PRUDENTIAL INTERNATIONAL

Prudential International Assurance Plc.

Solvency and Financial Condition Report
Year Ended 31 December 2016

PRUDENTIAL INTERNATIONAL

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Summary

Company background

Prudential International Assurance plc (or "PIA") is an Irish domiciled and authorised insurance company whose principal activity is the transaction of life assurance business. PIA is a leading insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2016 has been on the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe. PIA compliments the work of its parent, PAC, by competing in niche markets.

Business and performance

We are seeing a large amount of change in the marketplace due to the introduction of Solvency II capital rules and the Company has adapted well. The Company continues to assess and take advantage where appropriate of tactical and strategic opportunities as they arise and is exploring a number of developments which could be material for the business going forward.

Profit for the year amounted to £17.7 million which related to continuing activities (2015: profit £8.6 million). Increased margins were achieved due to increased sales and assets under management relative to prior year, favourable changes in cash reserves, and also foreign exchange gains made during the period. Further information on business performance is provided in section A.

System of governance

The Board of the Prudential International Assurance plc is collectively responsible for the long-term success of the Company and for providing leadership within a framework of effective controls. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them.

We keep our governance structures under constant review to ensure they suit the needs of our business and stakeholders. Further information on the Company's system of governance including information on the composition of its Board, key functions, risk management and internal control system is provided in section B.

Risk profile

Our Risk Management Framework is designed to ensure the business remains strong through stress events so we can continue to deliver on our long term commitments to our customers and shareholders. 2016 was a year of extraordinary uncertainty and the financial strength of the Company remained robust throughout.

For our shareholders, we generate value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Company is able to withstand the impact of an adverse stressed outcome.

The Company defines 'risk' as the uncertainty that we face in successfully implementing our strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Company. As such, material risks will be

retained selectively where we think there is value in doing so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage appropriately the exposure.

Further information on the main risks inherent in our business (namely market risk, credit risk, insurance or underwriting risk, liquidity risk, operational risk, business environment risk and strategic risk) and how we manage these risks, and maintain an appropriate risk profile is provided in section C.

Valuation for solvency purposes

With effect from 1 January 2016, the Company is required to adopt Solvency II as its capital regime. This was developed by the EU in order to harmonise the various regimes previously applied across EU member states.

For the purposes of Solvency II reporting, the Company applies the Solvency II valuation rules to value the majority of the assets and liabilities of the Company:

(i) As a general principle, technical provisions under Solvency II are valued at the amount for which they could theoretically be transferred immediately to a third party in an arm's length transaction. The technical provisions consist of the best estimate liability and the risk margin.

(ii) The assets and other liabilities are valued under Solvency II at the amount for which they could be exchanged between knowledgeable and willing parties in arm's length transactions. The assets and other liabilities are valued separately using methods that are consistent with this principle in accordance with the valuation approaches set out in the Solvency II Directive.

Further information on the valuation of assets, technical provisions and other liabilities of the Company for solvency purposes is provided in section D.

Capital management

The Company has been granted approval by the Central Bank of Ireland to calculate its solvency capital requirement based on its internal model. The Company's solvency capital requirement has been met during 2016. At 31 December 2016, the Company's Solvency II surplus was £97 million.

A summary of the reconciliation of the Company's shareholder Solvency II position published in the Company's 2016 financial statements to the Solvency II position included in the quantitative reporting templates attached to this document, is provided in section E. Additional information on the components of the Company's own funds and solvency capital requirement is also provided in section E.

A. Business and Performance

A.1 Business

A.1.1 Name and legal form

Prudential International Assurance plc ("the Company" or "PIA") is an Irish domiciled and authorised insurance company whose principal activity is the transaction of life assurance business.

The Company's immediate parent company is The Prudential Assurance Company Ltd ("PAC") whose parent company is Prudential Plc, an international financial services group with operations in Asia, the US and the UK. PAC has a 100% interest in the equity capital of Prudential International Assurance plc at 31 December 2016. PAC is a subsidiary of Prudential plc, a company incorporated in England. Prudential plc has a 100% indirect interest in the equity capital of PAC and is considered to be the ultimate parent company of Prudential International Assurance plc.

PIA is an Irish regulated entity and is subject to the relevant requirements and guidelines of the Central Bank of Ireland ("CBI"). The CBI offices are based at New Wapping Street, North Wall Quay, Dublin 1, Ireland.

In October 2014, PIA established an overseas branch operation, Prudential International Assurance UK Branch (PIA UK Branch), in the United Kingdom. PIA reports quarterly to the Prudential Regulation Authority in respect of sales and complaints.

The Group, Prudential Plc., is supervised by the Prudential Regulation Authority ('PRA'), the Company's lead supervisor in accordance with the Financial Services and Markets Act 2000 ('FSMA'). The PRA offices are based at Bank of England, Threadneedle Street, London, EC2R 8AH, United Kingdom.

The independent external auditor is KPMG. Their offices are based at 1 Harbourmaster Place, IFSC, Dublin 1.

A.1.2 Business operations

Prudential International Assurance plc is a leading insurer in the offshore bond market while also providing risk insurance for its UK policyholders. PIA sells to both UK and non-UK nationals. Its focus in 2016 has been on the sale of multi-asset solutions to UK nationals resident in the UK and selected countries in continental Europe and the Crown Dependencies.

PIA current markets outside of the UK include France, Spain, Malta, Cyprus, Gibraltar and the Crown Dependences (Isle of Man, Jersey, Guernsey). The Company also receives top up premiums for existing policies in other countries where it previously had operations (e.g. Belgium, Greece).

PIA UK Branch sells investment bonds to UK customers. The onshore product is an open architecture bond allowing customers to have access to a number of funds offered by external fund managers.

PIA has two lines of business: *unit-linked insurance* and *insurance with profit participation*. PIA UK Branch sells only unit-linked insurance business ("onshore bonds").

Insurance with profit participation business comprises all single premium investment products that are invested in the PAC with profits funds via a reinsurance arrangement.

PIA offshore unit-linked business ranges from proprietary to open architecture products and also products that include mortality and morbidity benefits. Proprietary products are products where the policyholder can only invest in funds offered by PIA, whereas open architecture products allow policyholders to invest in a wide range of external funds and other assets.

A.1.3 Significant events during the period

We are seeing a large amount of change in the marketplace due to the introduction of Solvency II capital rules and the Company has adapted well. Following the triggering of Article 50 by the UK government, there are some business risks arising from Brexit. These are being closely managed, with the final results ultimately dependent on the format of the final Brexit negotiations.

The Company continues to assess and take advantage where appropriate of tactical and strategic opportunities as they arise and is exploring a number of developments which could be material for the business going forward.

A dividend of £25 million (£0.25 per share) on the ordinary shares was paid in June 2016 (2015: nil).

A.2 Underwriting performance

The company's financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2014, and the European Union (Insurance Undertakings: financial statements) Regulations 2015. IFRS is the measurement basis used to report the results of the Company to PAC for inclusion in the Group results.

IFRS profit equates to premiums less claims (including change in technical provision) and expenses together with investment returns on insurance business and on investment business with discretionary participating features. Given the linkage between the movement of technical provisions and movement in investments (e.g. for unit-linked technical provisions), PIA has defined IFRS profit as its underwriting performance as discussed in this section.

A detailed breakdown of the principle components of the IFRS profit is contained in Section A.5.

A.2.1 Overview of IFRS profits

Overview of IFRS profits	2016 £m	2015 £m	Change %
Gross IFRS Profits	**20.3**	**9.9**	**+105%**
Tax charge attributable to shareholders' returns	(2.6)	(1.3)	+100%
Profit for the year attributable to shareholders	**17.7**	**8.6**	**+106%**

The profit for the year amounted to £17.7 million which related to continuing activities (2015: profit £8.6 million). Increased margins were achieved due to increased sales and assets under management relative to prior year, favourable changes in cash reserves, and also foreign exchange gains made during the period.

A.2.2 IFRS profit analysed by Solvency II lines of business

The gross IFRS profit is allocated by material Solvency II lines of business as follows:

Gross IFRS Profits	2016 £m	2015 £m	Change %
Insurance with profit participation	9.6	4.7	+104%
Unit-linked Insurance	10.7	5.2	+106%
Total	**20.3**	**9.9**	**+105%**

A.2.3 IFRS profit analysed by material geographical territory

The operating profit, as discussed above is allocated by material territory as follows:

Gross IFRS Profits	2016 £m	2015 £m	Change %
UK & Crown Dependencies	18.4	9.0	+104%
Other	1.9	0.9	+111%
Total	**20.3**	**9.9**	**+105%**

A.3 Investment performance

A.3.1 Investment analysis

The following investments are held in respect of shareholder and policyholder linked assets.

Shareholder and policyholder linked assets

	2016 £m	2015 £m	Change %
Fixed Income Securities	50	49	+2%
Collective Investment Schemes	1,516	1,324	+15%
Cash and Deposits	189	199	-5%
Other	7	4	+75%
Total Assets	**1,762**	**1,576**	**+12%**

A.3.2 Investment return

	2016 £m	2015 £m
Income		
Fixed Income Securities	2	2
Collective Investment Schemes	15	14
Cash and Deposits	0.1	0
Total income	**17**	**16**
Total realised gains / (losses)	**89**	**33**
Total unrealised gains / (losses)	**87**	**(8)**
Total investment return	**193**	**41**

Investment income comprises interest, dividends and realised investment gains and losses on investments at fair value through profit or loss. Unrealised investment gains and losses on investments at fair value through profit or loss are separately disclosed in unrealised (losses)/gains on investments. Dividends are recognised on an ex-dividend basis. Interest is accounted for on an effective interest rate basis.

Investment in Collective Investment Schemes accounted for 86% and 84% of the total asset portfolio in 2016 and 2015 respectively, shareholder investment in Fixed Income Securities accounted for 3% the total asset portfolio in 2016 and 2015, comprising of 3 UK and 1 French Government Bonds. The remaining asset portfolio is comprised of cash and deposits and other sundry receivables.

Investment income increased by £1.03 million in 2016 primarily as a result of the increase in assets under management.

The increase in investment return of £151.41 million in 2016 principally reflects increased returns and gains on Collective Investment Funds.

A.3.3 Investment management expenses

The total investment management expenses incurred by the Company include policyholder costs incurred at fund level and shareholder costs paid to the Company's asset management operations, this total amount was £2.45 million (2015: £1.55 million). The increase in expenses can be attributed to an increase in assets under management and the incremental costs associated with those assets.

A.4 Performance of other activities

There are no material activities carried out by the company other than those described above.

A.5 Any other information

A.5.1 Additional analysis of IFRS profits before tax by nature of revenue and charges

The following table shows the Company's total revenue and total charges for the years presented:

	2016 £m	2015 £m
Gross premiums written	884	739
Outward reinsurance premiums	(859)	(708)
Earned premiums, net of reinsurance	**25**	**31**
Investment income	106	49
Other income	40	32
Unrealised (losses) gains on investments	87	(8)
Total revenue, net of reinsurance	**258**	**104**
Claims paid - Gross amount	(355)	(313)
Claims paid - Reinsurers' share	310	270
Change in provision for claims - gross amount	1	(5)
Change in provision for claims - reinsurers' share	(6)	5
Change in life assurance provision - gross amount	(929)	(473)
Change in life assurance provision - reinsurers' share	937	472
Change in technical provision for linked liabilities	(73)	5
Change in financial liabilities – investment contracts	(79)	(14)
Net operating expenses	(34)	(28)
Investment expenses and charges	(16)	(12)
Foreign exchange gains/(losses)	6	(1)
Profit on ordinary activities before tax	**20**	**10**

Total IFRS profit before tax attributable to shareholders for the year ended 2016 is £20.3 million (2015: £9.9 million). Analysis of profit before tax is shown below by nature of revenue and charges.

A.5.2 Premiums, claims and expenses

A.5.2.1 Comparison of earned premiums with the prior period

Premiums earned	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	2016 Total £m	2015 Total £m
Gross	839	45	884	739
Reinsurer's share	839	20	859	708
Net	**0**	**25**	**25**	**31**

Total gross insurance premiums have increased primarily due to the continued success of the offshore with profit investment bonds.

A.5.2.2 Comparison of claims with the prior period

Claims incurred	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	2016 Total £m	2015 Total £m
Gross	292	62	354	318
Reinsurer's share	292	13	305	275
Net	**0**	**49**	**49**	**43**

The increase in claims is primarily driven by an increase in the value of surrenders during the period. Volumes of surrenders were lower than experienced in previous period. The number of policies inforce has increased in comparison to prior period also.

A.5.2.3 Comparison of expenses with the prior period

Net operating expenses have increased by 22% during the period. The main factors contributing to this are an increase in administration expenses of 23% in 2016 which was primarily related to development expenditure. In addition, acquisition costs incurred have risen by 14% mainly due to an increase in the level of new business.

B. System of Governance

B.1 General information on the system of governance

The PIA Board is the supervisory body that has responsibility to ensure that the Company operates in an efficient and effective manner, within an established framework of internal control, risk management and compliance systems. In addition, it ensures that PIA is compliant with all relevant laws, regulations and administrative provisions.

The Board is collectively responsible for the long-term success of the Company and for providing leadership within the management framework. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them. The Board is responsible for approving the Company strategy and for ensuring the Company is suitably resourced to achieve it.

The Board is comprised of two Executive Directors, (Managing Director, Finance Director), two Group Non-Executive Directors (members of the wider Group organisation) and two Independent Non-Executive Directors.

B.1.1 Structure of the system of governance

The PIA Governance Framework includes the PIA Governance Principles, the PIA Board, Board Committees, and Management Committee structures, the apportionment and Delegation of Authorities and the Fit & Proper Approved Persons regime. The terms of references for all Board/Management Committees sets out the decision making authorities, responsibilities and reporting lines of each Committee.

The risk management function, led by the Chief Risk Officer (CRO), has responsibility for maintaining the PIA Governance Framework and supporting risk management and model governance policies on behalf of the Board. The risk management function carries out oversight activity to ensure that the framework operates effectively and is adhered to by the business. Any exceptions are highlighted within the regular risk reporting from the CRO and escalated internally and to the PIA Risk Committee, as appropriate.

PIA’s approach to risk management is consistent with the ‘three lines of defence’ model, ensuring appropriate segregation of duties & oversight and challenge occurs on decision making.

The Board maintains risk appetite statements and limits that inform decision making, reflecting the entity’s business model and are compatible with Group-wide risk appetite and limits. The Risk Management Function is involved at an appropriate early stage in all material decisions.

The CRO presents an update on risk to the Risk Committee each quarter and attends the Board meetings.

The Head of the Actuarial Function (HoAF) attends the Board meetings & Risk Committee meetings as required to cover, for example Solvency II Balance Sheet results and Own Risk & Solvency Assessment (ORSA).

The Head of Compliance presents an update on compliance matters to the Risk Committee on a quarterly basis.

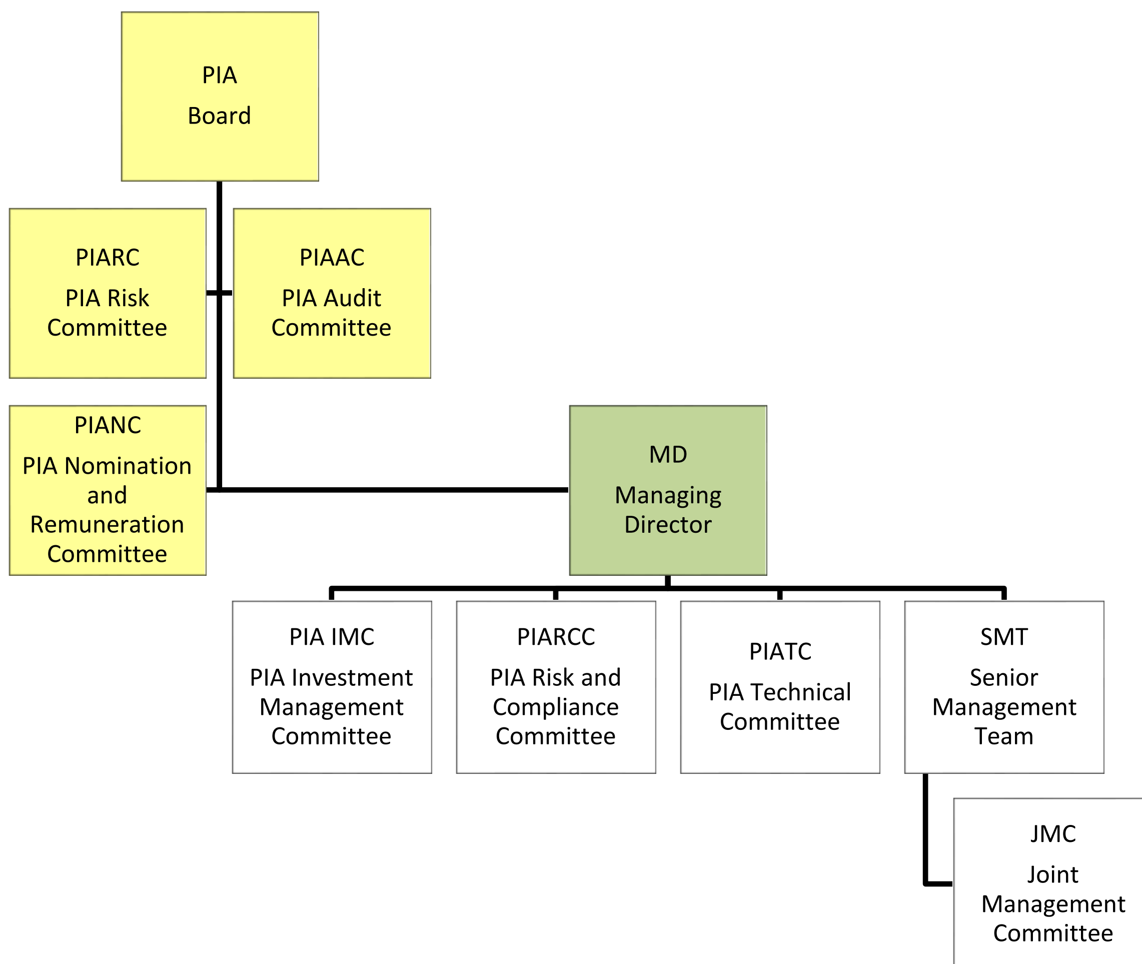
The CRO & HoAF are members of the Technical Committee (PIATC). The purpose of the PIATC is to assist the Managing Director ("MD") of PIA in providing leadership, direction and oversight into the technical bases and practices of the PIA business for regulatory and statutory reporting purposes but also all other technical, financial and risk aspects of running the business.

B.1.1.1 Organisational structure

The PIA Board, Committees, and key functional areas involved in governance, risk management and oversight are set out below. The delegation of authority to Committees and individuals is a Board responsibility.

B.1.1.1.1 Statutory Board and Committees

The PIA governance structure comprising the Board, Board Committees, the PIA Senior Management Team (PIA SMT) and other supporting committees is outlined below.



B.1.1.1.2 PIA committee structure: statutory committees as at 31 December 2016

The Board has delegated functions of the Board to the following statutory committees:

- PIA Audit Committee (PIAAC)
- PIA Risk Committee (PIARC)
- PIA Nomination and Remuneration Committee (PIANC)

The Board has delegated authority to the Managing Director of the Company to exercise all the powers of the directors of the Company subject to: the limits imposed, approvals required and policy set by Prudential UK and Group from time to time; and matters reserved to the Board.

To assist the Managing Director & the Board in the operations of the business the following advisory committees were established:

- PIA Technical Committee (PIATC)
- PIA Investment Management Committee (PIA IMC)
- PIA Risk and Compliance Committee (PIA RRC)
- PIA Senior Management Team (PIA SMT)
- Joint Management Committee (JMC), used to manage our main outsourcing contract with Capita Life and Pensions Services Ltd (CLPSI)

B.1.1.1.3 Functions

PIA is currently organised on a functional basis, as detailed below:

- Managing Director
- Finance (which includes Actuarial)
- Risk (which includes Compliance)
- Operations
- Commercial, Product Management & Marketing
- Proposition Development & Delivery
- Platform Relationships & European Sales

Heads of Functions together form the PIA Senior Management team (SMT), with a reporting line into the PIA Managing Director, who in turn reports to the Board of PIA. The role, responsibilities and reporting lines of each member of the SMT are documented in the relevant SMT job role profile descriptions.

B.1.1.2 Roles & Responsibilities

PIA Board

The Board is authorised to exercise all powers of the Company within the applicable legislation and provisions of the Articles of Association subject to the limits imposed, approvals required and policy set by the Prudential Group. The principle committees of the Board are the Audit, Risk and Nomination and Remuneration Committees. The Board, the Audit Committee and the Nomination and Remuneration Committee are chaired by an Independent Non-Executive Director.

Audit Committee

The membership of the Audit Committee consists of at least three members all of which are non-executive Directors. The majority are independent, one of which takes the Chair.

Key responsibilities:

- Assist the Board in meeting its responsibilities with respect to the integrity of the Company's financial statements, the effectiveness of the Company's internal control and risk management systems, and in monitoring the effectiveness and objectivity of the internal and external auditors.
- Monitor the framework and effectiveness of the Company's systems of internal control and approving the statements to be included in financial reports.

- Consider the effectiveness of the compliance arrangements, and approve annual compliance and risk assurance and audit plans.
- Review the procedures for managing allegations from whistle-blowers and arrangements for employees to raise concerns about possible financial reporting improprieties.

Risk Committee
The membership of the Risk Committee consists of at least three members and shall contain at least two non-executive Directors, at least one of whom should be independent.

Key responsibilities:
- To assist the Board by providing oversight and governance of the Company's risk framework, risk appetite and risk management systems, systems of governance, Solvency II requirements and internal capital and own funds.
- Reviewing the Company's material risk exposures against the risk methodologies and management's actions to monitor and control such exposures.
- Assess the effectiveness of the risk framework throughout the Company.
- Advise the Board on the risks inherent in strategic decisions and the business plans.
- Review the effectiveness of the internal model used for the purposes of Solvency II reporting with recommendations for changes as required to the model.

Nomination and Remuneration Committee
The membership of the Committee consists of at least three members with the majority being independent directors.

Key responsibilities: To assist the Board in meeting its responsibilities with respect to ensuring that the nomination practices of the Company are compliant with various regulations and codes and that remuneration practices and framework are in line with the risk strategies of the Company.

B.1.2 Adequacy of systems of governance

The PIA governance framework is in place to ensure:
- that the Governance structures are and continue to remain appropriate to the scale and nature of the Company's business.
- that all policies and procedures are in place and adequately documented.
- that the appropriate segregation of duties and responsibilities are clearly defined.
- that there is an effective operation of the Prudential Group's system of internal controls.
- that reporting and disclosure requirements to satisfy regulatory and corporate governance requirements are in place.

The overall system of governance is reviewed annually for its adequacy to support the Company's business and is appropriately reported to the PIA Board.

B.1.3 Changes to the system of governance

During 2016 two Independent Directors resigned and two new replacements were appointed in line with the statutory requirements.

B.1.4 Remuneration policy & practices

Remuneration practices within UK&EI Business Unit (UK & Europe Insurance) and the statutory entities within it (i.e. PIA) follow Prudential Group remuneration policy and there is no separate remuneration policy at the Business Unit level.

Prudential's remuneration policy and practices ensure that the Business Units and the Group Head Office have an effective approach in place to reward our employees in an appropriate way which:

- Aligns incentives to business objectives in order to support the delivery of Group and Business Unit business plans and strategies.
- Enables the recruitment and retention of high calibre employees and incentivises them to achieve success for their Business Unit and the Group.
- Is consistent with the organisation's risk appetite.

The principles of the remuneration policy, implemented within PIA and UK&EI are:

- Pay for performance.
- Tailored to the relevant market.
- Interest in Prudential shares.
- Business Unit and Group focus.
- Shareholder value creation.
- Fair and transparent system for all.
- Designed to minimise regulatory and operational risk.
- Safeguards to avoid conflicts of interest.

Remuneration architecture
Both fixed and variable remuneration is assessed against market data and internal relativities on an annual basis and balanced so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components and to mitigate unintended consequences and inappropriate behaviours to the detriment of customer outcome.

Variable remuneration available to employees includes short term-incentives (i.e. annual bonus, quarterly sales incentives for sales staff) and long-term incentive plan ("LTIP") awards.

Annual bonus measures include various combinations of UK&E financial and/or strategic targets, Group financial targets, functional targets and individual performance reflecting the level, nature and scope of the role and the practice in the market in which UK&E operates. Currently, annual bonus awards are based on Business Unit and individual performance, and market practice. This allows the Group and Business Units to operate a fully flexible bonus policy, including the possibility of not paying annual bonus based on financial and non-financial criteria.

Awards made under the Group's LTIP plans include Group and Business Unit financial metrics. The LTIP awards to senior executives are made under the Prudential LTIP and include a group target to ensure their remuneration includes a link to the overall results of the group. Senior leadership beyond UK&EI and UK&EI executive committees receive LTIP awards based on Business Unit targets only.

Prudential does not operate supplementary pension or early retirement schemes at Group or Business Unit level.

Governance processes deliver robust oversight of reward, effective management of conflicts of interest and reflect the need to link remuneration decisions with Prudential's risk appetite. The Remuneration Committee is responsible for local implementation of group remuneration policy and structures for all employees of the relevant business to ensure alignment with the Company's business strategy, objectives, values, risk appetite and long-term interests. PIA's Nomination and Remuneration Committee is a management committee under PIA Board dedicated to

implementing the remuneration policy and structures established by the Group Remuneration Committee and providing oversight of remuneration of Business Unit executives.

B.1.5 Transactions with the shareholders

The sole shareholder for PIA is its parent company The Prudential Assurance Company Limited (PAC) and the main transaction which took place during 2016 was a dividend payment of £25 million.

B.2 Fit and proper requirements

The Company operates in line with the Central Bank of Ireland's fitness and probity regime as laid out in the Corporate Governance Requirements and in particular, the Fitness and Probity Standards ("Standards"). For Solvency II the particular focus is on the Solvency II key functions: Compliance, Internal Audit, Risk Management and Actuarial. However, the general Standards apply to all controlled functions ("CFs") and the corresponding pre-approved controlled functions ("PCFs").

B.2.1 Fit and Proper policy

The Company ensures that each relevant individual to whom the policy applies, comply with the following requirements:

- They have an understanding of the regulatory landscape and of the relationship they have with the regulator (fit).
- Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit).
- They are of good repute, financial soundness and integrity (proper).

B.2.2 Fit and Proper process

B.2.2.1 Procedures for New Control Function (CF) Appointments

The PIA process conducted by Compliance includes the CBI requirements to maintain evidence of:

- Compliance with the Minimum Competency Code (MCC), where relevant, including Continuous Professional Development (CPD) requirements.
- Professional qualification(s).
- CPD records.
- Record of interview and application.
- References.
- Record of previous experience.
- Concurrent responsibilities.

The Company has processes for assessing the fitness and propriety of persons covered under its policy, including a number of direct questions and independent checks. These processes are described at a general level below:

- Develop and maintain appropriate processes for assessing the fitness and propriety of persons covered under this policy, including Key Function Performers; this may involve a number of direct questions and independent checks.
- During the recruitment process and before any regulatory application is made, an assessment of the person's fitness is conducted including:
    - The person's professional and formal qualifications.

  - Relevant experience within the insurance sector, other financial sectors or other businesses.
  - Where relevant, the insurance, financial, accounting, actuarial and management skills of the person.
- During the recruitment process and before any regulatory application is made, an assessment of the person's propriety is conducted including integrity, honesty, and financial soundness, based on evidence regarding their character, personal behaviour and business conduct, including any criminal, financial and supervisory checks.
- In relation to outsourced key functions, an individual who is responsible for assessing the fitness and propriety of the service provider is identified.

Independent verification checks which are also conducted include:

- The Individual is not a Disqualified or Restricted Director using the registers.
- No disciplinary action has been taken by a regulatory body in Ireland or the UK.
- The Individual does not appear on an Economic Sanctions list or Watch list.
- No Judgments have been issued against the individual and that the individual has not been declared Bankrupt.

There are annual reviews to assess the on-going Fitness and Probity of the key individuals.

B.2.2.2 Procedures for New Pre-Controlled Function (PCF) Appointments
CBI Approval process for PCFs

Before a regulated financial service provider can appoint a person to a PCF, the Central Bank must have approved the appointment in writing. The Central Bank expects a regulated financial service provider to have conducted its own due diligence before proposing a person for appointment to a PCF.

The approval process requires the submission of a CBI individual questionnaire ("IQ"). The Central Bank expects that the approval process will be based on the IQ, reference checks, and in some cases requests for further information. Where the Central Bank considers it necessary, it may conduct an interview with proposed holders of PCFs before deciding on whether or not to approve an application.

Where a person wishes to apply for several PCFs in different regulated financial service providers, s/he must submit an application for each PCF. Due diligence for the vacant role must still be conducted even if the individual is already a CF holder for another function.

Where it is proposed that a new PCF appointment is made and a candidate chosen, the Head of Compliance must be informed so that an Online Application may be submitted to the CBI for pre-approval. An application to the CBI must be made even where the individual already occupies another CF or PCF role.

PIA Process: As per CF above with the addition of a CBI individual questionnaire ("IQ") application completed and submitted to the CBI for approval.

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

B.3.1 Risk management strategy

Prudential defines "risk" as the uncertainty the company faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the company. As such, material risks will be retained only when this is consistent with the risk appetite framework of PIA and its philosophy towards risk-taking.

PIA's risk governance comprises the organisational structures, reporting relationships, delegation of authority, and roles and responsibilities. These are established to make decisions and control their activities on risk-related matters. Effective risk governance involves individuals, functions and committees involved in the management of risk.

The risk management system comprises the risk principles, strategy, policies, appetite and the risk management cycle. The PIA system of governance is based on the following 6 risk management principles to enable sound and prudent management of the business:

- Organisational Structure: PIA maintains an appropriate and transparent organisational structure with clear allocation of responsibilities and delegated authorities.
- Three Lines of Defence Model: PIA's approach to risk management is consistent with the 'Three lines of defence' model, ensuring appropriate segregation of duties, oversight and challenge occurs on decision making.
- Risk Appetite Statement and limits: The Board maintains and approves risk appetite statements and limits that inform decision making, reflect company's business model and are compatible with Group-wide risk limits with materiality taken in consideration.
- Risk Management Cycle: PIA operates an effective risk management cycle to identify measure, evaluate, respond, monitor and report on risks on an on-going basis.
- Policies and Procedures: PIA has up to date written policies and procedures in place which set out the control framework, and operating standards required to meet internal, legal and regulatory requirements.
- Skills and resources: PIA has processes in place to ensure that adequate and appropriate skills and resources are identified and deployed in respect of risk management.

B.3.1.1 Three lines of defence model

PIA's risk governance is based on the principle of the 'three lines of defence' model of: managing risk, risk oversight and independent assurance. This model distinguishes between responsibility for taking risk, managing risk and ensuring there is appropriate oversight of risk. This structure aims to ensure that there is an integrated approach to risk management with appropriate segregation of duties, authorisation and avoidance of gaps or overlaps in activities.

The model of the Three Lines of Defence is positioned on the following:

- That primary responsibility for risk identification, assessment/measurement, monitoring and management lies with the business;
- That risk assessment includes categorisation, scoring, and quantification of risks where feasible;
- That identification of controls and cost effective mitigating actions are derived and implemented for each risk;

- That risks across all classes are managed within appetite and risks that are above the risk appetite are reported to and challenged or approved by the Risk Committee and the Board as appropriate;

B.3.1.2 Business operations (1st Line of Defence)

The Company's first line of defence is line management. The Managing Director and the PIA Senior Management Team (SMT), together with business line management and employees, are responsible for identifying and managing the risks inherent in PIA's products, activities, processes and systems. This includes responsibility for implementing sufficient and appropriate controls to manage risk across the Company.

The PIA Technical Committee (PIATC), PIA Investment Management Committee (PIAIC), the PIA Senior Management Team (SMT) Committee meeting and the PIA/Capita Joint Management Committee (JMC) form part of the first line of defence.

PIA line management are in charge of internal control policies, standards, procedures, governance and operating limits that manage core processes and risks across the business.

Management information and formal reporting lines are used to enforce, monitor and review the effectiveness of controls throughout the Company. Areas of deficiency and improvement will be identified on an on-going basis to redesign the control activities, making them more effective and efficient in mitigating against identified risks.

Risk assessments and control assessments, including the annual Systems and Controls Assertion is performed by the business. The risk assessment and Systems and Controls review evaluates current risks and existing controls and determines whether additional controls are required. Risk and control assessments are also undertaken where there is a significant change to the risk profile of the business.

B.3.1.3 Risk and compliance function (2nd Line of Defence)

The Company's second line of defence comprises the Chief Risk Officer and the Risk Management Function which includes the Compliance Function, and the PIA Risk Committee. The second line of defence has oversight over all the activities of the business, support and control units, including outsourced activities.

The independent Risk Function, which is under the direct responsibility of the Chief Risk Officer, is charged with oversight, review and supervision of the identification, measurement, management, reporting and monitoring of risk to which PIA is exposed, including ensuring appropriate risk management processes exist to ensure that all key risks are identified, assessed and appropriately managed by the SMT.

Both the Risk Management and Compliance Functions are established at senior management level, have adequate authority and responsibility to fulfil their functions, have a direct reporting line to the Risk Committee and are independent of the line business. The PIA Risk Committee approves and monitors the annual risk management plan and the annual compliance plan, as undertaken by the Risk Management and Compliance Functions respectively.

B.3.1.4 Internal audit arrangements (3rd Line of Defence)

The Company's third line of defence is Internal Audit, as provided by Prudential Group-wide Internal Audit, for independent internal audit assurance on the overall system of risk and

governance control. The third line of defence provides independent assurance to the Audit Committee and the Board. The third line of defence reviews the effectiveness of the first and second lines of defence and makes recommendations for improvement.

Group Wide Internal Audit, through the annual internal audit plan and audit work provides independent assurance on the design, effectiveness and implementation of internal controls, including the activities of the Risk Management and Compliance functions.

The annual internal audit plan is approved and monitored by the PIA Audit Committee. Group Wide Internal Audit reports on a quarterly basis to the PIA Audit Committee.

B.3.2 Systems and controls policies

The Systems and Controls policies reflect the internal control framework for PIA through setting minimum standards and key control activities that support and evidence its operation. Each policy is owned by the Controlled Function holder apportioned responsibility for the activity concerned and self-assessment and attestation of compliance is carried out.

The policies around risk management are documented in the Risk Management Policies. These policies are reviewed annually & approved by the PIA Board. These policies set the standards, roles and responsibilities and supporting procedure documents that apply for managing risks by each risk class. There are also separate policies for Own Risk & Solvency Assessment, stress testing and conduct risk.

In addition to the normal management information produced and reviewed by line management and the functional business areas, monitoring of PIA's risk position against risk appetite is performed by the Risk Function, with reporting to the Risk Committee quarterly. This monitoring is based on relevant management and risk information provided by the business functional areas; Capita; Prudential UK/Group; and also sourced independently by the Risk Function as required. In addition to Risk Function monitoring of PIA's risk appetite, the members of the PIA SMT have functional area responsibility for monitoring relevant risks against the stated risk appetite for their functional areas.

B.3.2.1 Risk appetite and limits

PIA sets its risk appetite in order to assist the business in implementing the strategy and achieving business plan objectives, whilst operating within the realms of the tolerances and limits defined by Board and the risk strategy. The high level components of the risk appetite statement for PIA are indicated below.

Category	Risk appetite
Solvency Levels	To hold a capital buffer sufficient to ensure that PIA's capital position is resilient to the most onerous stresses that are relevant to the business (after allowance for management action).
Capital and earnings management	Target returns on capital in line with pricing frameworks whilst targeting a solvency buffer which enables the business to meet its business and strategic objectives.

Operational Risk	PIA has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational risks. PIA does not actively seek to take operational risk to generate returns. Instead, it accepts a level of risk that means the controls in place should prevent material losses, but should also not excessively restrict business activities.
Conduct Risk	PIA has no appetite for unfair customer outcomes arising from systemic failures in its culture or any element of the customer lifecycle.

B.3.2.2 Risk Culture

The "risk culture" is reflected in the values and behaviours the Company displays when managing risk.

A responsible risk culture is promoted in three main ways:
- by the leadership and behaviours demonstrated by management;
- by building skills and capabilities to support risk management; and
- by including risk management in the performance evaluation of individual;

B.3.3 Risk management processes

B.3.3.1 Risk identification

PIA operate a risk management cycle which involves a process for evaluating risks (assessing), responding to risks (managing) and monitoring the impact of risks through reporting. The risk identification exercise is performed as an annual review; however, as business initiatives or actions can occur over the year, it is continuously reviewed.

The three key steps to identifying risks are:

- a top-down risk review;
- a bottom-up risk process;
- identify any emerging risks to the business;

These risks are assessed over the short to medium-term horizon consistent with the own risk and solvency assessment processes.

Each of these is designed to identify and assess risk from a different perspective to form an overall understanding of the business' risk profile and its evolution.

B.3.3.2 Risk control & mitigation

Risk control is the process of selecting and implementing measures to modify the residual risk once evaluated. These include improving or adding to the internal controls in place, transferring the risk through risk transfer activities (e.g. reinsurance), avoiding risks which contravene company policy or the risk strategy (e.g. political risk), and accepting risks where the cost to control exceeds the potential impact of the risk.

B.3.4 Risk monitoring

B.3.4.1 Own risk and solvency assessment

The Own Risk and Solvency Assessment (ORSA) is a continuous process. An ORSA report is produced annually. It pulls together the analysis performed by a number of risk and capital management processes, and provides quantitative and qualitative assessments of PIA's risk profile, risk management and solvency needs on a forward-looking basis. The scope of the Own Risk and Solvency Assessment Report covers the full known risk universe of PIA including both modelled and non-modelled risks. The ORSA annual report documents information on the key risks for PIA, stress & scenario test results as well as the current strategy. The ORSA looks out over a 3-5 year period to examine the business horizons and requirements for capital in the future.

The PIA ORSA policy & annual report are produced by the PIA CRO with input from the Actuarial Function. The PIA Board took on an integral part of the ORSA preparation and ultimately approved the final ORSA.

B.4 Internal control system

PIA, as part of the Prudential Group, adheres to policies approved at a Group level and to the six principles of internal control as detailed below:

- Management Delegated Authority: PIA is managed in accordance with the authority delegated by the Prudential Plc Board. However, as an Irish domiciled insurance company all decisions are made in Ireland by the Board and the SMT as appropriate.
- Lines of responsibility: Each Business Unit has clearly defined lines of responsibility and delegated authority.
- Appropriate recording: Transactions are appropriately recorded to permit the preparation of reliable financial statements.
- Financial reporting control procedures and systems: The internal control system includes control procedures and systems which are regularly reviewed.
- Financial crime (fraud and money laundering): Financial crime is prevented or detected.
- Risk Management: The risks to which the group is exposed are identified. PIA is required to attest the application of the policies that collectively represent the Group.

B.4.1 Compliance function

The Compliance Function manages the Compliance Policy which applies to all business conducted by PIA. The procedures contained in this Policy are mandatory. This Policy embodies the Prudential Group Compliance Policy.

The purpose of the Compliance Policy is to:

1. Set out the main Irish regulatory obligations to which PIA and members of staff are subject;
2. Describe the high level controls and responsibilities existing within PIA;
3. Set out the relevant compliance policies and procedures adopted within PIA; and
4. Provide guidance to PIA personnel in the application of those policies and procedures to the business which we conduct.
5. Highlight relevant group policies which PIA as a part of Prudential Group is obliged to comply with

B.5 Internal audit function

How the undertaking's internal audit function is implemented:

- As a subsidiary of The Prudential Assurance Company Ltd ("PAC") PIA source its internal audit function through the Prudential UK Business unit (UK&EI).
- Any audit work in respect of the PIA Business is reported through the PIA Audit Committee ("PIAAC").
- The work of Group-wide Internal Audit ("GwIA") is part of the overall Internal Control Framework of the Prudential Group in that it operates as a 'third-line of defence' in providing independent and objective internal control assurance.
- GwIA's primary objective is to assist the Group Board, Group Executive Committee ("GEC"), Group Audit Committee ("GAC") and Group Risk Committee in protecting the assets, reputation and sustainability of the organisation through the assessment and reporting of the overall effectiveness of risk management, control and governance processes across the Group; and by appropriately challenging Executive Management to improve the effectiveness of those processes.
- The Head of Audit (PCF13) for PIA reports to the UK&EI Audit Director whose primary reporting line is to the GwIA Director, with a secondary administrative reporting line to the CEO for Prudential UK&E, Insurance (ICEO) and with direct access to the Chair of the UK&EI Business Audit Committee (BAC), as required. The global GwIA function also has a Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and GwIA's own standards and methodology. Internal audit resources, plans, budgets and its work are overseen by both the GAC (at a Group level) and the Board Audit Committee (BAC).
- GwIA activity is not restricted in scope in any way and is empowered by the GAC to audit all parts of the Prudential Group and has full access to any of the organisation's records, physical properties and personnel. All employees are requested to assist GwIA in fulfilling its roles and responsibilities.
- The Head of Audit submits an annual audit plan to the PIAAC for review and approval; this forms part of the GwIA UK&E audit plan which is approved by the BAC. The audit plan is also agreed with the Group Audit Committee. The annual GwIA audit plan is based on prioritisation of the identified 'audit universe' using an 'audit needs' risk-based methodology, incorporating input from Group and BU stakeholders and is subject to ongoing review.
- GwIA adheres to the Institute of Internal Auditors ("IIA") requirements as set out in the IIA's 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing', and the Chartered Institute of Internal Auditor's ("CIIA") revised guidance, 'Effective Internal Audit in the Financial Services Sector' (CIIA Code).
- GwIA adheres to the requirements for internal audit functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271.

How the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews

By way of the structures explained above, GwIA maintains its independence and objectivity in the discharge of its responsibilities and has appropriate reporting lines in place to support this goal.

- The Head of Audit (PCF13) for PIA reports to the UK&EI Audit Director who is accountable to the BAC. For administrative purposes (excluding strictly all audit related matters) the UK&EI Audit Director is a direct report of the ICEO. The Head of Audit for PIA has no reporting lines to PIA Management and has direct access to the Chair of the PIAAC.

- The Head of Audit for PIA reports all audit related matters to the PIAAC and communicates directly with the PIAAC through attendance at its meetings.
- The Head of Audit for PIA, in consultation with the PIA Managing Director, is empowered to attend and observe all or part of the PIA board meetings and any other key management decision making committees and activities as appropriate.
- In accordance with the GwIA Charter, UK&EI has an internal audit team, led by the UK&EI Audit Director who reports to the GwIA Director as functional head, with direct access to the Chair of the BAC. The UK&EI Audit Director will consider the independence, objectivity and tenure of the Head of Audit for PIA when performing his appraisal.
- The function also has an autonomous Quality Assurance Director, whose primary role is to monitor and evaluate adherence to industry practice guidelines and GwIA's own standards and methodology.
- The assessment of the adequacy and effectiveness of the Risk Management, Compliance and Finance functions is within the scope of GwIA and as such GwIA is independent of these functions and is neither responsible for, nor part of, them.
- GwIA staff are expected to exhibit the highest level of professional objectivity in carrying out their duties; must make a balanced assessment of all relevant circumstances; remain impartial; and seek to avoid any professional or personal conflict of interest.
- GwIA has a Conflicts of Interest Policy. Potential conflicts are recorded and monitored by the GwIA Quality Assurance Director, including a quarterly review of reported conflicts to assess appropriate management oversight. Where deemed necessary, the Quality Assurance team will review audits where a potential conflict has been identified to ensure conformance with GwIA policy.

B.6 Actuarial function

Within PIA, the Actuarial Function is defined as the Head of Actuarial Function (HoAF) and individuals within the actuarial team who are responsible for carrying out the tasks of the Actuarial Function. The role of the HoAF is a CBI PCF role and has responsibility for all of the activities of the Actuarial Function.

The need for, and the scope of, the Actuarial Function is defined in Article 48 of the Solvency II Directive. This sets out the tasks for which the Actuarial Function is responsible. The responsibilities of the HoAF and the Actuarial Function, include, but are not limited to, the following key activities:

Valuation of Technical Provisions

The Actuarial Function proposes the valuation methodology and assumptions and calculates the technical provisions. The HoAF reviews the valuation methodology and assumptions, the models and data used in the calculation of the technical provisions and the technical provisions and advises the PIA Board accordingly. The reports to the Board constitute component reports of the overall Actuarial Function Report.

Underwriting policy

The HoAF reviews and advises on all aspects of the underwriting policy on an ongoing basis. In addition, she carries out an annual review of specific aspects of the policy. The HoAF provides an annual report to the Board expressing an opinion on the underwriting policy, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Reinsurance arrangements
The HoAF reviews and advises on all aspects of the reinsurance arrangements on an ongoing basis. In addition, she carries out an annual review of specific aspects of the reinsurance policy. The HoAF provides an annual report to the Board expressing an opinion on the adequacy of the reinsurance arrangements, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Capital requirements
The Actuarial Function proposes the valuation methodology and assumptions, and calculates the SCR. The HoAF reviews the valuation methodology and assumptions and the SCR and advises the Board(s) accordingly. The HoAF works closely with the CRO and the Board to agree the ORSA scenarios and produce the projections and associated commentary for the ORSA.

Actuarial Function Report
The Actuarial Function provides a written report at least annually to the Board to document the tasks that have been undertaken by the Actuarial Function and their results, to identify any deficiencies and provide recommendations as to how such deficiencies should be remedied. This report summarises the tasks described above and highlights the key areas of focus following the Actuarial Function's activities each year.

B.7 Outsourcing

PIA has three material outsourcing arrangements in place, one with Capita Life and Pensions Services, Ireland (CLPSI) and the other two with Prudential Distribution Limited (PDL) & Prudential Portfolio Management Group Ltd (PPMG).

B.7.1 Outsourcing policy

PIA proactively engages, assesses and manages all outsourcing and third party contractual relationships and ensures that they comply with all regulatory requirements. Prudential UK&E requires the same standard of systems and controls to be operated within outsourced or third party operations as would be required within internal operations.

It is the policy of PIA to comply with the following obligations in respect of outsourcing and supply arrangement:

- An appropriate selection and due diligence process is in place.
- An appropriate contract is in place that contains adequate commercial protection, protects the Prudential brand and provides termination and exit provisions as required.
- All applicable regulatory requirements are met.
- The relevant approvals procedure is adhered to.
- The Group Code of Business Conduct is adhered to.
- Outsourcing and third party supply arrangements are defined as either critical or non-critical in accordance with the principles defined in the relevant Prudential Group policy.

When considering a material / critical outsourcing proposition PIA must:

- Prepare a business case for doing so, highlighting the advantages and disadvantages, including a cost-benefit analysis and summarising the evaluation process to be followed;
- Identify one or more alternative providers of service, to ensure that a contingency arrangement can be put in place;

- Retain, through suitably competent personnel with relevant operational expertise, a sufficient oversight capability to manage the relationship with the service provider.

Where any material business activity or function is being considered for outsourcing it is essential to ensure that the relevant regulators can be informed at the appropriate time.

An operational risk assessment must be carried out that identifies the element of the business process being outsourced and rigorously identifies the threats or risks involved.

The business or support unit engaging in an outsourcing arrangement should have a clearly defined contingency plan to enable it to exit from an outsourcing arrangement in a timely and orderly fashion.

The policy covers PIA's responsibilities to manage and monitor the outsourcer. This includes the designation of an appropriate individual who is responsible for the day to day management of the outsourced arrangements.

PIA adopts an appropriate system of governance, tailored to the scale and complexity of the outsource company. This includes ensuring clear allocation of roles and responsibilities for outsourcing and third party supply contracts across the three lines of defence.

For all critical outsourcing and third party supply arrangements, PIA will:

- Ensure appropriate committees, have responsibility for the oversight of critical outsourcing and third party supply arrangements.
- Ensure that critical outsourcing and third party supply arrangements are approved by those with appropriate authority, and in line with the Group Approval Limits.

PIA is required to notify the Central Bank of Ireland, in writing, of its critical function outsourcing arrangements, as soon as is practicably possible and of any significant change to the outsource arrangement.

B.7.2 Outsourced operations and functions

Material outsourcers engaged and relied upon by PIA:

Outsourcer	Critical / Important Function	Jurisdiction of Supplier
CLPSI	Outsourced administration - customer servicing, policy administration, new business processing, claims activity and related IT support services.	Ireland and UK
Prudential Distribution Limited	Sales and marketing services; Risk; Audit; Infrastructure services and associated security/operational monitoring services.	UK
Prudential Portfolio Management Group Ltd	Portfolio management services - investment and trade execution under mandate.	UK

B.8 Any other information

The management framework and internal control system are critical components of the ORSA, and it is important that the system is working effectively to allow the Company to identify, understand and manage risks which could impact the capital and liquidity position.

An annual review of the effectiveness is carried out and presented to the Risk Committee (usually in March). As a result of this review we can confirm that the PIA governance framework is in place to ensure:

- that the governance structures are appropriate to the scale and nature of the Company's business;
- that all policies and procedures are in place and adequately documented;
- that the appropriate segregation of duties and responsibilities are clearly defined;
- that there is an effective operation of the Prudential Group's system of internal controls;
- that reporting and disclosure requirements to satisfy regulatory and corporate governance requirements are in place;

The overall system of governance is an adequate structure to support the Company's business and is appropriately reported to the PIA Board.

C. Risk Profile

PIA seeks to generate positive shareholder value through managed acceptance of risk and by taking on selected risks for which it is appropriately compensated, in line with PIA's strategy and agreed business plan, capital and solvency position for the business.

PIA has appetite for risks that are in line with the achievement of its strategy and delivery of its business plan, but has limited appetite for unrewarded risks and for risks that are inconsistent with its strategic objectives and business plan.

The company's risk appetite is determined based on its strategic risk profile, risk appetite statement and quantitative supporting risk metrics (capital requirements, solvency levels, earnings and liquidity objectives). PIA seeks to avoid risks for which the business does not have an accepted tolerance. It also seeks to manage and appropriately mitigate, in a cost effective manner, risk exposures for which it may not be directly compensated.

The following section provides an overview of PIA's risk profile along with details of its Solvency Capital Requirement (SCR) by risk category.

Sections C.1 to C.6 give more detailed information on PIA's risk exposures, along with management and mitigation techniques. Section C.7 outlines risk sensitivities, PIA's compliance with the prudent person principle, future management actions and other financial mitigation techniques.

Overview
Prudential Group defines and categorises the key risks to Prudential Group and its subsidiaries (of which PIA is one) in its Risk Framework. It also defines risk appetite ranges and limits for each key risk at both the parent and local entity level. PIA then defines risk policies that include risk appetite and limits that are compatible with those set by Prudential Group. These policies also support the control and management of risks at a risk category level (underwriting, market, credit, liquidity, operational, other). The approach to each risk category is discussed in sections C.1 to C.6.

Risk Profile
PIA assesses its risk profile using its Solvency II capital requirement, an approach that is widely used in industry. The Solvency Capital Requirement (SCR) determines the amount of capital needed to withstand a 1-in-200 year risk event over a one year time horizon. It is calculated individually for each risk category, reflecting a 1-in-200 year event for each risk, and subsequently aggregated such that it reflects the stress to each of those risks as would be expected to occur in a 1-in-200 year event for the entity. The SCR is shown net of risk mitigation actions, for example reinsurance.

PIA's year-end SCR by risk category is shown in the table below for both 2015 and 2016. It was calculated using the company's internal model. This is in line with industry practice where entities have developed an internal model. PIA's material risks are equity, credit, expense and lapse, which is consistent with the fact that PIA's main lines of business are insurance with profit participation and unit-linked insurance.

Risk Category Undiversified	2016 £m	2015 £m
Market Risk	**151**	**83**
Equity	82	42
Property	12	6
Interest Rate	21	18
Credit incl. Counterparty	17	11
Currency	19	6
Underwriting Risk	**158**	**117**
Expense	52	40
Lapse (all)	92	60
Mortality & Morbidity	14	17
Operational Risk	**14**	**9**
Loss absorbing capacity of deferred tax	**-17**	**-9**
Other Adjustments	**-25**	**-8**
SUM OF SCR by RISK	**281**	**192**
Diversification	**-172**	**-129**
SCR (diversified across all risks)	**109**	**63**

Each line reflects the capital required for each risk when quantified in isolation. If all of these risk events happened simultaneously, the impact would be different. This is reflected in the line item “Other Adjustments”, and is also referred to as “Interaction effects”. As these events result in the loss of value (future profits) to the company, there is a reduction in the associated deferred tax liability. The item “Loss absorbing capacity of deferred tax” reflects the extent of this for PIA. The total of these items is reflected in the row “Sum of SCR by Risk”.

The row “SCR (Diversified across all Risks”) reflects a 1-in-200 year event for the Company. The item “Diversification” reflects the extent to which this is less than the sum of SCR by Risk.

PIA is exposed to other material risks that are not covered as part of its internal capital model. These risks include those associated with liquidity, the business environment, the conduct of business, being part of a larger Group and the strategy that the company is pursuing, and are covered in section C.6.

C.1 Underwriting Risk

C.1.1 Context

PIA defines Insurance risk as: “the risk of loss to PIA, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. These include adverse mortality, morbidity, persistency and expense experience.”

Lapse risk is the risk that actual lapse rates differ from their expected level allowed for in calculating the best estimate liabilities. This risk may result in a cost for the company, for example, a reduction in fund charges arising from the business.

Expense risk is one of PIA's significant risks and arises when actual expenses differ to the assumed level of the expenses and investment management fees. As PIA sells mostly unit-linked products, one of its key challenges is to ensure that the cost of administering the business does not increase to such an extent that it affects the profitability and solvency of the company. Expense risk also covers the risk of inflation in expenses.

The other underwriting risks faced by PIA are mortality and morbidity. PIA does not have a large exposure to these risk due to the nature of the products it sells.

C.1.2 Risk strategy and objectives

PIA has appetite for underwriting risks in areas where it is value-adding to do so. The strategy is to selectively take risks though the writing of life insurance products. Risks are only accepted where they are within the company's target capital and solvency positions and within the Prudential Group-wide risk appetite framework. PIA will only retain those underwriting risks where the value added to the company is expected to be larger as a result of retaining the risks rather than transferring them.

PIA accepts lapse risk only when it is value-adding to do so. Strong controls related to policyholder servicing, experience and behaviour monitoring also need to be in place, along with stress testing and validation of assumptions before PIA accepts lapse risk.

PIA accepts expense risk as it is an unavoidable risk associated with running its business. The expense strategy is to manage carefully expenses while ensuring that the company has sufficient resources to run its business and achieve its business objectives.

PIA accepts morbidity and mortality risks with strong controls in place to cover claims management, experience monitoring, stress testing, and validation of assumptions.

C.1.3 Risk management

PIA measures and assesses its exposure to underwriting risks using metrics which were agreed by the Board and which are compatible with PIA Group's risk appetite. The company considers various items to determine its insurance risk mitigation and management strategy; these include correlation with other risks, cost effectiveness, credit standing of relevant counterparties (if applicable).

PIA sets assumptions for underwriting risk based on its own experience and its understanding of each risk. The company performs experience studies, where actual experience is analysed and compared with expected experience, on an annual basis on its most important risks. Appropriate actions are taken in the event of deviations in experience from pricing or reserving assumptions.

Reinsurance is used to manage insurance risks when it is desirable or cost effective to reduce exposure to a particular risk. PIA has a reinsurance limit framework to limit the exposure to a single external reinsurer.

C.1.3.1 Lapse risk

PIA monitors lapse experience on an ongoing basis and, when necessary, makes changes to product design and/or undertakes policy retention initiatives. Lapse experience studies are conducted annually and are split by homogeneous risk groups.

C.1.3.2 Expense risk

PIA monitors its expenses on an ongoing basis and sets its assumptions based on historical and projected future expenses. Management takes appropriate actions when expenses are higher than expected. These include new business initiatives, new product launches and strategies to reduce or spread costs.

PIA also monitors its expense inflation risk and its policy count. Expense inflation is set relative to expected Eurozone and sterling inflation.

Additionally as part of its business planning it stress tests the expected level of expenses to ensure that it has sufficient capital to meet its cost, even under stressed scenarios.

C.2 Market risk

C.2.1 Context

Market risk is defined as the risk of adverse changes in PIA's financial position resulting from changes in the market value of policyholder and shareholder assets. Market risk drivers include equity, property interest rates and currency.

Due to the nature of PIA's business it is exposed to market risk through two sources:

i. Indirect exposure through fees earned: The management fees earned by PIA depend on the value of policyholder assets under management. Therefore for PIA's unit-linked and with profits funds (as a fund link), there is a risk that adverse movements in the value of assets in which policyholders are invested results in a reduction in the level of management fees earned by PIA.
ii. Direct exposure through shareholder's investments: PIA faces the risk of adverse movements in the value of the assets in which PIA's shareholder funds are invested. These funds, which are used to meet capital requirements and provide the company with working capital, are invested in accordance with the Investment Policy Statement.

The key market risk faced by PIA is equity risk, which relates to adverse movements in the management fees earned on its business, as outlined in point (i) above.

PIA also identifies market risk as the risk that policyholder assets are invested in a manner that is contrary to the reasonable expectations of policyholders given the stated fund objectives. For the purpose of this report, this is deemed an operational risk and is described in further detail in section C.5.1.5.

C.2.2 Risk strategy and objectives

PIA's appetite for market risk (including equity, interest, currency and property) is to retain market risk only to the extent that it arises from profit-generating insurance activities, remains part of a balanced portfolio of sources of income for shareholders, and that it is compatible with a robust solvency position.

C.2.3 Risk management

PIA accepts the risk of reduced management fee income on policyholder assets as a result of adverse movements in policyholder funds under management, which is exposure (i) outlined in section C.2.1. PIA's view is that it is more value-creating to retain this risk than to hedge it. This direct market risk is partially offset by a reinsurance agreement on the with profits block of policies; however there is still significant market risk on the unit-linked piece.
For market risk associated with shareholder funds, item (ii) in section C.2.1, PIA does not intend to take any undue risk in the investment of its shareholder assets. Should any long dated (non-insurance) liabilities arise, then duration matched Government Bond assets will be purchased to match the liability. The remainder of shareholder assets will be held in short dated cash, near cash instruments or government bonds. Where a manager is appointed to run any cash portfolios, the Investment Committee will ensure there is a clear mandate for the handling of such monies, which ensures that cash is placed with good quality counterparties, and that there is a suitable spread of such counterparties. The Investment Committee will investigate any deviations from the approved mandate.

C.3 Credit risk

C.3.1 Context

PIA defines credit risk as the risk of loss or adverse change in the financial situation of the insurer resulting from fluctuations in the credit standing of securities issuers, counterparties and any debtors. This risk category includes counterparty default risk, downgrade risk, spread widening or other changes to the portfolio such as changes in the rating or in market risk concentrations that could have a financial impact to which PIA is exposed.

Credit risk in PIA is split into two categories:

- **Corporate credit risk** – The risk of adverse deviations in the market value of risky assets (such as corporate bonds, mortgage loans and consumer loans), as a result of, default, downgrade and/or spread widening.
- **Counterparty risk** – Risk of loss arising from any other credit exposure such as reinsurance contracts, derivative transactions and cash management.

C.3.2 Risk strategy and objectives

PIA's appetite for credit risk (including credit counterparty, credit concentration and sovereign credit risk) is to retain credit risk only to the extent that it remains part of a balanced portfolio of sources of income and that it is compatible with a robust solvency position. The company has defined limits for reinsurance, shareholder funds investment, policyholder fund investment and lending to companies that are part of Prudential Group. These limits are defined by Prudential Group and are adopted and monitored by PIA.

C.3.3 Risk management

Credit risk is managed by applying exposure limits to counterparties on both policyholder and shareholder funds. The Prudential Group group-wide Large Risk Approvals Process (LRAP) specifies exposure limits to corporate and sovereign debt issuers and counterparty exposures to banks, reinsurers and for derivatives. The LRAP applies to both shareholder and policyholder exposures and it controls exposures to credit risk by the application of portfolio minimum credit quality and asset concentration limits. There are no limits for internal PAC counterparties but there are for external ones.

The Global Counterparty Limits Framework (GCLF) controls the Group's exposures to the most significant counterparties and applies to asset classes such as cash, secured lending, derivatives and reinsurance. The group-wide aggregate limits apply to counterparties from the shareholder funds only, policyholder funds are not included.

Within PIA management information on credit risk exposures is reported to the PIA Risk Committee. This includes reporting against both the PIA internal management limits (as set out in the risk appetite statement) and the limits and triggers set by Group (as set out in the LRAP and GCLF).

The sections below outline specific management and mitigation techniques used by PIA on the key areas of credit risk it is currently exposed to.

C.3.3.1 Investment credit risk

PIA employs different risk management techniques for investments of shareholder funds and policyholder funds where PIA manages the assets directly. These policyholder funds are invested in structured products.

Credit risk on shareholder funds arises from bank failure or government insolvency and/or default. It is managed through appropriate diversification and monitoring of credit rating updates and other market information. Investments are made according to the PIA Investment Policy, which is set in line with the risk appetite set out for credit risk exposure and is reviewed annually. Deposits are placed in various banks with higher proportions permitted in higher rated banks. PIA monitors its relevant exposures and their ratings on an ongoing basis, and produces reports outlining changes required if necessary.

PIA has limited appetite for credit risk for direct management of policyholder assets in the offerings of PIA deposit funds. PIA monitors credit risk exposure on these funds, for example ratings of bank counterparties and their financial conditions, and also produces quarterly reports on the exposures.

C.3.3.2 Counterparty risk

PIA purchases reinsurance from internal and external insurers. The company sets minimum approved credit ratings for reinsurers from whom it can purchase reinsurance; these ratings are assessed when reinsurance contracts are signed or renewed and are monitored on an ongoing basis. The company also sets maximum counterparty exposure to any third party external reinsurer it is involved with.

PIA monitors and reports on its relevant exposures and their ratings on a monthly basis. If a reinsurer's rating falls below the approved credit rating limit, a report is prepared for the senior management team and the Risk Committee. This report will outline the reason behind the fall, the steps to manage any required change in the strategic role of the reinsurer and the credit rating outlook. The senior management team and Risk Committee will then decide on a course of action (if required).

C.4 Liquidity risk

C.4.1 Context

Liquidity risk is defined as the risk of PIA being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.

PIA currently classifies liquidity risk in three categories, namely:

- **Tactical liquidity** – Risk of having negative cumulative cash flows over a short-term horizon. This includes intra-day liquidity shortfalls in business as usual situations;
- **Structural liquidity** – Risk of having a liquidity shortfall due to a mismatch between assets and liabilities;
- **Contingency liquidity** – Risk that stress scenarios significantly alter the tactical or structural liquidity profile, which could lead to a potential shortfall in cash requirements and associated risks;

PIA carries liquidity risk to the extent that the company needs to match outgoing cash flows with incoming cash flows and/or asset liquidations. Liquidity can be affected by an increase in policyholder lapse/redemption rates which may be combined with a reduction in new business and/or asset stresses.

PIA's liquidity risk is considered to be relatively low because of the nature of the operating model.

C.4.2 Risk strategy and objectives

PIA has very limited appetite for liquidity cash flow mismatch risk and no appetite for a breach in the liquidity coverage ratio. The Company seeks to ensure clients' claims and other liabilities can be covered at all times.

When formulating its liquidity risk strategy, PIA also considers the following items:

- Scope of business activities;
- intra-group arrangements;
- correlation between liquidity risk and other risk classes;
- financial management and control procedures between liquidity and cash flows;
- monitoring of liquidity risk (using Key Risk Indicators (KRIs) and Key Control Indicators (KCIs));

PIA's approach to managing liquidity risk is outlined in its Liquidity Risk Management Policy, a document reviewed annually by the Risk Committee and the board members.

C.4.3 Risk management

Liquidity risk is monitored and managed by PIA Finance; the PIA Finance Director is the owner of the Liquidity Risk Management Policy. PIA manages its liquidity risk in a comprehensive way by identifying, assessing, measuring, monitoring and managing this risk in accordance with the liquidity risk appetite.

PIA manages its liquidity risk by having cash flow management procedures in place to ensure the company always maintains an appropriate margin of liquid assets in consideration of its ongoing and planned cash requirements. Liquidity risk is managed on both a short and long-term basis. Liquidity risk appetite is defined using the Liquidity Coverage Ratio (LCR), which is used to monitor the amount of liquidity risk PIA wishes to be exposed to under stressed conditions.

Liquidity risk is managed slightly differently between PIA's two material lines of business, with profits funds and unit-linked funds. The approach adopted for each line of business is detailed in the sections below. In 2016, liquidity sources remained sufficient to meet financial obligations as they fell due both under the base and stressed scenarios.

C.4.3.1 With Profits funds

Liquidity risk for with profits funds is the risk that policies surrender and claims cannot be paid in a timely manner, consistent with the terms and conditions of such policies which is particularly exacerbated through the guarantees and options offered on such funds. PIA mitigates this risk through the reassurance contract it has in place with Prudential Assurance Company (PAC) in respect of both the unit-linked and guarantees and options components of its with profits funds. Consequently, PIA's liquidity risk is a function of the delay between the net income, outgo it pays to the policyholder and the net income, outgo it pays and receives from PAC. Liquidity risk for this product is managed in a similar way as unit-linked funds which is outlined in the following section.

C.4.3.2 Unit-linked funds

Liquidity risk for unit-linked funds is seen as the risk that policy surrenders and claims cannot be paid in a timely manner, consistent with the terms and conditions of the policy.

Management of liquidity risk for unit-linked funds is performed by investing in liquid markets for most funds and setting a low materiality limit for which detailed liquidity analysis is not required when deciding investment strategy. This allows PIA to rapidly identify potential investments that could present a liquidity threat. Funds invested in illiquid assets have deferral clauses which include a provision for deferral of six months or longer, which allows the company to gather the appropriate funds when needed and pay its financial obligations.

C.5 Operational risk

C.5.1 Context

Operational risk is defined as the risk of loss or adverse changes in the company's financial situation arising from inadequate/failed internal processes, personnel, systems or external events. Operational risk may result in financial losses, unavailability of services, information deficiencies or losses and damage to brand, image and reputation.

PIA is exposed to operational risk through the course of running its business and is dependent on the successful processing of a large number of complex transactions, using various IT applications and platforms across numerous and diverse products. PIA operates under the evolving requirements of different regulatory and legal regimes and uses a significant number of third parties to support its business operations.

Operational risk is unlike other risk types in that it does not offer any potential reward; rather, it is a risk that has to be tolerated for PIA to pursue its strategic objectives. PIA accepts that there are losses arising from errors and ineffective operations across people, processes and systems. PIA actively manages its operational risk exposures in line with its risk appetite policy to ensure the benefits it receives are not disproportionately impacted by operational losses. PIA recognises operational risk as an unavoidable reality of writing business.

PIA considers its key operational risks to be key person dependencies, legislative, fiscal and regulatory compliance, outsourcing management, business plans and fund investment. These are described in further details in the sub-sections below.

C.5.1.1 Key man risk

PIA is a small company, hence it has key man risk due to the accumulation of knowledge and experience in individuals.

C.5.1.2 Legislation and regulation

A change in legal, regulatory or fiscal requirements may force PIA to withdraw from a particular market or may adversely affect sales volumes or persistency. This may result in a negative impact on profits, reputation and brand, and may affect both existing business and new business plans.

C.5.1.3 Outsourcing

PIA has an outsourcing arrangement with a third party administrator. There is a risk that this third party does not maintain the standard of work nor prioritise the work it carries out on behalf of PIA. This may result in poor level of service provided to customers, which may impact negatively both the existing and new business.

C.5.1.4 Business plan

Operational risk will potentially increase as a result of PIA's strategic developments.

C.5.1.5 Fund investment

PIA is exposed to the operational risk arising from funds that are not managed in line with their stated fund objective.

C.5.2 Risk strategy and objectives

PIA does not actively seek to take on operational risk to generate returns. However, PIA accepts that operational risk arises as a consequence of its business operations and accepts a level of risk such that controls in place should prevent material losses while not excessively restricting business activity. Thus PIA has no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational risk. PIA's approach is outlined in its Operational Risk Management Policy, a document reviewed annually by the Risk Committee and the board members.

Operational risk related to fund managers and investment of assets is dealt with in the Investment Policy Statement, which is reviewed on an annual basis by the Investment Committee.

C.5.3 Risk management

As a key element of PIA's overall risk and governance framework, PIA performs risk identification, assessment, monitoring and reporting to ensure that the overall management of operational risk is within appetite and is consistent with PIA's strategic objectives. Its approach includes a Risk and Control Assessment (RCA) process which incorporates the use of a risk register, scenario analysis for quantification purposes, key risk indicators and control indicators. This process is performed on a quarterly basis. The approach is designed to capture the operational risks associated with its entire operational activities and internal processes together with the IT systems supporting its activities.

PIA recognises that operational risk is unavoidable when doing business. It continually seeks ways to minimise the exposure to this risk in a cost effective manner. PIA accepts a level of risk such that controls in place should prevent excessive loss whilst not restricting business activity.

The following sections outline PIA's operational risk management and mitigating actions for each of its key operational risks.

C.5.3.1 Key man risk management

PIA has increased its level of documentation and sharing of knowledge between team members will help reduce the level of key man risk. This will help mitigating the severity of key man risk if a team member quits the team. PIA also has succession plans in place for key roles.

C.5.3.2 Legislation and regulation management

PIA aims to reduce this risk through:

- Carrying out due diligence prior to market entry;
- Seeking operations in more than one market, which provides diversification benefits;
- Monitoring legislative, regulatory and fiscal rule changes on an ongoing basis;

As part of any product development, PIA seeks legal advice on the change to products and their terms and conditions to ensure that they meet local regulatory requirements.

C.5.3.3 Outsourcing risk management

PIA has a service level agreement (SLA) in place for any outsourcing arrangement with a third party, which outlines the scope and responsibilities of both parties. To minimise any risk arising from this agreement, PIA continuously monitors third party performance through regular governance meetings across the business areas, regular reporting standards and key performance and risk indicators.

C.5.3.4 Business plan risk management

PIA has developed new processes and increased the level of documentation on each of these processes to mitigate operational risk caused by new strategic initiatives. This approach is widely seen in practice and has proven effective in the past.

C.5.3.5 Fund investment

Management and mitigating actions for this risk are outlined in the Investment Policy Statement (IPS). The company has different strategies for its with profit and its unit-linked funds.

The company has with profits funds but all the unit-linked elements of these funds, along with all options and guarantees, are reinsured to its parent company. Day-to-day oversight and control of the underlying investment portfolios is therefore undertaken by the parent to ensure they remain “true to type”. The rest of this section therefore relates to the risk management of unit-linked funds. For each unit-linked fund, the Investment Committee (IC) is responsible for ensuring that there is a clear and appropriate stated objective and that this objective has been communicated to policyholders. Fund objectives may be changed but can only be done consistently with both COBS 21[1] and the internal principles and practices of linked fund management. The investment committee has delegated the maintenance of investment objectives (including fund names and risk grading) to the Risk Rating Committee (RRC).

The IC reviews the fund mandate to ensure the benchmark, the performance objective and the guidelines are still appropriate and consistent with the objectives of the unit-linked fund. The performance of each fund is also measured against a benchmark on a quarterly basis to ensure returns are in line with expectations and are not unexpectedly high or low. PIA’s approach is very detailed and management actions are clearly outlined in the investment policy if a fund’s performance falls outside the expected thresholds.

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[1] https://fshandbook.info/FS/html/handbook/COBS/21

C.6 Other material risks

PIA faces other risks that are described below. Some of these are included in the Group Risk Framework, but not specifically modelled in the company's internal capital model.

Business environment risk is the risk that can arise as a result of changing external factors in the business environment in which PIA operates. These are considered under three sub categories: economic, social and technology; market forces; and political, statutory, legal and regulatory. Capital is not specifically held to account for business environment risk although the impacts are considered when modelling forward looking capital requirements for the main risk types. This risk is assessed as part of the operational risk process.

Conduct risk is the risk that can arise from the approach taken to the customer relationship. It is not a separate category of risk, but a different way of assessing the impact from a customer perspective. It primarily arises on the operational risk categories under the Group Risk Framework. Separate risk appetite statements apply to conduct risk.

Group risk is the risk associated with being part of a group, particularly as a result of contagion. Operational and counterparty default risks arising from group interactions are considered and reflected in the model when they are material. Capital is not held for reputational damage that can arise from other group activities. Reputational damage is considered as an indirect impact in the operational risk process.

Strategic risk is the risk that can arise as a result of ineffective or inadequate business strategy decisions in relation to competitors, consumers and the market. These risks are inherent in the UK and Europe (UK&E)'s chosen strategy and the environment in which it operates. It primarily impacts future earning potential and capital is not specifically held for this risk as it is not deemed material. The risks are identified through the business planning process and are managed by operating in various markets.

C.7 Other information

C.7.1 Risk sensitivities

PIA's solvency cover ratio is most sensitive to:

(a) Changes in expense levels (renewal expenses, investment expenses, etc.);
(b) Changes in the persistency of the business;
(c) Significant market changes that result in changes in the value of policyholder funds;
(d) Significant movements in foreign exchange rates between Euro and GBP;

Stress testing is performed on an annual basis and is an important tool in managing the business.

C.7.2 Prudent person principle

Under Solvency II, the 'prudent person principle' describes the approach to investment management and, in particular, emphasises the need for firms to exercise prudence in relation to the acquisition and holding of assets and to ensure that assets are appropriate to the nature and duration of the liability.

The Company's product offering includes internal unit-linked funds and externally managed funds. The Company outsources internal unit-linked investment management to PPMG which is governed by a common Group-wide Governance framework which provides oversight of financing and

investment activities across the Group. It is designed to provide general, prudent and principle-based guidance for both shareholder-backed business and policyholder business. The Group Risk Framework covers all aspects of risk management across the Group and includes minimum standards, controls and requirements for risk management across all Business Units. This Framework is supported by further documents including specific policies that cover Credit, Market, Insurance, Liquidity, Operational and Investment Risk. Accompanying these are a number of Group-wide Operating Standards and other documents including the Group Approved Limits that specify limits on individual credit and counterparty exposures, average credit quality and amount of market risk taken across the Group.

The Company Investment Policy sets out the framework for management and oversight of investment performance and investment related risk including externally managed funds. The Company mitigates material risk by matching policyholder liabilities with the relevant assets.

C.7.3 Management Actions and other Financial Mitigation Techniques Included in the SCR

PIA does not assume or model any management actions or other financial mitigation techniques in the SCR.

D. Valuation for Solvency Purposes

D.1 Valuation of assets

D.1.1 Introduction

The 2016 balance sheet under both statutory accounts value (FRS 101) and Solvency II value bases is summarised in the table below:

	Statutory accounts £m	Presentation differences (note a) £m	Other (note b) £m	Solvency II £m
Assets				
Deferred acquisition costs	31		(31)	0
Investments-other than participations	103	0. 4		103
Assets held for index-linked and unit-linked contracts	1,659	-8		1,650
Reinsurance recoverable	3,778		160	3,938
Cash and cash equivalents	42			42
Other[(1)]	8	3		11
Total assets	**5,621**	**-5**	**129**	**5,744**
Liabilities				
s	5,456	-6	-4	5,445
Best estimate liability	-			5,414
Risk margin	-			31
Other liabilities				
Deferred tax liabilities	-		16	16
Other[(2)]	77	1		78
Total liabilities	**5,533**	**-5**	**12**	**5,539**
Excess of assets over liabilities	**88**	**0**	**117**	**205**

[1] Other assets includes Insurance and intermediary receivables, Reinsurance receivables, Receivables (trade, not insurance) and Other assets.

[2] Other liabilities includes Provisions other than technical provisions, Insurance and intermediaries payable, Reinsurance payables and Payables (trade, not insurance).

Notes:

(a) Presentation differences represent movements between line items with no overall impact on excess of assets over liabilities. The main item relates to assets held by the unit-linked funds

which are presented together in a single line on the statutory accounts balance sheet rather than within each individual asset/liability category.

(b) Other valuation differences represent the key changes to excess of assets over liabilities between statutory reporting (IFRS) and Solvency II. These are analysed within the reconciliation set out within Section E.1.5.

D.1.2 Valuation of assets

D.1.2.1 Determination of fair value

Within the Solvency II balance sheet, assets are valued using valuation methods that are consistent with the valuation approach set out in the Solvency II directive. The overall principle when valuing assets and liabilities under Solvency II is to use a fair value, as set out in Article 75 of the Directive. There have been no changes to the recognition and/or valuation basis of assets and other non-insurance liabilities in the Solvency II balance sheet during the year.

When valuing assets and liabilities in accordance with Solvency II, the fair valuation hierarchy set out below is followed, which is broadly consistent with the fair value measurement hierarchy as applied by the Company for statutory reporting (IFRS) purposes:

(a) Quoted market prices in active markets for the same assets or liabilities
As the default valuation method, assets and liabilities are valued using quoted market prices in active markets for the same assets or liabilities, where available.

The investments of the Company which are valued using this method include collective investment undertakings with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active.

(b) Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences
A significant proportion of the Company's assets in this category are Collective Investment Schemes where most recent market data is unavailable at the reporting date. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations and are subject to a number of monitoring controls, such as stale price reviews and variance analysis on prices. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced directly from fund managers.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

(c) Alternative valuation methods
Assets valued using this method typically include suspended funds and certain investments deemed to be exposed to potential bespoke risks taking into account current market data.

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions (e.g. market illiquidity). The valuation techniques used may include comparison to recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments.

D.1.2.2 Valuation bases under Solvency II compared with Irish GAAP (FRS101)

Deferred acquisition costs and intangibles

The value of deferred acquisition costs and other intangible assets, such as distribution rights and software are nil for the solvency II purposes. For IFRS purposes, deferred acquisition costs and other intangible assets are recognised at cost less amortisation.

Deferred tax assets

Deferred tax assets, other than the carry forward of unused tax credits and losses, are calculated based upon the differences between the values given to assets and liabilities for tax purposes and their values in the Solvency II balance sheet. The principles of IFRS are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying assets or liabilities will give rise to a change in deferred tax balances. Recoverability is assessed on the basis of the balances held and consideration is given to the probability of taxable profit being available against which the underlying recoverable can be offset.

There is no deferred tax asset on the Solvency II balance sheet as at 31 December 2016.

Investments

Investments (other than assets held for index-linked and unit-linked contracts) comprise the following asset types as included in the Solvency II balance sheet.

Investments for the year-ended 31 December 2016

	£m
Bonds	47
Collective investment undertakings	4
Deposits other than cash equivalents	52
Total	**103**

All of these investments are valued at fair value within both the Solvency II balance sheet and the Company's financial statements.

Assets held for index-linked and unit-linked contracts

The assets relate to the insurance products where the policyholder bears the investment risk, namely unit-linked products, and are presented as a single line 'Assets held for index-linked and unit-linked funds' within the Solvency II balance sheet. The individual assets are valued using the same approaches as if held outside such funds, and as described above.

Reinsurance Recoverable
Technical provisions are calculated on a gross-of-reinsurance basis, and a corresponding Reinsurance Asset ("Reinsurance Recoverable")) exists on the balance sheet, as described in Section D.2.8 and D.2.9.4.

Cash and Cash Equivalents
Cash and cash equivalent are valued at fair value, an amount not less than the amount payable on demand.

Other assets
Other assets comprise the following asset classes as included in the Solvency II balance sheet:

Other assets for the year-ended 31 December 2016

	£m
Insurance and intermediaries receivables	0.3
Reinsurance receivables	7
Receivables (trade, not insurance)	4
Total	**11**

Other assets in the Solvency II balance sheet are measured at fair value determined using alternate valuation methods that are market consistent and represents the realisable value of individual assets on transfer to a third party. If the IFRS value is a good proxy for fair value no adjustment is made.

Assets are derecognised when it is deemed that substantially all the risks and rewards of ownership have been transferred.

D.2 Technical provisions

D.2.1 Introduction

As a general principle, technical provisions are valued at the amount for which they could theoretically be transferred to a third party in an arm's length transaction. The technical provisions are the sum of two elements: the best estimate liabilities (BEL) and the risk margin.

This section gives an overview of PIA's technical provisions. It outlines the methods and main assumptions used in calculating the technical provisions for each of PIA's material lines of business: *unit-linked insurance* and *insurance with profit participation* ("with profit" business).

PIA does not apply any of the following measures, which are permitted under the Solvency II requirements (subject to approval):

- Matching adjustment, as referred to in Article 77b of the Directive;
- Volatility adjustment, as referred to in Article 77d of the Directive;
- Transitional risk-free interest rate-term structure, as referred to in Article 308c of the Directive;

- Transitional deduction, as referred to in Article 308d of the Directive.

D.2.2 General principles

D.2.2.1 Methods

For the valuation for solvency, legislation requires that the "liabilities shall be valued at the amount for which they can be settled between knowledgeable and willing parties in an arm's length transaction".

The BEL corresponds to the probability-weighted average of future cash flows, taking account of the time value of money (i.e. the expected present value of future cash flows), using the risk-free interest rate term structure published by EIOPA. The calculation of the BEL is based upon up-to-date and credible information and realistic assumptions (derived from data analysis and expert judgement) and is performed using appropriate actuarial and statistical methods. The cash-flow projection used in the calculation of the BEL takes account of all the cash in- and out-flows required to settle the insurance obligations over their lifetime. The BEL is calculated before deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately (see sections D.2.8 & D.2.9).

The risk margin is calculated in line with Solvency II requirements, and aims to ensure that the total technical provisions are equivalent to the cost of ceding the insurance obligations to a third party. The calculation assumes a 6 per cent per annum cost of capital and applies to non-hedgeable risks only. This calculation includes simplified methods and requires assumptions as to the run-off profile of non-hedgeable capital requirements for each line of business, in line with Article 58 of the Delegated Regulation, rather than a full projection of the Solvency Capital Requirement (SCR). The SCR for each non-hedgeable risk is assumed to run-off in-line with suitable profiles which differ depending on the types of non-hedgeable risks. The SCR each year is aggregated using a simplified correlation matrix.

D.2.2.2 Assumptions

The key assumptions required in the valuation of technical provisions are:

(i) economic assumptions, most of which are published by EIOPA and set by reference to market data at the valuation date;

(ii) non-economic assumptions, used to derive non-market related best estimate liability cash flows (for example future claims and expenses);

The principal economic assumption is the risk-free interest rate term structure. The risk-free curves at which best estimate liability cash flows are discounted are specified by EIOPA. These curves are based on market swap rates, with a 'credit risk adjustment'. The resulting 10-year risk-free spot rates for the material currencies are given below, after the credit risk adjustment.

10 year risk-free rates at 31 December 2016 (with comparison to 31 December 2015):

Currency	31 December 2016	31 December 2015	Change
British Pound	1.08%	1.92%	(0.84)%
Euro	0.57%	0.92%	(0.35)%
United States Dollar	2.23%	2.15%	0.08%

A simplification has been applied to the Euro yield curve such that its lowest value is 0%. The impact of this on the technical provisions is immaterial (£0.14 million).

Non-market assumptions (e.g. persistency, mortality, morbidity and expense assumptions) are derived from analysis of recent historic experience data, and also reflect expected future experience. These assumptions are based on PIA's own experience where there is sufficient reliable data to be analysed. If not, then industry data may be used. Expert judgement is applied where necessary and justification for it is documented.

D.2.3 Quantitative results

The values of the technical provisions for PIA as at 31 December 2016 are set out in the table below.

Gross of reinsurance	2016 £m
Insurance with profit participation	3,839
Unit-Linked Insurance	1,575
Total Best Estimate Liabilities ("BEL")	5,414
Risk Margin	32
Total technical provisions	5,446

Technical provisions are gross of reinsurance.

The with profits benefits attached to the insurance with profit participation line of business are reinsured to the Prudential Assurance Company Limited (PAC). Section D.2.8 and D.2.9 provide further information on Reinsurance Recoverable.

D.2.4 Details on methodology and assumptions by lines of business

This section explains how the best estimate liability (BEL) is calculated for each material line of business.

The best estimate liability has two components, the unit-liability component and the non-unit-liability component. The calculation is slightly different for each of PIA's two lines of business (insurance with profit participation business and Unit-Linked Insurance business). The methods chosen for each line of business are proportionate to the nature, scale and complexity of the underlying risks.

The non-unit best estimate liability is generally calculated by discounting projected future cash flows from the contracts. This calculation incorporates PIA's best estimate assumptions for the factors that determine the future projected cash flows.

Further details are contained in sections D.2.4.1 and D.2.4.2 below.

D.2.4.1 Insurance with profit participation business

D.2.4.1.1 Background

This category comprises all single premium unit-linked investment products that provide with profits benefits to policyholders. These with profits benefits are provided by the PAC With Profits fund via a reinsurance treaty between PIA and the Prudential Assurance Company Limited (PAC) The with profits fund contains funds that are denominated in EUR, GBP and USD.

This group of products offers a death benefit of either 101% or 100.1% of the cash-in value of the bond, depending on the age of the life assured when the investment was taken out. No benefit is paid on disability and there is no maturity benefit as the product is written on a whole-of-life basis. Surrender is permitted; however, a surrender charge may apply in the first few years.

For a general explanation of how Prudential manages its with profits business, see the document "Principles and Practices of Financial Management". This is a publicly available document published on Prudential's website, www.pru.co.uk.

D.2.4.1.2 Options and guarantees

Two financial guarantees are provided for within the with profits fund:
1. With profits fund guarantees, which include future discretionary benefits and profit sharing;
2. Return of premium guarantees on a small closed block of Austrian business.

Both financial guarantees are 100% reinsured to PAC.

D.2.4.1.3 Reinsurance

PIA reinsures 100% of the with profits benefits to PAC. PIA's reinsurance asset is equal to the value of these with profits benefits, as described in section D2.4.1.4 below. PIA assumes a zero probability of default for this reinsurance asset due to the high credit rating of the PAC with profits funds.

D.2.4.1.4 Valuation Methodology

The BEL is calculated as the sum of the unit BEL and the non-unit BEL.

The Unit BEL reflects the value of the with profit benefits reinsured to PAC, and includes both
- the in-force asset share at the valuation date; and
- the value of future differences between reinsurance payments to PIA from PAC and asset shares, arising from options, guarantees and smoothing. These differences are referred to as the Net Cost of Options and Guarantees.

The Asset Share is a value of units that represents the retrospective accumulation of premiums, investment return, claims payments for regular withdrawals and part surrenders, and the charges payable by the policyholder as specified by the policy terms and conditions.

The Net Cost of Options and Guarantees is calculated on a pro-rata basis using the net cost of options and guarantees on similar PAC products. This value is determined using a stochastic modelling approach which allows for realistic management actions that are consistent with the operation of the with profits funds. The PAC management actions include the following:

- Dynamic adjustments to reversionary and terminal bonus rates. This includes adjusting reversionary bonuses to target a specified range of terminal bonus cushion at maturity, or to maintain the solvency ratio of the participating fund in stressed conditions. For terminal bonuses, smoothing rules apply limiting the year on year change for the same bonus series. Terminal bonuses may be subject to a surrender penalty in certain market conditions.
- Market Value Reductions. For some accumulating with profits policies, market value reductions may apply, subject to certain limits.
- Suspension of smoothing. The usual smoothing rules can be suspended to maintain the solvency ratio of the participating fund in stressed conditions.

- Dynamic investment strategy. This can include switching into lower-risk assets to maintain the solvency of the fund in stressed conditions.

The use of similar PAC products to calculate PIA's net cost is deemed reasonable as these products have highly similar product features. As mentioned above, this benefit is 100% reinsured to PAC. Future policyholder behaviour and future management actions have no impact on the liabilities on a net of reinsurance basis.

PIA holds a non-unit BEL for this line of business that is calculated using a deterministic approach by discounting projected future cash flows from the contracts. The non-unit BEL also includes an amount in respect of committed expense spend over the 12 months after the valuation date to the extent that it is deemed to relate to inforce insurance with profit participation business. PIA models the non-unit BEL only. The unit BEL is modelled by PAC for with profit participation business and is set equal to the unit-linked assets for unit-linked funds.

D.2.4.1.5 Assumptions

The most significant assumptions used in the calculation of the non-unit BEL for this business are lapse assumptions and expense assumptions. These are best estimate assumptions.

The lapse assumptions used vary by product and by the duration of the policies, based on the results of annual experience studies. Expense assumptions reflect current and expected future expense levels and business volumes. Expert judgment is also used where deemed necessary.

PIA currently assumes that the value of the Options and Guarantees on this business is the same value placed on them by PAC.

D.2.4.2 Unit-Linked insurance

D.2.4.2.1 Background

PIA sells a small number of unit-linked products. These products include proprietary and open architecture products. Proprietary products are products where the policyholder can only invest in funds offered by PIA, whereas open architecture products allow policyholders to invest in funds offered by a wide variety of providers. Some products include significant mortality and morbidity benefits, however these products are not open to new business although top-ups are accepted.

D.2.4.2.2 Options and Guarantees

PIA's unit-linked business does not contain any material financial guarantees or options. A small number of products included in this line of business offer a capital redemption option that offers a maturity benefit. This guarantee is insignificant in size and does not require stochastic modelling.

D.2.4.2.3 Reinsurance

PIA reinsures the risk benefits (e.g. mortality, critical illness and long-term-care) on these products to external reinsurers. Reinsurance is on a quota-share and surplus basis. PIA reinsures at least 75% of these risks.

D.2.4.2.4 Valuation Methodology

The best estimate liability is calculated as the sum of unit reserve plus non-unit reserve. The unit reserve is calculated as the fair value of units deemed allocated at the valuation date discounted

as appropriate for future management charges due to the Company. The non-unit reserves comprise of:

- the present value of all non-unit cash flows allowing for persistency, mortality, morbidity, the rate at which the unit reserves are expected to grow, expenses, expense inflation, charges for benefits, charges for expenses. This can be negative, and reflects the discounted value of fee income from the unit funds less allowances for expenses.
- any additional reserves required – including long term care, unapplied single premium, Incurred but Not Reported (IBNR) on life and critical illness business, and committed expense spend over the 12 months after the valuation date to the extent that it is deemed to relate to inforce unit-lined insurance business.

The non-unit liability is modelled on a deterministic basis.

D.2.4.2.5 Assumptions

The most significant assumptions for this business are lapse rates and mortality & morbidity rates. The assumptions used vary by product and reflect recent experience where available. Where there is insufficient experience to perform a credible analysis of experience, reinsurers' rates are used.

Expense assumptions are also significant. Expense assumptions reflect current and expected future expense levels and business volumes. Expert judgment is also used where deemed necessary.

Market-related assumptions are discussed in section D.2.2.2.

D.2.5 Simplifications

There are a number of simplified methods used to calculate less material technical provisions. These include the following areas:

- For some less material business (e.g. long term care products which have claims in payment) the technical provisions are set to be those calculated for statutory reporting purposes.
- Some product features with minimal financial significance are not modelled on the grounds of materiality.

A simplification is also used in relation to the Euro yield curve, whereby it is floored at zero. This has a trivial impact on technical provisions at YE16 (understated by £0.14 million).

D.2.6 Changes in assumptions

In 2016, the significant changes to the assumptions underlying the Company's calculation of technical provisions were as follows:

- Market-driven changes to economic parameters, including changes to risk-free rates as shown in section D.2.2.2.
- Changes to the mortality assumptions used for valuing regular premium protection business (a subset of unit-linked insurance business) to reflect recent mortality experience.
- Lapse assumptions have been reduced for product lines that were introduced in 2013 following the Retail Distribution Review in the UK. The level of expert judgement required in order to set these assumptions has reduced as historic experience has accumulated. The lapse assumptions at early durations have been reduced.

- The investment expense assumption for insurance with profit participation business was revised upwards.
- Expense assumptions have been revised to reflect the long-term best estimate level of expenses together with an overlay for higher expected short-term expenses.

D.2.7 Sensitivities & uncertainty

The valuation of technical provisions relies upon the Company's best estimate of future liability cash flows, including the projection of the future level of the SCR in the calculation of the risk margin. These cash flows are derived using best estimate assumptions, which are set using a combination of experience data, market data and expert judgement.

Uncertainty exists in the technical provisions as to whether the actual future cash flows will match those expected under the Company's best estimate assumptions. Over time, experience may differ from the best estimate assumptions or forward-looking expectations may evolve, such that assumptions will be updated with a consequent change in the value of future technical provisions.

D.2.8 Reinsurance recoverables

In the Solvency II balance sheet, the Company includes the full expected cost of claims within the technical provisions in its valuation of the reinsurers' share of technical provisions, and treats the expected corresponding reinsurance recoverables as an asset. The valuation methods and assumptions for reinsurance recoverables are consistent with the methods and assumptions for the corresponding technical provisions (see sections D.2.2 & D2.4). The value of the recoverable asset is the best estimate of future reinsurance cash flows, where this figure allows for the probability of default by the reinsurer.

PIA's primary reinsurance is in respect of its insurance with profit participation business where it reinsures 100% of the unit BEL and the net cost of options and guarantees on such business to its parent company, PAC. The reinsurance arrangement transfers all investment risk to PAC. As a result, PIA has a policyholder liability for insurance with profit participation which is backed by the PAC reinsurance asset.

With respect to its unit-linked insurance line of business where such business has significant death and/or disability benefits, PIA has a reinsurance arrangement in place with an external reinsurer where at least 75% of the mortality and morbidity risk on such products are reinsured.
PIA does not include an allowance for counterparty risk within its reinsurance recoverables calculation in relation to the Insurance with profit participation business. This business is reinsured into the PAC with profits fund, a fund which is managed to a high credit rating level and which would give rise to a negligible default risk after allowing for expected recoveries. Allowance is made for default of the mortality and morbidity reinsurance on the unit-linked insurance business. However, the impact is immaterial.

D.2.9 Comparing Solvency II with the financial statements

D.2.9.1 Overview

A number of different approaches and methodologies are used to calculate the technical provisions for financial statement reporting purposes and for Solvency II reporting purposes. As a result, there are differences in the technical provisions reported under each basis.

The following table shows the reconciliation in respect of the technical provisions reporting in the financial statements and those reported under Solvency II. The sections beneath explain the key differences in methodology and assumptions.

Reconciliation of technical provisions	Solvency II £m	Financial Statements £m	Difference £m
Technical Provisions	5,446	5,456	-10
Best Estimate	5,414	5,456	-42
Insurance with profit participation business	3,839	3,769	70
Unit-linked business	1,575	1,687	-112
Risk Margin	32	0	32
Insurance with profit participation business	22	0	22
Unit-linked business	9	0	9

D.2.9.2 Main Methodology Differences

The main methodology differences between the two bases are:

- The financial statements are based on a prudent assessment of non-unit liabilities that does not recognise the value of future fee income in excess of that required to meet the projected cash outflows on the business. The Solvency II liabilities recognise these fully on a best estimate basis.
- Different approaches are used to calculate the best estimate liabilities on insurance with profit participation business; the Solvency II value reflects the full asset share, net cost of options and guarantees, and the present value of future profits associated with the business. The financial statements value can be lower because it is based on the minimum of the surrender value plus the asset share for certain products, and currently the asset share exceeds the surrender value.
- The financial statements include a "Deferred Income Reserve" on unit-linked insurance business. This is removed under Solvency II.
- Inclusion of a risk margin for solvency reporting requirements.

D.2.9.3 Main Assumption Differences

The assumptions used within the calculation of the technical provisions for the financial statements include a margin for prudence. However, for Solvency II reporting purposes, these margins have been removed and the technical provisions are calculated using best estimate assumptions. The impact of these assumption changes is captured in the non-unit liability.

The technical provisions for Solvency II purposes also include additional expenses above those included in the financial statements. These expenses are short term in nature and relate to commitments that have been made and are not allocated to maintenance or acquisition expenses.

D.2.9.4 Reinsurance Recoverable

A reconciliation of the reinsurance asset reported in the financial statements and under Solvency II is set out in the table below.

Reconciliation of Reinsurance Recoverable	Solvency II £m	Financial statements £m	Difference £m
Total Reinsurance Recoverable	3,938	3,778	160
Internal Reinsurance	3,961	3,765	196
Insurance with profit participation business	3,961	3,765	196
External Reinsurance	-23	13	-36

The main differences are:

- Different approaches are used to calculate the reinsurance asset on insurance with profit participation business, as described in section D.2.8.
- The Reinsurance Asset corresponds with the reinsurers share of the liability on mortality and morbidity business. Under Solvency II the asset is negative as the full future cost of the reinsurance on a best estimate basis is reflected on the balance sheet.

D.3 Valuation of other liabilities

D.3.1 Introduction

Other liabilities for Solvency II purposes are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II directives. Unless otherwise stated, valuation of other liabilities are carried out in conformity with IFRS, where this is consistent with the objectives of Solvency II.

D.3.2 Valuation bases under Solvency II compared to IFRS

The valuation basis of each material class of other liabilities are described below:

Deferred tax liabilities

Deferred taxes are calculated based upon the differences ("temporary differences") between the values given to assets and liabilities in the Solvency II balance sheet and their values for tax and statutory reporting purposes. The principles of IAS 12 "Income Taxes" is applied to calculate the extent of deferred taxes applicable on those value differences. The provision for the deferred tax is mainly driven by adjustments made to Technical provisions (Net of Reinsurance) between an IFRS and Solvency II basis. The capitalised value of the future profits is one of these adjustments, and this results in a corresponding increase in the deferred tax liability.

Other liabilities

Other liabilities for the year-ended 31 December 2016	£m
Provisions other than technical provisions	3
Insurance & intermediaries payables	51
Reinsurance payables	2

Other liabilities for the year-ended 31 December 2016	£m
Payables (trade, not insurance)	22
Total	**78**

Other liabilities in the Solvency II balance sheet are measured at fair value determined using alternative valuation methods that are market consistent and represent the value to settle the liabilities with the third party. Where the IFRS valuation is a good proxy for fair value no adjustment is made.

Provisions other than Technical Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material. There is one provision which relates to PIA's estimated liability in respect of historical investment management fees in relation to alternative assets. The provision is based on the best estimate of the potential amount payable.

There are no changes made to the recognition and valuation bases used or on estimations during the reporting period.

D.4 Alternative methods for valuation

The use of alternative methods for valuation by the Company are discussed in sections D.1 to D.3 above. £26 million of assets are valued using alternative valuation methods (as per section D1.2.1). These relate to assets held in index-linked and unit-linked funds, which are materially offset by unit-linked liabilities. Therefore any valuation changes in this category would not have a material effect on the valuation Solvency II own funds.

The Prudential Group has developed Group-wide Independent Price Verification procedures which cover all investment asset classes owned by the business units of the Group, including the Company, and set minimum requirements for the governance surrounding valuation process. These standards require that processes are established to verify the accuracy and independence of model inputs and market prices provided by third parties. Where mark to mark valuations are not available from independent price sources, the Independent Price Verification standards set minimum requirements for mark to model valuations. The Independent Price Verification standards require the documentation and monitoring of all assumptions, inputs and any mathematical modelling, using market observable standards and inputs where possible.

Valuation uncertainty refers to the variability of the fair value measurement that exists at any given reporting date/time for a financial instrument or portfolio of positions. The Independent Price Verification standards require documentation of the process for assessing valuation uncertainty, including the controls surrounding valuation models and an understanding of the model assumptions and limitation.

D.5 Any Other Information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes which has not been disclosed above.

E. Capital Management

E.1 Own funds

E.1.1 Overview

The Own Funds have been prepared using the controls set out in the PIA's Own Funds Policy, approved by the Technical Committee in December 2016.

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

The Company manages its Solvency II own funds as its measure of capital. The Company manages its Solvency II capital to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements.

The Company prepares a projected capital position as part of its business planning process. The business plan is prepared annually on a rolling basis and covers a three-year period. There were no material changes in the objectives, policies or processes for managing the Company's own funds during the year.

The assets and liabilities underpinning the Solvency II basic own funds are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II directives. These methods are described in Section D of this document.

E.1.3 Analysis of the components of own funds

The following components make up the PIA's own funds amount:

	Total £m	Tier 1 - unrestricted £m	Tier 1 - restricted £m	Tier 2 £m	Tier 3 £m
Ordinary share capital (note b)	24	24	-	-	-
Reconciliation reserve (note c)	158	158	-	-	-
Other items approved by supervisory authority as basic own funds (note d)	23	23			
Total own funds (note a)	**205**	205			

Notes:

(a) The PIA's basic own funds principally comprises equity share capital, retained earnings attributable to equity shareholders calculated in the reconciliation reserves, and capital contribution approved by CBI. PIA has no ancillary own funds.

(b) Equity Share Capital
The PIA's ordinary share capital represents 101,381,272 ordinary shares of €1.27 each (partly paid amount equals 25% of each nominal share value, being €0.3175). There is only one class of share capital. The ordinary shares have call rights to dividends, are entitled to a surplus on a winding up and have full voting rights.

(c) Reconciliation reserve

The reconciliation reserve represents the residual of excess of assets over liabilities after deducting (i) equity share capital comprising ordinary share capital and share premium; (ii) Capital Contribution. The key elements of this are IFRS retained earnings and the non-unit-linked technical provisions, net of the corresponding Deferred Tax Liability.

(d) Other items approved by supervisory authority as basic own funds
This represents the £23 million Capital Contribution approved by CBI in December 2015.

E.1.4 Reconciliation of published Solvency II disclosure to QRT results

The Solvency II results included in the QRT's have been agreed back to the Company's financial statements. The final SII results included in the QRTs were reviewed by the board in May 2017. A summary of the reconciliation is shown in table below.

Q4 2016 £m				
	Own Funds	SCR	Surplus	Ratio
Disclosed PIA shareholder result QRT adjustment: Less foreseeable dividend	205.3	108.8	96.5	189%
	Own Funds	MCR	Surplus	Ratio
Disclosed PIA shareholder result QRT adjustment: Less foreseeable dividend	205.3	27.2	178.1	754%

E.1.5 Comparison with financial statements

This section explains the differences between equity in the financial statements and the Solvency II own funds, i.e. the excess of assets over liabilities for solvency purposes.

Reconciliation of equity and Solvency II surplus	£m
Shareholder's equity in Financial Statements at 31 December 2016	88
Removal of deferred acquisition costs and intangibles(1)	(20)
Change in valuation of technical provisions, net of reinsurance(2)	185
Change in Risk Margin(3)	(32)
Change in value of deferred tax principally as a result of valuation changes(4)	(16)
Excess of assets over liabilities as recorded in the Solvency II Balance Sheet	**205**

Notes to Table

The movement between equity in the financial statements and excess of assets over liabilities under Solvency II is discussed below. The numbering corresponds to the superscripts in the table above.

1. Deferred acquisition costs and other intangibles such as deferred income reserve contributing to equity in the financial statements are revalued to nil for Solvency II purposes.

2. Under Solvency II, technical provisions are calculated on a best estimate basis and a risk margin is added. This best estimate includes recognition of expected future premiums (net of related costs/claims) for contracts already written by PAC at the balance sheet date, subject to regulatory restrictions. This adjustment therefore accounts for any differences in the valuation assumptions for solvency compared with those for the financial statements.
3. The technical provisions for Solvency II reporting include the Risk Margin. The Risk Margin does not exist in the financial statements and the “change in Risk Margin” accounts for this difference.
4. The material differences that impact deferred tax are set out in section D.3.2.

E.2 Solvency Capital Requirements and Minimum Capital Requirement

E.2.1 Overview

For the purpose of Solvency II regulatory reporting and disclosures, risk management, and calculation of any free surplus generation, Prudential Group has approval to use an internal model for calculating the SCR. PIA is using this internal model to calculate its SCR. The assets and liabilities are valued on a Solvency II basis.

The MCR is a formulaic calculation, which is subject to a cap and a floor that are both expressed relative to the SCR.

E.2.2 Results

E.2.2.1 Summary

The following table shows the company’s diversified SCR and MCR at 31 December 2016.

	2016 £m
SCR – internal model	109
MCR	27

E.2.2.2 SCR by Risk Category

The main risks covered by the SCR are quantified in the table below:

Risk Category	2016 £m
Market Risk	151
Life underwriting risk	14
Lapse	92
Expense	52
Operational risk	14
Diversification	-172
Loss-absorbing capacity of deferred tax	-17
Other adjustments (Interaction effects)	-25
Total	**109**

E.2.2.3 MCR

Minimum capital requirement at 31 December 2016 in the table below:

MCR	2016 £m
Linear formula component for non-life insurance and reinsurance obligations	0
Linear formula component for life insurance and reinsurance obligations	12
Linear MCR	12
SCR	109
MCR cap	49
MCR floor	27
Combined MCR	27
Absolute floor of the MCR	3
MCR	**27**

The inputs used to calculate the MCR are detailed in Quantitative Reporting Template S.28.01.01. The MCR is currently 25% of the SCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

PIA has not used the duration-based equity risk sub-module in the calculation of its SCR as it is a standard formula approach and not applicable to an internal model firm such as Prudential.

E.4 Differences between the standard formula and the internal model

E.4.1 Overview

The Company's internal model, which is calibrated to the rules and requirements of the Solvency II Directive, is a key risk management tool and refers to the collection of systems and processes used to identify, monitor and quantify risks for the purpose of calculating the Solvency II Solvency Capital Requirement and Economic Capital requirements. This is a risk-based measure and, compared to the standard formula (as described below), has the advantage of better reflecting the specifics of the Company's business and risks. At a PIA level, however, the standard formula and internal model do not currently produce materially different answers on a like-for-like basis.

The standard formula capital refers to the capital that is calculated in line with the standard formula rules provided by the Solvency II Directive. Even though standard formula, as part of Solvency II, represents a risk-based measure, it is based on a set of prescribed parameters, calibrated for European insurers and therefore it does not fully reflect the characteristics of PIA and the specific structure and risks the Company is exposed to.

The Company's internal model is used in areas where risk-based decision making or risk-related considerations are required, such as capital management, investment strategy, product development and management.

The internal model is described as "partial" because the Group's US insurance companies are aggregated into the Group SCR using method 2: deduction and aggregation. For PAC, and hence PIA, a partial internal model is used.

As required in Article 101 of Directive 2009/138/EC, the SCR from the approved internal model is calculated as the Value-at-Risk of the basic own funds of an (re)insurance undertaking at a confidence level of 99.5 per cent over a one-year period. The main risk categories allowed for in the internal model are shown in section E.2.2 and are used to generate multiple thousands of risk scenarios, which together with an appropriate dependency between the risk drivers, generate the probability distribution for the own funds. The internal model SCR is calculated from the 0.5th worst percentile of the resulting probability distribution.

The data used in the internal model covers the following:

- Liability data.
- Asset data.
- Finance data.
- Operational risk data.
- Policyholder data.
- Data used in setting assumptions, including demographic, economic and other.
- Other relevant data required by the internal model and technical provisions.

The quality of the data is subject to the internal model data quality framework to ensure the accuracy, completeness, appropriateness and timeliness of the data.

E.4.2 Structure of the model and aggregation methodologies

The standard formula and internal model adopt the same model structure, however there are still key methodology differences as mentioned in E4.5.

E.4.3 Probability Distribution Function

The Probability Distribution Function (PDF) required is for the basic own funds in one year's time. When deriving the realistic probability distribution for the basic own funds in one year's time, profits and losses which are expected to arise over that year (but are not included in the BEL) should be included. The internal model selects appropriate risk drivers that represent the risks to which the company is exposed. The risk drivers are modelled to produce up to 100,000 risk scenarios, and they are required to represent an appropriate probability distribution for each risk driver in isolation and also an appropriate dependency between the risk drivers. Unlike in the standard formula SCR, changes in each of the internal model risk drivers apply simultaneously in each risk scenario, so the combined impact and interactions between the risks are more accurately reflected in the internal model SCR. These 100,000 risk scenarios are used to produce the probability distribution for the own funds.

E.4.4 Risks covered by standard formula and internal model

The same risks are covered by both the standard formula and the internal model. PIA currently models the following risk categories in its internal model:

- **Market risks**: equity, yield curve level, corporate credit, counterparty credit, property and currency;
- **Non-market risks**: expense & expense inflation, lapse, mortality, morbidity and life catastrophe;
- **Other risks**: operational and concentration.

Risks are reviewed on an annual basis as part of the risk identification process to ensure the internal model accurately reflects the risks to which the company is exposed.

Further details on the differences in methodologies by risk module are provided in the following section.

There are a number of risks that PIA's internal model doesn't cover and these are outlined in section C.6 "Other Material risks".

E.4.5 Main Differences in methodology and assumptions

The standard formula and internal model adopt the same model structure, however there are still key methodology differences in the calculation of the SCR, as set out below:

- The standard formula SCR is derived by calculating the impact of each stress individually and then aggregating the results using prescribed correlation matrices. The standard formula does not allow for any interaction effects between risks which are allowed for in the internal model calculations.
- Standard formula stresses and correlations differ to the internal model stresses for most risk categories. Whereas the standard formula stresses are prescribed, the internal model stresses are set to reflect PIA's specific risk profile and are derived from a combination of data analysis and expert judgement and are subject to the internal model tests and standards required by the Solvency II Directive ([and in particular] Articles 120-126 covering: use test, statistical quality standards, calibration standards, profit and loss attribution validation standards, documentation standards and external models and data).
- The standard formula SCR above includes capital in relation to 1 year's New Business without recognising the contribution to Own Funds that this business will generate. The internal model recognises this contribution to Own Funds. It should be noted that this interpretation of the standard formula SCR is more onerous than the interpretation generally used within the Life Insurance sector in Ireland, but it is the approach currently followed by Prudential Group for the purposes of quantifying the standard formula SCR.

E.4.6 Nature and appropriateness of data

Data is defined as "items of dynamic information used in the model to which agreed (static) methodology is applied in order to generate results".
The data used in the internal model covers the following:

- Liability data
- Asset data
- Finance data
- Operational risk data
- Policyholder data
- Assumption setting data (including economic, demographic and other data)
- Other data

The quality of the data is subject to the internal model data quality framework to ensure the accuracy, completeness, appropriateness and timeliness of the data.

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

PIA currently complies with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

There is no other information to note.

Appendix

QRTs Reference	QRTs Name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums Claims and Expenses by LOB
S.05.02.01	Premiums Claims Expenses by country
S.12.01.02	Technical Provisions
S.23.01.01	Own Funds
S.25.02.21	Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.28.01.01	MCR - Non Composite

S.02.01.02 Balance Sheet

(Balances in ‘000 units)

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	103,310
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	46,672
R0140	*Government Bonds*	46,672
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	4,409
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	52,229
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	1,650,310
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	3,938,241
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	3,960,850
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	3,960,850
R0340	*Life index-linked and unit-linked*	-22,610
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	250
R0370	Reinsurance receivables	6,656
R0380	Receivables (trade, not insurance)	4,448
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	41,538
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	5,744,753

S.02.01.02 Balance Sheet Continued

(Balances in '000 units)

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	3,861,583
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	3,861,583
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	3,839,469
R0680	*Risk margin*	22,115
R0690	Technical provisions - index-linked and unit-linked	1,583,947
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	1,574,536
R0720	*Risk margin*	9,411
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	2,550
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	16,138
R0790	Derivatives	0
R0800	Debts ow ed to credit institutions	0
R0810	Financial liabilities other than debts ow ed to credit institutions	0
R0820	Insurance & intermediaries payables	51,418
R0830	Reinsurance payables	1,462
R0840	Payables (trade, not insurance)	22,387
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsew here show n	0
R0900	**Total liabilities**	5,539,485
R1000	**Excess of assets over liabilities**	205,268

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S.05.01.02 Premiums Claims and Expenses by LOB

(Balances in '000 units)

	S.05.01.02									
		Line of Business for: life insurance obligations						Life reinsurance		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	*Gross*		839,238	44,888						884,125
R1420	*Reinsurers' share*		839,326	20,104	0	0	0	0	0	859,430
R1500	*Net*	0	-88	24,784	0	0	0	0	0	24,695
	Premiums earned									
R1510	*Gross*		839,238	44,888	0	0	0	0	0	884,125
R1520	*Reinsurers' share*		839,326	20,104	0	0	0	0	0	859,430
R1600	*Net*	0	-88	24,784	0	0	0	0	0	24,695
	Claims incurred									
R1610	*Gross*		292,267	61,917	0	0	0	0	0	354,184
R1620	*Reinsurers' share*		292,236	12,921	0	0	0	0	0	305,157
R1700	*Net*	0	31	48,996	0	0	0	0	0	49,026
	Changes in other technical provisions									
R1710	*Gross*		935,247	146,124	0	0	0	0	0	1,081,371
R1720	*Reinsurers' share*		937,410	126	0	0	0	0	0	937,537
R1800	*Net*	0	-2,163	145,998	0	0	0	0	0	143,835
R1900	**Expenses incurred**	0	35,163	15,692	0	0	0	0	0	50,855
R2500	**Other expenses**									
R2600	**Total expenses**									50,855

S.05.02.01 Premiums claims expenses by country

(Balances in '000 units)

	S.05.02.01							
	Premiums, claims and expenses by country							
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - life obligations**					**Total Top 5 and home country**
R1400			**GB**	**JE**	**IM**	**GG**	**ES**	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	*Gross*		586,412	140,488	49,585	37,567	24,811	838,862
R1420	*Reinsurers' share*		565,002	140,468	48,917	37,434	24,814	816,635
R1500	*Net*	0	21,409	20	668	132	-3	22,227
	Premiums earned							
R1510	*Gross*		586,412	140,488	49,585	37,567	24,811	838,862
R1520	*Reinsurers' share*		565,002	140,468	48,917	37,434	24,814	816,635
R1600	*Net*	0	21,409	20	668	132	-3	22,227
	Claims incurred							
R1610	*Gross*		205,420	50,990	12,615	8,158	7,259	284,443
R1620	*Reinsurers' share*		166,052	49,017	10,221	7,151	6,841	239,282
R1700	*Net*	0	39,368	1,973	2,395	1,007	418	45,161
	Changes in other technical provisions							
R1710	*Gross*		710,810	146,165	57,964	49,039	28,937	992,915
R1720	*Reinsurers' share*		590,486	145,760	57,723	48,190	28,577	870,736
R1800	*Net*	0	120,324	405	241	850	360	122,180
R1900	**Expenses incurred**		34,299	4,616	2,465	1,482	1,054	43,916
R2500	**Other expenses**							
R2600	**Total expenses**							43,916

S.12.01.02 Life and Health SLT Technical provisions

(Balances in ‘000 units)

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**																
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**	3,839,469		1,574,536	0						5,414,005						0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,960,850		-22,610	0						3,938,241						0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	-121,382		1,597,146	0						1,475,764		0	0	0	0	0
R0100	**Risk margin**	22,115	9,411								31,525						0
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	3,861,583	1,583,947	0	0						5,445,530				0	0	0

S.23.01.01 Own Funds

(Balances in '000 units)

	S.23.01.01					
	Own Funds					
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	24,004	24,004			
R0030	Share premium account related to ordinary share capital	0	0			
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0			
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0	0	0	0
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	158,651	158,651			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	22,612	22,612	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				

S.23.01.01 Own Funds Continued

(Balances in ‘000 units)

R0230	Deductions for participations in financial and credit institutions	0				
R0290	**Total basic own funds after deductions**	205,268	205,268	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	205,268	205,268	0	0	0
R0510	Total available own funds to meet the MCR	205,268	205,268	0	0	
R0540	Total eligible own funds to meet the SCR	205,268	205,268	0	0	0
R0550	Total eligible own funds to meet the MCR	205,268	205,268	0	0	

S.23.01.01 Own Funds Continued

(Balances in '000 units)

R0580	**SCR**	108,839			
R0600	**MCR**	27,210			
R0620	**Ratio of Eligible own funds to SCR**	188.60%			
R0640	**Ratio of Eligible own funds to MCR**	754.39%			
	Reconcilliation reserve	C0060			
R0700	Excess of assets over liabilities	205,268			
R0710	Own shares (held directly and indirectly)	0			
R0720	Foreseeable dividends, distributions and charges				
R0730	Other basic own fund items	46,616			
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0			
R0760	**Reconciliation reserve**	158,651			
	Expected profits				
R0770	Expected profits included in future premiums (EPIFP) - Life business	13,000			
R0780	Expected profits included in future premiums (EPIFP) - Non- life business				
R0790	**Total Expected profits included in future premiums (EPIFP)**	13,000			

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S.25.02.21 Solvency Capital Requirement – for undertakings using the standard formula and partial internal model

(Balances in '000 units)

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	C0010	C0020	C0030	C0070	C0080	C0090
1	103-00-I	Other interest rate risk - insurance	20,688	20,688		
2	103-00-P	Other interest rate risk - pension scheme				
3	104-00-I	Equity Risk - insurance	81,608	81,608		
4	104-00-P	Equity Risk - pension scheme				
5	106-00-I	Property Risk - insurance	12,058	12,058		
6	107-00-I	Spread Risk - insurance	17,485	17,485		
7	107-00-P	Spread Risk - pension scheme				
8	108-00-I	Concentration Risk - insurance				
9	109-00-I	Currency Risk - insurance	18,733	18,733		
10	109-00-P	Currency Risk - pension scheme				
11	301-00-I	Mortality Risk - insurance	13,864	13,864		
12	302-00-I	Longevity Risk - insurance				
13	302-00-P	Longevity Risk - pension scheme				
14	303-00-I	Disability-morbidity risk - insurance	265	265		
15	305-00-I	Other lapse risk - insurance	92,201	92,201		
16	306-00-I	Expense risk - insurance	52,158	52,158		
17	505-00-I	Other non-life underwriting risk - insurance				
18	701-00-I	Operational risk - insurance	14,075	14,075		
19	802-00-I	Loss-absorbancy capacity of technical provisions - insurance				
20	803-00-I	Loss-absorbancy capacity of deferred tax - insurance	-17,130	-17,130		
21	804-00-I	Other adjustments - insurance	-25,029	-25,029		

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	280,976
R0060	Diversification	-172,137
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	108,839
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	108,839
	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 ot deferred taxes	-17,130
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	108,839
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01 Minimum Capital Requirement

(Balances in '000 units)

	Linear formula component for non-life insurance and reinsurance obligations	C0010					
R0010	MCRNL Result	0.00					
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months			
			C0020	C0030	α	β	α.B +β.C
R0020	Medical expense insurance and proportional reinsurance				4.7%	4.7%	0
R0030	Income protection insurance and proportional reinsurance				13.1%	8.5%	0
R0040	Workers' compensation insurance and proportional reinsurance				10.7%	7.5%	0
R0050	Motor vehicle liability insurance and proportional reinsurance				8.5%	9.4%	0
R0060	Other motor insurance and proportional reinsurance				7.5%	7.5%	0
R0070	Marine, aviation and transport insurance and proportional reinsurance				10.3%	14.0%	0
R0080	Fire and other damage to property insurance and proportional reinsurance				9.4%	7.5%	0
R0090	General liability insurance and proportional reinsurance				10.3%	13.1%	0
R0100	Credit and suretyship insurance and proportional reinsurance				17.7%	11.3%	0
R0110	Legal expenses insurance and proportional reinsurance				11.3%	6.6%	0
R0120	Assistance and proportional reinsurance				18.6%	8.5%	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance				18.6%	12.2%	0
R0140	Non-proportional health reinsurance				18.6%	15.9%	0
R0150	Non-proportional casualty reinsurance				18.6%	15.9%	0
R0160	Non-proportional marine, aviation and transport reinsurance				18.6%	15.9%	0
R0170	Non-proportional property reinsurance				18.6%	15.9%	0
						TSMCR.12	0
	Linear formula component for life insurance and reinsurance obligations	C0040					
R0200	MCRL Result	11,527					
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk			
			C0050	C0060			
R0210	Obligations with profit participation - guaranteed benefits				3.7%		0
R0220	Obligations with profit participation - future discretionary benefits				-5.2%		0
R0230	Index-linked and unit-linked insurance obligations		1,597,146		0.7%		11,180
R0240	Other life (re)insurance and health (re)insurance obligations		0		2.1%		0
R0250	Total capital at risk for all life (re)insurance obligations			495,143	0.07%		347
					TSMCR.13		11,527
	Overall MCR calculation	C0070					
R0300	Linear MCR	11,527					
R0310	SCR	108,839					
R0320	MCR cap	48,977					
R0330	MCR floor	27,210					
R0340	Combined MCR	27,210					
R0350	Absolute floor of the MCR	3,332					
		0					
R0400	**Minimum Capital Requirement**	27,210					