Direct Line Insurance Group plc, U K Insurance Limited and Churchill Insurance Company Limited

Single Solvency and Financial Condition Report
For the year ended 31 December 2016

Contents

		Page
	Introduction	1
	Executive summary	2
A	**Business and performance**	
A.1	Business	6
A.2	Underwriting performance	9
A.3	Investment performance	12
A.4	Performance of other activities	13
A.5	Any other information	14
B	**System of governance**	
	Introduction	15
B.1	General information on the system of governance	16
B.2	Fit and proper requirements	37
B.3	Risk management system, including the Own Risk and Solvency Assessment	37
B.4	Internal control system	43
B.5	Internal audit function	45
B.6	Actuarial function	46
B.7	Outsourcing	46
B.8	Any other information	47
C	**Risk profile**	
	Introduction	48
	Prudent person principle and management of invested assets	48
C.1	Underwriting risk	49
C.2	Market risk	51
C.3	Credit risk	53
C.4	Liquidity risk	53
C.5	Operational risk	54
C.6	Other material risks	54
C.7	Any other information	54
D	**Valuation for solvency purposes**	
D.1	Assets	55
D.2	Technical provisions	58
D.3	Other liabilities	61
D.4	Alternative methods of valuation	63
D.5	Any other information	63
E	**Capital management**	
E.1	Own funds	64
E.2	Solvency Capital Requirement and Minimum Capital Requirement	67
E.3	Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement	71
E.4	Use of the internal model	71
E.5	Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	74
E.6	Any other information	74

Contents continued

		Page
F	Other information	
F.1	Approval by the Board of Directors	75
F.2	Independent Auditor’s Report	76
F.3	Forward-looking statements disclaimer	81
F.4	Glossary	82
G	Templates	
	Quantitative reporting templates	84

Introduction

Direct Line Insurance Group plc ("the **Company**") together with its subsidiaries ("the **Group**") has prepared a Single Solvency and Financial Condition Report ("**SFCR**") as at 31 December 2016. The Group received permission from the Prudential Regulation Authority ("**PRA**") in December 2015 to produce a Single SFCR. This permission allows the Group to produce one SFCR that covers both the Group and its individual regulated subsidiaries and is valid until 31 December 2020.

The Group's regulated entities are U K Insurance Limited ("**UKI**") and Churchill Insurance Company Limited ("**CIC**"). In meeting the requirements for a Single SFCR, information is reported for the Group, UKI and CIC separately except where that information is equivalent in both nature and scope at Group level to that at regulated subsidiary level. The Boards of Directors of the Group, UKI and CIC have the same membership. Much of the information in the SFCR is equally relevant to the Group, UKI and CIC. Where this is not the case, this has been highlighted.

The requirement to produce an SFCR follows the introduction of Solvency II as the new solvency framework which was implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. Solvency II has established a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders.

The SFCR presents information on the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management of the Group, UKI and CIC. Relevant information about the business of the Group is also included in the Group's Annual Report & Accounts. The Group's Annual Report & Accounts for the year ended 31 December 2016 was published on its website in March 2017 and a copy can be found at: www.directlinegroup.com

Some elements of this report are subject to external audit as detailed in the Auditor's report, which can be found on page 76. The Group has taken advantage of the transitional arrangements on comparative information and not disclosed such information.

Executive summary

Section A – Business and performance summary

The Group

Direct Line Insurance Group plc's mission is to make insurance much easier and better value for customers. The Group's strategy supports its aspiration to be the leading personal and small business insurer in the UK. Customers are at the centre of everything the Group does, as it remains focused on protecting an ever-changing Britain. The Group has multiple brands, products and distribution channels. Each enables customers to choose the right cover to protect their cars, homes, holidays, businesses and pets.

The Group had a successful 2016, absorbing a reduction in the Ogden discount rate applicable to personal injury lump sum damages awards to minus 0.75% and the Flood Re levy, while at the same time investing in the business and making progress on implementing its strategy. Investment in direct brands, competitiveness on price comparison websites and partnership capabilities are bearing fruit.

Brands

Direct Line has maintained its brand heritage by selling products direct to customers exclusively by phone and internet. Churchill is a household name and markets products by phone and internet, including price comparison websites. Privilege targets customers who mainly buy through price comparison websites. Green Flag is a roadside rescue and recovery provider, which is sold as a standalone service and an additional optional product alongside motor insurance. Brand Partners is the Group's partnerships arm, specialising in providing personal lines insurance and roadside rescue and recovery products to some well-known brands. Direct Line for Business is an extension of the Direct Line brand: it is a direct commercial insurance brand for small businesses that have straightforward commercial insurance requirements. NIG is the Group's specialist commercial insurance brand.

Line of business

Motor

The Group is Britain's leading personal motor insurer measured by in-force policies[1], mainly represented through highly recognised brands Direct Line, Churchill and Privilege, and also through partners. The Group insures around one in six insured cars on the road in the UK, representing 3.9 million in-force policies.

Home

The Group is Britain's leading personal home insurer measured by in-force policies[1]. The Group reaches its customers by selling home insurance products through its own brands, Direct Line, Churchill and Privilege, and its partners – RBS, NatWest and Prudential.

Rescue and other personal lines

The Group is one of the leading providers of rescue and other personal lines insurance in the UK with 7.9 million in-force policies[2,3]. This includes providing roadside assistance and recovery for customers through Green Flag, the UK's third-largest roadside recovery provider. The Group also offers customers protection for their pets and holidays and is the second-largest travel and the third-largest pet insurer.

Commercial

The Group protects commercial businesses through its brands NIG, Direct Line for Business and Churchill, and through its partners RBS and NatWest. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business provides business, van and landlord insurance products direct to customers. Churchill sells business, landlord and van products direct to customers and through price comparison websites ("**PCWs**").

Solvency II lines of business

The policies underwritten by the Group are diversified across the Solvency II lines of business including 'Motor vehicle liability insurance', 'Other motor insurance', 'Fire and other damage to property insurance', 'General liability insurance', 'Income protection insurance', 'Legal expenses insurance', 'Assistance' and 'Miscellaneous financial loss'.

Business performance in 2016

On an International Financial Reporting Standards ("**IFRS**") basis in 2016, underwriting profit for the Group was £88.5 million. Group profit before tax was £353.0 million. This was lower by £217.3 million as a result of using the new Ogden discount rate of minus 0.75%, which led to an increase in the level of claims reserves necessary to be held by the Group, specifically those that are settled as lump sums by the Courts.

Notes:

1. Includes Direct Line, Churchill, Privilege and partner brands: RBS, Nationwide (home only), NatWest, Prudential and Sainsbury's © GfK Financial Research Survey (FRS) six months ending November 2016, 13,665 adults interviewed for motor insurance and 12,270 for home insurance.
2. Mintel Vehicle Recovery – UK, September 2016.
3. Mintel Pet Insurance – UK, August 2016 and Mintel Travel Insurance – UK, February 2016.

As allowed under the transitional arrangements for the provision of comparative information, Section A does not include any comparative information.

Section A of the SFCR has more information on the Group's business and performance in 2016 – see pages 6 to 14 of this report.

Section B – System of governance summary

The Group's Board of Directors ("**the Board**") has overall oversight of the management of the Group. A major focus of the Board continues to be in maintaining high standards of corporate governance, which it seeks to achieve through the Group's governance arrangements. The Board seeks to comply with the principles of the UK Corporate Governance Code issued by the Financial Reporting Council and has complied with all the principles of the 2014 edition of the Code which applied to the year under review. The Board seeks to secure the long-term success of the Group and aims to deliver this by creating an open culture that encourages the Group to make decisions that are best for its stakeholders.

The Boards of Directors of Direct Line Insurance Group plc, U K Insurance Limited ("**UKI**") and Churchill Insurance Company Limited ("**CIC**") have resolved to approve and adopt a High Level Control and System of Governance Framework document as a statement of the governance structure and requirements applicable to each company and the Group.

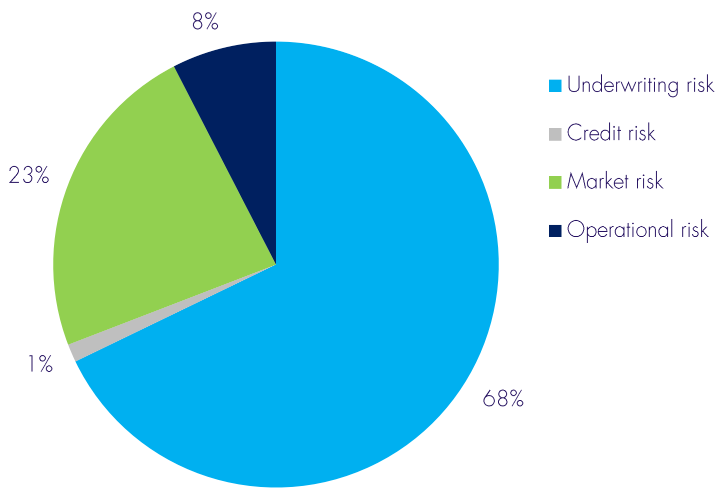
The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence as follows:

- the First Line of Defence is responsible for ownership and management of the risks to the achievement of business objectives on a day-to-day basis;
- the Second Line of Defence is responsible for the design and recommendation to the Board Risk Committee of the Enterprise Risk Management Strategy and Framework, its implementation across the Group and the provision of proportionate oversight and challenge of risks, events and management actions throughout the Group; and
- the Third Line of Defence is provided by Group Audit. Group Audit is responsible and accountable for providing to the Board, via the Audit Committee, an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

Section B of the SFCR has more information on the Group's system of governance – see pages 15 to 47 of this report.

Section C – Risk profile summary

The following chart shows the UKI Solvency Capital Requirement ("**SCR**") of £1,377.9m as at 31 December 2016, calculated using the approved internal model, by risk type. The SCR for the Group as at 31 December 2016 using its approved model was £1,403.2m.



The risk profile of the Group has not changed materially over the reporting period.

Underwriting risk is the risk that future claims experience on business written is materially different from the results expected, resulting in current accident year losses. Underwriting risk includes reserve risk, catastrophe risk, the risk of loss or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems or from external events. The allocation of operational risk has been updated to be more consistent with the standard formula approach to constructing a total SCR figure and better reflects how the Direct Line Insurance Capital Engine ("DIICE") is constructed.

Credit risk is the risk of loss resulting from default on cash inflows and / or changes in market value of issuers of securities, counterparties and any debtors to which the Group is exposed.

Section C of the SFCR has more information on the Group's risk profile – see pages 48 to 54 of this report.

Section D – Valuation for solvency purposes summary

In accordance with the Solvency II regulations, the Group values all assets and liabilities on the balance sheets of the Group and its regulated entities at fair value, which represents an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Goodwill and intangible assets are valued at zero.

An analysis of the Solvency II material classes of assets and liabilities is provided in sections D.1 and D.3 respectively. The section details the recognition and valuations bases, the judgements and any assumptions made, including sources of estimation uncertainty applied for Solvency II, and compares these with judgements and assumptions made in the preparation of IFRS financial statements.

Section D.2 describes the bases, methods and assumptions for the valuation of Solvency II technical provisions, including the estimation uncertainty, and compares these with the bases, methods and assumptions used in the preparation of the IFRS financial statements.

A summary of the Solvency II balance sheets for the Group and its regulated subsidiaries is set out below:

At 31 December 2016	Group £m	UKI £m	CIC £m
Total investments	6,564.4	6,318.5	18.7
Property, plant and equipment held for own use	52.1	–	–
Reinsurance recoverables	1,232.7	1,212.8	29.9
Insurance and other receivables	251.8	195.6	0.8
Cash and cash equivalents	166.6	156.6	–
Deferred tax assets	35.4	–	–
Other assets	66.2	13.1	–
Total assets	**8,369.2**	**7,896.6**	**49.4**
Technical provisions	5,385.0	5,359.6	35.4
Provisions other than technical provisions	64.8	28.2	–
Deferred tax liabilities	–	40.3	–
Derivatives	45.1	45.1	–
Debts owed to credit institutions	55.3	50.6	–
Insurance and other payables	336.4	341.4	0.9
Subordinated liabilities	537.5	537.5	–
Total liabilities	**6,424.1**	**6,402.7**	**36.3**
Excess of assets over liabilities	**1,945.1**	**1,493.9**	**13.1**

As allowed under the transitional arrangements for the provision of comparative information, Section D does not include any comparative information.

Section E – Capital management summary

In June 2016, UKI, the Group's principal underwriter, received approval from the PRA to use its Internal Economic Capital Model ("**IECM**") which forms part of a Group-wide Partial Internal Model ("**PIM**") which has been in use from the same date.

The Group's capital management objective is to maintain appropriate levels of capitalisation and solvency, with respect to operating, regulatory and rating agency requirements. The policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management Minimum Standard.

The SCR coverage ratio was as follows for the Group and regulated entities:

At 31 December 2016	Group £m	UKI £m	CIC £m
Solvency capital requirement	1,403.2	1,377.9	2.1
Capital surplus above solvency capital requirement	910.1	653.5	11.0
Capital coverage ratio (%)	**165%**	**147%**	**617%**

Section E of the SFCR has more information on the Group's capital management – see pages 64 to 74 of this report.

Reconciliation of excess of assets over liabilities to own funds

At 31 December 2016	Group £m	UKI £m	CIC £m
Excess of assets over liabilities	**1,945.1**	**1,493.9**	**13.1**
Foreseeable dividends	(132.5)	–	–
Own shares[1]	(36.8)	–	–
Less deferred tax assets	(35.4)	–	–
Excess of assets over liabilities (Tier 1)	**1,740.4**	**1,493.9**	**13.1**
Subordinated liabilities (Tier 2)	537.5	537.5	–
Deferred tax assets (Tier 3)	35.4	–	–
Own funds	**2,313.3**	**2,031.4**	**13.1**

Note:
1. Own shares (held directly) for employee share trusts form part of Tier 1 own funds and are included within assets on the Solvency II balance sheet.

Material changes

There have been no material changes to the business and performance, system of governance, risk profile, valuation for solvency purposes or capital management over the reporting period. Section A includes the impact of the reduction in the Ogden discount rate on the Group's performance in 2016 and section E includes the PRA's approval of UKI's IECM in June 2016.

A. Business and performance

A.1 Business

Name and legal form
Direct Line Insurance Group plc is a public limited company incorporated in the UK. It has a premium listing on the UK Listing Authority's Official List. The Company's Ordinary Shares (EPIC:DLG) are admitted to trading on the London Stock Exchange.

Supervision
The Company's supervisory authority responsible for financial supervision is:

Prudential Regulation Authority (PRA)
Bank of England
20 Moorgate
London
EC2R 6DA
Switchboard: +44 (0)20 7601 4444
Email: PRA.FirmEnquiries@bankofengland.co.uk

Auditor
External auditor:

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR
Phone: +44 (0)20 7936 3000

Holders of qualifying holdings
There were no holders of qualifying holdings in the Company as at 31 December 2016. A 'qualifying holding' is a direct or indirect holding in the Company which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the Company.

Group ownership and structure
The Company is the ultimate holding company of the Group. The underwriting subsidiaries of the Company, both of which are 100% owned, are as follows:

- U K Insurance Limited – general insurance
- Churchill Insurance Company Limited – general insurance

Following agreement with the PRA under Solvency II Directive Article 256 paragraph 2 and a modification to the PRA handbook, the Group has received approval to publish a Single SFCR. This is a single publication of a Group SFCR for Direct Line Insurance Group plc and its subsidiaries, and solo SFCR reports for both UKI and CIC. Information is separately identifiable by reference to the Group, UKI and CIC.

Basis of consolidation
The Solvency II Group balance sheet is a full consolidation in accordance with Article 335 and there are no differences in the scope of the Group used for the Group's consolidated financial statements in its Annual Report & Accounts 2016.

Subsidiaries

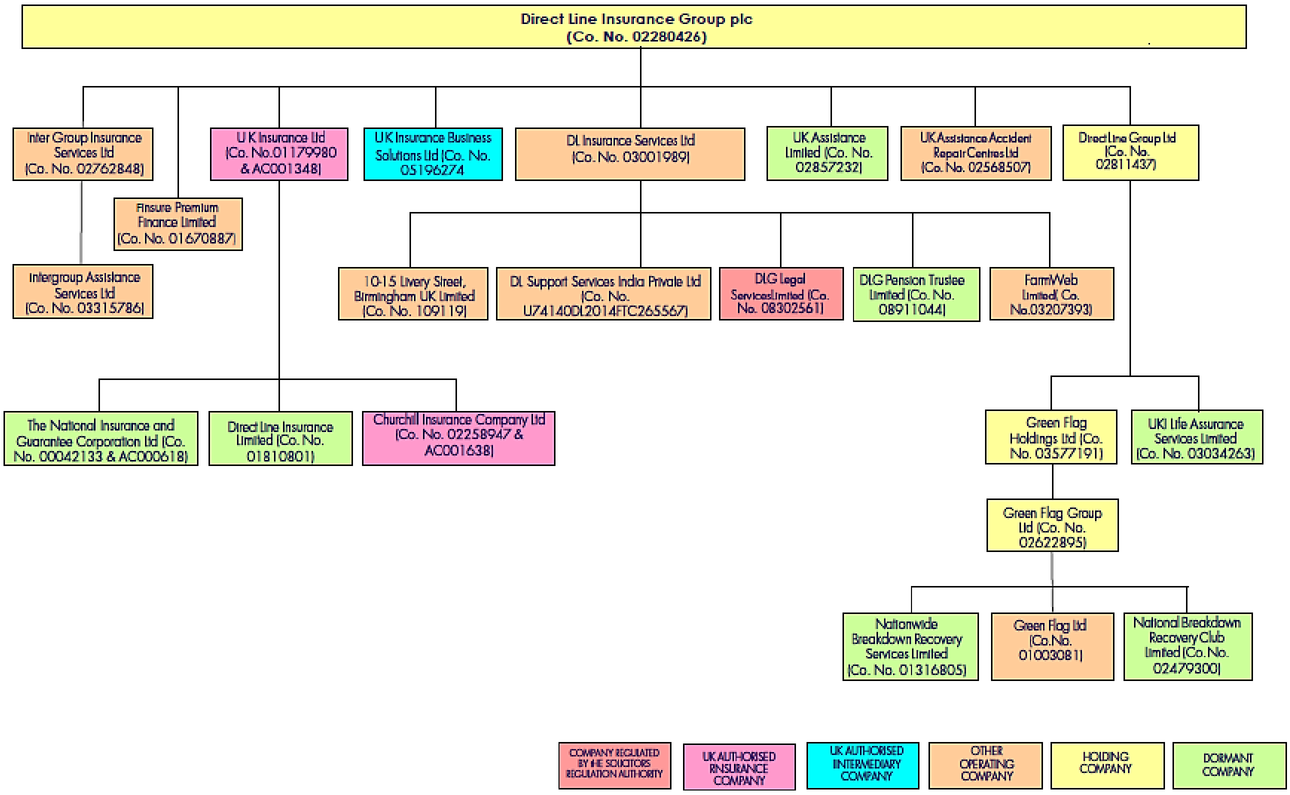
The subsidiary undertakings of the Company are set out below. Their capital consists of Ordinary Shares which are unlisted. In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Name of subsidiary	Place of incorporation and operation	Principal activity
Directly held by the Company:		
Direct Line Group Limited[1]	United Kingdom	Intermediate holding company
DL Insurance Services Limited[1]	United Kingdom	Management services
Finsure Premium Finance Limited[1]	United Kingdom	Non-trading company
Inter Group Insurance Services Limited[1]	United Kingdom	Non-trading company
UK Assistance Accident Repair Centres Limited[1]	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	United Kingdom	Dormant
U K Insurance Business Solutions Limited[1]	United Kingdom	Insurance broking services
U K Insurance Limited[2,3]	United Kingdom	General insurance
Indirectly held by the Company:		
10-15 Livery Street, Birmingham UK Limited[4]	Jersey	Non-trading company
Churchill Insurance Company Limited[1]	United Kingdom	General insurance
Direct Line Insurance Limited[1]	United Kingdom	Dormant
DLG Legal Services Limited[5]	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	United Kingdom	Dormant
DL Support Services India Private Limited[6]	India	Support and operational services
Farmweb Limited[1]	United Kingdom	Non-trading company
Green Flag Group Limited[2]	United Kingdom	Intermediate holding company
Green Flag Holdings Limited[1]	United Kingdom	Intermediate holding company
Green Flag Limited[2]	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited[1]	United Kingdom	Non-trading company
National Breakdown Recovery Club Limited[1]	United Kingdom	Dormant
Nationwide Breakdown Recovery Services Limited[1]	United Kingdom	Dormant
The National Insurance and Guarantee Corporation Limited[1]	United Kingdom	Dormant
UKI Life Assurance Services Limited[1]	United Kingdom	Dormant

Notes:
1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4A2.
3. U K Insurance Limited has a branch, as defined in section 1046 (3) of the Companies Act 2006, in the Republic of South Africa.
4. Registered office at: 22 Greenville Street, St Helier, JE4 8PX, Jersey.
5. Registered office at: 42 The Headrow, Leeds, LS1 8HZ.
6. Registered office at: 4 Aradhana Enclave, Sector 13, Rama Krishna Puram, New Delhi, South West Delhi, Delhi, 110066, India.

Group structure

Direct Line Group Legal Entity Structure as at 31 December 2016
All Current Legal Entities



Lines of business

The Group provides personal lines, motor and home insurance products and is mainly represented through its highly recognised brands Direct Line, Churchill and Privilege, and also through its partners. The Group insures around one in six cars on the road in the UK, representing 3.9 million in-force policies, and is Britain's leading personal home insurer measured by in-force policies. The Group provides roadside assistance and recovery for customers through its Green Flag roadside recovery provider. The Group also offers customers protection for their pets and holidays.

The Group protects small and medium-sized enterprises ("SMEs") through its brands NIG, Direct Line for Business and Churchill, and through its partners RBS and NatWest. NIG sells its products exclusively through brokers operating across the UK. Direct Line for Business provides business, van and landlord insurance products direct to customers. Churchill sells van insurance direct to customers and through price comparison websites.

Motor vehicle liability insurance

The Group's personal and commercial lines motor vehicle liability insurance products provide cover against third-party property damage and bodily injury liability cover.

Other motor insurance

The Group's personal and commercial lines other motor insurance products provide cover against accidental damage, fire and theft and windscreen damage.

Fire and other damage to property insurance

The Group's personal and commercial lines insurance products provide cover against accidental damage, escape of water, fire, subsidence, theft and weather (including storms and flooding).

General liability insurance

The Group's commercial lines general liability insurance products provide cover against personal accident, employers' liability, public liability for injury, public liability to property and disease.

Income protection insurance
The Group's creditor income protection insurance product includes cover in the event of being unable to continue working.

Legal expenses insurance
The Group offers legal expenses insurance cover that includes motor legal protection and family legal protection, including for employment disputes and personal injury. The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third party against an at-fault Group policyholder, the cost to the Group will be included in motor liability or other motor insurance claims and not in legal expenses claims.

Assistance
The Group's personal lines assistance products cover motor rescue, car hire and travel (including cancellation, medical and non-medical expenses).

Miscellaneous financial loss
The Group's personal and commercial lines miscellaneous financial loss products includes creditor protection for unemployment, pet including veterinary fees, home response and emergency, pecuniary loss for business interruption and commercial special risks.

Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations
The Group's personal and commercial lines insurance products provide cover for motor vehicle liability insurance and general liability insurance that are settled by Periodic Payment Order ("PPO") as awarded by a court under the Court Act 2003. As the Group has no non-life insurance contracts relating to health insurance obligations, future references within this document to "Annuities from non-life" refer only to non-life annuities not relating to health insurance.

Geographical areas
The Group carries out its business primarily in the United Kingdom; a small number of policies are sold in the Republic of Ireland.

Significant business or other events
There are no significant business or other events to report in respect of the year ended 31 December 2016.

A.2 Underwriting performance

Group – by line of business

For the year ended 31 December 2016	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,262.2	357.8	1,053.0	92.9	13.0	87.5	294.8	112.9	–	3,274.1
Gross earned premium	1,194.2	338.5	1,069.4	92.3	13.2	88.2	293.1	113.9	–	3,202.8
Reinsurers' share	(135.9)	–	(59.1)	(5.7)	–	–	(0.7)	(0.8)	–	(202.2)
Net earned premium	1,058.3	338.5	1,010.3	86.6	13.2	88.2	292.4	113.1	–	3,000.6
Gross claims	(1,140.5)	(133.6)	(391.1)	(80.7)	0.3	(6.5)	(152.5)	(68.3)	(40.4)	(2,013.3)
Reinsurers' share	341.5	–	(0.2)	23.7	–	–	0.1	(0.4)	10.5	375.2
Net claims	(799.0)	(133.6)	(391.3)	(57.0)	0.3	(6.5)	(152.4)	(68.7)	(29.9)	(1,638.1)
Expenses incurred	(400.1)	(124.9)	(505.0)	(39.4)	(13.3)	(15.2)	(97.4)	(35.8)	(3.0)	(1,234.1)
Underwriting profit before other expenses	(140.8)	80.0	114.0	(9.8)	0.2	66.5	42.6	8.6	(32.9)	128.4
Other expenses[1]										(39.9)
Underwriting profit										88.5
Underwriting profit before other expenses – pre Ogden	60.6	80.0	114.0	(0.1)	0.2	66.5	42.6	8.6	(26.7)	345.7

Note:
1. Other expenses relate to restructuring and other one-off costs. A detailed breakdown is provided in the Group's Annual Report & Accounts 2016 within Note 11: 'Operating expenses' on page 155 (refer to link on page 1).

A. Business and performance continued

The table below reconciles underwriting profit for the Group to underwriting profit from Ongoing operations as reported in the Group's 2016 Annual Report & Accounts.

For the year ended 31 December 2016	£m
Underwriting profit	**88.5**
Non-technical expenses	(35.1)
Run-off	(23.2)
Restructuring costs	39.9
Underwriting profit – Ongoing operations	**70.1**

The table below reconciles underwriting profit to profit before tax:

For the year ended 31 December 2016	£m
Underwriting profit	**88.5**
Non-technical expenses	(35.1)
Investment return	171.5
Instalment and other income	165.3
Operating profit	**390.2**
Finance costs	(37.2)
Profit before tax	**353.0**

Direct Line Insurance Group plc is the ultimate holding company for a vertically integrated general insurance group which has outsourced to companies within the Group the delivery of certain services and claims activities, for example the repair of motor vehicles. The cost of claims in UKI represents the full cost of claims, whereas in the consolidated Group, claims represents the cost less margin generated from such outsourced activities.

UKI

For the year ended 31 December 2016	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,262.2	357.8	1,053.0	92.9	13.0	87.5	294.8	112.9	–	3,274.1
Gross earned premium	1,194.2	338.5	1,069.4	92.3	13.2	88.2	293.1	113.9	–	3,202.8
Reinsurers' share	(135.9)	–	(59.1)	(5.7)	–	–	(0.7)	(0.8)	–	(202.2)
Net earned premium	1,058.3	338.5	1,010.3	86.6	13.2	88.2	292.4	113.1	–	3,000.6
Gross claims	(1,155.8)	(171.5)	(391.1)	(80.7)	0.3	(7.8)	(152.5)	(68.3)	(41.1)	(2,068.5)
Reinsurers' share	340.9	–	(0.2)	23.7	–	–	0.1	(0.5)	10.5	374.5
Net claims	(814.9)	(171.5)	(391.3)	(57.0)	0.3	(7.8)	(152.4)	(68.8)	(30.6)	(1,694.0)
Expenses incurred	(402.9)	(126.1)	(506.9)	(39.4)	(13.3)	(15.1)	(96.0)	(35.6)	(3.0)	(1,238.3)
Underwriting profit before other expenses	(159.5)	40.9	112.1	(9.8)	0.2	65.3	44.0	8.7	(33.6)	68.3
Other expenses[1]										(39.7)
Underwriting profit										28.6
Underwriting profit before other expenses – pre Ogden	43.7	40.9	112.1	(0.1)	0.2	65.3	44.0	8.7	(27.4)	287.4

Note:
1. Other expenses relate to restructuring and other one-off costs.

CIC

For the year ended 31 December 2016	Motor vehicle liability insurance £m	Annuities from non-life £m	Total £m
Gross written premium	–	–	–
Gross earned premium	–	–	–
Reinsurers' share	–	–	–
Net earned premium	–	–	–
Gross claims	(0.3)	(0.4)	(0.7)
Reinsurers' share	(2.3)	0.5	(1.8)
Net claims	(2.6)	0.1	(2.5)
Expenses incurred	(0.1)	(0.1)	(0.2)
Underwriting loss	(2.7)	–	(2.7)
Underwriting loss – pre Ogden	(0.9)	–	(0.9)

Underwriting performance – Group

The underwriting profit relates almost entirely to UKI which is the main underwriting company within the Group. CIC has nine historic claims remaining in the undertaking.

On 27 February 2017, the Lord Chancellor announced a reduction in the Ogden discount rate to minus 0.75% from 20 March 2017. The Group has previously held a provision in claims reserves for the risk of a change in the Ogden discount rate to 1.5%, compared to the previous actual rate of 2.5%. As a result of the announcement, the Group has increased this provision for the estimated impact of moving to a minus 0.75% Ogden discount rate, for all business earned up to 31 December 2016. The Group continues to hold a significant margin above the actuarial best estimate and, after this adjustment, the Group's overall reserving strength has been maintained as a result of reflecting the Ogden discount rate change to minus 0.75%.

At a Group level, profit from underwriting performance was £88.5 million, reflecting an increase in its claims reserves for the reduction in the Ogden discount rate of £217.3 million.

Analysis by line of business

Motor vehicle liability insurance

Gross written premium for motor vehicle liability insurance increased during 2016 as a result of in-force policy growth in combination with price increases within Personal Lines.

In 2016 the underwriting loss before other expenses of £140.8 million includes an impact of £201.4 million reflecting the new Ogden discount rate of minus 0.75%.

Other motor insurance

Gross written premium for other motor insurance grew during 2016 with in-force policies growing along with an increase in rates.

The underwriting profit before other expenses of £80.0 million was at a similar level compared to 2015.

Fire and other damage to property insurance

Gross written premium for fire and other damage to property insurance was marginally lower in 2016, driven by a decline in partnerships business substantially offset by increases in own brands performance.

The underwriting profit before other expenses of £114.0 million was an improvement over 2015, primarily as a result of a lower claims impact from major weather events.

General liability insurance

Gross written premium for general liability insurance was higher than 2015 against a backdrop of competitive markets.

In 2016, the underwriting loss before other expenses of £9.8 million included a reduction of £9.7 million as a result of the recent reduction in the Ogden discount rate.

Legal expenses insurance

The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third-party policyholder under their motor legal protection policy against an at-fault Group policyholder, the cost will be included in motor vehicle liability insurance claims or other motor insurance claims.

Gross written premium for legal expenses insurance was broadly stable during 2016 and the underwriting profit before other expenses of £66.5 million was a slight improvement compared to 2015.

Assistance

Gross written premium for assistance increased during 2016, primarily due to price increases in Travel along with higher Green Flag sales.

The underwriting profit before other expenses of £42.6 million was lower compared to 2015, driven by adverse claims trends on Rescue, partially offset by favourable Travel performance.

Annuities from non-life insurance contracts, other than health obligations

The underwriting loss before other expenses improved compared to 2015. During 2016, there were 13 new approved claims that are due to be settled by PPO awards.

Underwriting performance for the following lines of business is considered immaterial to the Group and there are no significant movements between periods.

- income protection insurance; and
- miscellaneous financial loss.

A.3 Investment performance

Investment return

For the year ended 31 December 2016	Group £m	UKI £m	CIC £m
Investment income	167.9	163.7	0.1
Net realised and unrealised gains	3.6	8.5	–
Total investment return	**171.5**	**172.2**	**0.1**

Against a background of increased financial market uncertainties and further yield compression for much of 2016, the Group generated investment income of £167.9 million, primarily from UKI (£163.7million). The Group recognised net realised and unrealised gains of £3.6 million. UKI recognised gains of £8.5 million, which included an inter-group profit on a bond transfer that was eliminated for the Group consolidated accounts. These gains primarily reflected fair value adjustments in the investment property portfolio. At the year end, the net available-for-sale ("AFS") reserve for the Group was £92.1 million, whilst UKI's AFS reserves were £73.7 million.

Investment yield

For the year ended 31 December 2016	Group	UKI	CIC
Investment income yield[1]	2.5%	2.5%	0.5%
Investment return[2]	2.6%	2.7%	0.3%

Notes:
1. Investment income yield excludes net gains and is calculated on income divided by calculating the average Assets Under Management ("AUM") based on opening and closing balance for total Group.
2. Investment return includes net gains and is calculated on income divided by calculating the average AUM based on opening and closing balance for total Group.

Investment income by asset class

For the year ended 31 December 2016	Group £m	UKI £m	CIC £m
Investment AFS credit	104.9	104.9	–
Investment grade held-to-maturity private placements	1.4	1.4	–
High yield	17.8	17.8	–
Credit	124.1	124.1	–
Securitised credit	3.5	3.5	–
Sovereign	8.9	6.0	–
Total debt securities	**136.5**	**133.6**	–
Infrastructure debt	7.8	7.8	–
Cash and cash equivalents	4.2	3.4	0.1
Intercompany loan income	–	0.6	–
Commercial real estate loans	1.0	1.0	–
Investment property	18.4	17.3	–
Total investment income	**167.9**	**163.7**	**0.1**

Investment expenses

For the year ended 31 December 2016	Group £m	UKI £m
Total investment expenses	**14.2**	**14.2**

Gains and losses recognised in equity

For the year ended 31 December 2016	Group £m	UKI £m
Fair value gains on AFS investments	119.6	121.5
Less: realised net gains on AFS investments included in income statement	(15.3)	(5.5)
Tax relating to items that may be reclassified	(17.6)	(20.0)
Movement in AFS reserves during the year	**86.7**	**96.0**

Investment in securitised credit

The Group disposed of its securitised credit portfolio in the third quarter of 2016.

A.4 Performance of other activities

Instalment and other operating income – Group and UKI

For the year ended 31 December 2016	Group £m	UKI £m
Instalment income	**107.1**	**107.1**
Other operating income:		
Vehicle replacement referral income	14.1	14.1
Revenue from vehicle recovery and repair services	19.3	–
Other income[1]	24.8	4.8
Other operating income	**58.2**	**18.9**
Total	**165.3**	**126.0**

Note:
1. Other income includes legal services revenue, salvage income and fee income from insurance intermediary services.

Instalment and other operating income of £165.3 million increased on the prior year. Instalment income increased primarily as a result of higher Motor volumes.

Operating leasing commitments where the Group is the lessee

The Group and UKI have entered into non-cancellable operating lease agreements for properties, vehicles and other assets.

At 31 December 2016	Group £m	UKI £m
Lease payments under operating leases recognised as an expense in the year	18.3	11.6

The following table analyses the outstanding commitments for future minimum lease payments under non-cancellable operating leases by the period in which they fall due.

At 31 December 2016	Group £m	UKI £m
Within one year	17.4	11.6
In the second to fifth years inclusive	54.2	45.0
After five years	159.7	155.3
Total	231.3	211.9

Operating commitments where the Group is the lessor

The following table analyses future aggregate minimum lease payments receivable under non-cancellable operating leases by the period in which they fall due.

At 31 December 2016	Group £m	UKI £m
Within one year	16.3	15.6
In the second to fifth years inclusive	53.0	52.4
After five years	78.9	78.5
Total	148.2	146.5

A.5 Any other information

Other regulatory changes

On 23 February 2017, the Government announced measures to reduce the volume and cost of soft tissue damage 'whiplash' claims and stated its expectation that this will see a reduction in motor insurance premiums by £40 on average. The measures include a fixed tariff for payment of injuries up to 24 months in duration. Further measures detailed in the paper are still being considered. The Government had indicated it was keen to introduce all changes to whiplash claims as a package in late 2018. The Group has been calling for reform in this area for some time and continues to work with Government and industry bodies on how the reforms should be implemented. However as a result of the Government's recent decision to call a general election, the introduction and timeline of any such changes to legislation are uncertain.

On 16 January 2017, the Financial Services Compensation Scheme announced that it would raise a supplementary levy of £63 million on general insurers to compensate policyholders of the Enterprise and Gable Insurance companies. The Group's share of the levy, approximately £5 million for 2017, was charged to operating expenses in Q1 2017.

B. System of governance

This section provides information regarding the system of governance of the Group.
References to Group include the Group's regulated insurance companies, UKI and CIC.

Assessment of the adequacy of the Group's system of governance

The Board is responsible for ensuring there is an appropriate system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework.

The Group has adopted a High Level Control and System of Governance Framework document which has been approved by the Boards of the Company, UKI and CIC as a statement of the governance structure and requirements applicable to the Company and the Group.

The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence as follows:

- the First Line of Defence is responsible for ownership and management of the risks to the achievement of business objectives on a day-to-day basis;
- the Second Line of Defence is responsible for the design and recommendation to the Board Risk Committee ("BRC") of the Enterprise Risk Management Strategy and Framework ("ERMF"), its implementation across the Group and the provision of proportionate oversight and challenge of risks, events and management actions throughout the Group; and
- the Third Line of Defence is provided by Group Audit. Group Audit is responsible and accountable for providing to the Board, via the Audit Committee, an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

During the year the Board approved the Group's Own Risk and Solvency Assessment ("ORSA") following detailed review and challenge to management by the BRC. Management had considered and reviewed the processes in preparing the ORSA thoroughly in the Risk Management Committee ("RMC") which consists of senior executives of the Group responsible for its operations and support functions.

The conclusions of the 2016 ORSA are taken into consideration by the Board and Executive Committee in assessing the Group's risk and capital profile related to the Group's Annual Financial Plan. The 2016 ORSA report summarises four key areas relating to the Plan:

- key assumptions and dependencies;
- prominent and increasing risks;
- forecast capital and solvency position on a Solvency II basis; and
- stress test of the Plan.

This 2016 ORSA report contains additional information including an assessment of: non-quantifiable risks, appropriateness of the standard formula, technical provisions and the outcomes of stress and scenario tests and reverse stress tests.

The Group undertakes a Control Environment Certification process on an annual basis, in which each business area conducts a review of the effectiveness of its risk management and internal control systems and reports to stakeholders that it has done so. This process involves each business area completing a self-assessment of its risks, which is reviewed and challenged by the RMC and the BRC.

Group Audit undertook an annual assessment of the governance, risk management and control environment for the 12 months ended 31 December 2016, which was reviewed by the Audit Committee in February 2017 before the Group's Annual Report & Accounts for 2016 were approved by a duly authorised Committee of the Board on 6 March 2017. As part of the end of year process:

i) The Audit Committee noted that following the review of the adequacy and effectiveness of the Group's internal financial controls and internal control systems no issues had been identified that could be considered to represent:

- material systemic control weaknesses or breakdowns;
- material fraud or irregularities;
- prolonged exposure to material control weaknesses through management failure to remediate control weaknesses on a timely basis;
- material control issues where the root cause is indicative of significant management negligence or incompetence; or
- evidence of repeat occurrence of material issues arising from a failure on the part of management to deliver fully robust remediation.

B. System of governance continued

ii) The BRC noted that the BRC's review of the adequacy and effectiveness of the Group's risk and governance framework, including risk appetite, risk exposures and the identification, monitoring and management of risk and control issues had not identified any issues which could be considered to represent:

- material or systemic weaknesses or breakdown in the systems of governance or ERMF;
- material or extended breaches of the Group's approved risk appetite or related authorities, limits and mandates;
- material regulatory breaches or notifications;
- material risk to the Group's reputation; or
- evidence of repeat occurrence of material issues arising from a failure on the part of management to deliver fully robust remediation.

The Group has identified certain principal risks as being applicable to the Group, as for example referred to in the ORSA and as summarised in the Group's Annual Report & Accounts, and assesses robustly those principal risks. The Board sets and monitors adherence to the risk strategy, risk appetite and risk framework. Within this overall context, the Board has over time approved a system of governance which is referred to in the High Level Control and System of Governance document and which includes the Matters Reserved to the Board, the Board Committees' terms of reference, the Regulatory Governance Map, risk appetite statements, the ERMF, Group policies and minimum standards.

B.1 General information on the system of governance

Governance framework and structure

The Board of Directors of the Company, UKI and CIC are comprised of the same persons and act as Administrative, Management or Supervisory Body.

Main roles and responsibilities of the Board

The Board has a collective objective of promoting the long-term success of the Company for its shareholders and provides leadership of the Company. The main role of the Board is to organise and direct the Group's affairs in a way that is most likely to help it succeed in the long term for the benefit of shareholders as a whole. The Board supervises the Group's operations, with the objectives of ensuring that they are effectively managed, that prudent controls are in place, and that risks are assessed and managed appropriately. In addition, it sets the Group's strategy, and monitors management's performance and progress against the strategic aims and objectives. The Board also develops and promotes the collective vision of the Group's purpose, culture, values and behaviours.

Board composition

As at the date of this report, the Board comprised the Chairman, who was independent when appointed to the Board; the Chief Executive Officer; the Chief Financial Officer; the Managing Director of Personal Lines; and six independent Non-Executive Directors, including the Senior Independent Director.

The Board of Directors of the Group as at the date of this report are:

Role	Name
Chairman	Mike Biggs
Senior Independent Director ("SID")	Richard Ward
Non-Executive Directors ("NEDs")	Danuta Gray
	Jane Hanson
	Sebastian James
	Andrew Palmer
	Clare Thompson
Executive Directors	
Chief Executive Officer ("CEO")	Paul Geddes
Chief Financial Officer ("CFO")	John Reizenstein
Managing Director of Personal Lines	Mike Holliday-Williams

The current Directors served throughout all of 2016, except for Richard Ward, who was appointed on 18 January 2016, and Danuta Gray and Mike Holliday-Williams, who were appointed on 1 February 2017. Priscilla Vacassin retired from the Board on 1 March 2016.

Board structure

The diagrams below summarise the responsibilities of the Chairman, the CEO, the Board and the Board Committees. The Board has established six Committees to help discharge its responsibilities. Each Committee plays a vital role in helping to ensure the Board operates efficiently and considers matters appropriately.

Board
Mike Biggs, Chairman

- Organises and directs the Group's affairs in a way that is believed most likely to help it succeed in the long term for the benefit of shareholders as a whole.
- Supervises the Group's operations, helping to ensure it is effectively managed, that prudent controls are in place, and that risks are assessed and managed appropriately.
- Sets the Group's strategy, and monitors management's performance and progress against the strategic aims and objectives.
- Approves the terms of reference for the Board Committees and, where appropriate, reviews and agrees their recommendations.

Audit Committee
Andrew Palmer, Chair

- Maintains the integrity of the Group's financial statements.
- Oversees and challenges the effectiveness of the Group's systems of financial and other controls.
- Monitors the work and effectiveness of the Group's internal and external auditors and actuaries.

Board Risk Committee
Jane Hanson, Chair

- Oversees and advises the Board on the Group's current and potential future risk exposures, and its strategic approach to managing risk.
- Recommends risk appetite and tolerance levels to the Board and supports the Board in promoting a risk-aware culture across the Group.

CSR Committee
Sebastian James Chair

- Provides oversight and advice on how the Group conducts its business responsibly, including matters relating to environmental, employee engagement and wellbeing, community involvement, and ethics.

Investment Committee
Andrew Palmer, Chair

- Provides oversight of how the Group develops its investment strategy.
- Oversees the management and performance of the Group's investment portfolio.

Nomination Committee
Mike Biggs, Chair

- Reviews the Board's structure, size, composition, and balance of skills, experience, independence and expertise.
- Leads the process for Board appointments and makes recommendations to the Board.
- Provides guidance to management on executive succession planning.

Remuneration Committee
Clare Thompson, Chair

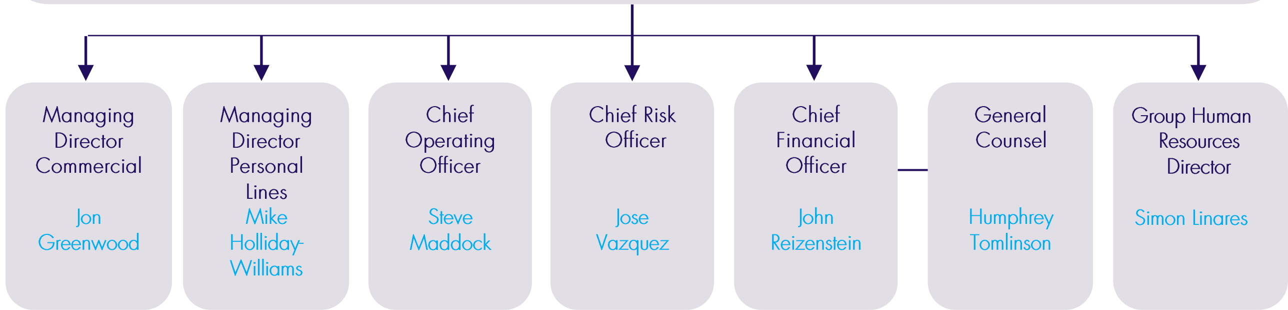
- Sets and oversees how the Group implements its remuneration policy.
- Oversees the level and structure of remuneration arrangements for senior executives, approves share incentive plans, and recommends them to the Board and shareholders.

B. System of governance continued

The diagram below outlines the Executive Committee structure:

Executive Committee
Paul Geddes, Chief Executive Officer

- Sets performance targets.
- Implements the Board-determined Group strategy and direction.
- Monitors key objectives and commercial plans to help achieve the Group's targets.
- Evaluates new business initiatives and opportunities.
- Considers reports on operational matters that are material to the Group or have cross business implications.



Segregation of responsibilities

An overview of the role and responsibilities of the Chairman, CEO, SID and the NEDs is set out in the table below:

Role	Responsibilities	
Chairman:	Responsible for maintaining, developing and leading an effective Board. Planning and managing the Board's business, presiding at Board meetings and acting as figurehead for the Board.	The Board has agreed individual role profiles for the Chairman, Mike Biggs, and the CEO, Paul Geddes. These clearly define their roles and responsibilities. This is to ensure no one person has unlimited powers of decision making.
Chief Executive Officer:	Responsible for managing the Group, and delivering the Group's strategy and financial results. Certain elements of his authority have been delegated to Executive Committee members to help ensure that senior executives are accountable and responsible for managing their businesses and functions.	
Senior Independent Director:	Acts as a sounding board for the Chairman and an intermediary for the other Directors when necessary. Available to shareholders if they have any concerns they cannot resolve through normal channels. Leads the Chairman's performance evaluation annually.	
Non-Executive Directors:	Responsible for objectively and constructively challenging management. Use their wider business experience to help develop the Group's strategy. NEDs are initially appointed for a term of three years. The Nomination Committee recommends potential new NEDs to the Board for appointment. The Board then considers and approves each appointment. All Directors are subject to election or re-election annually at the Company's AGM.	

The Board recognises that to ensure the long-term success of the Company, certain specific matters should be reserved for the consideration and decision of the Board either alone or following review and recommendation by its Committees. Other matters are delegated by the Board to its Committees and to the Executive Directors. In addition to the Schedule of Matters Reserved, each Board Committee has written terms of reference defining its role and the authority delegated to it by the Board.

The decisions specifically reserved for approval by the Board are set out in the Schedule of Matters Reserved for the Board, and are summarised below.

Matters Reserved for the Board

Strategy and management

- Overall leadership of the Group and setting the Company's values and standards.
- Oversight of the Group's operations.
- The Group's strategic aims and objectives.
- Annual operating and capital expenditure budgets.
- Material extension of the Group's activities into new business or geographical areas.
- Decisions to cease operation of any material part of the Group's business.

Contracts

- Major capital projects, investments and contracts that are either materially strategic or above the CEO's delegated authority.

Financial reporting and controls

- Results announcements.
- Dividend policy.
- Accounting policies.
- Reserving position.

Internal controls & risk management

- The internal controls and risk management system, including the Group's risk appetite statements.

Communication

- Ensuring satisfactory dialogue with shareholders.
- Arrangements for Annual and other General Meetings.

Board membership and other appointments

- Appointment and removal of Directors, SID, CEO, Company Secretary and Chief Risk Officer.
- Selection of the Chairman.
- Succession planning for the Board and senior executives.

Corporate governance matters

- The Group's corporate governance and regulatory compliance frameworks.

Structure and capital

- Changes to the Company's capital structure and debt securities structure.
- Major changes to the Group's corporate structure, including material acquisitions and disposals of shares.
- Changes to the Company's listing or plc status.

Delegation of authority

- Division of responsibilities between the Chairman and Chief Executive.
- Delegated levels of authority to Executive Directors.
- Establishment of Board Committees.

Remuneration

- Chairman and NED remuneration.
- Remuneration policy.
- Introduction of new share incentive plans or major changes to existing plans, for approval by shareholders.

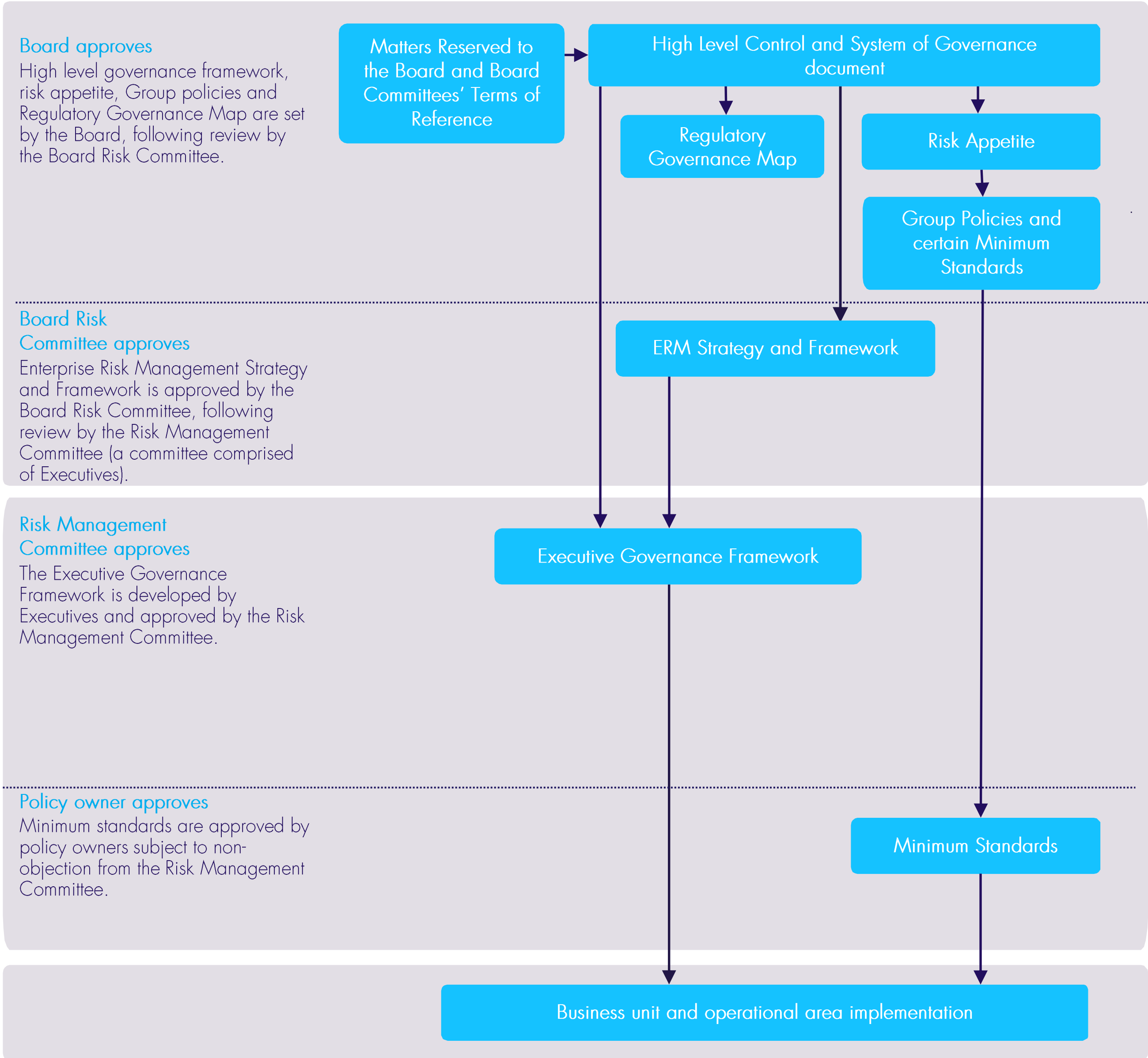
The Board is responsible for ensuring there is an appropriate system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework. The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence.

The Group's governance framework is detailed in the High Level Control and System of Governance Framework document. The Board reviews this document annually. The core elements of the Governance Framework are the:

- Matters Reserved for the Board and the Board Committees' terms of reference;
- Regulatory Governance Map;
- Risk appetite statements;
- ERMF – this sets out the Group's approach to setting risk strategy and for managing risks to the strategic objectives and day-to-day operations of the business;
- Executive Governance Framework, which outlines how each business function is governed and details the authority delegated to Executive Committee members;
- Group policies; and
- Minimum standards, which interpret the Group policies into a set of operational requirements that can be implemented throughout the Group.

B. System of governance continued

The diagram below summarises the split of responsibilities for the different parts of the Group's governance framework.



Board Committees' Key Functions

Audit Committee

The Audit Committee is responsible for overseeing and challenging the effectiveness of the Group's systems of financial and other controls. The Committee monitors the work and effectiveness of the Group's internal and external auditors and actuaries.
The Committee's main responsibilities are to:

- monitor the integrity of the Group's financial statements and any other formal announcement relating to its financial performance;
- review and monitor the reserving process and recommend the reserves to the Board;
- continually review the adequacy and effectiveness of the Group's internal financial controls and internal control systems, and the monitoring procedures;
- monitor and evaluate the Group Audit function's performance; and
- monitor and manage the relationship with the External Auditor, including agreeing the external audit fee, assessing its effectiveness, independence and managing any tender process for the audit services contract.

The Audit Committee's main role and responsibilities are set out in written terms of reference and are available at www.directlinegroup.co.uk/termsofreference

Board Risk Committee

The BRC is responsible for oversight and challenge of the Group's current and potential future risk exposures, and its strategic approach to managing risk. The Committee recommends risk appetite and tolerance levels to the Board, and supports the Board in promoting a risk-aware culture across the Group. The Committee's main responsibilities are to:

- consider and recommend the Group's risk appetite, framework and tolerance to the Board for its approval;
- review and approve the design and implementation of the ERMF, and the procedures for monitoring its adequacy and effectiveness;
- consider the Group's risk profile relative to current and future Group strategy, and to risk appetite;
- approve the Risk and Compliance function operational plans and adequacy of resourcing;
- review the governance of, and methodology and assumptions used in, the Group's IECM, approve changes to the model and validation thereof;
- review and recommend the Own Risk and Solvency Assessment process and report to the Board; and
- review the Group's procedure for detecting internal and external fraud.

The main role and responsibilities of the BRC are set out in written terms of reference and are available at www.directlinegroup.co.uk/termsofreference

Corporate Social Responsibility Committee

The Corporate Social Responsibility ("CSR") Committee oversees and advises on how the Group conducts its business responsibly. This includes matters relating to environmental, social, governance and ethics.

The Committee also considers: diversity and inclusion in the workplace; employee engagement and wellbeing; community engagement activities; and environmental matters. The Committee's main responsibilities are:

- approving the Group's CSR strategy and reviewing performance against the strategy;
- reviewing the Group's performance relating to CSR matters; and
- assessing the Group's role in society and the Group's external positioning on CSR matters.

Investment Committee

The Investment Committee is responsible for the oversight of how the Group develops its investment strategy. It also oversees the management and performance of the Group's investment portfolio. The Committee's main responsibilities are to:

- examine the rationale for, and the risks and financial implications of, any proposed changes to the Group's investment strategy and, where agreed, recommend these changes to the Board;
- consider and approve material changes to the risk framework that underpins investment activity, and any proposals to change the operating model. This typically relates to how outsource service providers are used;
- review global financial market developments and changes to the regulatory environment, and consider the ongoing appropriateness of investment activities in light of such developments; and
- monitor the results from investment activities, namely adequacy of financial results delivered, compliance with agreed risk tolerances and external service provider performance. The Committee also ensures that any material breaches are reported to the BRC.

Nomination Committee

The Nomination Committee is responsible for leading the process for Board appointments and making recommendations to the Board. It keeps the Board's structure, size, composition, and balance of skills, experience, independence and expertise under review. It also provides guidance to management on executive succession planning. The Committee's main responsibilities are:

- considering and recommending to the Board matters regarding appointment of Directors, and membership and chairmanship of Board Committees;
- succession planning for Directors and other senior executives, accounting for the skills and expertise the Group needs to deliver its strategy;
- keeping under review the leadership needs of the Group;
- reviewing the Non-Executive Directors' continued independence; and
- considering and recommending to the Board the Directors' annual re-election and reappointment at the end of their term in office.

The Nomination Committee's main role and responsibilities are set out in written terms of reference and are available at www.directlinegroup.co.uk/termsofreference

Remuneration Committee

The Remuneration Committee is responsible for setting and providing oversight of how the Group implements its remuneration policy. The Committee oversees the level and structure of remuneration arrangements for senior executives. It also approves share incentive plans, and recommends them to the Board and shareholders. Where applicable, it also oversees share plan changes that need shareholder approval. The Committee's main responsibilities are:

- setting the remuneration policy for the Executive Directors and Board Chairman and monitoring its operation;
- recommending and monitoring the level and structure of remuneration for senior executives and Solvency II identified staff;
- considering how the Group's strategy or performance might affect its remuneration policy; and
- approving the Group's remuneration governance framework. This includes approving the design and targets of any performance-related pay arrangements, and liaising with the Board Risk and Audit Committees where appropriate.

The Remuneration Committee's main role and responsibilities are set out in written terms of reference and are available at www.directlinegroup.co.uk/termsofreference

Key Functions

A summary of each Key Function detailing their authority, resources and operational independence as required by the Solvency II Directive is set out below:

Actuarial function

The Actuarial function is responsible for delivering a quarterly reserving process for the Group, UKI and CIC with monthly monitoring of claims development and loss ratios to highlight risks to the Group, UKI and CIC's reserves; determine actual claims performance; and inform pricing and planning. The function recommends the reserves to be held by each insurance entity within the Group, UKI and CIC, and provides opinions on overall underwriting policy and on the adequacy of reinsurance arrangements. The function also undertakes risk-based capital modelling.

Further information on the authority, resources and the independence of the Actuarial function is set out in section B6 of this report.

Compliance function

The Compliance function is headed up by the Director of Group Regulatory Risk and Compliance who is supported by a team with skills that include regulatory environment, financial crime, data protection, monitoring and compliance. The Compliance function oversees the regulatory compliance of the Group and provides oversight, advice and support to the business on regulatory issues. The Compliance function manages the relationships with the Financial Conduct Authority ("FCA") and PRA on an active basis; and the Information Commissioner's Office ("ICO") and Her Majesty's Treasury as required on data protection and financial crime issues respectively. The function identifies and analyses all significant regulatory developments that may impact the Group, working with the business to determine the impact on the Group, and ensuring that the business has sufficient information to implement any required changes in a timely manner. This involves lobbying, where appropriate, in the UK and European Union to influence new regulatory policy developments for the benefit of the Group. The function is also responsible for ensuring the delivery of appropriate Conduct and Compliance assurance activity in line with an agreed assurance plan and framework. The function also manages risks associated with financial crime, including anti-money laundering, sanctions, fraud and internal investigations.

Further information on the authority, resources and the independence of the Compliance function is set out in section B4 of this report.

Risk Management function

The Risk Management function is headed by the Chief Risk Officer ("CRO") who is supported by a team that possesses skills in risk management, actuarial, information technology and regulatory environment. The Risk Management function is a Second Line of Defence function, responsible for providing subject matter expert advice and is responsible for the design and recommendation to the BRC of the ERMF, its implementation across the Group and the provision of proportionate oversight and challenge of risks, events and management actions throughout the Group. The function works with the RMC, BRC and Board to define the ERMF and undertakes regular monitoring of key risk indicators ("KRIs") and risk profiles, as well as assurance testing in certain areas agreed as part of its annual plan, to determine the level of compliance with risk appetite and relevant regulatory requirements. The Risk Management Function provides an objective view to the Board, via the BRC, on whether it considers that the Group is operating within or outside its risk appetite, on an ongoing basis. The Risk Management function also undertakes validation of the internal capital model.

Further information on the authority, resources and the independence of the Risk Management function is set out in section B3 of this report.

Internal Audit function

The Audit Committee oversees the Group Audit function's work and seeks to ensure it adopts industry best practice appropriately. The Group Head of Audit primary reporting line is to the Chair of the Audit Committee and the secondary reporting line, for day-to-day administration, is to the CFO. The Group Audit function is the Third Line of Defence function, responsible for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework, to support the Board and executive management to: (i) protect the assets, reputation and sustainability of the Group; (ii) achieve their strategic and operational objectives; and (iii) discharge their corporate governance responsibilities.

Further information on the authority, resources and the independence of the Internal Audit function is set out in section B5 of this report.

Additional Key Functions

The following functions are of specific importance for the sound and prudent management of the Group and have been defined as Key Functions, in accordance with PRA guidance:

Claims Management function

The Claims Management function is headed by the Chief Operating Officer. This function is responsible for all aspects of the claims management life cycle for both Personal Lines and Commercial. It is also responsible for the management and control of any delegated claims handling arrangements, as well as operating a counter-fraud unit. The function is structured to provide appropriate focus at a product level, with additional functions to support the claims transformation and the commercial and quality assurance processes.

Finance function

The Finance function is headed by the CFO. This function is responsible for providing financial control and support for the Group, as well as capital management and the design, purchasing and management of all reinsurance arrangements. The function includes the Strategy and Corporate Development team, which is responsible for refining and articulating the Group's corporate and business strategy, and the Investor Relations team, which owns the relationship with the institutional investor community, subject to overall oversight by the Board. The Finance function also has a role to design certain policies and minimum standards to be applied and the First Line of Defence is responsible for ensuring that the requirements set in the policies and minimum standards are appropriately implemented and embedded in their part of the business. It also provides a central point of review, challenge and sign off of all budgets and business cases.

Investments function

The Investment Management and Treasury function is headed by the Director of Investment Management and Treasury. This function is responsible for recommending investment strategy and the subsequent implementation and monitoring of the approved strategy within the defined risk appetite and the agreed tolerances. The function is also responsible for securing any necessary senior debt funding and managing liquidity, foreign exchange and interest rate risk. External asset managers are employed to manage certain asset classes, with cash, gilts and some credit mandates managed in-house. There are also other outsourced arrangements covering asset custody, investment accounting, risk analytics and middle office services.

Information Technology function

The Information Technology function (which is known in the Group as the Technology Services function) is headed by the Chief Operating Officer. This function is responsible for: managing and maintaining key systems which support business operating processes; delivering business improvement through IT, change project management and testing of any changes to the IT systems; and identifying, managing, mitigating and monitoring IT risks. This function has a role to design certain policies and minimum standards to be applied and the First Line of Defence is responsible for ensuring that the requirements set in the policies and minimum standards are appropriately implemented and embedded in their part of the business.

Pricing and Underwriting function

The Pricing and Underwriting function is headed by two individuals: the Director of Pricing and Underwriting for Personal Lines and the Director of Commercial Underwriting and Pricing. This function is responsible for setting, developing and monitoring underwriting strategy, personal underwriting authorities, terms and conditions, and pricing for UK Personal and Commercial Lines businesses within the Group.

In particular, the function:

- is accountable for the delivery of timely, accurate and tested technical and market rates, and ensuring all reasonable steps are taken to avoid material error in rate changes;
- is responsible for the development and embedding of risk premium models (approved at the Model Governance Board) for the purpose of pricing and performance monitoring;
- writes business according to the underwriting strategy and within the agreed risk appetite. The risk appetite will have been recommended by Risk, and ratified by the Executive Committee, who recommends it for approval by the Board; and
- is involved in all relevant governance forums at an appropriate level to help control the risks associated with the business (e.g Loss Ratio Committees, Pricing Committees, and so on).

With respect to Commercial business the department includes a nationwide survey team which manages and controls larger commercial risks directly with customers.

Material changes in the system of governance

There have been no material changes to the Company's system of governance during the reporting period.

Information on remuneration policy and practices

The Directors' remuneration policy was approved at the Company's AGM on 11 May 2017; a new policy was approved by the shareholders. As stated in the 2016 Directors' remuneration report in the 2016 Annual Report & Accounts, the Remuneration Committee reviewed the previous policy in 2016. The Remuneration Committee concluded that the policy had supported the business effectively and operated appropriately over the previous three years.

The policy provides a clear and simple framework for remunerating the Company's Directors, and aligning the Executive Directors' variable pay opportunity to the business strategy and achievement of the Company's performance indicators.

As part of the review in 2016 the Remuneration Committee considered alternative approaches to remuneration arrangements, particularly those outlined in the Executive Remuneration Working Group's final report. The Committee considered that the previous arrangements were appropriate, and that the mix of Annual Incentive Plan ("**AIP**") or annual bonus and Long-Term Incentive Plan ("**LTIP**") provided a balanced way of incentivising executives to deliver for shareholders in the short and longer terms. It is considered that the LTIP measures of Return on Total Earnings ("**RoTE**") and relative Total Shareholder Return ("**TSR**") are relatively simple to set, aligned with wider strategy and reward consistent delivery for shareholders. The Committee will closely monitor regulatory, market and best practice developments over the coming years, including any guidance from the PRA regarding the design of pay arrangements.

The Remuneration Committee therefore agreed to continue with the previous policy which remained largely unchanged. Reflecting developments in best practice, the Committee introduced a 'holding period' for Executive Directors. LTIP awards granted from August 2017 onwards will be subject to an additional two-year holding period following the end of the three-year performance period. The LTIP rules will be amended to reflect the introduction of a holding period.

The Remuneration Committee consulted with the Company's major shareholders and certain institutional voting agencies between October 2016 and January 2017. This engagement was constructive and good feedback was received on the proposal.

The policy table sets out the Group's 2017 policy. The main changes in this policy from the 2014 policy have been summarised above and in the notes to the policy table. Details of the 2014 policy are included on pages 86 to 95 of the Annual Report & Accounts 2015 which is available at www.directlinegroup.com

Policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	• This is the core element of pay that reflects the individual's role and position within the Group. It is payable for doing the expected day-to-day job. • Staying competitive in the market allows the Group to attract, retain and motivate high-calibre executives with the skills to achieve the Group's key aims while managing costs.	• Base salaries are typically reviewed annually and set in April of each year, although the Remuneration Committee may undertake an out-of-cycle review if it determines this to be appropriate. • When reviewing base salaries, the Remuneration Committee typically takes the following into account: – level of skill, experience and scope of responsibilities, individual and business performance, economic climate, and market conditions; – the median market pay in the context of companies of a similar size, particularly FTSE 31-100 companies, as they are considered to reflect the size and complexity of the Group; and – the practice of insurance peers such as Admiral Group, Aviva, esure Group, Hastings Group, Legal & General, Old Mutual, Phoenix Group, Prudential, RSA Insurance Group, Standard Life and companies of a similar size to DLG as appropriate; and – general base salary movements across the Group. • The Remuneration Committee does not follow market data strictly. However, it uses it as a reference point in considering, in its judgement, the appropriate salary level, while regarding other relevant factors, including corporate and individual performance, and any changes in an individual's role and responsibilities. • The principles for setting base salary are similar to those applied to other employees in the Group. However, the specific benchmarking groups used to review external market relativities may differ across employee groups. • Base salary is typically paid monthly.	• When determining salary increases, the Committee will consider the factors outlined in this table under 'Operation'. In any event, no increase will be made if it would take an Executive Director's salary above £850,000 (the current median level of salaries for CEOs in the FTSE 100), as further increased by UK RPI from the date of approving this policy.	• Not applicable.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
AIP	• To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short to medium-term elements of the Group's strategic aims.	• For Executive Directors, at least 40% of the award is deferred into shares under the Deferred Annual Incentive Plan (the "DAIP"). This typically vests three years after grant (with deferred awards also capable of being settled in cash at the discretion of the Remuneration Committee, for example, when it gives rise to legal difficulties to settle in shares). The remainder of the award is paid in cash following the year end. • The Remuneration Committee will keep the percentage deferred and terms of deferral under review. This will ensure levels are in line with regulatory requirements and best practice and may be changed in future years but will not, in the Committee's view, be changed to be less onerous overall. • Malus and clawback provisions apply to the cash and deferred elements. These are explained in the notes to the policy table.	• Maximum and target bonus levels for Executive Directors are set by taking into account annual bonus practice throughout the organisation and referring to practice at other insurance and general market comparators. • The maximum bonus opportunity under the AIP is 175% of base salary per annum. The current maximum bonus opportunity applying for each individual Executive Director is shown in the statement of implementation of policy. This is in the 2016 section of the annual remuneration report.	• Performance over the financial year is assessed against performance measures which the Remuneration Committee considers to be appropriate. • These may be financial, non-financial (Group, divisional or business line) and individual. Each year, at least 50% of the bonus is based on financial measures. The remainder of the bonus may be based on a combination of strategic, shared and individual performance measures. • The Remuneration Committee sets targets at the beginning of each financial year. • No more than 10% of the bonus is paid for threshold performance (30% of the bonus for the individual performance element). No more than 60% of the maximum opportunity pays out for target performance. However, the Remuneration Committee retains flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately. • Before any payment can be made, the Remuneration Committee will perform an additional gateway assessment (including in respect of any risk concerns). This will determine whether the amount of any bonus is appropriate in view of facts or circumstances which the Committee considers relevant. This assessment may result in moderating (positively or negatively) each AIP performance measure, subject to the individual maximum bonus levels. • The AIP remains a discretionary arrangement. The Remuneration Committee reserves discretion to adjust the out-turn (from zero to the cap), should it consider it appropriate.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
LTIP	• Aligning executives' interests with those of shareholders to motivate and incentivise delivering sustained business performance over the long term. • To aid retaining key executive talent long term.	• Awards will typically be made in the form of nil-cost options or conditional share awards, which vest to the extent performance conditions are satisfied over a period of at least three years. Under the Plan rules, awards may also be settled in cash at the discretion of the Remuneration Committee. This may be appropriate, for example, if legal difficulties arise with settling in shares. • Vested options will remain exercisable for up to the tenth anniversary of grant. • Malus and clawback provisions apply to the LTIP. These are explained in the notes to the policy table. • Awards under the LTIP may be made at various times during the financial year. While the Remuneration Committee reserves the right to do otherwise, the Committee's practice has been to make awards twice in each financial year, following the announcement of the Group's annual and half-year results. • For awards made after adopting the new policy at the 2017 AGM, Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released. During the additional holding period the awards will continue to accrue dividends. Following the holding period awards will cease to accrue dividends if not exercised.	• The maximum LTIP award in normal circumstances is 200% of salary. • Awards of up to 300% of base salary are permitted in exceptional circumstances, relating to recruiting or retaining an employee, as determined by the Remuneration Committee.	• The Remuneration Committee will determine the performance conditions for each award made under the LTIP, measuring performance over a period of at least three years with no provision to retest. • Performance is measured against targets set at the beginning of the performance period, which may be set by referring to the time of grant or financial year. • Awards vest based on performance against financial and/or such other (including share return) measures, as set by the Remuneration Committee, to be aligned with the Group's long-term strategic objectives. • For awards to be granted in 2017, vesting will continue to be determined based on two measures: RoTE and relative TSR performance against the FTSE 350 (excluding investment trusts). The Remuneration Committee may apply different performance measures and targets for future awards, provided not less than 50% of the award shall be subject to one or more financial measures, and not less than 25% shall be subject to a relative TSR measure. • Awards will be subject to a payment gateway, such that the Remuneration Committee must be satisfied that there are no material risk failings, reputational concerns or regulatory issues. • Additionally, there is a financial underpin relating to the Remuneration Committee's view of the Group's underlying financial performance for the TSR and RoTE (and any other) elements, 20% of the award vests for threshold performance, with 100% vesting for maximum performance. The Remuneration Committee reserves the right in respect of future awards to lengthen (but not reduce) any performance period and / or amend the terms of any holding period; however, there is no intention to reduce the length of the holding period.
Pension	• To remain competitive within the market place. • To encourage retirement planning and retain flexibility for individual.	• Pension contributions are paid only in respect of base salary • Executive Directors are eligible to participate in the defined contribution pension arrangement or alternatively they may choose to receive a cash allowance in lieu of pension.	• The maximum pension contribution is set at 25% of base salary per annum.	• Not performance related.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	• A comprehensive and flexible benefits package is offered, emphasising individuals being able to choose the combination of cash and benefits that suits them.	• Executive Directors receive a benefits package generally set by reference to market practice in companies of a similar size and complexity, particularly FTSE 31-100 companies. Benefits currently provided include a company car or car allowance, private medical insurance, life insurance, health screening, and income protection. • The Remuneration Committee may periodically amend the benefits available to some or all employees. The Executive Directors are eligible to receive such additional benefits as the Committee considers appropriate having regard to market norms. • In line with the Group's approach to all employees, certain Group products are offered to Executive Directors at a discount. • Executive Directors are eligible to participate in any of the employee share plans operated by the Company, in line with HMRC guidelines (where relevant) and on the same basis as other eligible employees. Currently, this includes the Share Incentive Plan ("**SIP**"), which has been used to provide an award of free shares to all employees (including Executive Directors), and permit employees to purchase shares with a corresponding matching award. • Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation benefits. The level of such benefits would be determined based on the circumstances of the individual and typical market practice.	• The costs of benefits provided may fluctuate from year to year, even if the level of provision has remained unchanged. An annual limit of 10% of base salary per Executive Director has been set for the duration of this policy (plus an additional amount of up to 100% of salary in respect of relocation expenses). The Remuneration Committee will monitor the costs in practice and ensure the overall costs do not increase by more than the Committee considers to be appropriate in all the circumstances. • Additionally, the limit for any employee share plans in which the Executive Directors participate will be in line with the caps permitted by HMRC from time to time. • The Executive Directors may be entitled to retain fees received for any directorships held outside the Group. • Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided.	• Not performance related.
Share ownership guidelines	• To align the interests of Executive Directors with those of shareholders.	• Executive Directors are expected to retain all the ordinary shares vesting under any of the Company's share incentive plans, after any disposals for paying applicable taxes, until they have achieved the required shareholding level; unless such earlier sale, in exceptional circumstances, is permitted by the Chairman.	• 200% of salary for all Executive Directors. • The Remuneration Committee reserves the discretion to amend these levels in future years.	• Not applicable

Notes to the policy table

Malus and clawback

Malus (reducing or forfeiting unvested awards) and clawback (the Company's ability to claim repayment of paid amounts) provisions apply to the AIP (cash and deferred element) and LTIP if, in the Remuneration Committee's opinion, any of the following has occurred:

- there has been a material misstatement of the Company's financial results, which has led to an overpayment;
- the assessment of performance targets is based on an error, or inaccurate or misleading information or assumptions;
- circumstances warranting summary dismissal in the relevant period;
- a material failure of risk management; and
- an event during the relevant period which has, in the view of the Remuneration Committee, sufficiently and significantly impacted the Company's reputation as to justify such action.

Amounts in respect of awards under both plans (LTIP and DAIP) may be subject to clawback for up to three years post payment or vesting (with such period lengthened if there is an investigation as to whether relevant circumstances exist) as appropriate.

Consistent with developments in the market generally, the provisions clarify that any recoupment is out of the post-tax amount, except to the extent that the participant recovers tax from the relevant tax authority.

Changes from 2014 policy

The main changes from the 2014 policy are summarised below. To aid the administration and clarity of its operation, other minor changes have also been made to the policy:

- for LTIP awards made after the adoption of the new policy at the 2017 AGM, Executive Directors will be subject to an additional two-year holding period following the three-year vesting period, during which time awards may not normally be exercised or released;
- consistent with GC100 guidance, the cap to base salary has been re-expressed as a fixed monetary amount. Please note that this is simply to align with reporting guidance and the cap does not represent any form of aspiration; and
- adding a cap on providing relocation benefits.

Exercise of discretion

In line with market practice, the Remuneration Committee retains discretion relating to operating and administering the AIP, DAIP and LTIP. This discretion includes, but is not limited to:

- the timing of awards and payments;
- the size of awards, within the overall limits disclosed in the policy table;
- the determination of vesting;
- the treatment of awards in the case of change of control or restructuring;
- the treatment of leavers within the rules of the plan, and the termination policy shown on page 32 below; and
- adjustments needed in certain circumstances, for example, a rights issue, corporate restructuring or special interim dividend.

While performance conditions will generally remain unchanged once set, the Remuneration Committee has the usual discretions to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make, in the view of the Committee, the amended condition materially less difficult to satisfy than the original condition was intended to be before such event occurred.

Adjusting the number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting (or, if later, the expiry of any holding period) of awards (legacy awards made before 2014 accrue dividends to exercise).

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares, or otherwise in accordance with the plan rules.

Remuneration payments agreed before appointment to the Board

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including, where relevant, exercising any discretions available to it connected with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 13 May 2014 (the date the original shareholder approved policy came into effect); (ii) provided the terms of the payment were consistent with any shareholder-approved Directors' remuneration policy in force at the time they were agreed; and (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' include pension arrangements and the Committee satisfying awards of variable remuneration. Relating to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selecting performance measures

Annual Incentive Plan

The Remuneration Committee has selected the AIP performance measures to incentivise Executive Directors to achieve financial targets for the year, and specific strategic, shared and personal objectives. These measures are aligned with the key performance indicators ("**KPIs**") used by the business to monitor performance against the Group's strategic priorities.

The relevant targets are set at or following the start of each year to ensure the Executive Directors focus appropriately on the key objectives for the next twelve months.

Long-Term Incentive Plan

The Group's strategy aims to provide long-term sustainable returns for its shareholders. Therefore, for 2017 (as in prior years), awards under the LTIP continue to be subject to performance against RoTE (an important KPI to the business) and relative TSR targets. The Remuneration Committee believes this combination provides a balanced approach to measuring Group performance over the longer term by using a stated financial KPI that incentivises individuals to keep growing the business efficiently, and a measure based on relative shareholder return. This combination of measures appropriately balances absolute and relative returns.

As set out in the policy table, different performance measures may apply for awards granted in future years.

See page 36 for details of AIP and LTIP performance measures applied in 2016.

Differences in remuneration policy from broader employee population

To ensure that the arrangements in place remain appropriate, when determining Executive Directors' remuneration, the Remuneration Committee accounts for pay throughout the Group.
The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

- AIP – approximately 3,600 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years
- Incentive awards – approximately 3,800 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly.
- LTIP – the Group's strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.
- Restricted Shares Plan ("**RSP**") – RSP awards are used on a limited basis across the Company to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP.
- All employee share plans – the Remuneration Committee considers it important for all employees to have the opportunity to become shareholders in the Company. The HMRC-approved SIP has operated since 2013, and, in addition, the Company has made periodic awards of free shares. At year end, approximately 3,000 employees throughout the Group had signed up to these schemes with 9,500 holding free shares in the Company.
- Pension and benefits – depending on employee grade, the Company contributes between 9-25% to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Remuneration policy for Non-Executive Directors

Element	Purpose and link to strategy	Approach to setting fees and cap	Other items
Chairman and Non-Executive Directors' fees.	To enable the Company to recruit and retain Non-Executive Directors of the highest calibre, at an appropriate cost.	• Non-Executive Directors are paid a basic annual fee. Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the Senior Independent Director to reflect additional responsibilities, as appropriate. The level of fees for 2017 is shown in the annual remuneration section. • The fees paid to the Chairman include all Board and Committee membership fees, and are determined by the Remuneration Committee. • Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses. It is the Remuneration Committee's view that expenses (which are deemed to be benefits) are covered under the aggregate cap set by the Articles of Association and that this cap is not restricted to fees only. • Similarly, while not benefits in the normal usage of that term, certain other items such as hospitality or retirement gifts may also be provided. • Fee levels for Non-Executive Directors are reviewed and may be increased at appropriate intervals by the Board, with affected individual Directors absenting themselves from deliberations. • In setting the level of fees, the Company accounts for the role's expected time commitment, and fees at other companies of a similar size, sector and / or complexity to the Group. • Fees (including expenses which are deemed to be benefits) for Non-Executive Directors are subject to an aggregate cap in the Articles of Association (currently £2,000,000 per annum). The Company reserves the right to change how the elements and weightings within the overall fees are paid, and to pay a proportion of the fees in shares within this limit.	• The Non-Executive Directors are not entitled to receive any compensation for loss of office, other than fees for their notice period. They do not participate in the Group's bonus, employee share plans or pension arrangements, and do not receive any employee benefits.

Recruitment remuneration policy

To strengthen the management team and secure the skills to deliver the Group's strategic aims, the recruitment remuneration policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives.

Principles for recruitment remuneration

- In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to look to the policy for Executive Directors as set out in the policy table, and structure a package in accordance with that policy. Consistent with the Regulations, the caps contained in the policy table for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.
- The Company would normally disclose clearly the terms of any recruitment package on announcing the appointment of any new Executive Director.
- For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
- For external and internal appointments (including a major change in role), the Remuneration Committee may agree that the Company will meet certain relocation expenses, legal and other fees involved in negotiating any recruitment, or pay expatriate benefits in line with the policy table, as appropriate.

Buy-out awards

- Where it is necessary to make a recruitment-related pay award to an external candidate, the Company will not pay more than necessary, in the view of the Remuneration Committee, and will in all cases seek to deliver any such awards under the terms of the existing incentive pay structure.
- All such awards for external appointments, whether under the AIP, LTIP or otherwise, to compensate for awards forfeited on leaving their previous employer will be determined taking into account the commercial value of the amount forfeited, and the nature, time horizons and performance requirements of those awards. In particular, the Remuneration Committee's starting point will be to ensure that any awards being forfeited which remain subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements, and any awards with service requirements are bought out with similar terms. However, exceptionally, the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the Committee's view, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

The elements of any package for a new recruit, including the maximum level of variable pay, but excluding buy-outs, will be consistent with the Executive Directors' remuneration policy described in this report, as modified by the above statement of principles where appropriate. The Remuneration Committee reserves the right to avail itself of the current Listing Rule 9.4.2 (being the rule which permits exceptional recruitment awards on terms different from any shareholder approved ongoing plans) if needed to facilitate, in exceptional circumstances, recruiting an Executive Director. Awards granted under this provision will only be used for buy-out awards.

Any commitments made before promotion to the Board (except when made in connection with the appointment to the Board) can continue to be honoured under the policy, even if they are not consistent with the policy prevailing when the commitment is fulfilled.

In exceptional circumstances, the initial notice period may be longer than the Company's 12-month policy up to a maximum of 24 months. However, this will reduce by one month for every month served, until it has reduced to 12 months in line with the Company's policy position.

The remuneration policy for the Chairman and Non-Executive Directors as set out earlier in this report will apply relating to any recruitments to those positions.

Service contracts

Subject to the discretion noted above for new recruits, it is the Company's policy to set notice periods for Executive Directors of no more than 12 months (both by the Director or Company). The Executive Directors' service agreements summary is as follows:

Director	Effective date of contract	Notice period (by Director or Company)	Exit payment policy
Paul Geddes	1 September 2012	12 months	Base salary only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.
John Reizenstein	1 September 2012	12 months	Base salary only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.
Mike Holliday-Williams	30 January 2014	12 months	Base salary only for unexpired portion of notice period to be paid in a lump sum or monthly instalments, in which case, instalments are subject to mitigation if an alternative role is found.

There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the remuneration policy table and the termination policy below.

Termination policy

It is appropriate for the Remuneration Committee to retain discretion to consider the termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. A Director is deemed a 'good leaver' if the following circumstances are met:

- AIP and LTIP – death, injury, ill-health, redundancy, retirement, the sale of the individual's employing company or business out of the Group, or in such other circumstances as the Remuneration Committee determines; and
- DAIP – for any reason other than summary dismissal or resignation. However, the Remuneration Committee may determine that, in the case of resignation only, awards may be retained.

The table below sets out the general position. However, it should be noted that the Remuneration Committee, consistent with most other companies, has reserved a broad discretion to determine whether an Executive Director should be categorised as a 'good leaver', and that discretion forms part of the approved policy.

Incentives	If a leaver is a 'bad leaver', for example leaving through resignation or summary dismissal	If a leaver is deemed to be a 'good leaver'	Other events, for example, change in control of Company
Annual Incentive Plan	No awards made.	Bonus based on performance, paid at the normal time and on a time pro-rata basis, unless the Remuneration Committee determines otherwise.	Bonus determined on such basis as the Remuneration Committee considers appropriate and paid on a time pro-rata basis, unless the Committee determines otherwise.
Deferred Annual Incentive Plan	All awards will lapse.	Deferred shares typically vest on the normal vesting date, although the Remuneration Committee reserves discretion to accelerate vesting. In the case of the participant's death or other exceptional circumstances, awards may vest immediately.	Awards will vest in full. In the event of a demerger or similar event, the Remuneration Committee may determine that awards vest on the same basis.
Long-Term Incentive Plan	All unvested awards will lapse. During the holding period, awards cease to be contingent on employment and, therefore, will not lapse (except on dismissal for cause) but may be subject to malus.	Awards will vest on the normal vesting date (plus any applicable holding period, unless the Remuneration Committee determines otherwise) subject to performance and, unless the Committee determines otherwise, time pro-rating. In exceptional circumstances, as determined by the Committee, for example, in the case of the participant's death, awards may vest immediately.	Awards will vest subject to applying the performance conditions and, unless the Remuneration Committee determines otherwise, time pro-rating. The Committee may determine that such awards shall not vest early and, instead, be rolled over into replacement awards granted on a similar basis, but over shares in the acquirer or another company or settled in cash or other securities. In the event of a demerger or similar event, the Remuneration Committee may determine that awards vest on the same basis.

Service agreements for all Executive Directors provide that they are not eligible to receive any enhanced redundancy terms which may be offered by the Group from time to time. Their rights to a statutory redundancy payment are not affected.

Depending on the circumstances of departure, an Executive Director may have additional claims under relevant employment protection laws, and the Company may contribute to any legal fees involved in agreeing a termination. It may also agree to incur certain other expenses such as providing outplacement services. Any such fees would be disclosed as part of the detail of any termination arrangements. The Remuneration Committee reserves the right to make any other payments connected with a Director's cessation of office or employment, where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising connected with the cessation of a Director's office or employment.

Non-Executive Director letters of appointment

Non-Executive Directors are appointed for a three-year term which may be extended by mutual agreement. In common with the Executive Directors, all Non-Executives are subject to annual re-election by shareholders.

The Directors may appoint additional members to join the Board during the year. Directors appointed in this way will be subject to election by shareholders at the first AGM after their appointment. In subsequent years, the Directors must submit themselves for re-election at each AGM.

Terms and conditions of appointment of all the Directors are available for anyone to inspect at the Company's registered office and AGM.

The Chairman and Non-Executive Directors have notice periods of three months from either party which do not apply in the case of a Director not being re-elected by shareholders or retiring from office under the Articles of Association. Other than fees for this notice period, the Chairman and Non-Executive Directors are not entitled to any compensation on exit.

External directorships
The Company encourages Executive Directors to accept, subject to the Chairman's approval, an invitation to join the Board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors are generally limited to accepting one external directorship, but may accept more with the Chairman's prior approval.

Considering employment conditions elsewhere in the Group
The Remuneration Committee reviews the overall pay and bonus decisions in aggregate for the wider Group, and, therefore, takes into account pay and conditions in the wider Group in determining the Directors' remuneration policy and the remuneration payable to Directors. Through the Chief Executive Officer, Paul Geddes, and other senior management, the Committee may receive input from employee groups in the Group, such as the Employee Representative Body, as required.

In accordance with prevailing commercial practice, the Committee did not consult with employees in preparing the Directors' remuneration policy.

Considering shareholders' views
The Remuneration Committee accounts for the approval levels of remuneration related matters at the AGM in determining whether the current Directors' remuneration policy remains appropriate.

When setting the remuneration policy, the Remuneration Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines issued by the leading shareholder and proxy agencies.

The Remuneration Committee also seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally, and particularly any changes to the Company's executive pay arrangements.

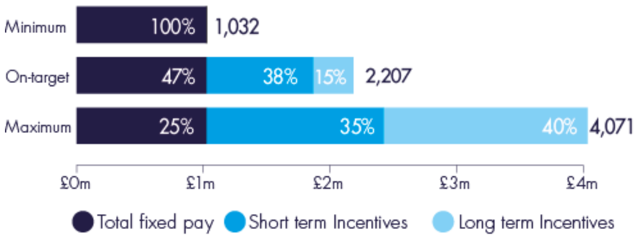
The Remuneration Committee is satisfied that no element of the Directors' remuneration policy conflicts with the Group's approach to environmental, social or corporate governance matters.

Performance scenarios
The Directors' remuneration policy has been designed to ensure that a significant proportion of total remuneration is delivered as variable pay and, therefore, depends on performance against the Group's strategic objectives.

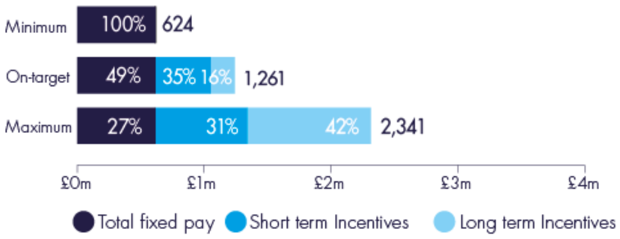
The Remuneration Committee has considered the level of remuneration that may be paid under different performance scenarios to ensure it would be appropriate in each situation, in the context of the performance delivered and the value created for shareholders.

The following charts show the potential remuneration which Executive Directors may earn under three performance scenarios (as set out below). These exclude share price appreciation and dividends, which could have a significant impact on the final outcome.

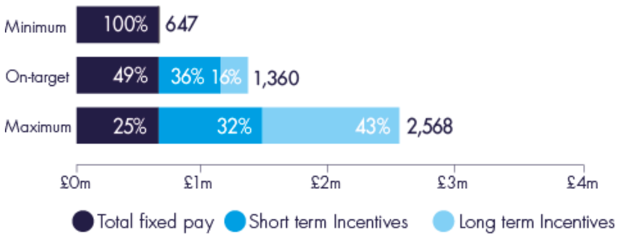
CEO – Paul Geddes
(£'000)



CFO – John Reizenstein
(£'000)



MD Personal Lines – Mike Holliday-Williams
(£'000)



The elements of remuneration included in each scenario are as follows:

Minimum	Consists of fixed remuneration only (that is, base salary, benefits and pension): • Base salary is the salary to be paid from 1 April 2017 • Benefits measured as benefits paid in 2016 as set out in the single figure table on page 87 of the Annual Report & Accounts 2016 of Direct Line Group, including the value of matching shares under the SIP where relevant • Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary (25% of base salary for the CEO and CFO, and 15% of salary for the Managing Director of Personal Lines)
On-target	Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends): • Fixed remuneration as above • AIP – consists of the on-target bonus of 60% of maximum bonus opportunity • LTIP – consists of the threshold level of vesting (20% vesting)
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): • Fixed remuneration as above • AIP – consists of the maximum bonus (175% of base salary for the CEO and 150% for the CFO and the Managing Director of Personal Lines) • LTIP – consists of the face value of awards (200% of base salary for all Executive Directors)

The Board reviewed and approved the above on 6 March 2017.

The relative importance of the fixed and variable components of remuneration

The Company ensures that the fixed and variable remuneration components of remuneration are appropriately balanced, with the fixed portion representing a sufficiently high proportion of total remuneration which allows the operation of a fully flexible policy on variable remuneration components including the possibility to pay no variable remuneration component. Fixed pay comprises base pay, benefits and pension. Fixed pay is set to be competitive against market levels. The Company monitors both the ratio of fixed to variable pay and quantum against the market. In no cases are the fixed components of pay set at levels which would then require undue reliance on incentive pay elements for living costs.

Supplementary pension or early retirement schemes in place for the Board members or other Key Function Holders

There are no supplementary pension or early retirement schemes in place for the Board members or other Key Function Holders.

Details of performance measures applied in 2016

AIP measures for 2016

The weightings for AIP in 2016 for the Executive Directors were as follows:

- financial: Profit before tax – 55% weighting;
- strategic measures – 25% weighting; and
- personal element – 20% weighting

In 2016, the strategic measures looked at a basket of customer measures, including Net Promoter Score and complaints. The Personal objectives included both a shared objective across the Executive Committee and objectives for each Executive Director.

As noted above regarding the broader employee population, the corporate performance measures for all employees (financial and strategic) are consistent with those used for Executive Directors, although the weighting attributes to those factors may differ.

LTIP measures for 2016

The weightings for LTIP in 2016 for the Executive Directors were as follows:

- RoTE – 60% weighting: applies over a three-year performance period (2016, 2017 and 2018); and
- TSR – 40% weighting: measures relative TSR over a three-year performance period starting on the date of grant. The comparator group is the FTSE 250 (excluding investment trusts).

The LTIP awards will also vest only to the extent that the Remuneration Committee is satisfied that the outcome of the TSR and RoTE performance conditions reflects the Group's underlying financial performance from the date of grant until vesting. When considering these matters, the Committee will also consider whether there have been any material risk failings.

As noted above regarding the broader employee population, the Group's strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors.

Material transactions

On 27 April 2012, the Company issued subordinated guaranteed dated notes with a nominal value of £500 million at a fixed rate of 9.25%. The notes are guaranteed by UKI.

On 27 April 2012, the Company advanced a £500 million unsecured subordinated loan to UKI at a fixed rate of 9.5% with a repayment date of 27 April 2042. There is an option to repay the loan on specific dates from 27 April 2022.

CIC has a 100% quota share reinsurance treaty with UKI to recover insurance liabilities that are not satisfied by third-party reinsurers. As at 31 December 2016, the amount of the reinsurance recoverable from UKI was £10.6 million.

B.2 Fit and proper requirements

Skills, knowledge and expertise of the persons who run the Group or Key Functions

The individuals were appointed to their roles following due diligence with the objective of ensuring that they had the necessary competence and were fit and proper to fulfil their positions. In making these assessments of competence due consideration was given to the individuals':

- professional qualifications, knowledge and experience to enable sound and prudent management (fit);
- character, in that they were of good repute and integrity (proper); and
- appearance on the public financial services register, where the person is an Approved Person.

To support effective operation of this requirement, the Group requires Approved Persons or Key Function Holders to:

- comply and meet the PRA Insurance Conduct Standards and FCA Conduct Rules, in respect of roles undertaken for UKI and CIC;
- comply with the Statements of Principle and Code of Practice for Approved Persons in the FCA Handbook, in respect of roles undertaken for UK Insurance Business Solutions Limited;
- comply with the requirements expected of Approved Persons or Key Function Holders to meet as set out in the Group's Regulatory Compliance Risk Policy, Fit and Proper Minimum Standard and Interaction with Regulators Minimum Standard;
- manage risks and controls that are reflected in their role profiles in accordance with the ERMF and as set out in the Group's Regulatory Governance Map; and
- continue to pass the fit and proper self-assessment as part of the Approved Persons' annual review.

Process for assessing fitness and propriety of Approved Persons

The individuals are subject to the Group's Regulatory Compliance Risk Policy which has its own specific minimum standard relating to the fitness and propriety of those persons who hold regulatory accountabilities. The minimum standard requires that individuals should notify their own line manager and the Director of Group Regulatory Risk and Compliance, if there is any matter that may impact directly or create a perception of impacting on their ongoing fitness and propriety. The Compliance function would notify the regulator if there is information that would be expected to be material to the assessment of their fitness and propriety.

As well as being subject to ongoing formal reviews of their performance in their role, the individuals are also subject to the Group's annual self-declaration assessment of fitness and propriety. To support effective operation of this requirement, the Group:

- ensures that all Approved Persons / Key Function Holders / Key Function Performers have an up-to-date role profile which is signed by both the individual and their line manager;
- ensures that role profiles for all Approved Persons and Key Function Holders correctly reflect the regulatory accountabilities they hold, and includes an up-to-date structure chart;
- ensures that all individuals who have been an Approved Person or Key Function Holder for the Group for more than six months have submitted to Compliance their return from the last annual declaration of fitness and propriety; and
- ensures the Approved Person / Key Function Holder / Key Function Performer has evidence on file to show that their training needs have been kept under review, in particular that the actions they have taken regarding training are recorded within their ongoing performance reviews and within development plans.

B.3 Risk management system, including the Own Risk and Solvency Assessment

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC, and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group's regulated insurance companies, UKI and CIC.

The Board sets and monitors adherence to risk strategy, risk appetite and the risk framework. The Group has established an on-going process for assessing the principal risks facing the Group, and monitoring the effectiveness of the Group's risk management systems.

The ERMF document sets out, at a high level, the Group's approach to setting risk strategy and managing risks. It documents the high-level principles and practices to achieve appropriate risk management standards and demonstrates the inter-relationships between components of the ERMF.

The ERMF is designed to enable the Group to run the business with the necessary understanding of its risks and controls, as well as having appropriate oversight in place to manage risks proactively. The ERMF is aligned to the Three Lines of Defence model and is intended to provide a coherent, robust, fit for purpose, end-to-end approach for managing all material risks across the Group. A central component of the ERMF is the Group Policy Framework, which includes policies and minimum standards. Policies address specific risk areas and are aligned to the Group's risk appetite. Policies where appropriate are supported by underlying minimum standards which interpret policies into a set of risk and control requirements to be implemented across the Group. The Group has an annual review programme to ensure that the ERMF, policies and minimum standards remain fit for purpose.

Risk strategy and appetite

The Group's risk appetite statements define the opportunities and associated risks the Group is prepared to accept to achieve its business objectives. To monitor whether the business remains within risk appetite, KRIs are used. The KRIs are derived from the risk appetite statements which are used to drive and monitor risk-aware decision-making.

These KRIs are both qualitative and quantitative, and forward and backward looking. The Group reviews its risk appetite statements and KRIs annually, using outputs from the IECM.

The table below outlines the Group's risk objectives and risk appetite statements:

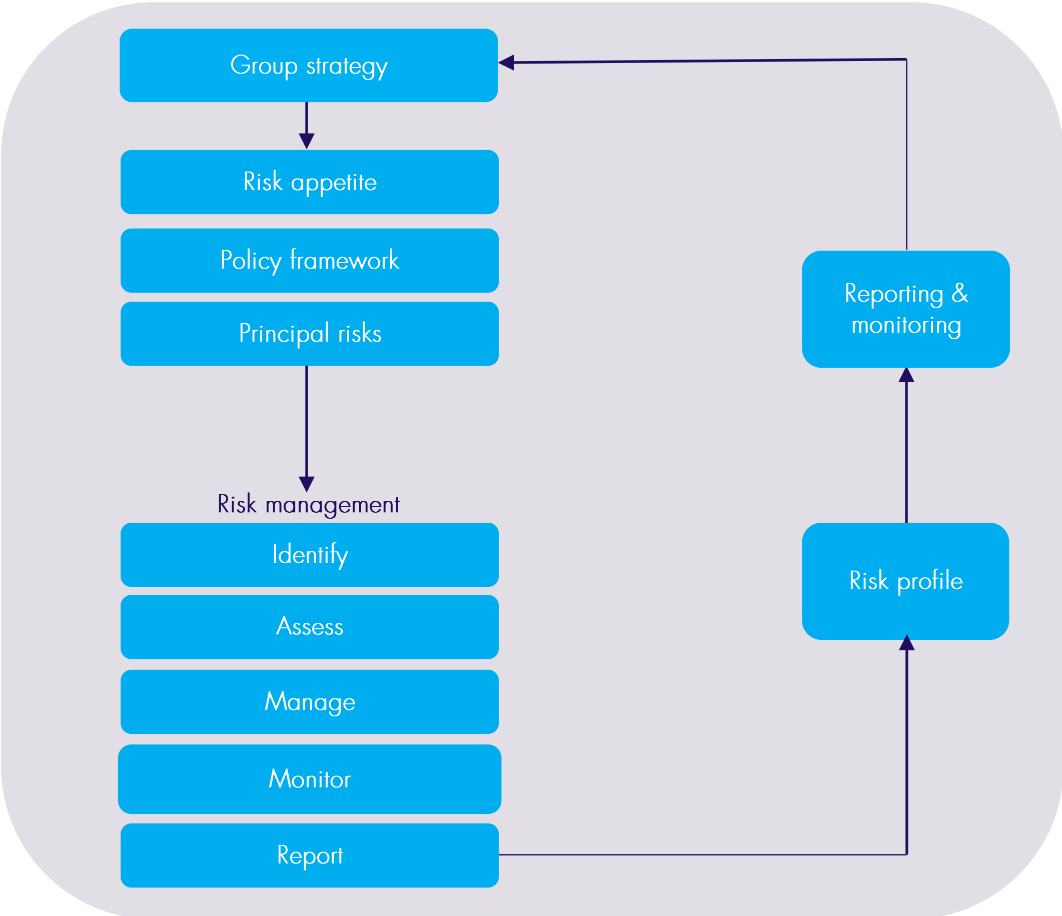
Risk objective	Risk appetite statement
1. Overarching risk objective	The Group recognises that its long-term sustainability depends on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, the Group's appetite is for general insurance risk, focusing on Personal Lines retail and SME insurance in the UK. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.
2. Maintain capital adequacy	The Group seeks to hold capital resources in the range of 140% to 180% of the internal model SCR. The Group also seeks to maintain sufficient economic capital consistent with its strategic aim of maintaining a credit rating in the 'A' range.
3. Stable and efficient access to funding and liquidity	The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a one-in-200 years insurance, market or credit risk event.
4. Maintain stakeholder confidence	The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, fines or prosecutions, and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. The Group will maintain a robust and proportionate internal control environment.

Risk management process

The risk management process enables the Group and its regulated insurance companies to manage risk in a structured and consistent way.

The potential impacts of all risks, events and management actions are rated using an Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation across the Group. All risks are mapped to the Group risk taxonomy to support effective risk management and reporting across the business.

The risk management process is summarised below:



- Identify – to identify current and emerging risks, including risks presented through the implementation of change, which could impact on the achievement of business strategic objectives. Identification should utilise expert judgement, historic data, external data, forward-looking analysis and models.
- Assess – to assess risks on an inherent and residual basis in terms of potential severity of impact and likelihood of occurrence. Assessments may be reached using quantitative or qualitative measures. Specific assessment of delivery risk within the Group Change Portfolio is assessed through the Delivery Framework and the Change Board.
- Manage – to manage residual risk exposure within risk appetite through the implementation of mitigating actions. Under exceptional circumstances management may explicitly accept the risk exposure outside of appetite in line with the Group's defined Risk Acceptance process. Action plans are used throughout the Group to ensure residual risk exposure is maintained at or brought back within risk appetite, to address control weaknesses or manage remediation (where required) following an event.
- Monitor – to monitor the risk exposure using KRIs and to ensure management actions are being delivered. The approach and frequency of risk monitoring depends on the nature of the risk and management judgement.
- Report – regular reporting of an accurate, clear and timely assessment of the risk profile and progress with management actions. Escalation of notable changes to risk profile to relevant committees and fora. RAG statuses and Risk Outlook indicators (set out in the Directorate Risk Management Minimum Standard) are used in risk-related reports across the Group.

Implementation and integration of risk management system into the organisational structure and decision-making processes

Clear risk governance helps the Group with its objective of ensuring that risk management arrangements are effective. The Group Board delegates authority for risk management to the CEO, who then further delegates to the members of the Executive. The CRO, who chairs the RMC, has accountability for providing risk oversight.

The Group's risk governance arrangements include Three Lines of Defence accountabilities and the risk management responsibilities of the Board, the BRC and RMC. The Group ensures comprehensive risk management through its Three Lines of Defence model described above.

Own Risk and Solvency Assessment

The ORSA process incorporates several underlying key processes and tools within the Group's ERMF which are used to manage risk and capital. These underlying processes and tools are reviewed periodically throughout the year at various governance committees enabling frequent and localised decision making.

The ORSA is facilitated by the Enterprise Risk Team and supported by teams within Finance and Risk. Outcomes of the ORSA are taken into consideration by the Executive Committee. The ORSA is presented to the Board for challenge and conclusions are taken into consideration in assessing the Group's risk and capital profile related to the Strategic Plan. The agreed outcomes and conclusions of the ORSA are approved by the Board.

The ORSA report is also a supervisory tool and, as such, is used to explain to the relevant supervisory body the current and forecast capital and solvency position of the Group.

Risk management system for the internal model

Governance of the IECM

The governance of the IECM is documented in the Internal Economic Capital Model Policy, associated minimum standards and guidance notes. These documents form part of the Group's Enterprise Risk Policy and Minimum Standard Framework and describe the responsibilities of individual roles and committees in the governance of the IECM. The IECM Policy is designed to ensure the appropriate control and management of model risk in relation to the IECM, it is reviewed annually and approved by the Board.

Responsibility for the delivery of the IECM is delegated throughout the business in a manner that ensures:

- appropriately skilled resources are responsible for the design and operation of the IECM;
- governance is effective and transparent; and
- the business is engaged in the direction and use of the IECM and there is robust independent challenge of the design and operation of the IECM.

The following minimum standards support the IECM Policy:

- Model Scope and Aggregation which sets out the scope of the IECM and the approach to aggregation and calculation of the Group PIM;
- Model Validation which is the Model Validation Policy for Solvency II purposes;
- Model Change which is the Model Change Policy for Solvency II purposes;
- Model Documentation;
- Model Use; and
- Model Compliance.

The Data Quality Minimum Standard also applies to the governance and operation of the IECM.

The Board approved the application to the PRA for internal model approval and authority for specific approvals are reserved for the Board; these are captured in the Model Change Minimum Standard which is the Model Change Policy for Solvency II purposes. The reserved approvals are:

- changes to the agreed scope of the IECM;
- changes to the Model Change Minimum Standard;
- changes to the threshold for Major changes and the accumulation of Minor changes; and
- changes to the model with a Major materiality classification and the application to the PRA to make such changes.

The Board receives regular reports regarding changes to the IECM and use of the IECM and ongoing training to ensure it has an appropriate understanding of the strengths, weaknesses and limitations of the IECM.

The responsible roles and committees and their main tasks and scope of their responsibilities in respect of the IECM are described below:

The BRC:

- reviews all material in respect of the IECM before it is submitted to the Board;
- reviews the IECM scope annually;
- approves the independent validation scope and framework and an executive summary of the annual independent validation report, which contains results and progress of issues raised;
- receives assurance from the Group Head of Audit regarding the independence, adequacy and effectiveness of the validation framework;
- approves high materiality model changes;
- approves the closure of high model issues and limitations; and
- receives regular management information regarding the results and use of the IECM.

The RMC:

- reviews all material in respect of the IECM before it is submitted to the BRC;
- reviews the IECM scope annually; and
- receives regular management information regarding the results, model changes, use and progress of issues and limitations of the IECM.

The CRO:

- is responsible for the independent validation; and
- is responsible for escalating any material non-compliance issues to the Board.

The CFO:

- is the executive sponsor of the IECM.

The Actuarial Director:

- is the owner of the IECM with responsibility for its design and operation;
- is responsible for communicating the development and limitations of the IECM and the requirements of the IECM policy to its users;
- sets out the scope of the IECM;
- ensures profit and loss attribution exercises are completed;
- approves medium materiality model changes;
- approves the closure of medium model issues and limitations;
- ensures the delivery of primary validation; and
- responds to issues presented by the independent validation function to the RMC and BRC, including presentation of a model development plan for resolution of any major issues.

The Head of Economic Capital:

- is responsible for the managing the IECM, including production of results, model changes and model issues, and documentation;
- approves low materiality model changes;
- approves the closure of low model uses and limitations;
- selects parameters for the IECM in conjunction with subject matter experts and risk owners from across the Group;
- is responsible for ensuring the model is used across the business and appropriate training is provided to model users; and
- considers issues raised by the independent validation function and ensures that these are appropriately acted upon.

The Head of Validation:

- is responsible for managing the independent validation of the IECM, including production of the validation scope, framework and annual validation report; and
- is responsible for ensuring that validation tests are sufficiently robust and well documented.

Material changes to IECM governance

During the course of 2016 the Head of Economic Capital changed reporting lines from the Director of Financial Risk to the Actuarial Director. This change moves the Capital Modelling team from the Second Line of Defence into the First line of Defence. The various responsibilities of the Director of Financial Risk in respect of the IECM have also moved the Actuarial Director, with the CFO assuming executive sponsorship of the IECM. The move from Second Line of Defence to First Line of Defence was to support the use of the IECM within the business, in particular within the Finance function, to take advantages of synergies that may exist between the Capital Modelling team and the existing Corporate Actuarial team and to further clarify the independence of the Model Validation team and the Capital Modelling team by having different executive reporting lines.

In addition, the Model Change Minimum Standard has been updated following internal model approval to recognise feedback from the PRA received during the process.

Validation process of the IECM

The Group's Model Validation Minimum Standard has been in effect since August 2010 and is reviewed and updated on an annual basis to reflect changes in emerging practice, Solvency II legislation and structural changes within the Group.

During 2013 to 2015, an external validation of the IECM was performed, including the Tests and Standards for Model Approval. This work was conducted independently and was reported to the Board.

An internal Model Validation team was established within the Risk Management function in 2016, moving full responsibility for the delivery of an independent model validation in-house. Two experienced actuaries were appointed into the roles of Head of Validation and Validation Manager.

During 2016, the in-house Model Validation team completed its first annual cycle of validation, with delivery of the annual validation report to the RMC and BRC in April. The team has also focused on embedding in-house Model Validation as a business as usual function, which has delivered benefits in terms of proactivity and flexibility.

There were no material validation findings in the annual independent validation report on the IECM version used for the year end 2015 SCR assessment. This version of the IECM was recommended to the BRC on 27 April 2016 to be a suitable basis for the purposes of calculating Regulatory Capital under Solvency II for both UKI and Group.

The Group continues to make use of external resources to support model validation, with the aim of having a 50% / 50% split between external and internal validation in 2017.

The Model Validation Minimum Standard requires the CRO to present the scope of validation activities envisaged for the year, as well as the validation framework to the RMC for noting and the BRC for approval on an annual basis.

The Validation Plan is drafted in line with the Model Validation Framework, which stipulates that the Group will maintain an annual cycle of validation activity and reporting, comprising three key elements:

- an annual programme of core validation testing;
- a rolling programme of 'deep-dives' into specific validation areas to take a deeper look at whether the modelling is fit for purpose and covers regulatory requirements; and
- validation of model changes (including updates to address previous validation issues.

The Model Validation Framework document distinguishes between the key elements that will form part of the annual programme of core validation testing and deep-dives. The deep-dives are performed as part of a rolling programme which aims to cover all areas of the model over a three-year time period, but also considers bespoke investigations in response to a thematic review or a current area of interest.

B.4 Internal control system

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. This control framework cascades through the divisions and central functions, detailing clear responsibilities to ensure the Group's operations have appropriate controls. This includes controls relating to the financial reporting process.

The Board, with the assistance of the BRC and the Audit Committee as appropriate, monitored the Company's internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls.

The Board was also supported in its review of the annual Control Environment Certification process. As part of this, each directorate self-assessed its risks and whether its key controls were adequate and effective. The Risk and Group Audit functions reviewed and challenged these findings. The Group then combined the overall findings into a Group-level assessment, which the CEO approved. The system reported on the controls' nature and effectiveness, and other management processes that manage these risks.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of its risk management, control and governance frameworks and processes.

The Directors acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of the Group's internal control systems. Its monitoring covers all material controls. Principally, it reviews and challenges reports from management, the Group Audit function and the External Auditor. This enables it to consider how to manage or mitigate risk in line with the Group's risk strategy.

Key procedures of the internal control system

The Group has established a number of tools to support effective implementation of the internal control system. These include:

- detailed policies and minimum standards which articulate the controls required to manage risks that the Group is exposed to;
- an annual review programme to ensure that policies and minimum standards remain fit for purpose;
- management of risks through risk assessment, action and event management; and
- provision of advice and guidance by minimum standard owners to the First Line of Defence in discharging their responsibilities.

Additionally, the Group has a number of processes that demonstrate the proactive use of the ERMF. These include:

- regular, at least annual, review of the risk appetite framework undertaken by the RMC and recommended by the BRC for approval by the Board;
- formal risk management reporting to the RMC and BRC as well as regular risk reporting from other risk committees and fora;
- the Material Risk Assessment;
- the Assessment of risk behaviours and attitudes;
- the ORSA;
- use of the IECM to inform and support decision-making;
- stress testing and scenario analysis; and
- the control environment certification process.

Compliance function

The Compliance function is a Second Line of Defence function, which is responsible for providing advice and guidance to the Group regarding compliance with both conduct and prudential regulatory requirements. The Director of Group Regulatory Risk and Compliance, who is approved by the FCA, is responsible for the Compliance function. The Compliance function works with colleagues from across the Risk Management function and management throughout the business to fulfil this responsibility.

The Regulatory Compliance Risk Policy, Conduct Policy, Fraud and Financial Crime Policy and associated minimum standards outline the role of the function. These policies, approved by the Board, provide the high-level requirements to ensure that the business remains compliant with supporting minimum standards. Other areas of compliance risk are covered by a number of separate policies and minimum standards on specific topics, such as information security and a range of policies on prudential issues. All Compliance employees are required to undertake annual online training of relevant subject areas.

In addition to the policies and minimum standards, the Compliance team undertakes the following with the objective of ensuring compliance with regulatory requirements:

- attendance at and chairmanship of governance fora; for example, the Financial Crime Steering Committee, Conduct Regulatory Risk Forum, Operational Risk Committee, Customer Conduct Committee, RMC and BRC;
- monitor regulatory developments and report areas of interest to management and the Board;
- risk dashboards and monitor adherence to risk appetite through the tracking of KRIs;
- incident management;
- advice and guidance;
- training;
- control environment certification process;
- assurance and effectiveness reviews undertaken by the Compliance and Conduct Assurance team;
- external audit reviews; and
- regulatory reviews, including thematic reviews.

Within the Compliance function, there are four expert teams:

Regulatory Advice and Guidance

- The Regulatory Advice and Guidance team provides conduct regulatory advice and challenge to the business to support new product development, changes to product related documentation, the appropriate management of incidents with regulatory implications, process changes and responses to issues raised by Risk Assurance or Group Audit.
- The team provides regulatory advice and guidance to Group projects and responds to a large number of ad-hoc queries.
- The team also manages the relationship with the FCA and the ICO.
- In relation to data protection, the team provides subject matter expert guidance and oversight primarily to First Line of Defence functions, with the objective of ensuring that relevant teams are sufficiently aware of their data protection responsibilities and that compliant processes are in place.
- The team communicates any upcoming changes to data protection related legislation and undertakes site visits to understand levels of awareness and compliance with requirements.

Regulatory Risk

- The Regulatory Risk team is responsible for providing expert subject matter advice and guidance to all parts of the business on upcoming regulatory matters, both conduct and prudential developments. Through proactive and early engagement the team raises awareness of regulatory changes and the potential impact on the business, enabling management to plan for potential threats and opportunities.
- The team also supports the business in identifying, analysing and coordinating responses to relevant regulatory developments through to facilitating the initiation of implementation programmes.
- The team is also responsible for managing the Group's relationship with the PRA, and all communication to and from the FCA and PRA.
- The team provides prudential advice and guidance to the business and supports senior management and business areas in communication with the regulators.
- The team is also responsible for the development and production of monthly compliance and conduct risk management information which provides the Director of Group Regulatory Risk and Compliance with an overview of the status of regulatory compliance across all divisions and functions within the Group, including performance against KRIs. The reports highlight operations outside of accepted risk appetite and identify gaps, trends and issues, escalating as appropriate.
- The team compiles and submits reports on behalf of the Compliance function for inclusion within the RMC and BRC papers.

Financial Crime

The Financial Crime team is responsible for providing expert subject matter advice, guidance and training to all areas of the Group on:

- The prevention, detection and reporting of suspicious activities in relation to money laundering – the team investigates and reports suspicions of money laundering to the National Crime Agency and seeks appropriate consent from this agency for payments that would be prohibited under the Proceeds of Crime Act 2002.
- The legal and regulatory requirements in relation to sanctioned individuals, entities and restricted countries – the team investigates all potential sanction matches and reports any positive matches to the relevant external regulators: HM Treasury and FCA.
- Internal fraud, bribery and corruption and whistle-blowing – the team conducts investigations involving staff, brokers or suppliers. The team is the owner of the Anti-Bribery and Corruption, Whistle-blowing and Investigations Minimum Standards. The team acts as primary interface with law enforcement for all internal fraud matters.
- The prevention and detection of fraud – the team conducts fraud and payment security risk assurance reviews to assist with the mitigation of fraud and payment security risk.
- Physical and personal security risk.

Compliance and Conduct Assurance

- The Compliance and Conduct Assurance team is responsible for the Second Line of Defence monitoring and oversight of various areas of compliance with the conduct and compliance policies and associated minimum standards across the Group.
- The team works with the policy and minimum standard owners, compliance subject matter experts and the Group's First Line of Defence teams to help identify thematic issues and regulatory compliance concerns that inform the production and delivery of the assurance monitoring plan.
- Senior management within the Group still retain responsibility for rectifying issues identified through the assurance activity, and engaging and working with the Risk Management function to ensure that remedial action is appropriate both for the individual issues identified and in addressing any wider systemic failings it may highlight.
- The compliance and conduct assurance plan is developed and approved by the assurance and compliance leadership teams taking into consideration the needs and planned activity of the First and Third Lines of Defence. The plan is currently produced on a half yearly basis. It is approved by the Director of Group Regulatory Risk and Compliance following review by the RMC and BRC.

B.5 Internal audit function

Group Audit supports the Board and Executive Committee in their aim to: protect the assets, reputation and sustainability of the Group; achieve their strategic and operational objectives; and discharge their corporate governance responsibilities. Group Audit achieves this by:

- providing assurance that the risk management processes and controls established by the business are adequate, effective and sustainable to manage key business risks;
- assessing whether all significant risks identified by the business and Risk Management function are reported to the Board and Executive Committee;
- challenging the Executive Committee to improve governance, risk management and control activities, including challenging the definition and monitoring of risk appetite performed by the Risk Management function;
- challenging processes and controls that support strategic and operational decision-making and assessing the appropriateness and reliability of management information presented to the Board and Executive Committee;
- providing a Group-wide view of specific risk and control themes emerging from Group Audit work, including considering current and emerging factors and how business processes support a customer focus and compliance with conduct requirements;
- offering an assessment of risk behaviours and attitudes;
- when considered appropriate or on request, providing assurance over key corporate events, such as new products and services, outsourcing, acquisitions or divestments; and
- being available to the Board, as required, to provide an independent investigations service, for example in those circumstances where it would be inappropriate for the Second Line of Defence to undertake an investigation.

Group Audit presents a quarterly report to the Audit Committee summarising the results and analysis of audit activity in the preceding quarter. On an annual basis, Group Audit also presents a periodic assessment report, which provides an opinion on the Group's self-assessment of the Group-wide control environment; an analysis of key themes and trends; an assessment of the Enterprise-wide Risk Management Framework; and an assessment of risk behaviours and attitudes. Group Audit is not part of the system of risk control or compliance, and does not:

- take accountability for the risk management framework and processes;
- represent Executive Committee's assurance on risks; or
- take decisions on risk mitigation or implement risk mitigation actions on behalf of Executive Committee.

Independence and objectivity of internal audit

To both preserve and reinforce Group Audit's independence and objectivity, the primary reporting line for the Group Head of Audit is to the Chair of the Audit Committee who is an independent NED. The Audit Committee is responsible for the appointment and removal of the Group Head of Audit. The Chair of the Audit Committee sets objectives for the Group Head of Audit and recommends remuneration for the Group Head of Audit to the Remuneration Committee. The Group Head of Audit communicates and interacts directly with the Audit Committee and with members of the Committee in between Committee meetings or where escalation is required due to any disagreement with management.

The Group Head of Audit also maintains a reporting line to: the Group CEO, to report on the outcome of audit activity and assessments on the Group control environment; and the Group CFO, for day-to-day administrative purposes, although these administrative purposes do not include any matters that could influence Group Audit in delivering its mandate.

It is imperative that Group Audit's independence and objectivity are maintained through being exempt from undertaking any executive or operational duties, or any other activity, that may impair Group Audit's judgement. Group Audit remains free from interference by any element in the Group, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of independence and objectivity. The Group Head of Audit confirms to the Audit Committee, at least annually, the organisational independence of Group Audit.

B.6 Actuarial function

The Actuarial function for the Group encompasses both First and Second Lines of Defence activities and has been split between two Actuarial function holders.

Reserving and calculation of technical provisions is co-ordinated and performed by the First Line of Defence Actuarial function. Actuarial risk management, including opinions, on underwriting and reinsurance are conducted by the Second Line of Defence. The Actuarial Director and the Director of Financial Risk are the two chief actuaries for the Group and fulfil the First and Second Lines of Defence responsibilities respectively.

The First Line of Defence Actuarial function meets the requirements of the Solvency II Regulation with the following division of responsibility and activities undertaken during the reporting period:

- co-ordinated the calculation of technical provisions;
- ensured the appropriateness of methodologies used in the calculation of technical provisions;
- assessed the sufficiency and quality of data used in the calculation of technical provisions;
- compared best estimates against experience; and
- informed Group management of the reliability and adequacy of technical provisions.

The Second Line of Defence Financial Risk function meets the requirements of the Solvency II regulation with the following. activities undertaken:

- to express an opinion on the overall underwriting policy;
- to express an opinion on the adequacy of reinsurance arrangements; and
- contributed to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements, and to the ORSA.

The contribution to the effective implementation of the risk management system is additionally met by the First Line of Defence Actuarial function through the supply of technical provisions to the IECM and the balance sheet.

Both the First and Second Line of Defence functions are sufficiently composed of qualified actuaries to meet the skilled persons' requirement of actuarial functions. The activities of the Actuarial function are documented in the Actuarial Function Report and submitted annually to the Board.

B.7 Outsourcing

The Outsourcing and External Supplier Policy ensures the Group undertakes a consistent approach to the management of risks from the sourcing and appointment of external suppliers of goods and services in line with the risk appetite set by the Board. The Policy provides a framework within which the Group manages its outsourcing and external supplier risk exposure where external supplier risk is defined as the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of external suppliers, outsourced service providers and intragroup relationships.

This framework details the defined sourcing approach when procuring the services and providing regular oversight of the performance of third parties in relation to key contractual requirements. This is particularly with respect to external suppliers that are deemed to provide a material, critical and important service to the Group and therefore, ultimately, to its customers. These are services of such importance that weaknesses or failure of those services would cast doubt upon the Group's ability to comply with its key regulatory obligations or deliver its services to policyholders and as such processes and activities undertaken within sourcing and contract management have been refined to include requirements specific to these outsourced services.

The First Line of Defence identifies, assesses, manages and monitors all types of outsourcing and external supplier risks in line with the ERMF. Where additional guidance is required in respect of outsourcing and external supplier risk, the Procurement function is consulted. The Group categorises relationships with external suppliers as follows:

- outsourcing arrangements are those of any kind between the Group and a service provider by which that service provider performs a service or an activity that would otherwise be undertaken by the Group;
- material, critical or important outsourcing arrangements are the outsourcing of a function or activity that is so important that the Group would be unable to deliver its services to policyholders without that function or activity. In the UK, all relevant arrangements must be notified to the appropriate regulator, through the Second Line of Defence Compliance function, in advance of such activity taking effect;
- intragroup outsourcing is the provision of services which are material, critical or important by one entity to another within the same Group; and
- external suppliers are third-party organisations providing goods or services to the Group or directly to the Group's customers on the Group's behalf, but exclude commission payments to brokers.

Where intragroup arrangements are in-force, the Dealing with Outsourcing and External Suppliers' Minimum Standard states that the minimum standard owner is to convene a review on an annual basis to ensure that the agreements remain current and reflect the appropriate service provisions and providers. This review, as a minimum, will include representation from the Group Legal, Procurement, Risk and Compliance functions. The review aims to help ensure that intragroup arrangements are all correctly identified and supported by an appropriate agreement, and any changes required given the Group's corporate structure and the activities being undertaken are identified. Agreements are filed with the Company Secretariat function.

The intragroup agreements that currently exist are between DL Insurance Services Limited ("DLIS") and UKI, DLIS and CIC, and DLIS and U K Insurance Business Solutions Limited. These have been classified as material intragroup outsource agreements due to the Key Functions and services that are provided by DLIS to the regulated entities. Key Functions and services provided by DLIS include administration, operational support, and managerial advisory services; these are primarily provided from within the UK.

The Group outsources several critical or important activities to various third parties. The Group maintains, manages and provides oversight of these activities in line with the Dealing with Outsourcing and External Suppliers' Policy and Minimum Standard. These activities are provided from third parties within the UK, with the exception of a wide range of back office services across claims, customer operations, commercial and finance that are provided from a third party in India and South Africa.

B.8 Any other information

There is no other information.

C. Risk profile

The risk management process outlined in B.3 aims to enable the Group to manage risk in a structured and consistent way and ensure continued effectiveness of the Group's risk mitigation techniques.

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group regulated insurance companies, UKI and CIC. The Group's risk profile has remained broadly unchanged over the year.

Prudent person principle and management of invested assets

The Prudent person principle defined in Article 132 of the Solvency II Directive includes provisions on how undertakings should invest their assets and is as much a behavioural standard as an assessment of judgements and investment decisions.

Prudence is evidenced in the manner in which investment strategies are developed, adopted, implemented and monitored, in light of the purpose for which funds are managed, the oversight of which is provided by the Investment Committee.

The Investment Management and Treasury ("IMT") function is responsible for ensuring that the Group only invests in assets and instruments, the risks of which can be properly identified, assessed, managed, monitored, controlled and reported in accordance with the Groups' ERMF and the Investment Risk Policy. All assets and instruments are invested to ensure the overall security, liquidity, quality and profitability as a whole.

Assets are invested in an appropriate manner with the object of ensuring their nature and duration match technical provisions to mitigate a loss which could arise from the imperfect matching of the timing and size of the cash flows from the investments and those linked to liabilities. Asset and liability management and the Investment Management Minimum Standard require the IMT function to perform an asset and liability matching exercise at least annually for each regulated entity and recommend any adjustments to asset holdings, strategic asset benchmarks or use of derivatives to improve matching of cash flows.

To ensure assets are invested in a prudent manner to reduce exposure to market risk the IMT function:

- reviews the current asset mix against relevant market conditions;
- reviews monthly the interest rate and credit spread movements, market volatility;
- reports market risk measures in addition to value at risk to provide regular insights on potential changes to asset prices as a result of market risk;
- monitors the asset mix verses approved asset benchmark allocations; and
- ensures no uncovered or speculative use of derivatives and derivatives are only used for reduction of risk and efficient portfolio management.

The IMT function invests in and monitors assets in such a way to ensure prudence and reduce credit risk in the following ways:

- limiting investment in assets not admitted to trading on a regulated financial market;
- measure and manage risk exposure across the entire portfolio on a daily basis;
- diversify exposure to avoid excessive reliance on any particular asset class, issuer, group of companies, industry or geographic area;
- credit assessment, prior to investing in an asset or transaction with counterparty and ensure they are updated at least annually; and
- regular reviews of credit limits to ensure that the size and nature of the limit provided and current utilisations remain appropriate.

The IMT function is responsible for maintaining a level of liquidity in line with the Board approved risk appetite by:

- ensuring aggregate exposure to financial assets viewed as illiquid is maintained at prudent levels within the portfolio; and
- maintaining strategic and short-term operational cash flow forecasts to support orderly management of expected liquidity levels.

C. Risk profile continued

C.1 Underwriting risk

Underwriting risk
This is the risk that future claims experience on business written is materially different from the results expected, resulting in current year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the SME market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12 month period, after which the Group is entitled to decline to renew or can impose renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

Underwriting risk includes catastrophe risk, the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

Reserve risk
Reserve risk relates to both premiums and claims. This is the risk of understatement of reserves arising from:

- the uncertain nature of claims;
- data issues and changes to the claims reporting process;
- operational failures;
- failure to recognise claims trends in the market; and
- changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost, for example lost investment return or insufficient resource to pursue strategic projects and develop the business.

Risk concentrations
The Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group purchases a UK catastrophe reinsurance programme to protect against a modelled one-in-200-year loss. The retained deductible is £150 million at 31 December 2016 (2015: £150 million);
- product concentration risk – the Group's business is heavily concentrated in the UK general insurance market. However, the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers;
- sector concentration risk – the concentration of the Group to any given industry sector is monitored and analysed in respect of commercial customers; and
- reinsurance concentration risk – reinsurance is purchased from a number of providers to ensure that a diverse range of counterparties is contracted with, within the desired credit rating range.

It is important to note that none of these risk categories is independent of the others and that giving due considerations to the relationship between these risks is an important aspect of the effective management of insurance risk.

Management and mitigation
Underwriting risk is controlled through a range of processes:

- underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data;
- a range of KPIs tracking underwriting performance are regularly monitored and reported to senior management;
- governance on model change provided by various committees and the internal audits conducted by underwriting;
- catastrophe and motor excess of loss reinsurance limits the Group's exposure to events and large losses; and
- the Group invests in enhanced external data to analyse and mitigate exposures.

Reserve risk is controlled through a range of processes:

- the Group estimates technical reserves using various actuarial and statistical techniques. Management's best estimate of total reserves is set at not less than the actuarial best estimate;
- regular reviews of the claims, premiums and an assessment of the requirement for a liability adequacy provision for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

Note that the underwriting risk and the reserve risk are both mitigated by the reinsurance structure in place.

Risk sensitivity methods, assumptions, stress testing and sensitivity analysis

Multiple major weather events

Catastrophe events are a material driver of underwriting risk for the Group with reinsurance as an important mitigation. To better understand the Group's exposure in this area, the Group has considered a situation in which the UK faces several weather events over a period of 12 to 18 months, including multiple windstorms, floods, freeze, and subsidence events. Subsidence is not covered by the Group's reinsurance programme, but costs per claim are fixed through an arrangement with an outsourced claims handler. The resulting impact was only slightly higher than the one-year SCR catastrophe risk requirement which was considered reasonable as the combination of such events within 18 months was deemed to be a less frequent occurrence than once in 200 years.

Ogden discount rate and PPOs

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as the change in the Ogden discount rate announced on 27 February 2017. This is the discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases. The rate has been 2.5% since 2001 and changed to minus 0.75% from 20 March 2017. The Group has calculated its estimated reserves based on the new rate which itself is uncertain depending on the outcome of the Government's consultation launched on 30 March 2017 on the framework for setting the rate and on the frequency and timing of future changes.

Uncertainty in claims reserves estimation is larger for claims such as PPOs for which annually indexed payments are made typically over the lifetime of the injured party. Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the assumed discount rate.

The following table shows the Group's solvency ratio sensitivities to three insurance risk events, estimated based on an assessed impact of scenarios as at 31 December 2016.

Solvency ratio sensitivity analysis

The sensitivities are estimated based on the assessed impact of the scenarios at 31 December 2016, and have been applied to the Group solvency ratio before the inclusion of the dividends announced in March 2017.

Scenario	Impact on solvency ratio
Motor premium rate reduction of 10%	(14 pts)
One-off catastrophe loss equivalent to the 1990 storm	(9 pts)
One-off catastrophe loss based on extensive flooding of the River Thames	(9 pts)

C. Risk profile continued

C.2 Market risk

This is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- foreign currency risk.

Spread risk

This is the risk of loss from deterioration in the credit standing of issuers of securities or from fluctuations in the market values for the credit risk. It is primarily managed by the First Line of Defence and monitored by the Investment Risk forum. It is the responsibility of this forum to ensure that spread risk is identified, monitored and measured.

Interest rate risk

This is the risk of loss from all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group also invests in floating rate debt securities, whose investment income is influenced by the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US Dollar ("USD") corporate bonds, excluding £432.0 million of short duration high yield bonds (2015: £336.9 million), the Group hedges the interest rate exposure of this portfolio. These derivatives reduce the duration of the portfolio to close to zero.

Property risk

This is the risk of loss as a result of sensitivity of assets and financial investments to the level or volatility of market prices of property. At 31 December 2016, the value of property investments (other than own use) was £332.8 million (2015: £352.5 million). The property investments are located in the UK.

Foreign currency risk

The exposure to currency risk is generated by the Group's investments in USD and Euro denominated corporate bonds. At 31 December 2016, the Group was exposed to USD currency risk as a result of investments in USD denominated corporate bonds of £2,107.1 million (2015: £1,876.3 million) and to Euro currency risk as a result of investment in Euro-denominated corporate bonds of £91.8 million (2015: £nil).

Risk concentrations

Concentration risk arises from inadequately diversified portfolios of assets, in particular:

- large exposures to individual groups;
- large exposures to different groups where movements in values and ratings are closely correlated – the Group may suffer significant losses in its investment portfolio as a result of over-exposure to entities engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions;
- large exposures to certain industry sectors;
- large exposures to certain geographies – the Group holds property assets solely within the UK; and
- large exposures to exchange rate fluctuations – the Group holds a significant proportion of its assets in USD.

The Group manages and controls the concentration risks as part of its market risk mitigation techniques, which are described below.

Management and mitigation
The Group manages and controls the risks in its investment portfolio through:

- investment strategy approved by the Board's Investment Committee;
- diversification of the types of assets, and tight control of individual credit exposures; and
- risk-reduction techniques, such as hedging foreign currency exposures with forward contracts and hedging exposure to US interest rates with swap contracts.

The Group's Investment Risk Policy and related minimum standards require the First Line of Defence, in this case the IMT function, to undertake an asset-liability management study at least annually. The study must consider the following:

- mitigation of interest rate risk, typically using key rate duration analysis;
- the implications and rationale for mismatches pursued when backing liabilities on the balance sheet, for example "real growth" asset strategy supporting inflation linked PPO liabilities;
- suitability and appropriateness of Group asset classes given the risk appetite of the Group and capital position; and
- overall expected returns from the investment portfolio given regulatory capital employed.

The quality of assets held in each segregated portfolio is controlled through asset manager guidelines detailing acceptable credit ratings, issuer concentration limits and prohibited holdings.

The operating framework used by the IMT function, evidenced through the written internal procedures framework and contractual and service level requirements in place with external service providers employed, is designed to ensure:

- assets owned are held securely, with holdings verifiable independently by the Group;
- encumbered assets, for example those allocated as collateral, can be identified easily;
- actual returns received can be measured versus benchmark criteria set and budgeted return assumptions; and
- aggregate and individual asset holdings can be monitored against the key risk controls set; for example strategic benchmark weightings, credit ratings, issuer exposure limits and credit duration limits.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis
The Finance function is responsible for monitoring the regulatory capital requirement to support the investment strategy employed. The Risk function performs stress tests to identify capital requirements and management actions should such stresses occur. Value at risk is calculated by the Capital Modelling team within the Finance function on a quarterly basis to monitor changes in market conditions on likely capital requirements. Losses may arise from:

- the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;
- assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility;
- the imperfect matching of the timing and size of the cash flows from the investments and those linked to the liabilities; and
- the sensitivity of assets to the level or volatility of market prices of property.

The following table shows the Group's solvency ratio sensitivities to two market changes, estimated based on an assessed impact of scenarios as at 31 December 2016.

The sensitivities are estimated based on the assessed impact of the scenarios at 31 December, and have been applied to the December 2016 Group solvency ratio before the inclusion of the dividends announced in March 2017.

Scenario	Impact on solvency ratio
100bps increase in credit spreads	(8 pts)
100bps decrease in interest rates	(7 pts)

C.3 Credit risk

This is the risk of loss resulting from default on cash inflows and/or changes in market value of issuers of securities, counterparties and any debtors to which the Group is exposed. The Group is mainly exposed to the following credit risk factors:

- counterparty default risk;
- spread risk (covered under market risk); and
- concentration risk.

Counterparty default risk

This is the risk of loss from unexpected default of the counterparties and debtors of Group undertakings. This risk is primarily managed by the First Line of Defence and monitored by three forums: the Investment risk forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit risk forum monitors reinsurance and corporate insurance counterparty default risk; and the NIG credit committee is responsible for monitoring broker credit risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Group are identified, monitored and measured.

The main sources of counterparty default risk for the Group are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy; and
- reinsurance recoveries – counterparty exposure to reinsurance counterparties arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. PPOs have the potential to increase the ultimate value of a claim and, by their very nature, to significantly increase the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity.

Risk concentrations

Concentration risk arises from inadequately diversified exposure to creditors, in particular:

- large exposures to individual creditors (either debt security issuers or deposit-taking institutions); and
- large exposures to different creditors where movements in values and ratings are closely correlated.

Management and mitigation

- credit limits are set for each counterparty with an exposure above £10,000 and the Group actively monitors those credit exposures; and
- the Group only purchases reinsurance from reinsurers with at least an "A-" rating.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function monitors the regulatory capital requirement to support the investment strategy employed. The Risk function performs stress tests to identify management actions should such stresses occur. One stress test looked at the impact of the Group's largest reinsurer defaulting, which would lead to a financial loss of approximately £300 million, if no recoveries could be made. However, as the default of the Group's largest reinsurer is considered to have a return period of beyond one-in-200 years, this result will not materially impact the capital requirements of the Group.

C.4 Liquidity risk

Liquidity is the risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due. Furthermore, it is the risk of investments and contractual obligations which impact the availability of funds, or certainty that funds will be available without significant losses or other costs, to honour all cash outflow commitments as they fall due.

Liquidity risk is considered to be immaterial to the SCR for the Group, UKI and CIC.

Management and mitigation

The annual asset-liability study must consider access to liquidity in stressed scenarios. At the more granular level, access to liquidity in stressed scenarios is met through benchmark holdings of cash and sovereign debt securities. The aggregate exposure to illiquid assets is also monitored as part of the aggregate portfolio consideration.

Additional initiatives to support liquidity include sovereign debt security repurchase agreement lines in place. These will enable any short-term material cash requirements that arise which have not been forecast to be covered without unnecessary sales of sovereign debt securities and the associated realised gains or losses on the sale.

The IMT function forms an integral component of the Group's annual budgeting process and budget updates during the year. Where assets under management are expected to rise or fall materially in the next two years, the IMT function produces proposals for approval by the Investment Committee detailing how liquidity will be managed and maintained, where assets under management are falling, or new monies invested.

Liquidity risk – expected profit in future premiums

The expected profit in future premiums ("**EPIFP**") is calculated to assess the impact on own funds of a lapse in certain policies and provide a measure of the insurer's exposure to liquidity risk. It is not a measure of overall profitability of the business, for example it does not allow for all sources of income (e.g. ancillary or investment income), is calculated on a different expense basis than that for ongoing operating expenses, does not allow for the development of prior year claims provisions and is affected by seasonality of the business written over the year. The amount as at 31 December 2016 for Group and UKI was £141.4m.

EPIFP figures are calculated, and included in this report, in accordance with the regulatory requirements of Solvency II. EPIFP is not a measure of any element of the profit for the Group and is not to be construed as a profit forecast for the Company or any part of the Group or interpreted to set a floor to the profits of the Company or any part of the Group. In addition, attention is drawn to the 'Forward-looking statements disclaimer' in Section F of this document, which applies, without limitation, to the EPIFP.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Liquidity Risk Minimum Standard requires the IMT function to maintain short-term cash flow forecasts and maturity ladders to ensure ongoing operational liquidity requirements are met. The function is also required to hold minimum levels of liquidity to meet stressed requirements on an overnight basis, within one month and within three months.

C.5 Operational risk

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

Risk concentrations

The Group is subject to concentration in its operational risks through for example its IT systems and change programmes, which risks include the risk of losses in a number of scenarios such as system outages and data security breaches. Technology remains at the heart of the Group operations and focus is on upgrading Group IT systems and capabilities, aimed at improving the digital offering, customer experience and operational efficiency. While progress has been made in each of these three areas, implementation and integration of a range of new IT systems is inherently complex and challenging.

Management and mitigation

The Group is working to improve the performance of its IT systems across the board, while focusing on the development of future systems capability. With significant change underway, the Group is monitoring risks associated with its IT systems' stability, cyber security and the internal control environment.

The Group's risk management system is designed to enable it to capture and monitor risk information in a robust and consistent way. The performance of outsourced activities is also monitored by the Group.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Group's operational risk requirement is calculated by considering a number of scenarios at a one-in-200 level.

C.6 Other material risks

Reputational risks

Reputational risk is not considered a material risk in its own right within the Group, however, it is considered within the risk drivers and impact of other risk types such as compliance, change, financial reporting, partnership contractual obligations, outsourcing and conduct risks.

Strategic risks

Risks associated with strategic implementation and formulation are considered within the Material Risk Register ("**MRR**") and monitored by the Executive Committee. Strategic risks are considered to manifest across the MRR and as a result the risk is not explicitly modelled in the Group partial internal model SCR.

C.7 Any other information

There is no other information.

D. Valuation for solvency purposes

D.1 Assets

Valuation methodology

The Group values all assets, excluding reinsurance receivables, goodwill and intangibles, at fair value on the Group, UKI and CIC Solvency II balance sheets, which represents an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Asset recognition and valuation bases have been applied consistently during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted. Reinsurance receivables are included in section D.2, Technical provisions.

Group accounting policy – fair value

The accounting policies and the basis of valuation used in the Group IFRS financial statements and individual IFRS financial statements of its subsidiaries are consistently applied, and described in the Group's Annual Report & Accounts 2016 within 'Notes to the consolidated financial statements', Note 1 'Accounting policies', which starts on page 127.

Fair value is best demonstrated by reference to a quoted price in an active market. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the last transaction, the fair value is determined by reference to observable market data such as prices for similar assets, recent transactions in less active markets or the fair value reflects the change in condition by reference to, but not limited to, interest rates, foreign exchange rates, volatilities in debt prices or credit spreads for similar financial instruments.

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Fair value for derivatives is determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Valuation models use inputs for contractual terms and the specific risks inherent in the instrument, market prices, credit curves, yield curves, measure of volatility and correlations of such inputs.

For investment property, fair value is based on current prices using a valuation model that predominantly uses unobservable inputs. Valuations are compared with recent market transactions for similar properties and adjusted for the specific characteristics of each property.

Key differences between the valuation of assets under Solvency II compared to IFRS

The Group applies a value of zero to goodwill for Solvency II and measures at cost in the IFRS financial statements. For intangible assets other than goodwill, a value of zero is assigned under Solvency II because it is not possible to sell other intangible assets separately or demonstrate that there is a market value for the same or similar assets. In the IFRS financial statements these assets are carried at cost less accumulated amortisation.

Deferred acquisition costs in the Group and UKI financial statements are not recognised as an asset under Solvency II. Insurance and other receivables in the Group and UKI financial statements primarily consist of future cash flows due from policyholders which are not yet due and reflected as an asset within Solvency II technical provisions. Cash flows from policyholders which are due or overdue are reflected as Solvency II receivables.

D. Valuation for solvency purposes continued

The tables below summarise and compare the Group's, UKI's and CIC's Solvency II assets, their values and basis of valuation with those contained in the Group's, UKI's and CIC's IFRS financial statements.

Group

At 31 December 2016	Solvency II value £m	Solvency II valuation basis	IFRS financial statements value £m	IFRS financial reporting valuation basis
Investment property (other than for own use)	332.8	Marked to model	332.8	Marked to model
Government bonds	430.0	Marked to market	430.0	Marked to market
Corporate bonds	4,303.4	Marked to market	4,300.3	Marked to market
Collective investment schemes	999.5	Marked to market	999.5	Marked to market
Derivatives	79.7	Marked to market / model	79.7	Marked to market / model
Loans	419.0	Marked to model	416.7	Amortised cost
Total investments	6,564.4		6,559.0	
Property, plant and equipment held for own use	52.1	Marked to market	180.9	Cost less depreciation
Reinsurance recoverables	1,232.7	See section D.2	1,371.8	See section D.2
Insurance and other receivables	251.8	Marked to market	1,102.0	Marked to market
Cash and cash equivalents	166.6	Marked to market	166.6	Marked to market
Deferred tax assets	35.4	Fair value	-	Fair value
Other assets[1]	66.2	Marked to market	775.7	Marked to market/cost
Total assets	8,369.2		10,156.0	

UKI

At 31 December 2016	Solvency II value £m	Solvency II valuation basis	IFRS financial statements value £m	IFRS financial reporting valuation basis
Investment property (other than for own use)	323.4	Marked to model	323.4	Marked to model
Government bonds	295.2	Marked to market	295.2	Marked to market
Corporate bonds	4,303.4	Marked to market	4,300.3	Marked to market
Collective investment schemes	823.5	Marked to market	823.5	Marked to market
Derivatives	77.6	Marked to market / model	77.6	Marked to market / model
Loans	495.4	Marked to model	495.1	Amortised cost
Total investments	6,318.5		6,315.1	
Reinsurance recoverables	1.212.8	See section D.2	1,347.6	See section D.2
Insurance and other receivables	195.6	Marked to market	1,043.5	Marked to market
Cash and cash equivalents	156.6	Marked to market	156.6	Marked to market
Other assets[2]	13.1	Marked to market	215.7	Marked to market
Total assets	7,896.6		9,078.5	

CIC

At 31 December 2016	Solvency II value £m	Solvency II valuation basis	IFRS financial statements value £m	IFRS financial reporting valuation basis
Collective investment schemes	18.7	Marked to market	18.7	Marked to market
Reinsurance recoverables	29.9	See section D.2	34.9	See section D.2
Insurance and other receivables	0.8	Marked to market	0.8	Marked to market
Total assets	49.4		54.4	

Notes:
1. The financial statements' values above have been reclassified into the asset categories in the Complementary Identification Code table in the Solvency II Regulations, Implementing Technical Standards for comparative purposes.
2. Financial statements comparison includes goodwill, intangible assets and deferred acquisition costs that are not included in the Solvency II balance sheet. Own shares (held directly) for employee share trusts have been reclassified from equity in the 'IFRS financial statements value' column to other assets to be consistent with the classification on the Solvency II balance sheet.

Investment property (other than for own use)

Property is stated at fair value in the Solvency II balance sheets and IFRS financial statements based on valuations by independent registered valuers, using consistent assumptions and methodology. Properties classified as assets held for sale in the IFRS financial statements are valued on the same basis for Solvency II and included within properties (other than for own use) in the Group balance sheet.

Government bonds

Government bonds are valued at fair value in the Solvency II balance sheets and IFRS financial statements. These are based primarily in whole or in part by reference to published quotes in an active market; the value for Group is £327.3 million and £192.5 million for UKI. For both Group and UKI £102.7 million of government bonds are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

Corporate bonds

Corporate bonds in the Solvency II balance sheets are held at fair value. In the IFRS financial statements for Group and UKI they are also held at fair value with the exception of a small portfolio with a value of £85.1 million (fair value: £88.2 million) classified as held to maturity under IFRS, and held at amortised cost. The fair value for Solvency II is calculated using valuation techniques that are based on observable current market transactions and model inputs for recent transactions or observable market data.

Collective investment schemes

Collective investment schemes are measured at fair value in the Solvency II balance sheets and the IFRS financial statements. They consist primarily of money market funds and are valued by reference to published quotes in an active market.

Derivatives

Derivatives are carried at fair value in both the Solvency II balance sheets and IFRS financial statements, using the valuation technique on page 55.

Loans

Under IFRS, loans are valued at amortised cost; the Solvency II fair value is derived using a valuation based on a risk-adjusted discounted cash flow model. When determining the risk-adjusted discount rate, inputs for the relevant base rate, average trading spread of the overall market or sector and the credit risk specific to the loan are used.

Property, plant and equipment held for own use

In the Solvency II balance sheets, property is valued at fair value, based on valuations provided by independent registered valuers using assumptions and methodology that are consistent with investment property. Plant and equipment is valued at fair value only if an external market exists and a price verified by an independent valuer can be obtained, which results in many smaller items being valued at zero. The IFRS financial statements value property, plant and equipment at historic cost less depreciation.

Insurance and other receivables

Insurance and other receivables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

Cash and cash equivalents

Cash and cash equivalents are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. They comprise cash in hand and on demand deposits with banks, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Deferred tax assets

Deferred tax assets arise solely in the Group Solvency II balance sheet and are valued at fair value.

Other assets

Other assets on the Solvency II balance sheets are valued at fair value.

Investment in subsidiaries

In the Solvency II balance sheet of UKI, its subsidiary CIC is valued using an adjusted equity method that applies Articles 75 to 86 of the Solvency II Directive. The investment in subsidiary is included within other assets.

Leasing arrangements

The Group does not have any finance leases. For details of operating lease commitments, please refer to section A.4.

D. Valuation for solvency purposes continued

Retirement benefit obligation

The Group operated a small defined benefit pension scheme with a balance sheet asset value of £12.0 million as at 31 December 2016, which was closed in 2003. The scheme assets and liabilities are measured at fair value. More detail can be found in the Group's Annual Report & Accounts 2016 in note 34 'Retirement benefit obligations' which starts on page 170.

D.2 Technical provisions

The Group estimates the technical provisions using a range of actuarial and statistical techniques. Projections of ultimate claims cost involve assumptions across a range of variables, including estimates of trends in claims frequency and average claim amounts.

This is largely consistent with the valuation of net reserves for IFRS reporting; however, there are a few material differences in the valuation of technical provisions, see 'Differences in valuation methodologies' below.

Simplified methods used to calculate the technical provisions

The technical provisions are calculated as the sum of a net actuarial best estimate ("ABE") plus a risk margin. The best estimate is comprised of a claims provisions component and a premium provisions component.

The risk margin is calculated at an entity level and allocated to lines of business.

Group – net technical provisions

At 31 December 2016	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,498.6	149.2	**2,647.8**
Other motor insurance	125.9	5.6	**131.5**
Fire and other damage to property insurance	533.5	54.2	**587.7**
General liability insurance	331.3	22.5	**353.8**
Other non-life lines of business	117.8	4.1	**121.9**
	3,607.1	235.6	**3,842.7**
Life lines of business			
Annuities from non-life	245.3	64.3	**309.6**
Total lines of business	**3,852.4**	**299.9**	**4,152.3**

UKI – net technical provisions

At 31 December 2016	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,496.0	148.9	**2,644.9**
Other motor insurance	125.9	5.6	**131.5**
Fire and other damage to property insurance	533.5	54.2	**587.7**
General liability insurance	331.3	22.5	**353.8**
Other non-life lines of business	117.8	4.1	**121.9**
	3,604.5	235.3	**3,839.8**
Life lines of business			
Annuities from non-life	243.0	64.0	**307.0**
Total lines of business	**3,847.5**	**299.3**	**4,146.8**

CIC – net technical provisions

At 31 December 2016	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2.6	0.3	2.9
	2.6	0.3	2.9
Life lines of business			
Annuities from non-life	2.3	0.3	2.6
Total lines of business	4.9	0.6	5.5

Uncertainty associated with technical provisions

Insurance is inherently uncertain with respect to the amount and timing of future cash flows, requiring the use of judgement in estimating these cash flows. Reserving risk is a significant risk to the Group and consists predominantly of bodily injury claims from the Motor business. Some of the factors that are considered when assessing the level of technical provisions include the class of business, timeliness of notification of claims, validity of claims made against a policy and validity of the amount of the claim. At any time there is a range of possible outcomes at which the technical provisions could ultimately settle and, as time passes, the uncertainty surrounding likely claims settlement for past accident periods reduces. The uncertainty is greater for bodily injury claims due to the time it takes for these claims to settle. This is particularly true for PPOs awarded to settle some of the large bodily injury claims, in which annually indexed payments are regularly awarded over the lifetime of the injured party.

Future management actions are allowed for in future reinsurance premium expenses. Reinsurance in place for the Group is considered to be renewed on similar terms where premium exposure continues beyond the term of current treaties.

Uncertainty with respect to policyholder behaviour is considered within the calculations for bound but not incepted business. Policy data information for new and renewal business is considered by product and business category.

Differences in valuation methodologies

For each non-life line of business, the differences in the valuation of claims provisions best estimates from IFRS reporting to a Solvency II basis break down into a number of discrete adjustments to the net IFRS insurance liabilities comprising claims reserves and other technical provisions. The net IFRS insurance liabilities include unearned premium reserve net of deferred acquisition costs and reinsurance assets per the IFRS financial statements. These differ in materiality depending on the nature of the cash flows associated with each line of business.

For the claims provisions, these are:

- allowances for events not in data are a requirement for solvency purposes whereas these are not required and admissible under IFRS. The events not in data allowance are calculated using market standard techniques;
- explicit allowances are made for additional expenses other than claims handling, such as investment management expenses on the earned claims reserves and profit share payments due on partnership arrangements;
- all cash flows are discounted for Solvency II purposes using the risk-free yield curve provided by EIOPA with volatility adjustment as appropriate. This represents a change to IFRS reporting where only PPO claims are discounted; and
- cash flows for PPO claims were projected using inflation assumptions consistent with the prescribed risk-free discount rates for Solvency II, before volatility adjustment.

D. Valuation for solvency purposes continued

Group

At 31 December 2016	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,888.5	(240.7)	2,647.8
Other motor insurance	246.5	(115.0)	131.5
Fire and other damage to property insurance	772.1	(184.4)	587.7
General liability insurance	331.2	22.6	353.8
Other non-life lines of business	159.9	(38.0)	121.9
	4,398.2	(555.5)	3,842.7
Life lines of business			
Annuities from non-life[1]	241.5	68.1	309.6
Total	4,639.7	(487.4)	4,152.3

UKI

At 31 December 2016	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2884.5	(239.6)	2,644.9
Other motor insurance	246.5	(115.0)	131.5
Fire and other damage to property insurance	772.1	(184.4)	587.7
General liability insurance	331.2	22.6	353.8
Other non-life lines of business	158.7	(36.8)	121.9
	4,393.0	(553.2)	3,839.8
Life lines of business			
Annuities from non-life[1]	238.0	69.0	307.0
Total	4,631.0	(484.2)	4,146.8

CIC

At 31 December 2016	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	4.0	(1.1)	2.9
Life lines of business			
Annuities from non-life[1]	3.5	(0.9)	2.6
Total	7.5	(2.0)	5.5

Note:
1. The IFRS net insurance liabilities above for annuities from non-life are different from the net approved PPO claims provision in the corresponding IFRS financial statements, which is an actuarial best estimate that excludes an allocation of reinsurance bad debt, however it does includes both lump sum payments and annuities.

In addition, there are further differences between IFRS and Solvency II reporting bases that apply to all lines of business:

- the calculation of premium provisions to allow for all future cash flows relating to unearned obligations under Solvency II replaces the concept of holding a provision for unearned premium, deferred acquisition cost and liability adequacy reserve, if required; and
- an industry-wide prescribed method for calculating risk margin above the best estimate technical provisions under Solvency II is applied as opposed to a margin setting process governed internally within the Group. The risk margin is calibrated once a year to ensure the approach adopted is aligned to the derivation of the SCR.

Differences in the valuation between UKI and CIC

Within the Group's Solvency II technical provisions, the valuation for risk margin differs for UKI and CIC. The risk margin for UKI is taken from the Internal Model whilst the risk margin for CIC is based on a standard formula calculation. No additional diversification is allowed for between the entities in the Group level risk margin.

Volatility adjustment

The volatility-adjusted risk-free discount rate is used to discount reserve cash flows for the motor liability, general liability and non-life annuity classes of business. This includes application to reserves held for PPO claims. The part of the discounting credit relating to the volatility adjustment amount net of reinsurance in the respective balance sheets of the Group, UKI and CIC amounts to £47.2 million, £47.0 million and £0.2 million at the 31 December 2016.

Recoverables from reinsurance contracts and special purpose vehicles

The Group has a range of reinsurance protection types which include property catastrophe, motor risk excess of loss, commercial property risk excess of loss, commercial liability risk excess of loss and smaller programmes to protect against travel, subsidence and creditor claims. Facultative cover has been purchased on selected commercial risks, mainly property. Motor risk excess of loss in past years has predominantly been on a risk attaching basis.

The Group allows for future reinsurance expenditure as an increase to the technical provisions on a contractually bound basis.

There are currently no special purpose vehicles in place for the Group's reinsurance.

Changes in assumptions relating to the calculation of technical provisions

Key changes in assumptions relating to the calculation of technical provisions since last year are as follows:

- an update to the risk margin calculation as a result of the approval of the Internal Model for UKI. The standard formula risk margin has been updated for CIC.

The following represent parameter updates made to the calculation of technical provisions over the same period. For these parameter updates, the underwriting methodology remains unchanged.

- the claims ABE, allowance for expenses, allowance for reinsurer counterparty default and cash flow patterns are updated throughout the year for all lines of business to allow for IFRS reserve movements and changes in the data underlying all assumptions;
- for the premium provisions, balance sheet items, claims assumptions and expense assumptions are updated through the year; and
- the events not in data model has been updated for the latest volatility parameters and scenarios.

D.3 Other liabilities

Valuation methodology

The Group values all liabilities at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction. In the Group, UKI and CIC Solvency II balance sheets, no adjustments are made for own credit risk, except for subordinated liabilities. There have been no changes to the bases used for recognition, valuation and estimation of other liabilities during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted.

D. Valuation for solvency purposes continued

The tables below summarise and compare the Group and UKI Solvency II liabilities, their values and basis of valuation with those contained in the Group and UKI IFRS financial statements. CIC does not have any material liabilities except technical provisions which are covered in section D.2.

Group

At 31 December 2016	Solvency II value £m	Solvency II valuation basis	IFRS financial statements value[1] £m	IFRS financial reporting valuation basis
Technical provisions[2]	5,385.0	See section D.2	6,214.5	See section D.2
Provisions other than technical provisions	64.8	Marked to market	64.8	Marked to market
Derivatives	45.1	Marked to market / model	45.1	Marked to market / model
Debts owed to credit institutions	55.3	Marked to market	55.3	Amortised cost
Insurance and other payables	336.4	Marked to market	680.9	Marked to market
Subordinated liabilities	537.5	Marked to market	539.6	Amortised cost
Total liabilities	**6,424.1**		**7,600.2**	

UKI

At 31 December 2016	Solvency II value £m	Solvency II valuation basis	IFRS financial statements value[1] £m	IFRS financial reporting valuation basis
Technical provisions[2]	5,359.6	See section D.2	6,182.8	See section D.2
Provisions other than technical provisions	28.2	Marked to market	28.2	Marked to market
Deferred tax liabilities	40.3	Fair value	49.1	Fair value
Derivatives	45.1	Marked to market / model	45.1	Marked to market / model
Debts owed to credit institutions	50.6	Marked to market	50.6	Amortised cost
Insurance and other payables	341.4	Marked to market	639.7	Marked to market
Subordinated liabilities	537.5	Marked to market	543.4	Amortised cost
Total liabilities	**6,402.7**		**7,538.9**	

Notes:
1. The IFRS financial statements values above have been reclassified into the liability categories in the Solvency II balance sheet for comparative purposes.
2. Valuation of technical provisions is covered in section D.2.

Provisions other than technical provisions
Provisions other than technical provisions are valued in the Solvency II balance sheets and the IFRS financial statements at fair value. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

Deferred tax liabilities
Deferred tax liabilities only arise in the UKI Solvency II and IFRS balance sheet, and are valued at fair value.

Derivatives
Derivatives are carried at fair value in the Solvency II balance sheets and IFRS financial statements using the valuation technique described in section D.1.

Debts owed to credit institutions
Debts owed to credit institutions comprise bank overdrafts and are measured at amortised cost using the effective interest rate method in the IFRS financial statements. Given the very short-term nature of these balances this is also considered to be a reasonable approximation to fair value for the Solvency II balance sheet.

Insurance and other payables
Insurance and other payables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future payments by a risk-adjusted discount rate. Where the time value of associated payments is not significant, cash flows are not discounted.

Subordinated liabilities

The Group has subordinated guaranteed dated notes in the Solvency II balance sheets held at a fair value which is determined by reference to quoted prices in an active market. In the IFRS financial statements they are valued at amortised cost plus a fair value hedge adjustment for a 10-year hedge to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 707 basis points. The valuation in the Solvency II balance sheets is at fair value, based on quoted market price less the movement in own credit risk since initial recognition.

D.4 Alternative methods of valuation

The Group does not use any alternative method of valuation for assets and other liabilities.

D.5 Any other information

There is no other information.

E. Capital management

E.1 Own funds

The Group's capital management objective is to maintain appropriate levels of capitalisation and solvency with respect to operating, regulatory and rating agency requirements:

- the operating capital management objective of the Group is to ensure that all Group entities have sufficient operating capital to meet their liabilities as they fall due;
- the regulatory capital management is set with reference to Group, UKI and CIC's eligible own funds and respective SCRs. The Group's PIM is used to determine its SCR. The UKI SCR is calculated using an approved internal model, CIC and other non-regulated Group entities use the standard formula. The Group's risk-based capital objective is to maintain a Solvency II coverage ratio in the range of 140% - 180% of the SCR. For UKI and CIC the Board has approved a minimum threshold of 125% of their respective SCR's; and
- the Group seeks to maintain sufficient economic capital consistent with its strategic aim of maintaining a credit rating in the "A" range.

The policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management Minimum Standard, which includes the following key controls:

Capital forecasting

The Group's five-year strategic plan includes a capital plan that forecasts the SCR and coverage ratios for the Group, UKI and CIC.

Adverse capital movement

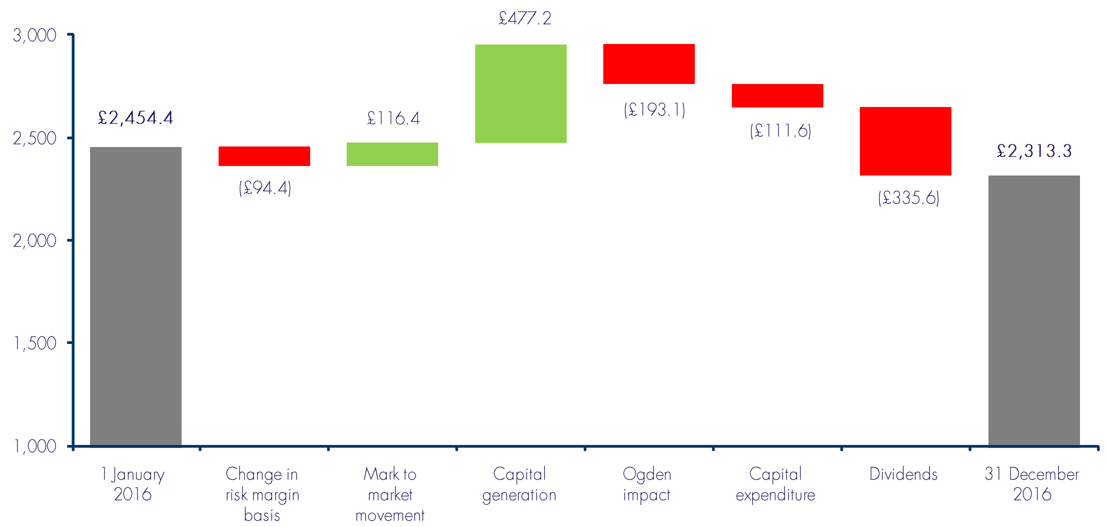
A regular review of the capital adequacy of each Group undertaking is undertaken to ensure no deterioration below SCR or agreed risk appetite ranges, including review of the forecast capital position and the quality of the items within own funds.

Management of dividend governance

Dividends paid by all Group undertakings are considered and approved by the responsible Board. The Group, UKI and CIC all have the right to cancel (or defer) their own dividend payments or other distributions after declaration if the undertakings cease to hold capital resources equal to or in excess of their SCR.

There have been no material changes to the objectives, policies and processes for managing own funds over the reporting period.

Movement in Group own funds during 2016 (millions)



Notes:
1. Change in risk margin basis calculated as if the internal model had been approved on 1 January 2016.
2. Mark to market movements represent movements in IFRS AFS revaluation reserve, fair value adjustments on financial investments held at amortised cost under IFRS and fair value adjustments on property held for own use.

E. Capital management continued

The following table lists total own-fund items by tier for the Group, UKI and CIC.

At 31 December 2016	Group £m	UKI £m	CIC £m
Ordinary share capital	150.0	580.8	–
Reconciliation reserve	1,590.4	913.1	13.1
Total Tier 1 own funds	**1,740.4**	**1,493.9**	**13.1**
Tier 2: subordinated liabilities	537.5	537.5	–
Tier 3: deferred tax assets	35.4	–	–
Total own funds	**2,313.3**	**2,031.4**	**13.1**

Note:
The difference between own funds for the Group and the total of UKI and CIC relates to own funds of non-regulated entities.

Group

Tier 1 own funds comprise Ordinary Share capital of £150 million and the reconciliation reserve. The reconciliation reserve consists of Solvency II excess of assets over liabilities of £1,945.1 million less tier 3 deferred tax assets of £35.4 million less ordinary share capital of £150.0 million and reflects the value of own shares held of £36.8 million and foreseeable dividend of £132.5 million.

Tier 2 own funds comprise subordinated guaranteed dated notes which were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

The notes, with a nominal value of £500 million, have a redemption date of 27 April 2042. The Group has the option to repay the notes on specific dates from 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of the six-month LIBOR plus 7.91%. The notes are unsecured, subordinated obligations of the Group, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all senior creditors have been met. The Group has the option to defer interest payments in certain circumstances on the notes but to date has not exercised this right.

During the period, there were no significant changes in tier 2 or tier 3 own funds.

UKI

Tier 1 own funds comprise Ordinary Share capital of £580.8 million and the reconciliation reserve. The reconciliation reserve consists of Solvency II excess of assets over liabilities of £1,493.9 million less ordinary share capital of £580.8 million.

Tier 2 own funds comprise the UKI subordinated guaranteed dated notes which were issued on 27 April 2012 at a fixed rate of 9.5%. On the same date, the Company also entered into a 10-year hedge to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

The nominal £500 million notes have a redemption date of 27 April 2042. The Company has the option to repay the notes on specific dates from 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of six-month LIBOR plus 8.16%. The notes are unsecured, subordinated obligations of the Company, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all senior creditors have been met. The Company has the option to defer interest payments in certain circumstances on the notes but to date has not exercised this right.

During the period there were no significant changes in tier 2 own funds.

CIC

Tier 1 own funds comprise Ordinary Share capital of £100 and the reconciliation reserve. The reconciliation reserves consist of Solvency II excess of assets over liabilities of £13.1 million less ordinary share capital of £100.

During the year tier 1 own funds have decreased by £1.8 million as a result of a IFRS loss of £2.1million offset by Solvency II valuation adjustments of £0.3 million.

Eligible own funds by tier to cover the SCR and Minimum Capital Requirement

Group

The Group's SCR as at 31 December 2016 was £1,403.2 million; the limit that the sum of tier 2 and tier 3 capital shall not exceed 50% of the SCR is the only restriction on available own funds to meet the SCR and was not applicable to the Group at 31 December 2016. Total eligible own funds to meet the SCR were £2,313.3 million, consisting of tier 1 of £1,740.4 million, tier 2 of £537.5 million and tier 3 of £35.4 million.

The Group's Minimum Capital Requirement ("**MCR**") as at 31 December 2016 was £596.7 million; tier 3 own funds are not eligible to cover the MCR. The limit that tier 2 own funds shall not exceed 20% of the MCR is the only other restriction of eligible own funds to meet the MCR. The total eligible own funds to meet the MCR was £1,859.7 million, consisting of unrestricted tier £1,740.4 million and restricted tier 2 of £119.3 million.

UKI

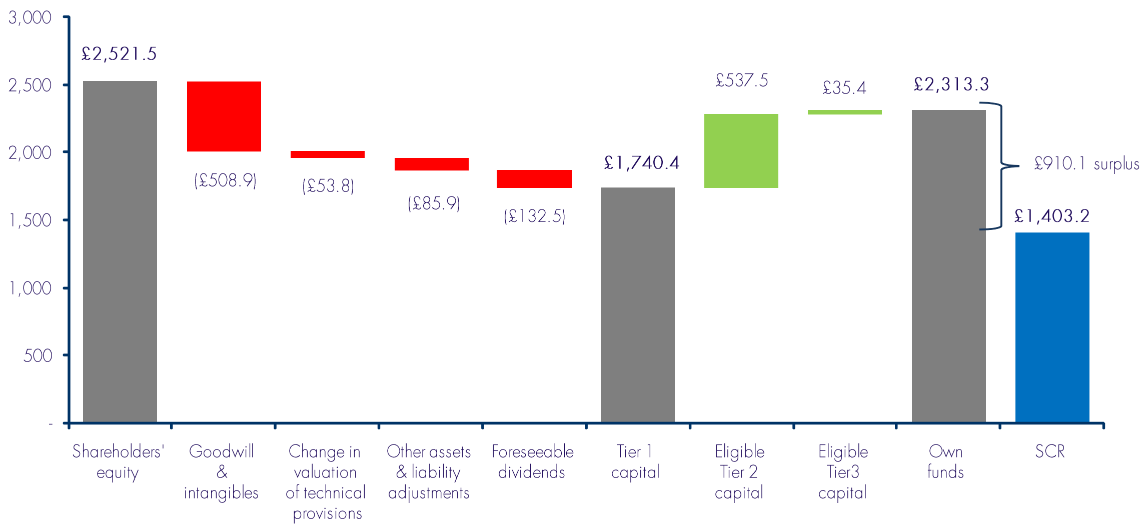
There were no restrictions on UKI's own funds to meets its SCR as at 31 December 2016 of £1,377.9 million.

The UKI MCR as at 31 December 2016 was £593.5 million; the restriction that limits tier 2 items to 20% of the MCR is the only restriction. Total eligible own funds to meet the MCR were £1,612.6 million, consisting of unrestricted tier 1 of £1,493.9 million and restricted tier 2 of £118.7 million.

CIC

As at 31 December 2016, the CIC SCR was £2.1 million and the MCR was £3.2 million. There are no quantitative eligibility limits applicable to tiers 1, 2 or 3.

Reconciliation of Group equity in the IFRS financial statements to Solvency II own funds as at 31 December 2016 (millions)



Note:
Changes in valuation of technical provisions and eligible tier 2 capital: In its 2016 Preliminary Results, the Group included Solvency II valuation adjustments based on estimates. These estimates have been subsequently updated and final numbers are included above. This has not changed the capital coverage ratio previously reported.

E. Capital management continued

Reconciliation of UKI equity in the IFRS financial statements to Solvency II own funds as at 31 December 2016 (millions)

Reconciliation of IFRS equity and Solvency II excess of assets over liabilities

At 31 December 2016	Group £m	UKI £m	CIC £m
Shareholders' equity	2,521.5	1,539.6	11.5
Goodwill and intangible assets	(508.9)	–	–
Change in valuation of technical provisions	(53.8)	(57.0)	1.6
Other asset and liability adjustments	(85.9)	11.3	–
Foreseeable dividends	(132.5)	—	–
Excess of assets over liabilities (Tier 1)	**1,740.4**	**1,493.9**	**13.1**

UKI or CIC do not have any items deducted from own funds or any restrictions that would affect the availability and transferability of own funds within the undertakings.

At the Group level there are no anticipated restrictions on the fungibility of own funds within Group entities and no items of own funds are dedicated to absorb specific losses. There are no restrictions on the transferability of own funds between Group entities.

E.2. Solvency Capital Requirement and Minimum Capital Requirement (unaudited)

SCR and MCR at the end of the reporting period

Group Partial Internal Model SCR

At 31 December	2016 £m	2015 £m
Solvency capital requirement for the Group companies excluding UKI and its subsidiary (CIC), using integration technique 1	25.3	26.2
Solvency capital requirement for UKI using the Internal Economic Capital Model [1]	1,377.9	1,251.9
Consolidated Group Solvency Capital Requirement	1,403.2	1,278.1

Note:
1. 2015: pro-forma number from the Group PIM prior to internal model approval.

The Group received PRA approval to use a PIM for the calculation of its Group and solo SCRs from 1 July 2016. The SCR is not subject to supervisory assessment.

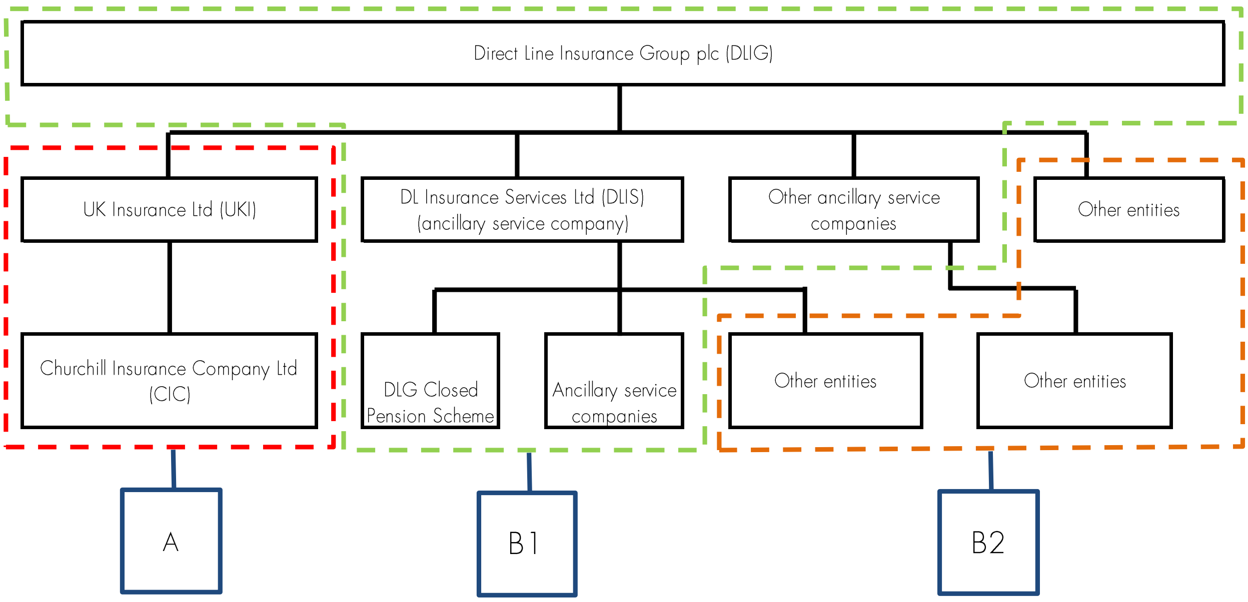
The integration technique to be used to integrate the PIM into the SCR standard formula is integration technique 1 as set out in Annex XVIII of the Commission Delegated Regulation (EU) 2015/35.

The undertakings included in the scope of the model for the calculation of the Group SCR are:

- Direct Line Insurance Group plc
- U K Insurance Limited
- Churchill Insurance Company Limited
- The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula of the Group holding company, excluding UKI, is calculated partly on a consolidated basis and partly on the basis of a standard formula equity risk shock for strategic participations in respect of certain entities.

The Group SCR is calculated by adding together the SCR for UKI calculated using the IECM (A), and a standard formula SCR for the non-UKI companies in the Group (B1). This standard formula SCR uses a consolidated balance sheet approach, except for certain entities (B2) which are treated as equity investments of the Group. The diagram below illustrates the generic approach.



The solo SCR for UKI includes all risks arising from CIC due to UKI owning 100% of CIC. The solo SCR for CIC is calculated using the standard formula.

The calculation of the solo SCR for CIC and for DLIG (excluding UKI) using the standard formula uses the parameters as referred to in Chapter V of the Solvency II Delegated Regulation 2015/35. The Group did not apply for undertaking specific parameters as referred to in Chapter V – Section 12 to be used. Simplified calculations as referred to in Subsection 6 of the Solvency II Delegated Regulation 2015/35 are not used.

There are no significant restrictions to the fungibility and transferability of own funds eligible for covering the Group SCR.

Due to the integration technique adopted, there are no diversification benefits taken between UKI and the Group entities. There are diversification benefits assumed between the Group entities in group B as far as has been allowed for by the standard formula. The contribution of risk from CIC to UKI is based on a CIC standard formula calculation, excluding any inter-company reinsurance provided to CIC from UKI. An uplift is applied to the CIC insurance risk calculation to reflect the limitations of the standard formula in dealing with the risks arising from PPOs.

The IECM approach used to calculate the solo SCR for UKI is the same as used to calculate the contribution of UKI to the Group SCR.

Summary of entity SCR and MCRs

At 31 December 2016	SCR 2016 £m	MCR 2016 £m
Direct Line Insurance Group plc	1,403.2	596.7
U K Insurance Limited	1,377.9	593.5
Churchill Insurance Company Limited	2.1	3.2

Group SCR – further information

At 31 December	Group PIM 2016 £m	Standard formula[1] 2015 £m
Non-Life underwriting risk	–	1,314.6
Life underwriting risk	–	10.3
Health underwriting risk	–	12.3
Market risk	22.0	590.2
Counterparty default risk	8.1	66.0
Total – undiversified risk	30.1	1,993.4
Diversification	(4.8)	(386.2)
Basic SCR	**25.3**	1,607.2
Operational risk	–	128.1
Loss absorbing capacity of deferred taxes	–	(59.1)
Other adjustments	–	–
UKI SCR	**1,377.9**	N/A
Group SCR	**1,403.2**	1,676.2

Note 1: Calculated on a pro forma basis, assuming expected changes to hedging arrangements were in effect at 31 December 2015.

Material changes over the year

The most material change to the Group SCR in the year was the approval to use the Group PIM to calculate the SCR from1 July 2016. This resulted in a reduction to the SCR that was offset by an increased risk margin calculated using the IECM for UKI. For a description of the differences between the standard formula and the internal model please see section E.4.

Group MCR – further information

There have been no material movements in the Group MCR, which has increased from £585.3 million to £596.7 million over the reporting period.

UKI solo SCR – further information

At 31 December	IECM 2016 £m	Standard formula 2015 £m
Standard formula – non-Life underwriting risk	N/A	1,314.4
Standard formula – life underwriting risk	N/A	10.2
Standard formula – health underwriting risk	N/A	12.3
Standard formula – market risk	N/A	579.1
Standard formula – counterparty default risk	N/A	53.6
Standard formula total – undiversified risk	N/A	1,969.6
Standard formula diversification	N/A	(375.9)
Standard formula basic SCR	N/A	1,593.7
Standard formula operational risk	**N/A**	127.6
IECM – insurance risk	1,127.3	N/A
IECM – market risk	692.7	N/A
IECM – credit risk	65.4	N/A
IECM – operational risk	306.3	N/A
IECM – risk margin volatility	42.7	N/A
IECM total – undiversified	2,234.4	N/A
IECM diversification	(795.5)	N/A
IECM diversified total	1,438.9	N/A
Loss absorbing capacity of deferred taxes	(61.0)	(130.5)
Other adjustments	–	–
UKI solvency capital requirement	**1,377.9**	1,590.8

Material changes over the year

The most material change to the UKI SCR in the year was the approval to use the IECM to calculate the SCR from 1 July 2016. This resulted in a reduction to the SCR that was offset by an increased risk margin calculated using the IECM for UKI. For a description of the differences between the standard formula and the IECM please see section E.4.

UKI MCR – further information

There have been no material movements in the UKI MCR, which has increased from £582.6 million to £593.5 million over the reporting period.

CIC solo SCR – further information

At 31 December	Standard formula 2016 £m	Standard formula 2015 £m
Non-Life underwriting risk	0.7	0.3
Life underwriting risk	0.1	0.1
Health underwriting risk	–	–
Market risk	0.5	0.7
Counterparty default risk	0.9	1.1
Total – undiversified risk	2.2	2.2
Diversification	(0.6)	(0.5)
Basic SCR	1.6	1.7
Operational risk	0.5	0.5
CIC SCR	**2.1**	**2.2**

Material changes over the year

There have been no material changes to the CIC SCR over the reporting period.

CIC MCR – further information

There have been no material movements in the CIC MCR, which has increased from £2.7 million to £3.2 million over the reporting period.

Simplified calculation in the standard formula

No material simplifications have been used to derive the SCR using the standard formula.

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

The duration-based equity risk sub-module is not used in the calculation of the SCR for the Group, UKI or CIC.

E.4 Use of the internal model (unaudited)

Capital management

The IECM's primary use is to calculate the SCR. The IECM is used to assess the impact of capital management decisions and is an input into the strategic planning process as an input into the ORSA to support dividend planning and budgeting.

Risk management

The IECM is used to quantify risks on the Material Risk Register and is also used to highlight the key risks to the Group. Furthermore, the IECM supports the risk appetite setting process and the review of financial forecasts, by providing stressed scenarios to give the Group's Executive management a range of possible outcomes.

Reinsurance management

Through the modelling of the base and alternative reinsurance structures, the IECM supports catastrophe and motor reinsurance management, by assessing the impact on profitability and capital requirements.

Portfolio management

The IECM is used to understand the relative riskiness of different cohorts of the business and is used to advise on capital allocation to business categories. New initiatives and opportunities involve the IECM to indicate on the impact on the SCR and associated return on equity.

Investment management

The IECM is used to assess the risk associated with the current asset mix, the impact of changes to the SCR and asset risk of changes in proposed asset portfolios and as a feed into the analysis of liquidity requirements which in turn impact the strategic investment decisions.

Scope of the internal model

The PIM calculates the Group SCR by adding together the SCR for UKI calculated using the IECM, and a standard formula SCR for the non-UKI companies in the Group (B1). This standard formula uses a consolidated balance sheet approach, except for certain entities (B2) which are treated as equity investments of the Group. See the diagram on page 68 which illustrates this approach.

The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula for the Group companies (Section E.2), excluding UKI and its subsidiary CIC, is calculated partly on a consolidated basis and partly on the basis of a standard formula equity risk shock for strategic participations in respect of certain entities. The underlying assets and liabilities of entities in group B1 are consolidated before applying the standard formula calculation. This sub-group consists of the Group holding company, ancillary service companies and the Group's closed pension scheme. The latter is not an entity within the Group, but exposes it to pension scheme risk through its sponsor DL Insurance Services Limited.

The risks included in the notional standard formula of the Group companies (excluding UKI and its subsidiary) are predominantly market risk and counterparty credit risk. Market risk arises from the assets held at Group level and those held by the associated Group pension scheme. Counterparty credit risk arises mainly from debtor balances and cash holdings.

The scope of the IECM is defined in terms of legal entities and risk categories that are represented in the IECM SCR. The IECM is considered a full internal model for the calculation of the solo UKI SCR as it includes all quantifiable material risks.

The following legal entities are included in the IECM SCR:

- U K Insurance Limited
- Churchill Insurance Company Limited

E. Capital management continued

All other legal entities within the Group are excluded from the scope of the IECM.

The following risk types are included in the scope of the IECM:

- underwriting risk;
- reserving risk;
- catastrophe risk;
- market risk;
- credit risk;
- liquidity risk; and
- operational risk.

The following risk types are not within the scope of the IECM, being regarded as non-quantifiable risks:

- strategic risk;
- reputational risk; and
- regulatory risk.

The IECM includes an allowance for the loss absorbing capacity for deferred taxes due to the potential for tax carryback. Risks arising due to PPOs are assessed in underwriting risk and reserving risk. Market risk includes the assessment of interest rate risk arising from assets and liabilities. Liquidity risk is considered in the IECM but is assessed at zero due to the amount of liquid assets held.

Methods used to calculate the probability distribution forecast and the Solvency Capital Requirement

IECM overview

The IECM is a full internal model as outlined by Article 112 of the Solvency II Directive. The calculation kernel within the IECM is DIICE.

DIICE uses stochastic processes and Monte-Carlo simulation methods to investigate the uncertainty in real world financial quantities over time by modelling real world processes as predictable movements onto which a random element is added. This random element represents the level of uncertainty within the process being modelled. Risk is measured by simulating several thousand random outcomes and observing the distribution of the outputs.

DIICE produces future financial statements as well as a breakdown of the impact on the balance sheet by risk type. This enables the Group to understand the potential real world impact of a scenario and allows for integration into the risk management system of the Group. DIICE simulates many possible closing balance sheets and provides a range of possible outcomes from which probabilistic measures can be obtained. This method allows the SCR to be set by measuring the 99.5th VaR of the movement in own funds over a one-year period.

DIICE is structured around a series of dependent modelling components. Each component models a specific aspect of an insurance company's operations, for example claims payments or reinsurance recoveries, and may depend on previous components, for example claims depend on a claims inflation component. The components with DIICE may contribute to one or more of the risk types being assessed.

IECM structure

All financial modelling is a simplification of the real world. Within DIICE this is partly addressed by grouping potential risks into homogenous cohorts rather than modelling each policy, claim or risk individually. The balance between aggregation and individual detail is important and will vary depending on the materiality and complexity of the risk being modelled.

The business structure in DIICE reflects the way in which the business is organised operationally and is split across the following categories: Motor; Home; Rescue and Other Personal Lines; Commercial and Run Off. Within each category there are classes where the risks are different, for example Home is split into Own Brands and partnerships due to profit sharing arrangements and Commercial is analysed by risk type (Motor, Property and Liability) and channel (Direct and Broker). This allows for the model output to be useful and it also makes it more straightforward to source appropriate data.

The biggest risk that the Group faces is uncertainty regarding claims. Within each category, claims are modelled by loss types reflecting the different risks and influences on each type of claims. For example, Motor claims are modelled as attritional third-party property damage, attritional third-party bodily injury (capped), attritional other, large, PPO and catastrophe claims. The modelling of detailed loss types reflects the materiality, risk characteristics and homogeneity of the underlying risks being considered.

Difference between standard formula and internal model used

There are significant differences in both model structure and parameters when comparing the standard formula and the internal model. The IECM has been designed to model business processes whereas the standard formula focuses purely on a silo approach to considering specific risks with an aggregation methodology overlaid on top. The IECM is primarily calibrated to UKI data and uses expert judgement from the business, whereas the standard formula is calibrated using industry-based data and expert judgements.

There are significant differences between the IECM and standard formula SCR methodologies. The most significant differences are outlined below:

Profit

The IECM allows for expected profit over the year. The standard formula does not and this can be a significant difference.

Diversification

The correlations within the IECM SCR have been based on UKI data and expert judgement from the business. The standard formula SCR uses correlations that have been calibrated to industry-based data and expert judgement. The correlation parameters between risk types in the IECM are lower than for the standard formula. In particular the relationship between insurance risk and market risk is assumed to be lower in the IECM than that assumed in the standard formula.

Market risk

The major difference relates to the use of an Economic Scenario Generator ("ESG") by the IECM to assess market risk. The assumptions made within the ESG differ from those made by the standard formula, which primarily considers shocks in specific market variables and then attempts to apply a dependency structure on top. The ESG considers the related evolution of economic variables over the year, considers movements in cash flows and changes in the balance sheet in a year's time. This results in differences in the Interest Rate Risk, Property Risk and Spread Risk SCRs between the IECM and the standard formula.

Non-life underwriting risk

The IECM assumes a lower level of one-year reserve volatility than that prescribed by the standard formula. The IECM SCR also considers the variability of the premium provision as at one year after the valuation date. The standard formula SCR does not consider the risk associated with this premium, meaning that the standard formula SCR premium risk is lower than the IECM SCR for premium risk. All of UKI's insurance business is included within the non-life underwriting risk module of the IECM. The standard formula non-life underwriting risk calculation excludes the annuity portion of approved PPO claims, which are considered within the life underwriting risk component, as well as the income protection business, which is considered within the health underwriting risk component. This further reduces the diversification effect within non-life underwriting risk in the standard formula compared with the IECM. This diversification effect is however allowed for in the standard formula when aggregating the various underwriting risk components. The IECM allows for PPOs explicitly including longevity, wage inflation, propensity and reinsurance indexation. The IECM SCR utilises specialist catastrophe modelling software and focuses on those catastrophe types that have affected UKI in the past or that are most likely given the UKI portfolio. The standard formula SCR is based on prescribed scenarios which are in turn based on the SII lines of business written by UKI.

Risk margin volatility

The IECM SCR includes allowance for risk margin volatility.

Operational risk

The IECM SCR basis uses a scenario-based approach which represents the UKI risk profile, taking into account its current risk and control environment. The standard formula calculates the SCR for operational risk based on the premium earned in the last 12 months, the Solvency II technical provisions at the valuation date and the change in earned premium when compared to the 12 months prior to the last 12 months.

Tax

The UKI standard formula takes credit for any deferred tax liability which exists in UKI, however this is not allowed for in the IECM SCR.

Future Ogden discount risk

There is no allowance for future Ogden discount rate in the UKI standard formula. The IECM SCR includes an amount for future Ogden discount rate risk.

CIC

The method used to calculate the IECM capital charge for the risk relating to CIC is to use an uplifted standard formula calculation, with no diversification benefit applied for the rest of UKI, whereas the standard formula approach is to apply an equity risk shock reflecting UKI's shareholding in CIC allowing for some diversification with other risks.

Risk measure and period used in the internal model

The Group's PIM uses a confidence level of 99.5% over a one-year period and therefore provides an equivalent level of protection for policyholders.

Nature and appropriateness of the data used in the IECM

The IECM uses both internal data and external data in order to calibrate parameters. Key internal data is primarily comprised of claims data which is also used for reserving and pricing purposes. The data is directly related to the risks on the balance sheet and those expected to be assumed in the next 12 months of underwriting and therefore appropriate to use for the calibration of the IECM following adjustments for changes in exposure and risk mix.

Where there is insufficient internal data the IECM relies on external models and data. The key risks which utilise external models and data are catastrophe risk and market risk. External models and data are subject to the same standards as internally developed models.

Market studies and industry data are used as a reference and as validation points. In particular the Institute and Faculty of Actuaries PPO working party results are considered.

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

The Group is compliant with the MCR and SCR.

E.6 Any other information

There is no other additional information to report.

F: Other information

F. 1 Approval by the Board of Directors of Direct Line Insurance Group plc, U K Insurance Limited and Churchill Insurance Company Limited of the Single Solvency and Financial Condition Report for the year ended 31 December 2016

We certify that:

- The Single Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

We are satisfied that:

- Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and

- It is reasonable to believe that, at the date of the publication of the Single Solvency and Financial Condition Report, the insurer has continued so to comply, and will continue so to comply in the future.

On behalf of the Boards
A J Reizenstein
Chief Financial Officer

15 May 2017

F.2 Report of the external independent auditor to the Directors of Direct Line Insurance Group plc, U K Insurance Limited and Churchill Insurance Company Limited (together "the Group"), 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 Single Group Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Group as at 31December 2016:

- the 'Valuation for solvency purposes' and 'Capital management' sections of the Single Group Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**');
- Direct Line Group templates S.02.01.02 S.22.01.22, S.23.01.22, S.32.01.22;
- U K Insurance Limited templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.01.01; and
- Churchill Insurance Company Limited 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 and 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 Single Group Solvency and Financial Condition Report**'.

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

- information contained within the relevant elements of the Single Group Solvency and Financial Condition Report set out above which is, or derives from the internal/partial internal model Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group Solvency and Financial Condition Report;
- Direct Line Group templates S.05.01.02, S.05.02.01, S.25.02.22, S.25.03.22;
- U K Insurance Limited templates S.05.02.01. S.05.01.02, S.19.01.21, S.25.03.21;
- Churchill Insurance Company Limited templates S.05.02.01, S.05.01.02 and S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Single Group Solvency and Financial Condition Report ('**the Responsibility Statement**'); and
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations ('**the sectoral information**').

To the extent the information subject to audit in the relevant elements of the Single Group 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 Single Group Solvency and Financial Condition Report of the Group as at 31December 2016 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 and Ireland, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Single Group Solvency and Financial Condition Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Single Group Solvency and Financial Condition Report in the UK, including the APB's ethical standard, 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 are required to report in respect of the following matters where:

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

We have nothing to report in relation to these matters.

Emphasis of matter – basis of accounting

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

Other information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group 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 Single Group 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 Single Group 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 Single Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group 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 Single Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Single Group Solvency and Financial Condition Report are prepared, in all material respects, in accordance 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 Single Group 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 Single Group 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 SFCR.

This report is made solely to the Directors of Direct Line Insurance Group plc, U K Insurance Limited and Churchill Insurance Company Limited in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Other matter

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

Report on other legal and regulatory requirements

Other information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Direct Line Insurance Group plc'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.

Colin Rawlings FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

15 May 2017

Appendix – relevant elements of the Single Group Solvency and Financial Condition Report that are not subject to audit
Direct Line Insurance Group (Group partial internal model)

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

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

- The following elements of Group template S.22.01.22:
  - Column C0030: Impact of transitional measure on technical provisions
  - Row R0010: Technical provisions
  - Row R0090: Solvency Capital Requirement

- The following elements of Group template S.23.01.22:
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level
  - Row R0380: Non-available ancillary own funds at group level
  - Rows R0410 to R0440: Own funds of other financial sectors
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
  - Row R0750: Other non-available own funds

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

U K Insurance Limited (Solo Internal Model)

The relevant elements of the SFCR that are not subject to audit comprise:

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

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

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

- The following elements of template S.22.01.21:
  - Column C0030: Impact of transitional measure on technical provisions
  - Row R0010: Technical provisions
  - Row R0090: Solvency Capital Requirement
- The following elements of template S.23.01.01:
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01 / S.28.02.01:
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Churchill Insurance Company Limited (Solo standard formula)
The relevant elements of the SFCR that are not subject to audit comprise:

- The following elements of template S.12.01.02:
  - Rows R0110 to R0130: Amount of transitional measure on technical provisions.
- The following elements of template S.17.01.02:
  - Rows R0290 to R0310: Amount of transitional measure on technical provisions.
- The following elements of template S.22.01.21:
  - Column C0030: Impact of transitional measure on technical provisions.
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

F.3 Forward-looking statements disclaimer

This Single SFCR has been prepared for, and only for, the members of the Company as a body, policyholders and supervisory authorities including the PRA, and no other persons. The Company, its Directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "plans", "predicts", "projects", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document, and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to the return on tangible equity; solvency capital coverage ratio; the Group's combined operating ratio; prior-year reserve releases; cost reduction; investment income yield; net realised and unrealised gains; results from the Run-off segment; restructuring and other one-off costs; and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future, or are beyond the Group's control.

Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements in this document; for example directly or indirectly as a result of, but not limited to, UK domestic and global economic business conditions, the result of the UK's withdrawal from the European Union; market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate), the impact of competition, currency changes, inflation and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate. Additionally, even if the Group's actual results of operations, financial condition, and the development of the business sector in which the Group operates are consistent with the forward-looking statements in this document, those results or developments may not indicate results or developments in subsequent periods.

The forward-looking statements in this document reflect knowledge and information available as of the date this document was prepared. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless an applicable law or regulation requires them to do so. Nothing in this document should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

F.4 Glossary

Term	Definition and explanation
Actuarial best estimate	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Annual Incentive Plan ("AIP")	This incentivises the performance of executives and employees over a one-year operating cycle. It focuses on the short to medium-term elements of the Group's strategic aims.
Available-for-sale ("AFS") investment	Financial assets that are classified as available-for-sale. Please refer to the accounting policy note 1.12 on page 130 of the Annual Report & Accounts 2016.
Capital	The funds invested in the Group, including funds invested by shareholders and retained profits.
Capital coverage ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Clawback	The ability of the Company to claim repayment of paid amounts.
Deferred Annual Incentive Plan ("DAIP")	For Executive Directors, at least 40% of the AIP award is deferred into shares typically vesting three years after grant. The remainder of the award is paid in cash following year-end.
Direct Line Insurance Internal Capital Engine ("DIICE")	The Group Insurance Internal Calculation Engine (DIICE) is the calculation kernel in the IECM, where it is DIICE that calculates the SCR.
Financial Conduct Authority ("FCA")	The independent body that regulates firms and financial advisers. It puts customers' interests and market integrity at the core of financial service providers' activities.
Gross written premium	The total premiums from contracts that began during the period.
International Accounting Standards Board ("IASB")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS: standards that aim to make worldwide markets transparent, accountable and efficient.
Incurred but not reported ("IBNR")	Funds set aside to meet the cost of claims for accidents that have occurred, but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported where the Group has determined that the value currently held in reserves is not sufficient to meet the estimated ultimate costs if the claim is referred to as incurred but not enough reported ("IBNER").
In-force policies	The number of policies on a given date that are active, and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
Internal Economic Capital Model ("IECM")	The IECM is an internal model as outlined by Article 112 of the Solvency II Directive.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period, and divided by the average AUM. This excludes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances for the total Group.
Investment return	The income earned from the investment portfolio, including unrealised and realised gains and losses, impairments, and fair value adjustments.
Investment return yield	The return earned from the investment portfolio, recognised through the income statement during the period divided by the average AUM. This includes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances (see page 193 alternative performance measures of the Annual Report & Accounts 2016).
Long-Term Incentive Plan ("LTIP")	Awards made as nil-cost options or conditional share awards, which vest to the extent that performance conditions are satisfied after a period of at least three years.
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Net claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Ogden discount rate	The discount rate set by the relevant government bodies, the Lord Chancellor and Scottish Ministers. Bodily injury cases use them to calculate lump-sum awards.
Ongoing operations	Ongoing operations comprise Direct Line Group's ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring and other one-off costs.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs.

Glossary continued

Term	Definition and explanation
Own Risk and Solvency Assessment ("ORSA")	A Solvency II requirement. It documents the Group's insurance underwriting entities' risks and associated capital requirement, both now and projected over the business planning period. It is forward looking, reflecting business strategy and risk appetite.
Periodic payment order ("PPO")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR.
Return on tangible equity ("RoTE")	Return on tangible equity for 2016 is adjusted profit after tax from Ongoing operations, divided by the Group's average shareholders' equity, less goodwill and other intangible assets. Profit after tax is adjusted to exclude discontinued operations, the Run-off segment, restructuring and other one-off costs, and the gain on disposal of subsidiary. It is stated after charging tax (using the UK standard tax rate of 20.0%; 2015: 20.25%). RoTE for comparative periods include the net assets held for sale in the disposal group, and profit after tax for discontinued operations, as the International division was managed as part of Ongoing operations (see page 192 alternative performance measures of the Annual Report & Accounts 2016).
Run-off	Where the Group no longer underwrites new business, but continues to meet its claims liabilities under existing contracts.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes revised capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Total costs	Total costs comprise operating expenses and claims handling expenses.
Total Shareholder Return ("TSR")	Compares share price movement with reinvested dividends as a percentage of the share price at the beginning of the period.
Underwriting result (profit or loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses.

G Templates

The templates are provided as an appendix to this document. The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

Entity	Template Code	Template name
Group	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.22.01.22	Impact of long-term guarantees and transitional measures
	S.23.01.22	Own funds
	S.25.02.22	Solvency Capital Requirement – for groups using the standard formula and partial internal model
	S.32.01.22	Undertakings in the scope of the group
UKI	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long-term guarantees and transitional measures
	S.23.01.01	Own funds
	S.25.03.21	Solvency Capital Requirement – for undertakings on full internal models
	S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
CIC	S.02.01.02	Balance sheet
	S.05.01.02	Premiums, claims and expenses by line of business
	S.05.02.01	Premiums, claims and expenses by country
	S.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long term guarantees and transitional measures
	S.23.01.01	Own funds
	S.25.01.21	Solvency Capital Requirement – for undertakings on standard formula
	S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

Direct Line Insurance Group plc

General information

Undertaking name	Direct Line Insurance Group plc
Undertaking identification code	213800FF2R23ALJQOP04
Type of code of undertaking	LEI
Type of undertaking	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	Group and company is using IFRS
Method of calculation of the SCR	The Group uses a partial internal model
Matching adjustment	No use of Matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance General liability insurance Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.22.01.22	Impact of long-term guarantees and transitional measures
S.23.01.22	Own funds
S.25.02.22	Solvency Capital Requirement – for groups using the standard formula and partial internal model
S.32.01.22	Undertakings in the scope of the group

S.02.01.02
Balance sheet
(£'000)

	Assets	Solvency II value
		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	35,420
R0050	Pension benefit surplus	11,992
R0060	Property, plant and equipment held for own use	52,080
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	6,145,415
R0080	Property (other than for own use)	332,830
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	4,733,390
R0140	Government bonds	430,021
R0150	Corporate bonds	4,303,369
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	999,507
R0190	Derivatives	79,688
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	419,027
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	419,027
R0270	Reinsurance recoverables from:	1,232,728
R0280	Non-life and health similar to non-life	991,836
R0290	Non-life excluding health	991,836
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	240,892
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	240,892
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	80,994
R0370	Reinsurance receivables	24,337
R0380	Receivables (trade, not insurance)	146,480
R0390	Own shares (held directly)	36,749
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	166,546
R0420	Any other assets, not elsewhere shown	17,450
R0500	Total assets	8,369,218

S.02.01.02 continued
Balance sheet
(£'000)

	Liabilities	Solvency II value
		C0010
R0510	Technical provisions – non-life	4,834,597
R0520	Technical provisions – non-life (excluding health)	4,825,693
R0530	TP calculated as a whole	
R0540	Best estimate	4,590,227
R0550	Risk margin	235,466
R0560	Technical provisions – health (similar to non-life)	8,904
R0570	TP calculated as a whole	
R0580	Best estimate	8,743
R0590	Risk margin	161
R0600	Technical provisions – life (excluding index-linked and unit-linked)	550,468
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	550,468
R0660	TP calculated as a whole	
R0670	Best estimate	486,211
R0680	Risk margin	64,257
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	64,812
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	45,091
R0800	Debts owed to credit institutions	55,268
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance and intermediaries payables	67,577
R0830	Reinsurance payables	61,519
R0840	Payables (trade, not insurance)	207,280
R0850	Subordinated liabilities	537,500
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	537,500
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	6,424,112
R1000	Excess of assets over liabilities	1,945,106

S.05.01.02
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0020	C0040	C0050	C0070	C0080
	Premiums written					
R0110	Gross – direct business	13,032	1,262,169	357,790	1,053,026	92,861
R0120	Gross – proportional reinsurance accepted					
R0130	Gross – non-proportional reinsurance accepted					
R0140	Reinsurers' share		142,862		52,901	9,082
R0200	Net	13,032	1,119,307	357,790	1,000,125	83,779
	Premiums earned					
R0210	Gross – direct business	13,162	1,194,213	338,537	1,069,369	92,315
R0220	Gross – proportional reinsurance accepted					
R0230	Gross – non-proportional reinsurance accepted					
R0240	Reinsurers' share		135,878		59,103	5,657
R0300	Net	13,162	1,058,335	338,537	1,010,266	86,658
	Claims incurred					
R0310	Gross – direct business	(314)	1,140,554	133,610	391,051	80,696
R0320	Gross – proportional reinsurance accepted					
R0330	Gross – non-proportional reinsurance accepted					
R0340	Reinsurers' share		341,518		(224)	23,695
R0400	Net	(314)	799,036	133,610	391,275	57,001
	Changes in other technical provisions					
R0410	Gross – direct business					
R0420	Gross – proportional reinsurance accepted					
R0430	Gross – non-proportional reinsurance accepted					
R0440	Reinsurers' share					
R0500	Net					
R0550	Expenses incurred	13,307	400,089	124,923	505,016	39,407
R1200	Other expenses					
R1300	Total expenses					

S.05.01.02 continued
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0100	C0110	C0120	C0200
	Premiums written				
R0110	Gross – direct business	87,585	294,796	112,815	3,274,074
R0120	Gross – proportional reinsurance accepted				
R0130	Gross – non-proportional reinsurance accepted				
R0140	Reinsurers' share		704	697	206,246
R0200	Net	87,585	294,092	112,118	3,067,828
	Premiums earned				
R0210	Gross – direct business	88,190	293,118	113,882	3,202,786
R0220	Gross – proportional reinsurance accepted				
R0230	Gross – non-proportional reinsurance accepted				
R0240	Reinsurers' share		704	888	202,230
R0300	Net	88,190	292,414	112,994	3,000,556
	Claims incurred				
R0310	Gross – direct business	6,500	152,530	68,283	1,972,910
R0320	Gross – proportional reinsurance accepted				
R0330	Gross – non-proportional reinsurance accepted				
R0340	Reinsurers' share		84	(395)	364,678
R0400	Net	6,500	152,446	68,678	1,608,232
	Changes in other technical provisions				
R0410	Gross – direct business				
R0420	Gross – proportional reinsurance accepted				
R0430	Gross – non-proportional reinsurance accepted				
R0440	Reinsurers' share				
R0500	Net				
R0550	Expenses incurred	15,171	97,389	35,751	1,231,053
R1200	Other expenses				39,821
R1300	Total expenses				1,270,874

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	40,443	40,443
R1620	Reinsurers' share	10,562	10,562
R1700	Net	29,881	29,881
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	Expenses incurred	2,998	2,998
R2500	Other expenses		
R2600	Total expenses		2,998

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		C0010	C0020	C0070
		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
R0010			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,272,385	1,689	3,274,074
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	206,246		206,246
R0200	Net	3,066,139	1,689	3,067,828
	Premiums earned			
R0210	Gross – direct business	3,201,097	1,689	3,202,786
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	202,230		202,230
R0300	Net	2,998,867	1,689	3,000,556
	Claims incurred			
R0310	Gross – direct business	1,981,597	(8,687)	1,972,910
R0320	Gross – proportional reinsurance accepted			
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	364,678		364,678
R0400	Net	1,616,919	(8,687)	1,608,232
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	Expenses incurred	1,230,789	264	1,231,053
R1200	Other expenses			39,821
R1300	Total expenses			1,270,874

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	Total top 5 and home country
		C0150	C0160	C0210
R1400			IRL	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross			
R1420	Reinsurers' share			
R1500	Net			
	Premiums earned			
R1510	Gross			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross	40,443		40,443
R1620	Reinsurers' share	10,562		10,562
R1700	Net	29,881		29,881
	Changes in other technical provisions			
R1710	Gross			
R1720	Reinsurers' share			
R1800	Net			
R1900	Expenses incurred	2,998		2,998
R2500	Other expenses			
R2600	Total expenses			2,998

S.22.01.22
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	5,385,065			97,372	
R0020	Basic own funds	2,313,368			(39,197)	
R0050	Eligible own funds to meet Solvency Capital Requirement	2,313,368			(39,197)	
R0090	Solvency Capital Requirement	1,403,157			(759)	

S.23.01.22

Own funds

(£'000)

		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					
R0010	Ordinary share capital (gross of own shares)	150,000	150,000			
R0020	Non-available called but not paid in ordinary share capital at group level					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type Undertakings					
R0050	Subordinated mutual member accounts					
R0060	Non-available subordinated mutual member accounts at group level					
R0070	Surplus funds					
R0080	Non-available surplus funds at group level					
R0090	Preference shares					
R0100	Non-available preference shares at group level					
R0110	Share premium account related to preference shares					
R0120	Non-available share premium account related to preference shares at group level					
R0130	Reconciliation reserve	1,590,448	1,590,448			
R0140	Subordinated liabilities	537,500			537,500	
R0150	Non-available subordinated liabilities at group level					
R0160	An amount equal to the value of net deferred tax assets	35,420				35,420
R0170	The amount equal to the value of net deferred tax assets not available at the group level					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
R0190	Non-available own funds related to other own funds items approved by supervisory authority					
R0200	Minority interest (if not reported as part of a specific own fund item)					
R0210	Non-available minority interests at group level					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities					
R0240	whereof deducted according to Article 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	Total of non-available own fund items					
R0280	**Total deductions**					
R0290	**Total basic own funds after deductions**	2,313,368	1,740,448		537,500	35,420

S.23.01.22 continued

Own funds

(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls —other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0380	Non-available ancillary own funds at group level					
R0390	Other ancillary own funds					
R0400	Total ancillary own funds					
	Own funds of other financial sectors					
R0410	Reconciliation reserve					
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors					
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method					
R0460	Own funds aggregated when using the D&A and combination of method net of IGT					
R0520	Total available own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	2,313,368	1,740,448		537,500	35,420
R0530	Total available own funds to meet the minimum consolidated Group SCR	2,277,948	1,740,448		537,500	
R0560	Total eligible own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	2,313,368	1,740,448		537,500	35,420
R0570	Total eligible own funds to meet the minimum consolidated Group SCR	1,859,780	1,740,448		119,332	

S.23.01.22 continued

Own funds

(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0610	Minimum consolidated Group SCR	596,658				
R0650	Ratio of eligible own funds to minimum consolidated Group SCR	3.1170				
R0660	Total eligible own funds to meet the Group SCR (including own funds from other financial sector and from the undertakings included via D&A)	2,313,368	1,740,448		537,500	35,420
R0680	Group SCR	1,403,157				
R0690	Ratio of eligible own funds to Group SCR including other financial sectors and the undertakings Included via D&A	1.6487				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	1,945,106
R0710	Own shares (held directly and indirectly)	36,749
R0720	Foreseeable dividends, distributions and charges	132,489
R0730	Other basic own fund items	185,420
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0750	Other non-available own funds	
R0760	Reconciliation reserve before deduction for participations in other financial sector	1,590,448
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) —life business	
R0780	Expected profits included in future premiums (EPIFP) —non-life business	141,406
R0790	Total expected profits included in future premiums (EPIFP)	141,406

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.02.22
Solvency Capital Requirement – for groups using the standard formula and partial internal model
(£'000)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
103011	Other interest rate risk – interest rate risk (assets)	326,024	326,024		
103021	Other interest rate risk – interest rate risk (liabilities)	213,151	213,151		
103991	Diversification within other interest rate risk	(367,092)	(367,092)		
104001	Equity risk				
106001	Property risk	74,243	74,243		
107011	Spread risk	577,360	577,360		
107021	Credit risk (asset)	143,851	143,851		
107991	Diversification within spread and credit risk (asset)	(52,954)	(52,954)		
108001	Concentration risk				
199001	Diversification within market risk	(221,842)	(221,842)		
203001	Other counterparty risk	65,448	65,448		
501001	Premium risk	519,158	519,158		
502001	Reserve risk	670,786	670,786		
503001	Non-life catastrophe risk	549,656	549,656		
599001	Diversification within non-life underwriting risk	(612,301)	(612,301)		
701001	Operational risk	306,250	306,250		
801001	Other risks	42,693	42,693		
803001	Loss-absorbing capacity of deferred tax	(61,000)	(61,000)		
804001	Other adjustments				

S.25.02.22 continued

Solvency Capital Requirement – for groups using the standard formula and partial internal model

(£'000)

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	2,173,431
R0060	Diversification	(795,498)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	Solvency Capital Requirement excluding capital add-on	1,377,933
R0210	Capital add-ons already set	
R0220	Solvency Capital Requirement for undertakings under consolidated method	1,377,933
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	(61,000)
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	
R0470	Minimum consolidated Group Solvency Capital Requirement	
	Information on other entities	
R0500	Capital requirement for other financial sectors (non-insurance capital requirements)	
R0510	Capital requirement for other financial sectors (non-insurance capital requirements) – credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	
R0520	Capital requirement for other financial sectors (non-insurance capital requirements) – institutions for occupational retirement provisions	
R0530	Capital requirement for other financial sectors (non-insurance capital requirements) – capital requirement for non-regulated entities carrying out financial activities	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	25,224
	Overall SCR	
R0560	SCR for undertakings included via D&A	
R0570	Solvency Capital Requirement	1,403,157

32.01.22
Undertakings in the scope of the group

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country C0010	Identification code of the undertaking C0020	Type of code of the ID of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual /non mutual) C0070	Supervisory authority C0080	% capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for group solvency calculation C0230	Yes/ no C0240	Date of decision if Article 214 is applied C0250	Method used and under method 1, treatment of the undertaking C0260
GB	213800FF2R23ALJQOP04	LEI	Direct Line Insurance Group plc	5	Company limited by shares	2								1		1
GB	549300Z5UV7Z65LTYJ43	LEI	U K Insurance Limited	2	Company limited by shares	2	PRA	100	100	100		1	100	1		1
GB	2138007B4PLYNW611O59	LEI	Churchill Insurance Company Limited	2	Company limited by shares	2	PRA	100	100	100		1	100	1		1
GB	2138008ZP4216R8AZA45	LEI	U K Insurance Business Solutions Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	21380093VNH85CCTZM58	LEI	National Breakdown Recovery Club Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800AEN577VPYUWS88	LEI	DLG Pension Trustee Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800C229CRIQN7Q486	LEI	Direct Line Insurance Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800ECJ98JKW8XPO58	LEI	DL Insurance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800FUQURSPS5NPZ53	LEI	DLG Legal Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800G23ZAHTDQ7JS64	LEI	UKI Life Assurance Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800GGXWCI3AQUP330	LEI	UK Assistance Accident Repairs Centre Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800JGMYQA8ZU3KF17	LEI	Farmweb Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800L4GCDT4J556J73	LEI	Nationwide Breakdown Recovery Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800LF9K2SZXPFQY79	LEI	UK Assistance Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
JE	213800MEX738WOUMSC13	LEI	10-15 Livery Street, Birmingham UK Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800MFLWGG2N8OVA34	LEI	Green Flag Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800MN5P5DE45U9W69	LEI	The National Insurance and Guarantee Corporation Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800MRCD2SJWT8EB37	LEI	Inter Group Insurance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800R3C7Z1Q73IWN57	LEI	Green Flag Group Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800RFERZVGSMGH748	LEI	Finsure Premium Finance Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800RSEDIUJJHXTF77	LEI	Direct Line Group Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800S4FRZFA1QH3Y58	LEI	Green Flag Holdings Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
IN	213800YY63HNK4VO2G95	LEI	DL Support Services India Private Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800ZJIPTGNL7FP828	LEI	Intergroup Assistance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
JE	2138002C5L78GH6YJI82	LEI	Direct Line Insurance Group Employee Benefit Trust	99	Trust	2			100			1	100	1		1
GB	2138007UQ448Q4BRW767	LEI	DLIG 2012 Share Incentive Plan	99	Trust	2			100			1	100	1		1

U K Insurance Limited

General information

Undertaking name	U K Insurance Limited
Undertaking identification code	549300Z5UV7Z65LTYJ43
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Full internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance General liability insurance Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and health SLT technical provisions
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.22.01.21	Impact of long-term guarantees and transitional measures
S.23.01.01	Own funds
S.25.03.21	Solvency Capital Requirement – for undertakings on full internal models
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet
(£'000)

		Solvency II Value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,836,165
R0080	Property (other than for own use)	323,400
R0090	Holdings in related undertakings, including participations	13,112
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	4,598,591
R0140	Government bonds	295,222
R0150	Corporate bonds	4,303,369
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	823,490
R0190	Derivatives	77,572
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	495,401
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	495,401
R0270	Reinsurance recoverables from:	1,212,834
R0280	Non-life and health similar to non-life	987,304
R0290	Non-life excluding health	987,304
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	225,530
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	225,530
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	81,136
R0370	Reinsurance receivables	24,055
R0380	Receivables (trade, not insurance)	90,415
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	156,636
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	7,896,642

S.02.01.02 continued
Balance sheet
(£'000)

Liabilities		Solvency II value
		C0010
R0510	Technical provisions – non-life	4,827,097
R0520	Technical provisions – non-life (excluding health)	4,818,194
R0530	TP calculated as a whole	
R0540	Best estimate	4,583,062
R0550	Risk margin	235,132
R0560	Technical provisions – health (similar to non-life)	8,903
R0570	TP calculated as a whole	
R0580	Best estimate	8,742
R0590	Risk margin	161
R0600	Technical provisions – life (excluding index-linked and unit-linked)	532,535
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	532,535
R0660	TP calculated as a whole	
R0670	Best estimate	468,508
R0680	Risk margin	64,027
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	28,196
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	40,335
R0790	Derivatives	45,091
R0800	Debts owed to credit institutions	50,630
R0810	Financial liabilities other than debts owed to credit institutions	126,219
R0820	Insurance and intermediaries payables	72,327
R0830	Reinsurance payables	61,519
R0840	Payables (trade, not insurance)	81,246
R0850	Subordinated liabilities	537,500
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	537,500
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	6,402,695
R1000	Excess of assets over liabilities	1,493,947

S.05.01.02
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0020	C0040	C0050	C0070	C0080
	Premiums written					
R0110	Gross – direct business	13,032	1,262,179	357,793	1,053,026	92,861
R0120	Gross – proportional reinsurance accepted					
R0130	Gross – non-proportional reinsurance accepted					
R0140	Reinsurers' share		142,861		52,901	9,083
R0200	Net	13,032	1,119,318	357,793	1,000,125	83,778
	Premiums earned					
R0210	Gross – direct business	13,162	1,194,223	338,540	1,069,369	92,315
R0220	Gross – proportional reinsurance accepted					
R0230	Gross – non-proportional reinsurance accepted					
R0240	Reinsurers' share		135,878		59,103	5,657
R0300	Net	13,162	1,058,345	338,540	1,010,266	86,658
	Claims incurred					
R0310	Gross – direct business	(315)	1,158,290	171,534	391,060	80,696
R0320	Gross – proportional reinsurance accepted		(2,439)			
R0330	Gross – non-proportional reinsurance accepted					
R0340	Reinsurers' share		340,873		(224)	23,695
R0400	Net	(315)	814,978	171,534	391,284	57,001
	Changes in other technical provisions					
R0410	Gross – direct business					
R0420	Gross – proportional reinsurance accepted					
R0430	Gross – non-proportional reinsurance accepted					
R0440	Reinsurers' share					
R0500	Net					
R0550	Expenses incurred	13,308	402,896	126,109	506,945	39,404
R1200	Other expenses					
R1300	Total expenses					

S.05.01.02 continued
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0100	C0110	C0120	C0200
	Premiums written				
R0110	Gross – direct business	87,586	294,795	112,815	3,274,087
R0120	Gross – proportional reinsurance accepted				
R0130	Gross – non-proportional reinsurance accepted				
R0140	Reinsurers' share		704	697	206,246
R0200	Net	87,586	294,091	112,118	3,067,841
	Premiums earned				
R0210	Gross – direct business	88,190	293,118	113,882	3,202,799
R0220	Gross – proportional reinsurance accepted				
R0230	Gross – non-proportional reinsurance accepted				
R0240	Reinsurers' share		704	888	202,230
R0300	Net	88,190	292,414	112,994	3,000,569
	Claims incurred				
R0310	Gross – direct business	7,839	152,530	68,283	2,029,917
R0320	Gross – proportional reinsurance accepted				(2,439)
R0330	Gross – non-proportional reinsurance accepted				
R0340	Reinsurers' share		84	(395)	364,033
R0400	Net	7,839	152,446	68,678	1,663,445
	Changes in other technical provisions				
R0410	Gross – direct business				
R0420	Gross – proportional reinsurance accepted				
R0430	Gross – non-proportional reinsurance accepted				
R0440	Reinsurers' share				
R0500	Net				
R0550	Expenses incurred	15,078	95,982	35,621	1,235,343
R1200	Other expenses				39,748
R1300	Total expenses				1,275,091

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	41,053	41,053
R1620	Reinsurers' share	10,542	10,542
R1700	Net	30,511	30,511
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	Expenses incurred	2,992	2,992
R2500	Other expenses		
R2600	Total expenses		2,992

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		C0010	C0020	C0070
		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
R0010			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,272,398	1,689	3,274,087
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	206,246		206,246
R0200	Net	3,066,152	1,689	3,067,841
	Premiums earned			
R0210	Gross – direct business	3,201,110	1,689	3,202,799
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	202,230		202,230
R0300	Net	2,998,880	1,689	3,000,569
	Claims incurred			
R0310	Gross – direct business	2,038,604	(8,687)	2,029,917
R0320	Gross – proportional reinsurance accepted	(2,439)		(2,439)
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	364,033		364,033
R0400	Net	1,672,132	(8,687)	1,663,445
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	Expenses incurred	1,235,055	288	1,235,343
R1200	Other expenses			39,748
R1300	Total expenses			1,275,091

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		C0150	C0160	C0210
		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	Total top 5 and home country
R1400			IRL	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross			
R1420	Reinsurers' share			
R1500	Net			
	Premiums earned			
R1510	Gross			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross	41,053		41,053
R1620	Reinsurers' share	10,542		10,542
R1700	Net	30,511		30,511
	Changes in other technical provisions			
R1710	Gross			
R1720	Reinsurers' share			
R1800	Net			
R1900	Expenses incurred	2,992		2,992
R2500	Other expenses			
R2600	Total expenses			2,992

S.12.01.02
Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (life other than health insurance, including unit-linked)
		C0090	C0150
R0010	Technical provisions calculated as a whole		
R0020	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	Gross best estimate	468,508	468,508
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	225,530	225,530
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	242,978	242,978
R0100	Risk margin	64,027	64,027
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	Technical provisions – total	532,535	532,535

S.17.01.02

Non-life technical provisions

(£'000)

		Direct business and accepted proportional reinsurance				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0030	C0050	C0060	C0080	C0090
R0010	Technical provisions calculated as a whole					
R0050	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross	742	400,300	151,374	47,932	45,291
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		110,335		10,340	2,883
R0150	Net best estimate of premium provisions	742	289,965	151,374	37,592	42,408
	Claims provisions					
R0160	Gross	8,000	3,029,960	(25,496)	510,905	312,916
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		823,933		14,970	23,996
R0250	Net best estimate of claims provisions	8,000	2,206,027	(25,496)	495,935	288,920
R0260	Total best estimate – gross	8,742	3,430,260	125,878	558,837	358,207
R0270	Total best estimate – net	8,742	2,495,992	125,878	533,527	331,328
R0280	Risk margin	161	148,918	5,623	54,196	22,503
	Amount of the transitional on technical provisions					
R0290	Technical provisions calculated as a whole					
R0300	Best estimate					
R0310	Risk margin					
	Technical provisions – total					
R0320	Technical provisions – total	8,903	3,579,178	131,501	613,033	380,710
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		934,268		25,310	26,879
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	8,903	2,644,910	131,501	587,723	353,831

S.17.01.02 continued

Non-life technical provisions
(£'000)

		Direct business and accepted proportional reinsurance: Legal expenses insurance	Direct business and accepted proportional reinsurance: Assistance	Direct business and accepted proportional reinsurance: Miscellaneous financial loss	Total non-life obligation
		C0110	C0120	C0130	C0180
R0010	Technical provisions calculated as a whole				
R0050	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross	(3,221)	13,495	(4,124)	651,789
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default			220	123,778
R0150	Net best estimate of premium provisions	(3,221)	13,495	(4,344)	528,011
	Claims provisions				
R0160	Gross	37,652	34,811	31,267	3,940,015
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		308	319	863,526
R0250	Net best estimate of claims provisions	37,652	34,503	30,948	3,076,489
R0260	Total best estimate – gross	34,431	48,306	27,143	4,591,804
R0270	Total best estimate – net	34,431	47,998	26,604	3,604,500
R0280	Risk margin	1,057	977	1,858	235,293
	Amount of the transitional on technical provisions				
R0290	Technical provisions calculated as a whole				
R0300	Best estimate				
R0310	Risk margin				
	Technical provisions – total				
R0320	Technical provisions – total	35,488	49,283	29,001	4,827,097
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		308	539	987,304
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	35,488	48,975	28,462	3,839,793

S.19.01.21
Non-life insurance claims (£'000)

Z0010 Accident year / underwriting year: Accident year

Gross claims paid (non-cumulative)
(absolute amount)

	Year	0 C0010	1 C0020	2 C0030	3 C0040	4 C0050	5 C0060	6 C0070	7 C0080	8 C0090	9 C0100	10 & + C0110	In current year C0170	Sum of years (cumulative) C0180
R0100	Prior											20,869	20,869	20,869
R0160	N-9	1,954,931	1,004,236	272,148	173,873	179,716	97,182	69,296	28,749	16,191	8,211		8,211	3,804,533
R0170	N-8	1,672,259	838,730	247,064	181,013	137,207	98,138	36,877	19,655	7,883			7,883	3,238,826
R0180	N-7	1,753,800	888,243	274,126	183,831	167,792	109,687	51,278	21,092				21,092	3,449,849
R0190	N-6	1,739,292	924,870	245,659	166,882	131,478	80,126	33,609					33,609	3,321,916
R0200	N-5	1,223,487	492,688	151,157	125,388	91,025	52,862						52,862	2,136,607
R0210	N-4	1,076,266	508,170	137,775	77,661	63,122							63,122	1,862,994
R0220	N-3	954,595	458,560	103,549	79,443								79,443	1,596,147
R0230	N-2	987,142	387,229	104,536									104,536	1,478,907
R0240	N-1	951,953	439,415										439,415	1,391,368
R0250	N	1,077,689											1,077,689	1,077,689
R0260												Total	1,908,731	23,379,705

Gross undiscounted best estimate claims provisions
(absolute amount)

	Year	0 C0200	1 C0210	2 C0220	3 C0230	4 C0240	5 C0250	6 C0260	7 C0270	8 C0280	9 C0290	10 & + C0300	Year end (discounted data) C0360
R0100	Prior											246,120	204,091
R0160	N-9										112,527		94,407
R0170	N-8									67,211			63,285
R0180	N-7								144,383				126,755
R0190	N-6							188,171					167,687
R0200	N-5						197,912						174,751
R0210	N-4					214,705							200,619
R0220	N-3				327,333								312,612
R0230	N-2			647,359									580,954
R0240	N-1		736,605										678,059
R0250	N	1,405,227											1,336,795
R0260												Total	3,940,015

S.22.01.21
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	5,359,632			95,869	
R0020	Basic own funds	2,031,447			(39,005)	
R0050	Eligible own funds to meet Solvency Capital Requirement	2,031,447			(39,005)	
R0090	Solvency Capital Requirement	1,377,933			(759)	
R0100	Eligible own funds to meet Minimum Capital Requirement	1,612,645			(39,005)	
R0110	Minimum Capital Requirement	593,492			3,138	

S.23.01.01
Own funds
(£'000)

		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 Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)	580,765	580,765			
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	913,182	913,182			
R0140	Subordinated liabilities	537,500			537,500	
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	**Total basic own funds after deductions**	2,031,447	1,493,947		537,500	
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls —other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					

S.23.01.01 continued
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	2,031,447	1,493,947		537,500	
R0510	Total available own funds to meet the MCR	2,031,447	1,493,947		537,500	
R0540	Total eligible own funds to meet the SCR	2,031,447	1,493,947		537,500	
R0550	Total eligible own funds to meet the MCR	1,612,645	1,493,947		118,698	
R0580	SCR	1,377,933				
R0600	MCR	593,492				
R0620	Ratio of eligible own funds to SCR	1.4743				
R0640	Ratio of eligible own funds to MCR	2.7172				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	1,493,947
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	580,765
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	Reconciliation reserve	913,182
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	141,406
R0790	Total expected profits included in future premiums (EPIFP)	141,406

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.03.21
Solvency Capital Requirement – for undertakings on full internal models
(£'000)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
103011	Other interest rate risk – interest rate risk (assets)	326,024
103021	Other interest rate risk – interest rate risk (liabilities)	213,151
103991	Diversification within other interest rate risk	(367,092)
104001	Equity risk	
106001	Property risk	74,243
107011	Spread risk	577,360
107021	Credit risk (asset)	143,851
107991	Diversification within spread and credit risk (asset)	(52,954)
108001	Concentration risk	
109001	Currency risk	
199001	Diversification within market risk	(221,842)
203001	Other counterparty risk	65,448
501001	Premium risk	519,158
502001	Reserve risk	670,786
503001	Non-life catastrophe risk	549,656
599001	Diversification within non-life underwriting risk	(612,301)
701001	Operational risk	306,250
801001	Other risks	42,693
803001	Loss-absorbing capacity of deferred tax	(61,000)
804001	Other adjustments	

S.25.03.21 continued
Solvency Capital Requirement – for undertakings on full internal models
(£'000)

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	2,173,431
R0060	Diversification	(795,498)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0200	**Solvency capital requirement excluding capital add-on**	1,377,933
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement**	1,377,933
	Other information on SCR	
R0300	Amount / estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount / estimate of the overall loss-absorbing capacity of deferred taxes	(61,000)
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

S.28.01.01
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	588,389

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0030	Income protection insurance and proportional reinsurance	8,742	13,032
R0050	Motor vehicle liability insurance and proportional reinsurance	2,495,992	1,119,318
R0060	Other motor insurance and proportional reinsurance	125,878	357,793
R0080	Fire and other damage to property insurance and proportional reinsurance	533,527	1,000,125
R0090	General liability insurance and proportional reinsurance	331,328	83,778
R0110	Legal expenses insurance and proportional reinsurance	34.431	87,586
R0120	Assistance and proportional reinsurance	47,998	294,091
R0130	Miscellaneous financial loss insurance and proportional reinsurance	26,604	112,118

S.28.01.01 continued
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	5,103

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance / SPV) total capital at risk
		C0050	C0060
R0240	Other life (re)insurance and health (re)insurance obligations	242,978	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	593,492
R0310	SCR	1,377,933
R0320	MCR cap	620,070
R0330	MCR floor	344,483
R0340	Combined MCR	593,492
R0350	Absolute floor of the MCR	3,166
R0400	Minimum Capital Requirement	593,492

Undertaking name	Churchill Insurance Company Limited
Undertaking identification code	2138007B4PLYNW611O59
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance Annuities from non-life
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and health SLT technical provisions
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.22.01.21	Impact of long-term guarantees and transitional measures
S.23.01.01	Own funds
S.25.01.21	Solvency Capital Requirement – for undertakings on standard formula
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet
(£'000)

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	18,718
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	
R0140	Government bonds	
R0150	Corporate bonds	
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	18,718
R0190	Derivatives	
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	29,889
R0280	Non-life and health similar to non-life	9,055
R0290	Non-life excluding health	9,055
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	20,834
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	20,834
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	281
R0380	Receivables (trade, not insurance)	529
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	9
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	49,426

S.02.01.02 continued
Balance sheet
(£'000)

Liabilities		Solvency II value
		C0010
R0510	Technical provisions – non-life	12,022
R0520	Technical provisions – non-life (excluding health)	12,022
R0530	TP calculated as a whole	
R0540	Best estimate	11,688
R0550	Risk margin	334
R0560	Technical provisions – health (similar to non-life)	
R0570	TP calculated as a whole	
R0580	Best estimate	
R0590	Risk margin	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	23,405
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	23,405
R0660	TP calculated as a whole	
R0670	Best estimate	23,175
R0680	Risk margin	230
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	335
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	553
R0820	Insurance and intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	36,315
R1000	**Excess of assets over liabilities**	13,111

S.05.01.02
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) — Motor vehicle liability insurance	Total
		C0040	C0200
	Premiums written		
R0110	Gross – direct business		
R0120	Gross – proportional reinsurance accepted		
R0130	Gross – non-proportional reinsurance accepted		
R0140	Reinsurers' share		
R0200	Net		
	Premiums earned		
R0210	Gross – direct business		
R0220	Gross – proportional reinsurance accepted		
R0230	Gross – non-proportional reinsurance accepted		
R0240	Reinsurers' share		
R0300	Net		
	Claims incurred		
R0310	Gross – direct business	281	281
R0320	Gross – proportional reinsurance accepted		
R0330	Gross – non-proportional reinsurance accepted		
R0340	Reinsurers' share	(2,282)	(2,282)
R0400	Net	2,563	2,563
	Changes in other technical provisions		
R0410	Gross – direct business		
R0420	Gross – proportional reinsurance accepted		
R0430	Gross – non-proportional reinsurance accepted		
R0440	Reinsurers' share		
R0500	Net		
R0550	Expenses incurred	62	62
R1200	Other expenses		
R1300	Total expenses		62

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	438	438
R1620	Reinsurers' share	508	508
R1700	Net	(70)	(70)
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	Expenses incurred	130	130
R2500	Other expenses		
R2600	Total expenses		130

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		C0010	C0070
R0010		Home country	Total top 5 and home country
		C0080	C0140
	Premiums written		
R0110	Gross – direct business		
R0120	Gross – proportional reinsurance accepted		
R0130	Gross – non-proportional reinsurance accepted		
R0140	Reinsurers' share		
R0200	Net		
	Premiums earned		
R0210	Gross – direct business		
R0220	Gross – proportional reinsurance accepted		
R0230	Gross – non-proportional reinsurance accepted		
R0240	Reinsurers' share		
R0300	Net		
	Claims incurred		
R0310	Gross – direct business	281	281
R0320	Gross – proportional reinsurance accepted		
R0330	Gross – non-proportional reinsurance accepted		
R0340	Reinsurers' share	(2,282)	(2,282)
R0400	Net	2,563	2,563
	Changes in other technical provisions		
R0410	Gross – direct business		
R0420	Gross – proportional reinsurance accepted		
R0430	Gross – non-proportional reinsurance accepted		
R0440	Reinsurers' share		
R0500	Net		
R0550	Expenses incurred	62	62
R1200	Other expenses		
R1300	Total expenses		62

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		C0150	C0210
R1400		Home country	Total top 5 and home country
		C0220	C0280
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	438	438
R1620	Reinsurers' share	508	508
R1700	Net	(70)	(70)
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	Expenses incurred	130	130
R2500	Other expenses		
R2600	Total expenses		130

S.12.01.02
Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (life other than health insurance, including unit-linked)
		C0090	C0150
R0010	Technical provisions calculated as a whole		
R0020	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	Gross best estimate	23,175	23,175
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	20,834	20,834
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	2,341	2,341
R0100	Risk margin	230	230
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	Technical provisions – total	23,405	23,405

S.17.01.02

Non-life technical provisions

(£'000)

		Direct business and accepted proportional reinsurance – Motor vehicle liability insurance	Total non-life obligation
		C0050	C0180
R0010	Technical provisions calculated as a whole		
R0050	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	Gross		
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		
R0150	Net best estimate of premium provisions		
	Claims provisions		
R0160	Gross	11,688	11,688
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	9,055	9,055
R0250	Net best estimate of claims provisions	2,633	2,633
R0260	Total best estimate – gross	11,688	11,688
R0270	Total best estimate – net	2,633	2,633
R0280	Risk margin	334	334
	Amount of the transitional on technical provisions		
R0290	Technical provisions calculated as a whole		
R0300	Best estimate		
R0310	Risk margin		
	Technical provisions – total		
R0320	Technical provisions – total	12,022	12,022
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	9,055	9,055
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	2,967	2,967

S.19.01.21
Non-life insurance claims (£'000)

Z0010 Accident year / underwriting year: Accident year

Gross claims paid (non-cumulative)
(absolute amount)

	Year	Development 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											743	743	743
R0160	N-9													
R0170	N-8													
R0180	N-7													
R0190	N-6													
R0200	N-5													
R0210	N-4													
R0220	N-3													
R0230	N-2													
R0240	N-1													
R0250	N													
R0260												Total	743	743

Gross undiscounted best estimate claims provisions
(absolute amount)

	Year	Development 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											13,006	11,688
R0160	N-9												
R0170	N-8												
R0180	N-7												
R0190	N-6												
R0200	N-5												
R0210	N-4												
R0220	N-3												
R0230	N-2												
R0240	N-1												
R0250	N												
R0260												Total	11,688

S.22.01.21
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	35,427			2,108	
R0020	Basic own funds	13,111			(192)	
R0050	Eligible own funds to meet Solvency Capital Requirement	13,111			(192)	
R0090	Solvency Capital Requirement	2,126			(12)	
R0100	Eligible own funds to meet Minimum Capital Requirement	13,111			(192)	
R0110	Minimum Capital Requirement	3,166				

S.23.01.01
Own funds
(£'000)

		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 Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	13,111	13,111			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	Total basic own funds after deductions	13,111	13,111			
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls —other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	Total ancillary own funds					

S.23.01.01 continued
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	13,111	13,111			
R0510	Total available own funds to meet the MCR	13,111	13,111			
R0540	Total eligible own funds to meet the SCR	13,111	13,111			
R0550	Total eligible own funds to meet the MCR	13,111	13,111			
R0580	SCR	2,126				
R0600	MCR	3,166				
R0620	Ratio of eligible own funds to SCR	6.1683				
R0640	Ratio of eligible own funds to MCR	4.1418				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	13,111
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	Reconciliation reserve	13,111
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	
R0790	Total expected profits included in future premiums (EPIFP)	

S.25.01.21
Solvency Capital Requirement – for undertakings on standard formula
(£'000)

		Gross Solvency Capital Requirement	USP	Simplifications
		C0110	C0090	C0100
R0010	Market risk	482		
R0020	Counterparty default risk	949		
R0030	Life underwriting risk	97	None	
R0040	Health underwriting risk		None	
R0050	Non-life underwriting risk	711	None	
R0060	Diversification	(568)		
R0070	Intangible asset risk			
R0100	Basic Solvency Capital Requirement	1,671		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	455
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	Solvency capital requirement excluding capital add-on	2,126
R0210	Capital add-on already set	
R0220	Solvency Capital Requirement	2,126
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	2,126
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

S.28.01.01
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	224

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0050	Motor vehicle liability insurance and proportional reinsurance	2,633	

		C0040
R0200	MCR_{L} Result	49

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance / SPV) total capital at risk
		C0050	C0060
R0240	Other life (re)insurance and health (re)insurance obligations	2,341	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	273
R0310	SCR	2,126
R0320	MCR cap	957
R0330	MCR floor	532
R0340	Combined MCR	532
R0350	Absolute floor of the MCR	3,166
R0400	**Minimum Capital Requirement**	3,166