk of operating a company. Operational risk is based on gross TPs and gross earned premiums in the last 24 months. These are used to measure the size of the business because, the greater the size of the business, the more operational risk it is exposed to.

Operational risk has slightly increased over the reporting period.

E.2.4 Simplifications and Undertaking-specific Parameters

The regulations allow some specified simplifications to be used as part of the standard approach, where this is proportionate. Proportionality takes into account the potential impact of the risk should it occur and the complexity of the full calculation to decide whether the full calculation would be an undue burden.

Co-op Insurance uses a simplified approach to calculate a component of counterparty default risk. The simplification relates to how the total risk-mitigating effect of all reinsurance arrangements is allocated across each reinsurer. The simplification is proportionate as although the full calculation is considerably more complex, it is not material as it would not alter any decision making relating to the SCR. The total impact of risk mitigation in the counterparty default calculation on the overall SF SCR is approximately £1,100k (0.5%). The impact of the simplification is expected to be a small part of that.

Co-op Insurance does not use any undertaking-specific parameters in the calculation of its SF SCR.

E.2.5 Capital Add-ons

As explained in Section E.2.2 no capital add-on is disclosed within this document.

E.3 Use of the Duration-based Equity Risk Sub-module in the Calculation of the SCR

Co-op Insurance does not include the duration-based equity risk sub-module in the calculation of the SF SCR as it does not hold any equity, and in any event, the use of the sub-module is not permitted by the regulator.

E.4 Differences Between the Standard Formula and any Internal Model Used

Co-op Insurance has an Internal Model which is used to understand risks, and in the medium term the Company intends to apply for regulatory approval to use this to calculate the SCR. However, as Co-op Insurance uses the Standard Formula for the SCR, the Internal Model is not described here.

E.5 Non-compliance with the MCR and Non-compliance with the SCR

E.5.1. Non-compliance with the MCR

Non-compliance with the MCR occurs when the value of basic Own Funds falls below the MCR. As at 31 December 2017, Co-op Insurance is in compliance with the MCR with coverage of 411% (2016: 362%) of the MCR. Co-op Insurance has been compliant with the MCR throughout the reporting period.

E.5.2. Non-compliance with the SCR

Non-compliance with the SF SCR occurs when the value of basic Own Funds falls below the SF SCR. As at 31 December 2017, Co-op Insurance is in compliance with the SF SCR with coverage of 158% (2016: 148%) of the SCR. Co-op Insurance has been compliant with the SCR throughout the reporting period.

Appendix 1: Glossary of Terms

Word/phrase	Meaning
Actuarial Function Holder (SIMF20)	Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by the firm in accordance with regulations.
Ancillary own-funds	Unfunded capital instruments eligible to cover Solvency II capital requirements. They are an alternative to funding available capital with equity or hybrid debt.
Approved Person	An individual who the PRA approve to do one or more activities - 'controlled functions' - for an authorised firm.
Arm's length	The accounting concept that ensures that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party.
Basic Own Funds	The excess of assets over liabilities.
Best Estimate liabilities	The expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.
Board Risk Appetite	The amount and type of risk that the Board is willing to take in order to meet the Company's strategic objectives.
Business planning period	The future period covered by a detailed business plan, which details the future strategy and aspirations of the Company.
Capital add-ons	Specifically calculated increases to the Standard Formula SCR, where the Company deems that the standard approach does not adequately capture the risk of their business.
Claims events	An event that would lead an Insurer to pay a claim on an insurance policy, for example a car accident.
Claims provisioning process	The process by which Claims provisions are calculated.
Claims Provisions/Reserves	Provisions relating to claims events that occurred on or before the reporting date and comprise all material future in and out going cash flows.
Contingent Liabilities	Possible obligations depending on whether some uncertain future event occurs, or present obligations where payment is not probable or the amount cannot be measured reliably.
Controlled Functions	A function relating to the carrying on of a regulated activity that must be carried out by approved persons.
Co-operative society	A group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically. Co-ops are not about making big profits for shareholders, but creating value for customers – this is what gives co-operatives a unique character, and influences the Company's values and principles.
Corporate bond	A bond issued by a corporation in order to raise financing for a variety of reasons such as to on-going operations, Mergers & Acquisitions, or to expand business.
Current Operating Model	The current model of how the Company does business, including processes, people, locations, information systems, suppliers and business partners and management systems.

Defined benefit scheme	A type of pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.
Development factors	Factors applied to claims before they are fully matured to account for development and incurred but not reported (IBNR) claims. Factors are derived from historical data to reflect actual trends in claims development.
Discounting	The process of determining the present value of a payment or a stream of payments that is to be received in the future. Given the time value of money, a pound sterling is worth more today than it would be worth tomorrow.
Earned premium	The proportion of premium that relates to a used period of cover.
EIOPA (European Insurance and Occupational Pensions Authority)	A European Union financial regulatory institution whose core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.
EIOPA risk free rate	Technical information, published by EIOPA, on the relevant risk free interest rate term structures to be applied in the calculation of Technical Provisions.
Employer debt under Section 75 of the Pensions Act	The debt owed by an employer to the trustees of the pension scheme, calculated in accordance with section 75 of the 1995 Act.
Employer’s Liability reserves	Reserves relating to the Employer’s Liability line of business, an insurance product that protects businesses against the cost of compensation claims arising from employee illness or injury, sustained as a result of their work.
Ethical Policy	Guidelines, procedures and responsibilities for use by members of staff looking to establish a relationship with a third party either as an investment, customer, supplier or partner. The policy is designed to ensure that customers' money does not finance companies and organisations whose activities conflict with their ethical concerns. For example, services will not be provided to any business or organisation: • fails to uphold basic human rights within its sphere of influence • has links to an oppressive regime that are a continuing cause for concern • takes an irresponsible approach to the payment of tax in the UK and elsewhere
Excess of loss	A type of reinsurance that covers specified losses incurred by the reassured in excess of a stated amount (the excess) up to a higher amount.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Conduct Authority (FCA)	The conduct regulator for 56,000 financial services firms and financial markets in the UK and the prudential regulator for over 24,000 of those firms.
Fit and proper regulatory requirements	Regulatory requirements which mean that individuals can only be approved where the FCA or PRA is satisfied that a candidate is "fit and proper" to perform a controlled function. The fit and proper test for approved persons, known as FIT, is laid out in the FCA's and PRA's Handbooks. The test assesses honesty, integrity and reputation, competence and credibility and financial soundness.
General Insurance	Non-life insurance cover for damage or loss. It includes products such as Motor, Travel, Pet, Health and Home insurance.
Gilts	Bonds that are issued by the British Government.
Gross written premium	The total premium (direct and assumed) written before deductions for reinsurance and ceding commissions.
IFRS (International Financial Reporting Standards)	A single set of accounting standards, developed and maintained by the International Accounting Standards Board with the intention of those standards being capable of being applied on a globally consistent basis.
Impairment	Where the carrying amount of an asset is less than the amount recoverable.
Incurred but not reported (IBNR)	Estimated losses which an insurer or reinsurer, based on its knowledge or experience of underwriting similar contracts, believes have arisen or will arise under one or more contracts of insurance or reinsurance, but which have not been notified to an insurer or reinsurer at the time of their estimation.
Independent Non-Executive Directors	A Non-Executive Director who has the necessary independence of character and judgement and is free of any connections that may lead to conflicts of interest.
Index-linked investments	An investment that promises to pay an inflation-beating return.
Internal controls	Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by the Company to conduct business in an orderly and efficient manner, safeguard assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of accounting data, produce reliable and timely financial and management information and ensure adherence to policies and plans.
Internal Model	Risk management system of an insurer for the analysis of the overall risk situation of the insurance undertaking, to quantify risks and/or to determine the capital requirement on the basis of the company specific risk profile.
Investment income	Income coming from interest payments, dividends, capital gains collected on the sale of a security or other assets, and any other profit that is made through an investment vehicle of any kind.
Investment mandate	An instruction to manage a pool of capital, using a specific strategy and within certain risk parameters.
Key Function Holders	Those individuals who can be held accountable for the running of the Company, or hold another Key Function.

Legally obliged business	Business which the Company is legally obliged to write and therefore meets the Contract Boundaries requirement for Solvency II purposes. This represents the premiums, claims and expenses of both new business and business which has been invited for renewal at the valuation date that will incept in the month following the balance sheet date.
Line of business	A category of related insurances.
Longer – tailed	Claims that have long settlement periods. Long-tail liabilities are likely to result in high incurred but not reported (IBNR) claims because it may take a long period of time for the claims to be settled.
Matching Adjustment	A mechanism that prevents changes in the value of assets, caused by spread movements, from flowing through to companies' balance sheets for portfolios where companies have fully or partially mitigated the impact of these movements. This prevents non-economic (artificial) volatility in Own Funds.
Minimum Capital Requirement	The absolute minimum capital that an Insurer could hold and still operate.
Net earned premium	Earned premium net of the effect of reinsurance.
Non-Executive Directors	A board member without responsibilities for daily management or operations of the Company.
Own Funds	The value of available financial resources (capital and reserves) which can serve as a buffer against risks and absorb financial losses.
Own Risk Solvency Assessment (ORSA)	The totality of all processes used to identify, measure, monitor, manage and report the short term and long term risks Co-op Insurance faces or may face and the Own Funds necessary to ensure solvency requirements are met on a continuous basis.
Periodic Payment Order (PPO)	Compensation paid to claimants, generally those who have suffered catastrophic personal injury, at regular intervals, rather than in a single lump sum award.
PRA stress-tests	A series of tests set by the PRA to assess the Company's ability to meet minimum specified capital levels throughout a stress period.
Premium Provisions	Provisions which are associated with claim events occurring after the valuation date for policies that are legally bound as at the valuation date.
Provision	The amount needed under a certain measurement of a present obligation to meet that obligation adequately.
Prudential Regulatory Authority (PRA)	A United Kingdom financial services regulatory body, formed as one of the successors to the Financial Services Authority (FSA).
Quota Share	A reinsurance contract that reduces the risk of the business, by sharing premium income and the cost of claims in a set ratio (or 'quota').
Regulatory capital	Regulatory capital (also known as capital requirement or capital adequacy) is the amount of capital the Company has to hold as required by the PRA.
Regulatory capital buffer	That part of the available solvency margin that is held in excess of the Solvency Capital Requirement.

Reinsurance	Insurance that is purchased by the Company from other insurance companies as a means of risk management.
Related parties	Persons or entities that are related to Co-op Insurance, for example other Companies within Co-operative Group.
Remuneration Policy	Principles upon which the remuneration of the Co-op Insurance Executives and Key Function Holders may be determined.
Reserves (Actuarial)	A liability equal to the actuarial present value of the future cash flows of a contingent event.
Return on equity	A measure of profitability that calculates how many pounds of profit a company generates with each pound of shareholders' equity.
Reverse stress tests	Reverse stress tests are stress tests that require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities. Reverse stress testing starts from an outcome of business failure and identifies circumstances where this might occur. This is different to general stress and scenario testing which tests for outcomes arising from changes in circumstances.
Risk and Control Self-assessment	An assessment which identifies the risks to the achievement of Executives' objectives, the controls against these risks together with an assessment of the effectiveness of the controls (Design and Performance) with appropriate testing of control performance.
Risk Appetite Statements	Statements which clearly define the amount and type of risk that the Company is willing to take in order to meet the Company's strategic objectives; defining boundaries and tolerances.
Risk Framework Owner	The individual responsible for production and maintenance of the policies and procedures relating to specific risks.
Risk Management Framework	A framework designed to aid the business in implementing risk management policies and which supports consistent management of risks at all levels in the business. It identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across Co-op Insurance.
Risk Strategy	A strategy providing a structured and coherent approach to identifying, assessing and managing risk.
Rule Book	Book which defines Co-op Insurance's constitutional governance structure.
Senior Insurance Managers' Regime	A regime that came into force on 7 March 2016 to replace the Approved Persons regime as part of implementing the recommendations in the final report of the Parliamentary Commission on Banking Standards to support a change in culture at all levels in banks, building societies, credit unions and PRA-designated investment firms.
Sensitivity Analysis	A technique used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions.

Solvency Capital Requirement	The value of funds required to protect the Company from unexpected losses over the following year – losses that are so severe that they are not expected more often than once every 200 years – and still be able to honour its claims.
Special Purpose Vehicles	Sometimes referred to as a Special Purpose Entity, this is an off-balance sheet vehicle comprised of a legal entity created by the sponsor or originator, typically a major investment bank or insurance company, to fulfil a temporary objective of the sponsoring firm. The risks of using such vehicles was highlighted during the Financial Crisis.
Standard Formula Solvency Capital Requirement (SF SCR).	A standard approach to calculating the Solvency Capital requirement, defined by the regulations.
Stress-Scenarios	Scenarios used to test the potential impact of certain adverse circumstances on the business as an important element in the Company's planning and risk management processes, helping to identify, analyse and manage risks. The stress testing programme assesses the Company's ability to meet capital and liquidity requirements in stressed conditions, as a key component of effective risk management.
Subordinated debt	Debt owed to an unsecured creditor that in the event of liquidation can only be paid after the claims of secured creditors have been met.
Technical Provisions (TPs)	The amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts.
Third Party Supplier Risk Policy	Documentation of the Company's policy and procedures relating to outsourcing arrangements.
Transitional deduction	A deduction from TPs during the transitional period.
Transitional Interest rate	Interest rates between those used before Solvency II regulations became effective and those prescribed under Solvency II regulations. The transitional measure aims to avoid market disruption potentially associated with the move to a new regulatory regime and to limit interference with the existing availability of insurance products.
UK listed investment grade bonds	Bonds with an investment grade rating of BBB or above.
Underwriting strategy	The strategy of the Company relating to the types of policy it sells, the level of risk it is willing to take on, where the policies are sold and who the policies are sold to.
Unearned premium reserve	An item on the balance sheet showing that portion of the policy premium that has not yet been "earned" by the company because the policy still has some time to run before expiration.
Volatility adjustment	A constant addition to the risk-free curve. It is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position.

Appendix 2: Public Quantitative Reporting Templates (QRTs)

P.02.01.02 - Balance sheet

Contents

Tabular
Microsoft Excel -based
Solvency II reporting solution

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	567
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	796,325
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	100
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	599,035
R0140	Government Bonds	192,842
R0150	Corporate Bonds	389,211
R0160	Structured notes	0
R0170	Collateralised securities	16,983
R0180	Collective Investments Undertakings	0
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	197,190
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	73,327
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	117,687
R0280	Non-life and health similar to non-life	83,283
R0290	Non-life excluding health	83,283
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	34,404
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	34,404
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	24
R0360	Insurance and intermediaries receivables	1,386
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	13,202
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	15,200
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	1,017,718

P.02.01.02 - Balance sheet

Contents

Tabular
Microsoft Excel -based Solvency II reporting solution

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	496,189
R0520	Technical provisions – non-life (excluding health)	496,189
R0530	TP calculated as a whole	0
R0540	Best Estimate	476,495
R0550	Risk margin	19,694
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	94,674
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	94,674
R0660	TP calculated as a whole	0
R0670	Best Estimate	85,856
R0680	Risk margin	8,819
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	1,714
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	5,915
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	7,761
R0830	Reinsurance payables	54,229
R0840	Payables (trade, not insurance)	5,329
R0850	Subordinated liabilities	71,672
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	71,672
R0880	Any other liabilities, not elsewhere shown	24,660
R0900	**Total liabilities**	762,143
R1000	**Excess of assets over liabilities**	255,574

P.05.01.02.01 - Premiums, claims and expenses by line of business - Table 1

Contents

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	0	0	0	279,523	94,462	0	117,631	0	0	4,385	0	93					496,093
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0130	Gross - Non-proportional reinsurance accepted													0	0	0	0	0
R0140	Reinsurers' share	0	0	0	88,094	28,697	0	40,362	0	0	1,386	0	0	0	0	0	0	158,538
R0200	Net	0	0	0	191,429	65,766	0	77,269	0	0	2,998	0	93	0	0	0	0	337,555
	Premiums earned																	
R0210	Gross - Direct Business	0	0	0	273,734	92,570	0	118,693	0	0	4,620	0	214					489,831
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0230	Gross - Non-proportional reinsurance accepted													0	0	0	0	0
R0240	Reinsurers' share	0	0	0	88,094	28,697	0	40,360	0	0	1,386	0	0	0	0	0	0	158,536
R0300	Net	0	0	0	185,640	63,873	0	78,333	0	0	3,234	0	214	0	0	0	0	331,295
	Claims incurred																	
R0310	Gross - Direct Business	0	0	0	197,864	64,128	0	48,766	2,252	0	0	0	11					313,022
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	17					17
R0330	Gross - Non-proportional reinsurance accepted													0	-39	0	-209	-248
R0340	Reinsurers' share	0	0	0	67,465	21,866	0	15,308	-1,127	0	0	0	35	0	0	0	0	103,548
R0400	Net	0	0	0	130,399	42,263	0	33,458	3,379	0	0	0	-7	0	-39	0	-209	209,243
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0	0	0	0	0	0	0	0	0	0	0	0					0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	0	0	0					0
R0430	Gross - Non- proportional reinsurance accepted													0	0	0	0	0
R0440	Reinsurers'share	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0550	**Expenses incurred**	0	0	0	93,725	30,377	0	56,481	86	0	0	0	712	0	0	0	0	181,381
R1200	**Other expenses**																	22,987
R1300	**Total expenses**																	204,367

P.05.01.02.02 - Premiums, claims and expenses by line of business - Table 2

Contents

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		**Total**
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	0	0	0	0	0	0	0	0	0
R1420	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1500	Net	0	0	0	0	0	0	0	0	0
	Premiums earned									
R1510	Gross	0	0	0	0	0	0	0	0	0
R1520	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1600	Net	0	0	0	0	0	0	0	0	0
	Claims incurred									
R1610	Gross	0	0	0	0	0	7,632	0	0	7,632
R1620	Reinsurers' share	0	0	0	0	0	2,449	0	0	2,449
R1700	Net	0	0	0	0	0	5,183	0	0	5,183
	Changes in other technical provisions									
R1710	Gross	0	0	0	0	0	0	0	0	0
R1720	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1800	Net	0	0	0	0	0	0	0	0	0
R1900	**Expenses incurred**	0	0	0	0	0	0	0	0	0
R2500	**Other expenses**									0
R2600	**Total expenses**									0

P.12.01.02 - Life and Health SLT Technical Provisions

Contents

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, including Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0			0			0	0	0	0			0	0	0
R0020	**Total Recoverables from reinsurance / SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0			0			0	0	0	0			0	0	0
	Technical provisions calculated as a sum of BE and RM																
	Best Estimate																
R0030	**Gross Best Estimate**	0		0	0		0	0	85,856	0	85,856		0	0	0	0	0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0	0		0	0	34,404	0	34,404		0	0	0	0	0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	0		0	0		0	0	51,451	0	51,451		0	0	0	0	0
R0100	**Risk Margin**	0	0			0			8,819	0	8,819	0			0	0	0
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0			0	0	0	0			0	0	0
R0120	Best estimate	0		0	0		0	0	0	0	0		0	0	0	0	0
R0130	Risk margin	0	0			0			0	0	0	0			0	0	0
R0200	**Technical provisions - total**	0	0			0			94,674	0	94,674	0			0	0	0

P.17.01.02 - Non-Life Technical Provisions

Contents

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**	**Legal expenses insurance**	**Assistance**	**Miscellaneous financial loss**	**Non-proportional health reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	0	0	0	31,547	9,685	0	6,394	0	0	-972	0	5	0	0	0	0	46,658
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	-4,680	-273	0	-763	0	0	-12	0	0	0	0	0	0	-5,727
R0150	Net Best Estimate of Premium Provisions	0	0	0	36,226	9,957	0	7,157	0	0	-961	0	5	0	0	0	0	52,385
	Claims provisions																	
R0160	Gross	0	0	0	377,558	-440	0	37,746	14,481	0	14	0	270	0	205	0	3	429,837
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	69,653	-2,688	0	19,592	1,310	0	960	0	183	0	0	0	0	89,010
R0250	Net Best Estimate of Claims Provisions	0	0	0	307,905	2,249	0	18,154	13,171	0	-946	0	87	0	205	0	3	340,828
R0260	**Total Best estimate - gross**	0	0	0	409,105	9,245	0	44,141	14,481	0	-959	0	275	0	205	0	3	476,495
R0270	**Total Best estimate - net**	0	0	0	344,131	12,206	0	25,311	13,171	0	-1,907	0	92	0	205	0	3	393,212
R0280	**Risk margin**	0	0	0	15,859	498	0	1,817	1,447	0	32	0	13	0	27	0	0	19,694
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0300	Best estimate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0310	Risk margin	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Technical provisions - total																	
R0320	Technical provisions - total	0	0	0	424,964	9,742	0	45,958	15,928	0	-926	0	288	0	232	0	4	496,189
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	0	0	64,974	-2,961	0	18,830	1,310	0	948	0	183	0	0	0	0	83,283
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	0	0	0	359,990	12,704	0	27,128	14,618	0	-1,874	0	105	0	232	0	4	412,906

P.19.01.21 - Non-life Insurance Claims Information (simplified template for the public disclosure)

Contents

Total Non-Life Business

Z0020	Accident year / Underwriting year	**Z0020**	Accident year [AY]

Gross Claims Paid (non-cumulative)
(absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**											3,099	3,099	3,099
R0160	**N-9**	131,367	69,881	19,984	18,955	12,844	5,651	2,830	825	154	425		425	262,916
R0170	**N-8**	127,881	82,635	29,428	21,692	14,689	6,549	1,670	547	378			378	285,469
R0180	**N-7**	146,482	140,900	54,181	29,800	22,951	2,861	4,145	1,991				1,991	403,310
R0190	**N-6**	174,169	157,218	62,995	40,059	20,482	8,275	1,799					1,799	464,997
R0200	**N-5**	180,051	125,492	50,018	34,298	17,137	6,960						6,960	413,956
R0210	**N-4**	135,862	92,569	29,059	19,181	14,599							14,599	291,270
R0220	**N-3**	118,585	64,817	20,588	11,457								11,457	215,448
R0230	**N-2**	107,605	77,618	22,894									22,894	208,117
R0240	**N-1**	141,052	87,433										87,433	228,484
R0250	**N**	154,212											154,212	154,212
R0260												**Total**	305,247	2,931,279

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	**Prior**											48,476	40,883
R0160	**N-9**	0	0	0	0	0	0	0	0	2,061	439		432
R0170	**N-8**	0	0	0	0	0	0	0	2,585	1,226			1,223
R0180	**N-7**	0	0	0	0	0	0	9,815	7,232				6,564
R0190	**N-6**	0	0	0	0	0	5,062	4,648					4,444
R0200	**N-5**	0	0	0	0	19,662	6,748						6,555
R0210	**N-4**	0	0	0	35,184	28,671							27,473
R0220	**N-3**	0	0	39,856	25,552								24,341
R0230	**N-2**	0	65,674	30,236									29,835
R0240	**N-1**	194,642	129,147										116,753
R0250	**N**	176,067											171,335
R0260												**Total**	429,837

P.22.01.21 - Impact of long term guarantees and transitional measures

Contents

Tabular

Microsoft Excel -based Solvency II reporting solution

		Amount with Long Term Guarantee measures and	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	590,863	0	0	6,203	0
R0020	Basic own funds	327,247	0	0	-4,217	0
R0050	Eligible own funds to meet Solvency Capital Requirement	327,247	0	0	-4,217	0
R0090	Solvency Capital Requirement	207,666	0	0	421	0
R0100	Eligible own funds to meet Minimum Capital Requirement	268,644	0	0	-4,217	0
R0110	**Minimum Capital Requirement**	65,349	0	0	208	0

P.23.01.01 - Own funds

Contents

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of					
R0010	Ordinary share capital (gross of own shares)	268,000	268,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-12,426	-12,426			
R0140	Subordinated liabilities	71,672		0	71,672	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	327,246	255,574	0	71,672	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	327,246	255,574	0	71,672	0
R0510	Total available own funds to meet the MCR	327,246	255,574	0	71,672	
R0540	Total eligible own funds to meet the SCR	327,246	255,574	0	71,672	0
R0550	Total eligible own funds to meet the MCR	268,644	255,574	0	13,070	
R0580	**SCR**	207,666				
R0600	**MCR**	65,349				
R0620	**Ratio of Eligible own funds to SCR**	158%				
R0640	**Ratio of Eligible own funds to MCR**	411%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	255,574
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	268,000
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-12,426
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	7,747
R0790	**Total Expected profits included in future premiums (EPIFP)**	7,747

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

Contents

Tabular
Microsoft Excel -based Solvency II reporting solution

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
R0010	Market risk	21,771		
R0020	Counterparty default risk	6,562		
R0030	Life underwriting risk	4,389		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	142,294		
R0060	Diversification	-22,045		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	152,971		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	54,695
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	207,666
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	207,666
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

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Tabular
Microsoft Excel -based Solvency II reporting solution

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	64,269

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expenses insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	344,131	197,482
R0060	Other motor insurance and proportional reinsurance	12,206	67,728
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	25,311	86,114
R0090	General liability insurance and proportional reinsurance	13,171	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	2,998
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	92	93
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	205	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	3	0

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	1,080

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	51,451	
R0250	Total capital at risk for all life (re)insurance obligations		0

	Overall MCR calculation	C0070
R0300	Linear MCR	65,349
R0310	SCR	207,666
R0320	MCR cap	93,450
R0330	MCR floor	51,917
R0340	Combined MCR	65,349
R0350	Absolute floor of the MCR	3,251

		C0070
R0400	**Minimum Capital Requirement**	65,349