B&CE

B&CE Group

Solvency and Financial Condition Report

Report for the year ending 31 March 2018

For people, not profit

Contents

Statement of Directors' responsibilities

B&CE Group

Approval by the Board of Directors of B&CE Insurance Limited of the Solvency and Financial Condition Report (SFCR) and reporting templates.

Financial period ended 31 March 2018.

We can confirm that:

1. the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II regulations;
2. we are satisfied that:
    a. throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA rules and Solvency II regulations as applicable at the level of the Group
    b. it is reasonable to believe that, at the date of the publication of the SFCR, the Group has continued to comply, and will continue to comply in the future.

Approval by the Board of B & C E Insurance Limited of the SFCR and reporting templates

Lydia Harratt

Group Company Secretary

31 August 2018

Independent Auditors' report and opinion

Report of the external independent auditors to the Directors of B&CE Holdings Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 March 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 March 2018, ('**the Narrative Disclosures subject to audit**'); and

- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('**the Group Templates subject to audit'**).

- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.02.01 in respect of B&CE Insurance Limited ('**the Company Templates subject to audit'**)

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide Solvency and Financial Condition Report'**.

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.05.02.01 and Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('**the Responsibility Statement**');

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 March 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical

Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

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

Modification

Permission to publish a single Group-Wide SFCR

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

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

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

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

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

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Other Information

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

PricewaterhouseCoopers LLP

Chartered Accountants

London

31 August 2018

Introduction

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

This is the second SFCR for the B&CE Group (the Group), based on the financial position as at 31 March 2018. It has been prepared to enable readers to assess the financial position of the Group.

The list of entities included within the Group for Solvency II purposes is shown on page 11. The Group's financial year runs to 31 March each year and its results are reported in GBP (Pound Sterling).

This report presents information on the business and performance of the Group, its system of governance, risk profile, valuation for Solvency II purposes and capital management. The ultimate administrative body that has the responsibility for all these matters is the Group's Board of Directors (the 'Board'), with the help of various governance functions that it has put in place to monitor and manage the business.

Further information about the business of the Group is provided in the Annual report and financial statements, a copy of which can be found at www.bandce.co.uk/about-us/how-we-work/financial-reports. Where appropriate we will refer readers to that document.

Executive Summary

Business and performance summary

The Group is a not-for-profit organisation that operates for the benefit of its members and their dependants. Founded over 75 years ago to give construction workers the opportunity to build up holiday pay, B&CE now offers workplace pensions, employee accident cover and employee life cover to 5.1 million members, working for 80,000 employers. Group assets under management are now £5bn.

The Group's flagship product is The People's Pension – a straightforward workplace pension scheme that any employer can use for automatically enrolled employees. It was the first master trust to achieve voluntary master trust assurance, in September 2014, and has now grown to be the largest private-sector master trust in the UK. As at the end of March 2018, it had almost 3.8 million members and assets under management of nearly £4bn. B&CE Financial Services Limited (B&CEFSL) is the scheme administrator for The People's Pension and receives the majority of the 0.5% annual management charge (AMC) paid by members. The Group therefore benefits from the continued growth of The People's Pension.

Up until 2012, EasyBuild had been the Group's primary workplace pension scheme. It is a stakeholder defined contribution pension scheme and was the Group's most significant insurance product.

EasyBuild had been seeing a decline in membership because it is unable to accept automatically enrolled employees. Employers were instead, choosing schemes like The People's Pension – which is specifically designed to help companies meet their automatic enrolment requirements.

In February 2018, after careful consideration by the B&CE Insurance Limited (B&CEIL) Board in consultation with independent advisers and EasyBuild's Independent Governance Committee we transferred 460,514 members and £1bn of assets from this pension scheme into The People's Pension. This left 2,027 members and £7m of assets remaining in EasyBuild at 31 March 2018. This significant event was designed to bring as many people as possible into a modern pension scheme, designed for automatically enrolled employees, unlike EasyBuild. The latter is now closed to new members.

Looking ahead, the market for automatically enrolled pensions is expected to enter a long-term phase of consolidation. This could mean companies switching workplace pensions providers, seeking one that offers superior customer service, better investment options and lower costs. Moreover, new regulations that tighten the governance requirements for master trust pension schemes may compel some providers to exit the market, bringing new business opportunities for The People's Pension.

A new business line for the Group is addressing the significant challenge of poor occupational health in the construction sector. According to a 2015 survey, construction workers are 100 times more likely to die from a disease caused or exacerbated by their work as from a fatal accident. The Group is working hard to develop a solution to this, following its 2016 acquisition of Constructing Better Health (CBH), and in April 2018 published a framework to help employers detect work related ill health effects.

The Group's operating expenses are expected to increase further to support the growth of The People's Pension and the Group's plans to solve the problems of poor occupational health in the construction industry. The forecast income from the operation of The People's Pension and other schemes in future years, is expected to be enough to meet this additional expenditure in the medium to long-term.

For the year ended 31 March 2018, the Group made a loss totalling £8.8m (2017: £7.5m profit).

The main variances compared to the prior year were as follows:

- Scheme administration fees (part of the Group revenue) totalled £26.5m for the year (2017: £21.4m). This increase was due to income from The People's Pension increasing significantly during the year given the growth in the assets under management.
- Net operating expenses increased to £44.8m (2017: £30.0m) driven by the need for investment in additional staff. There were also costs relating to improvements to our underlying information technology and the creation of a new occupational health scheme for the construction industry. Other costs have also increased because of this growth, such as communication costs, professional expenses and regulatory levies.
- Gains from financial instruments totalled £1.3m (2017: £7.1m). Realised profit on financial instruments was £0.04m (2017: £5.1m). The significant gain and realised profit in the prior year arose from the sale of all Group investments which were previously managed by Smith and Williamson and were transferred to Legal & General Investment Management (LGIM) in 2016. No such transfers were undertaken during the year ended 31 March 2018.

Section A of this report has more information on the Group's business and performance.

System of governance summary

The Board of Directors has overall oversight of the management of the Group. A major focus of the Board continues to be maintaining high standards of corporate governance, which the Board seeks to achieve through the Group's governance structure.

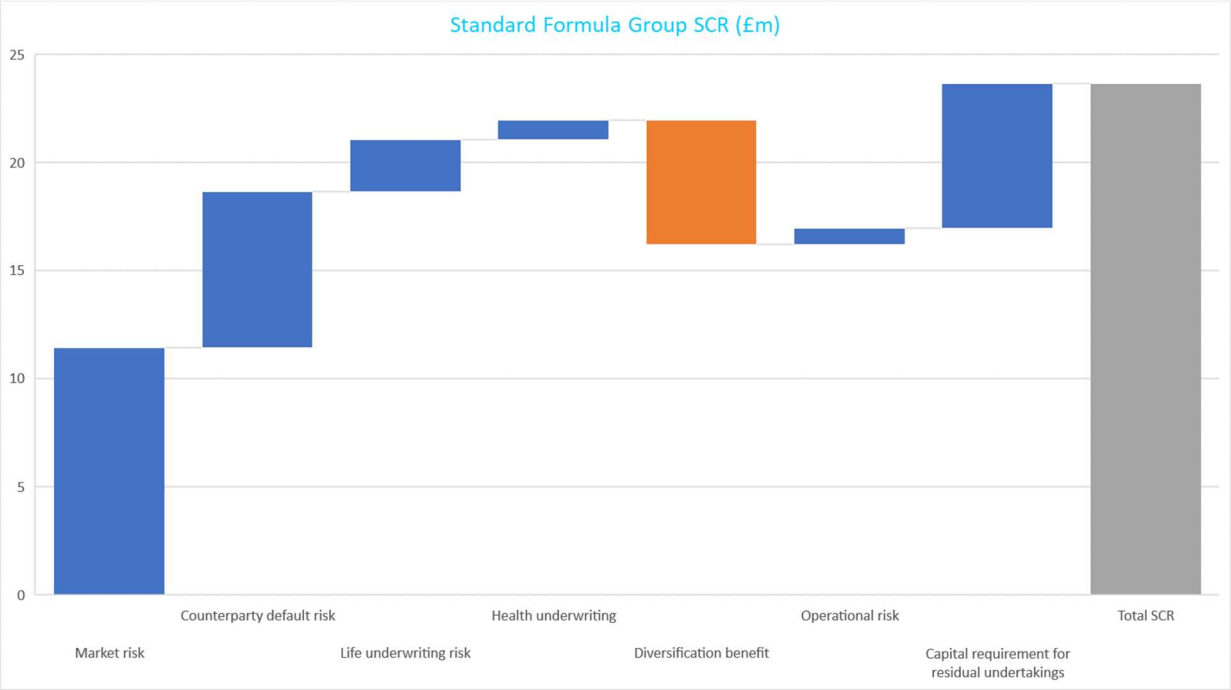
The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence as follows:

- The First Line of Defence is management who are responsible for owning and managing risks to achieve the Group's business objectives on a day to day basis
- The Second Line of Defence is the risk function which is responsible for the design and implementation of the Group's Enterprise Risk Management strategy and framework and the provision of proportionate oversight of and challenge to the business' management of risks, events and management actions; and
- The Third Line of Defence is an independent assurance function from the operational functions that is made up of internal audit who are responsible for providing an evaluation of the adequacy and effectiveness of the internal controls system and other elements of the system of governance.

Section B of this report has more information on the Group's system of governance.

Risk profile summary

The following chart shows the Group's Solvency Capital Requirement (SCR) of £23.6m (2017: £52.6m). The SCR has reduced significantly following the transfer of EasyBuild to The People's Pension which has significantly reduced the size, and risk, of the Group's insurance business.



Market risk is the risk of loss in value of an investment arising from movements in market prices.

Counterparty default risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

Insurance risk (combination of life and health underwriting risk) refers to the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing and reserving assumptions. Insurance risk includes fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Group at the time of underwriting.

Operational risk is the risk of loss or adverse consequences for the Group resulting from inadequate or failed internal processes, people or systems, cyber risk, or from external events.

A diversification benefit is applied to reduce the size of the SCR based on the expected correlation between the different risks that the Group is exposed to. The lower the correlation between the risks (i.e. the lower the probability of them happening at the same time), the larger the diversification benefit.

Section C of this report has more information on the Group's risk profile.

Valuation for Solvency II purposes summary

The Group is always required to hold enough assets to match its policyholders' liabilities. It is a primary responsibility of the Board to ensure that the Group's capital is adequate to cover the required solvency for the nature and scale of the business, and the expected operational requirements of the business. The Board has considered its risk appetite and minimum requirements for capital coverage and has deemed a solvency ratio of at least 150% to be desirable. The Board believe this to be enough, particularly given the stable and relatively low-risk nature of the Group's insurance business.

Several mechanisms are in place to evaluate those levels and the outcome of the assessments indicate that the Group's capital is suitably adequate currently and for the expected requirements in the short to medium term.

The solvency balance sheets as at 31 March 2018 and 31 March 2017 were:

Assets	2018 £000	2017 £000	Movement £000
Property, plant & equipment	6,550	6,400	150
Holdings in related undertakings	30,285	18,063	12,222
Collective investment undertakings	80,326	101,001	(20,675)
Assets held for unit-linked contracts	68	547	(479)
Reinsurance recoverables - Other Life	15	15	-
Reinsurance recoverables - Life (unit-linked)	7,045	1,048,948	(1,041,903)
Counterparty default adjustment (1)	(4)	(629)	625
Insurance receivables	-	907	(907)
Cash and cash equivalents	2,405	3,276	(871)
Any other assets, not elsewhere shown	2,414	1,355	1,059
Total assets	**129,104**	**1,179,883**	**(1,050,779)**
Liabilities			
Technical provisions - Health (2)	361	460	(99)
Technical provisions - Other Life (3)	66	115	(49)
Technical provisions - Life (unit-linked) (4)	16,859	1,032,750	(1,015,891)
Deferred tax liabilities	99	128	(29)
Payables (trade, not insurance)	4,752	4,267	485
Any other liabilities, not elsewhere shown	6,025	7,365	(1,340)
Total liabilities	**28,162**	**1,045,085**	**(1,016,923)**
Excess of assets over liabilities	**100,942**	**134,798**	**(33,856)**

Section D of this report has more information on the Group's valuation for solvency II purposes.

Capital management summary

The primary objective of the Group's capital management policies is to maintain economic and regulatory capital in accordance with risk appetite. The Group's capital and risk objectives are closely aligned, and support the Group's business planning activities, whilst also recognising the critical importance of protecting member interests.

The SCR coverage ratio was as follows:

Solvency	2018 £000	2017 £000
Solvency II Own Funds (A)	100,942	134,798
Solvency capital requirements (B)	23,623	52,584
Solvency II free assets (A – B)	77,319	82,214
Financial Strength Ratio (A / B)	**427%**	**256%**

The Financial Strength Ratio has increased significantly following the transfer of EasyBuild policies to The People's Pension which resulted in a much lower SCR than the prior year.

Material changes

Other than the positive impact of the EasyBuild transfer on our risk profile there have been no material changes to the business and performance, system of governance, risk profile, valuation for solvency purposes or capital management over the reporting period.

A. Business and performance

This section provides information on the Group's business structure, key operations, market position and financial performance.

A.1 Business information

Company information

The following undertakings are covered by the scope of this report.

Company name	Company registration number
B&CE Holdings Limited (B&CEHL)	00377361
People's Financial Services Limited (PFSL)	10267951
B&CE Insurance Limited (B&CEIL)	03093365
B&CE Financial Services Limited (B&CEFSL)	02207140
People's Administration Services Limited (dormant) (PASL)	10267769
People's Health Limited (dormant) (PHL)	11125993
Constructing Better Health (CBH)	05086859
Building and Civil Engineering Benefits Scheme Trustee Limited (B&CEBSTL)	01201576

B&CEIL is the only insurance undertaking within the Group to which the Solvency II Directive applies. B&CEHL falls within the definition of an EEA Insurance Holding Group within Article 212(f) of the Solvency II Directive. B&CEFSL and CBH are both treated as Solvency II strategic investments for the purposes of the SCR.

The Group entities are based in England and all have their registered offices at:

Manor Royal
Crawley
West Sussex
RH10 9QP

Regulation

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks. The PRA is the lead supervisor for the purposes of Solvency II regulation.

Contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pra
www.fca.org.uk.

B&CEHL is an introducer appointed representative of B&CEIL and B&CEFSL.

B&CEIL is authorised by the PRA and regulated by the FCA and the PRA (registered number: 177791). It is a PRA Category 5 and FCA Category 4 firm subject to Solvency II supervision by the PRA.

B&CEFSL is authorised and regulated by the FCA (reference number: 122787). It is regulated as an administration and distribution services company.

B&CEBSTL is an appointed representative of B&CEIL.

All other Group undertakings are unregulated.

External auditors

The Group's external auditors are PricewaterhouseCoopers LLP, whose address is:

The Portland Building
25 High Street
Crawley
West Sussex
RH10 1BG

Holders of qualifying holdings

The ultimate controlling party of the Group is B&CEHL. B&CEHL is a limited by guarantee company which is controlled by the following industrial parties which nominate the members of B&CEHL in accordance with the articles of association:

- Unite
- GMB
- Build UK
- Civil Engineering Contractors Association
- Federation of Master Builders
- National Federation of Builders
- Scottish Building Federation

Legal structure of the Group

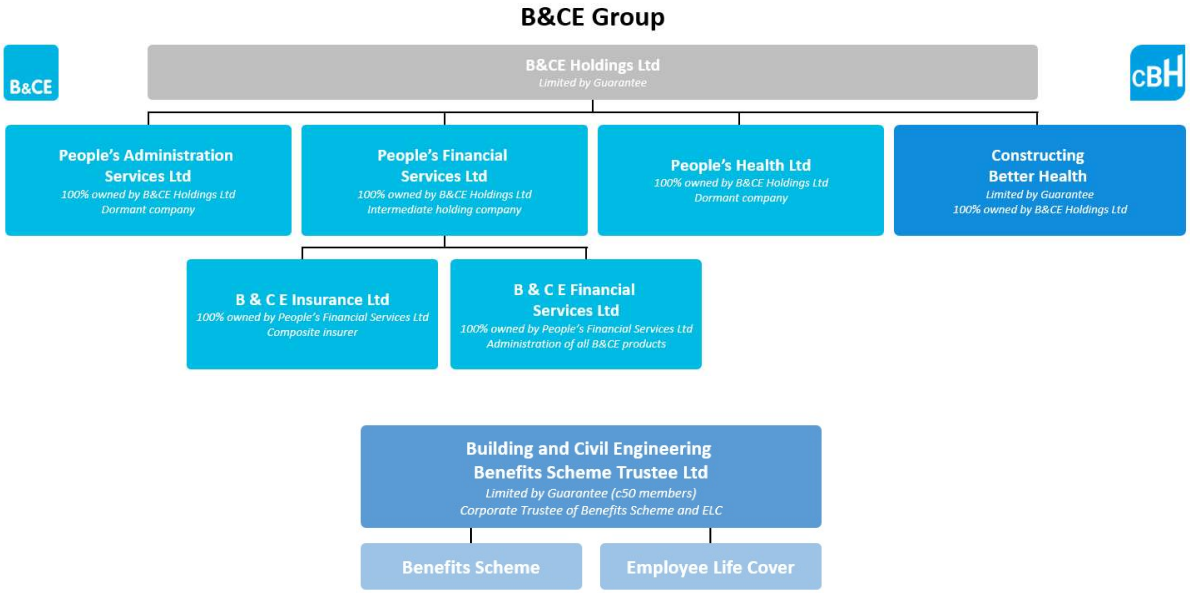
The immediate parent, ultimate parent company and the controlling party is B&CEHL, a company incorporated in the United Kingdom.

B&CEHL has three direct wholly owned subsidiaries (PFSL, PASL and PHL) and two indirect wholly owned subsidiaries, B&CEIL and B&CEFSL. B&CEHL is also the sole member of one limited by guarantee company: CBH.

B&CEBSTL is a limited by guarantee company and is not owned or controlled by B&CEHL. It does however have the same Directors as B&CEHL and as such falls within the scope of the Group for Solvency II reporting purposes.

The Group structure changed during the year when PFSL became an intermediate holding company of B&CEIL and B&CEFSL in April 2017, to improve oversight of our Money (financial services) products, and PHL was established in December 2017.

The below chart outlines the Group structure as at 31 March 2018:



** Note: It should be noted that The People's Pension Trustee Limited is not part of the Solvency II Group and as such does not feature in the structure diagrams.*

Group entity	Ownership	Principal activities	Ownership
B&CEHL	This is the parent company for the Group.	The holding company for the Group.	100%
PASL	This is a wholly owned subsidiary of B&CEHL.	It is a dormant company.	100%
PFSL	This is the parent company of B&CEIL and B&CEFSL and is a wholly owned subsidiary of B&CEHL.	It provides strategic guidance regarding the nature of the financial products and services within the Group and formulates and approves all financial services strategies for the Group.	100%
B&CEIL	This is a wholly owned subsidiary of PFSL.	The company is a United Kingdom (UK) regulated entity that carries out general and long-term insurance business.	100%
B&CEFSL	This is a wholly owned subsidiary of PFSL.	It acts as a distributor of, and an administrator for pensions, accident and death insurance and a range of financial welfare products.	100%
PHL	This is a wholly owned subsidiary of B&CEHL.	It was a dormant company at the end of the reporting period. It is the entity which will be used to operate B&CE's new occupational health product.	100%
CBH	A company limited by guarantee, with B&CEHL being the sole member.	CBH operates a scheme dedicated to improving the standard of occupational health management in the construction industry.	100%
B&CEBSTL	This is a company limited by guarantee controlled by its members, who are representatives from the construction industry.	B&CEBSTL is the corporate trustee of the industry's occupational retirement, death and accident benefit schemes.	0%

** Note: All entities are registered in the United Kingdom*

Lines of business and geographical areas

The Group offers several financial services products. The following table describes each product and outlines which entity in the Group operates the product. All business is carried out in the United Kingdom.

Product	Description	Entity	Open to new policies/members
EasyBuild	Stakeholder defined contribution personal pension scheme provided to policyholders through policies issued by B&CEIL. It is governed by a trust deed and set of rules which sets out the member options. The investments are provided under a reinsurance contract with Managed Pension Funds Limited, which is part of the State Street Corporation group of companies.	Insurer: B&CEIL Administrator: B&CEFSL	No
The People's Pension	A multi-employer defined contribution occupational pension scheme which is available to both construction and non-construction employers and set up under trust. The scheme invests in units through a contract of linked long-term insurance issued by Managed Pension Funds Limited.	Trustee: The People's Pension Trustee Limited Founder: B&CEHL Administrator: B&CEFSL	Yes
Employee Accident Cover	Group accident product provided to policyholders through a general insurance contract.	Insurer: B&CEIL Administrator: B&CEFSL	Yes
Employee Life Cover	A multi-employer death benefit only occupational pension scheme set up under trust.	Trustee: B&CEBSTL Founder: B&CEHL Administrator: B&CEFSL	Yes
Term Life	A term life policy designed specifically for the construction industry.	Insurer: B&CEIL Administrator: B&CEFSL	No
TUTMAN B&CE Contracted-out pension scheme	An authorised unit trust and non-UCITS scheme and a relevant pension scheme.	Manager: Thesis Unit Trust Management Limited* Sponsor: B&CEFSL Registrar and Administrator: B&CEFSL	No
Building and Civil Engineering Benefits Scheme	A multi-employer defined benefit occupational pension scheme.	Trustee: B&CEBSTL Founder: B&CEHL Administrator: B&CEFSL	No
RapidCash	Individual accident product provided to policyholders through a general insurance contract.	Insurer: B&CEIL Administrator: B&CEFSL	No
CBH	An occupational health scheme aimed at construction employers.	Scheme operated by: CBH	Yes

** Note: Thesis Unit Trust Management Limited is a third-party company specialising in the management of unit trust schemes and is not a B&CE company.*

Significant business or other events

See page 6 above for more detail.

A.2 Underwriting performance

The Group writes both life and non-life lines of insurance business through B&CEIL. It writes pensions business (EasyBuild) which is unit-linked life insurance, and accident non-life business (RapidCash and Employee Accident Cover). B&CEIL also write a small amount of term life assurance business but this is in run off and immaterial in size.

As discussed in the Executive Summary, a decision was taken to transfer the EasyBuild policies to The People's Pension which was implemented in February 2018. This transfer has significantly reduced the Group's insurance activities and there are currently no plans to introduce any new lines of insurance business.

Most of our insurance business is unit-linked pension policies, none of which includes any options or guarantees. The Group is exposed to relatively low levels of insurance risk.

The remaining insurance products are currently in decline in terms of premium levels and policyholders. There are currently no plans to recommence promotion of the RapidCash product.

Our Group business model is focussed on workplace pension schemes, with new pension business focussed on The People's Pension, which is a trust-based arrangement (as opposed to EasyBuild, which is a contract arrangement). An emerging focus for the Group is the challenge of poor occupational health in the construction sector, with a new occupational health scheme being created for launch in 2019. Again, this will not be an insurance based product, so it would not be regulated under Solvency II.

During the year the Group produced an underwriting surplus of £1.5m for long-term insurance business and £0.3m for general insurance business.

Long-term business for the year ended 31 March 2018

	2018	2017
Earned premiums, net of reinsurance	**£000**	£000
Gross premiums written	**2**	3
Outward reinsurance premiums	**(2)**	(3)
	-	-
Investment income	**1,337**	3,069
Unrealised gains on investments	**-**	782
Other technical income, net of reinsurance	**7,306**	8,006
	8,643	11,857
Claims incurred, net of reinsurance		
Claims paid – gross and net amount	**(3)**	-
Change in other technical provisions, net of reinsurance		
Long-term business provision – gross and net amount	**50**	10
Other technical provisions net of reinsurance		
Technical provisions for linked liabilities – gross amount	**(10,680)**	(177,397)
Technical provisions for linked liabilities – reinsurers' share	**10,680**	177,397
	-	-
	50	10
Net operating expenses	**(6,291)**	(5,776)
Investment expenses and charges	**(3)**	(52)
Unrealised losses on investments	**(575)**	-
Tax attributable to the long-term business	**(340)**	(1,207)
Balance on the long-term business technical account	**1,481**	4,832

The main driver for the reduction compared to 2017 was a fall in investment income following changes made to the B&CEIL investment strategy in 2016. There was also a fall in 'other technical income' which shows the annual management charges (AMCs) levied against EasyBuild policyholders. Most policyholders transferred to The People's Pension during the year leading to a reduction in EasyBuild AMCs. Investment performance over the year was relatively poor with unrealised losses over the period following more favourable performance in the prior year.

General business for the year ended 31 March 2018

	2018 **£000**	2017 £000
Earned premiums, net of reinsurance		
Premiums written – gross and net amount	**1,103**	1,193
Claims incurred, net of reinsurance		
Claims paid - gross and net amount	**(275)**	(358)
Change in the provision for claims - gross and net amount	**84**	(122)
	(191)	(480)
Net operating expenses	**(644)**	(398)
Balance on the general business technical account	**268**	315

The main driver for the slight reduction in the balance on the general business account for 2018 was a fall in both RapidCash and Employee Accident Cover premiums. RapidCash fell by 9% which was anticipated as it is no longer actively promoted. Employee Accident Cover premiums also fell by 9% following the decision during the previous year by some employers to stop operating the scheme for their employees.

A.3 Investment performance

The Group's focus on workplace pension scheme management means that delivering investment performance for clients is a key performance criterion. Positive investment performance of our pension assets is passed on to clients through an increase in their benefits. An increase in benefits results in a proportionate increase in AMCs, which contributes to improved financial performance.

Excess assets held by the Group (Group investments), above those required to match client unit-linked liabilities, are used as working capital and to provide coverage to the Group's SCR in line with its risk appetite.

The Board is responsible for the investment strategy for both the Group investments and the EasyBuild unit-linked investments. The Board has established an Investment Committee - details of this Committee are given in section B. The Board has an appointed an Investment Adviser who attends all Investment Committee meetings and provides formal advice for all material changes to investment strategies. The Group also has an in-house investment team led by the Chief Investment Officer.

The Group's investment management policy requires that assets should be invested in accordance with the 'prudent person' principle as defined in Article 132 of the Solvency II Directive (Directive 2009/138/EC of the European Parliament and of the Council) and discussed further in section C.

Each Group entity has its own investment objectives for the Group investments which it holds. The current objectives are listed in the table below:

Group entity	Objective
B&CEHL	Preserve capital in real terms.
B&CEIL long-term fund	Invest prudently to protect capital, having due regard to the implications of capital adequacy.
B&CEIL general fund	Sufficiently liquid to meet all claim payments and planned dividend payments and preserve capital in real terms.
B&CEFSL	Ensure enough cash is held to cover the costs of operating for at least 18 months. For the remainder, preserve capital in real terms.

Group entities not listed in the table above have no material investment portfolios.

All Group investments are currently managed by Legal & General Investment Management (LGIM) using the following components:

Component	LGIM Funds	Objective and description
Low-risk multi-asset	L&G Mixed Investment 0-35%	Aims to deliver long-term capital growth which exceeds the Bank of England's base rate.
Short dated corporate bonds	L&G Short Dated Sterling Corporate Bond Index Fund	Track the performance of Markit iBoxx Sterling Corporates 1-5 Total Return Index.
Cash	L&G Cash Trust	The Fund aims to provide the return and liquidity consistent with a short-term money market fund by investing in repurchase agreements, time deposits, and certificates of deposit.

All unit-linked client monies in the EasyBuild Scheme are invested through a reinsurance arrangement with Managed Pension Funds Limited (MPF), which is part of the State Street Group. EasyBuild policyholders can invest in a total of six funds which are created by blending a range of pooled vehicles managed by State Street Global Advisors Limited (SSGA).

Policyholders are responsible for choosing between the range of EasyBuild funds – most policyholders are invested in the default profile which uses a combination of the following funds:

Fund	Aim
B&CE Global investments (up to 85% shares) Fund	The fund aims to achieve long-term capital growth by investing in a range of asset classes in the UK and overseas. These can include, but are not limited to, equities, government bonds, corporate bonds and money market instruments. The Sub-Fund will typically hold up to 85% in equities, with a mix of UK and overseas equities.
B&CE Pre-Retirement Fund	The fund seeks to provide a balance between capital growth and capital preservation and is intended to be suitable for UK pension scheme members who have not yet decided what they want to do with their investments at retirement. The fund aims to achieve a return of approximately 1% (before deduction of fees) in excess of Consumer Price Index inflation, over the medium term.

The EasyBuild Statement of Investment Principles contains details of the other funds and it is available upon request via www.bandce.co.uk/contact-us.

Asset allocations

As at 31 March 2018, the Group investments managed by LGIM were invested in the following asset classes:

Group entity	Low risk multi-asset	Short dated corporate bonds	Cash	Total
B&CEHL	£9.2m 100% (£14.2m) (100%)	-	-	£9.2m (£14.2m)
B&CEIL long-term fund	£36.6m 100% (£48.0m) (100%)	-	-	£36.6m (£48.0m)
B&CEIL general fund	£10.5m 65% (£10.7m) (65%)	£2.4m 15% (£2.4m) (15%)	£3.3m 20% (£3.3m) (20%)	£16.2m (£16.4m)
B&CEFSL	£0.0m N/A% (£3.0m) (75%)	-	£0.0m N/A% (£1.0m) (25%)	£0.0m (£4.0m)

Prior year comparatives have been included above within brackets.

The table above does not include any of the Group's holdings in short term highly liquid investments, such as the externally managed collective investment undertakings, or in cash held at the bank which are held for day to day liquidity.

Investment performance

The investment return for the Group during the financial year is detailed below:

	Net investment income £000	Net realised and unrealised investment returns £000	Net investment returns 2018 £000	Net investment returns 2017 £000
LGIM Funds				
Mixed Investment 0-35%	1,708	(635)	1,073	1,319
Short Dated Sterling Corporate Bond Index Fund	167	(11)	156	(14)
Cash Trust	1	10	11	18
Smith and Williamson portfolio				
OEICs	-	-	-	(1,795)
Corporate Bonds	-	-	-	4,445
Gilts	-	-	-	977
Preference Shares	-	-	-	438
Cash	120	-	120	117
Total	**1,996**	**(636)**	**1,360**	**5,505**

In the year to the end of March 2018 equity markets saw further growth before falling back in the final quarter. Overseas equities generally performed better with US equities being driven by Trump's tax cut program. UK markets struggled to make the same progress with Brexit negotiations continuing and the unexpectedly poor result from the general election in May 2017.

Global economies, including the UK, have performed well and in the US this is seen as starting to feed into higher inflation rates. Around the world many of the central banks have either paused or started to reverse their loose monetary policy seen in recent years. The UK recently saw its first interest rate rise in ten years while the Federal Reserve increased rates three times.

Equity volatility fell to almost historically low levels despite tensions with North Korea frequently making headlines. This trend was violently broken in the final quarter when the prospect of higher US interest rates, the potential for a global trade war and new tensions with Russia emerged. Equity markets fell sharply in response.

The bond markets saw little movement over the full year but there were many ups and downs on the way. Yields have risen (and prices fallen) in response to the tightening of monetary policy across the world but the global tensions have maintained the attraction of bonds as a safe investment

Realised profit on financial investments totalled £0.04m (2017: £5.1m) which in the prior year arose from the sale of all Group investments which were previously managed by S&W but were transferred to LGIM in 2016. No such transfers were undertaken during the year ended 31 March 2018.

There were modest positive investment returns for the EasyBuild unit-linked assets. Investment returns totalled £10m (2017: £177m). The performance was driven by the returns from the B&CE Global Investments Fund (up to 85% shares), which returned 1.8%* over the year and the B&CE Pre-Retirement Fund which returned 0.6%* although the Cash Fund fell 0.4%* over the year.

**based on performance of the 0.8% AMC class and after charges*

Securitisation

The Group holds no direct investments in securitisations and as at 31 March 2018 indirectly held £0.2m (2017: £0.1m) in collateralised securities.

A.4 Performance of other activities

A summary of the movement in membership and policyholders over the past 12 months is shown in the table below:

Product	2018	Movement	2017
EasyBuild	2,027	(470,426)	472,453
The People's Pension	3,798,383	1,048,817	2,749,566
Employee Accident Cover	130,496	(4,105)	134,601
Employee Life Cover	130,496	(4,105)	134,601
TUTMAN B&CE Contracted-out pension scheme	6,305	(533)	6,838
Building and Civil Engineering Benefits Scheme	1,095,278	(8,891)	1,104,169
RapidCash	1,717	(122)	1,839
CBH	48,552	5,229	43,323
Term Assurance	10	(3)	13

As seen in the table above, the main movements in member/policy numbers were for EasyBuild and The People's Pension. This was primarily due to the transfer from EasyBuild to The People's Pension in February 2018. This added to already significant growth within The People's Pension with new employers continuing to join the scheme and existing employers adding new employees.

In the year ended 31 March 2018, the Group made a loss totalling £8.8m (2017: £7.5m profit). The table below is an extract from the consolidated statement of comprehensive income in the Annual report and financial statements for the year ended 31 March 2018 for the Group.

	2018 £000	2017 £000
Revenue	**34,469**	30,694
Net operating expenses	**(44,765)**	(30,042)
Gains from financial instruments	**1,331**	7,086
(Loss) / profit before interest and taxation	**(8,965)**	7,738
Finance income	**128**	143
(Loss) / profit before taxation	**(8,837)**	7,881
Tax credit / (charge) on (loss) / profit	**52**	(420)
(Loss) / profit for the financial year	**(8,785)**	7,461

The main variances compared to the prior year were as follows:

- Scheme administration fees (included in revenue) totalled £26.5m for the year (2017: £21.4m). This increase was due to income generated from member charges in The People's Pension increasing significantly during the year given the growth in the assets under management. Fees paid by employers joining The People's Pension continued to make a large contribution to the total administration fees as employers continued to join the scheme in large numbers. Employer fees will reduce significantly in future years following the end of the enrolment timetable in February 2018.
- Net operating expenses increased to £44.8m (2017: £30.0m) driven by the need for investment in additional staff. There were also costs relating to improvements to our underlying information technology and the creation of a new occupational health scheme for the construction industry. Other costs have also increased because of this growth, such as communication costs, professional expenses and regulatory levies.
- Gains from financial instruments totalled £1.3m (2017: £7.1m). Realised profit on financial instruments was £0.0m (2017: £5.1m). The significant profit in the prior year arose from the sale of all Group investments which were previously managed by Smith and Williamson and were transferred to LGIM in 2016.

Own funds for Solvency II purposes decreased from £134.8m to £100.9m. The overall solvency position of the Group is set out in more detail in section E of this report.

Lease arrangements

At 31 March 2018, the Group had annual commitments in respect of non-cancellable operating leases. The operating lease expense for the financial year amounted to £549k. The Group is committed to payments in 2018/19 which are expected to be £576k.

The total of future minimum lease payments under non-cancellable operating leases on land and buildings are £388k.

A.5 Any other information

On 1 April 2017, under an intra-group corporate restructure, PFSL became the intermediate holding company of B&CEIL and B&CEFSL.

As detailed on page 6 the only material matter in respect of the business was the transfer of EasyBuild to The People's Pension.

B. System of governance

This section provides information regarding the system of governance of the Group.

B.1 General information on the system of governance

The oversight of the Group's business and its operations are provided through its governance structure. The B&CEHL Board is made up entirely of Non-Executive Directors with half representing construction employer federations and half representing trade unions, together with an Independent Chairman. This governance structure is designed to ensure that decisions taken are in the best interests of B&CE's customers. The subsidiary company Boards are made up of Directors from the B&CEHL Board, Executive Directors and Independent Non-Executive Directors with financial services expertise who are not affiliated with either construction federations or trade unions.

The Board oversees the conduct of the business and its Executives.

Board objectives

- To set and oversee an effective business strategy. The Boards bring objectivity and judgement to the strategic planning process and ultimately approves, on an annual basis, the strategic plan.
- To ensure risk is properly monitored and managed. This includes establishment and oversight of risk appetite, risk management framework and internal controls framework.
- To oversee the amount, types and distribution of capital and own funds to cover the risks of the Group.
- To establish and oversee a robust and compliant approach to corporate governance.

Committees of the Board

The Board has established four committees to help discharge its responsibilities. Each committee plays a vital role in helping ensure the Board operates efficiently and consider matters appropriately under defined terms of reference.

1. The Group Audit and Risk Committee (GARC)

The GARC assists the Board in meeting its oversight responsibilities by reviewing and assessing the effectiveness of the Group's systems of internal control, management of risks and regulatory compliance. This Committee currently consists of two Independent Non-Executive Directors, one of which is chairman, and two Non-Executive Directors. The Chief Executive Officer (CEO), the Group Director of Finance, the Group Director of Business Assurance and the Internal Audit Manager also attend the meetings of this Committee.

The GARC has the following key responsibilities:

- To review the Internal Auditor's reports to evaluate the effectiveness of the systems of internal control put in place by management.
- To review the risk reports to evaluate the effectiveness of risk management systems put in place by management.
- To review the Group risk register on behalf of the Board.
- To review the compliance report to assess compliance with regulatory requirements and general legal obligations that affect the business.

- To meet with the external auditors annually and to review their reports.
- To review the internal audit programme and ensure the internal audit and risk functions are appropriately resourced, their purpose is understood, and that they have adequate standing in the Group.
- To determine whether the internal control recommendations made by the internal and external auditors have been implemented by management, and to initiate further actions as necessary.
- To review the effectiveness and independence of external auditors.
- To consider the independence of the external auditors including reviewing the range of services provided in the context of all relevant consulting services utilised by the Group.
- To review and challenge where necessary, the actions and judgements of management, in relation to the annual financial statements.
- To draft and submit an annual report to the B&CEHL Board outlining how the Committee has discharged its responsibilities.

2. The Investment Committee

The Investment Committee's duties and responsibilities are primarily to oversee the Group's investment holdings on behalf of the Board. The Committee's main aim is to oversee all the Group's investments in line with agreed Board investment strategy and to consider and make recommendations about changes to the strategy. This Committee currently consists of five Non-Executive Directors and is chaired by the Chairman of the B&CEHL Board. The CEO, the Chief Investment Officer and Group Director of Finance attend the meetings of this Committee.

The Investment Committee has the following responsibilities:

- To review and formulate investment strategies as recommended by the investment adviser.
- To review the performance of the investment managers against agreed benchmarks/objectives considering risks within the investment approach.
- To meet with the investment managers when appropriate and to challenge them on performance related issues.
- To identify and discuss any significant investment risks and to communicate any issues to the relevant Board.
- To identify, recommend and implement any appropriate investment opportunities having taken advice from the investment adviser with relevant Board approval.
- To review the investment reports on a regular basis.
- To act as a reporting channel to the Boards of Directors and Trustees within the Group. This will involve referral of significant issues which arise in respect of investment management that may require discussion, consultation or approval by the B&CEHL Board or Trustees.

3. The Solvency II Committee

The Solvency II Committee's main purpose is to assist the Board in meeting its Solvency II responsibilities. This Committee consists of five Non-Executive Directors and is chaired by the Chairman of the B&CEHL Board. The CEO, Group Director of Business Assurance and Group Director of Finance attend the meetings of this Committee. The Solvency II Committee has been established on a temporary basis during the implementation period of the new regime and will be disbanded at such a time when it is felt that the duties can be met within the Group's permanent governance structures.

The Solvency II Committee has the following key responsibilities:

- To review and recommend amendments to the Group's risk policies.
- To challenge and agree the risk profile of the business.
- To recommend to the Board the risk appetite and tolerance statements including solvency levels and monitor compliance with these.
- To agree the Own Risk and Solvency Assessment (ORSA) process and steer its formulation.
- To agree and initiate the performance of the ORSA process.
- To agree all stress and scenario tests to be used in the production of the ORSA, including reverse stress testing.
- To review, challenge and understand the actuarial assumptions and figures produced for the ORSA.
- To review and make recommendations to the Board for approval of the ORSA report.
- To present to the Board any strategic decisions which are supported or challenged by the ORSA.
- To report to the Board any projected solvency issues arising from the performance of the ORSA.

4. The Remuneration and Nominations Committee

The Remuneration and Nominations Committee's main purpose is to set the framework for the remuneration of the Group's management. This Committee currently consists of four Non-Executive Directors and is chaired by the Chairman of the B&CEHL Board. The CEO and the Group Director of People also attend the meetings of this Committee.

The Remuneration and Nominations Committee has the following key responsibilities:

- To determine and recommend to the Board the framework or broad policy for the remuneration of the Chief Executive Officer, the Independent Chairman, the Directors of all Group companies, including Constructing Better Health, and the Senior Leadership Team.
- To determine targets for any performance related pay schemes operated by the Group.
- To determine the total remuneration package of everyone covered within the terms of the remuneration policy. Considering the overall level of general pay reviews for all employees and consider any major changes in employee benefit or remuneration structures throughout the Group.
- To review the policy for the reimbursement of any claims for expenses from the Independent Chairman of the Group.
- To review and approve relevant people policies on behalf of the Board in relation to any Group Company.
- To be responsible for advising the Board on the appointment and, if necessary, the dismissal of Executive and Non-Executive Directors.
- To receive updates/reports for any significant organisational change.
- To be responsible for keeping under review the skills, experience and composition of all Group Boards and ensuring that the recruitment of Directors and senior leadership team members, including the Chief Executive Officer, takes place in accordance with:
    a. the provisions of the Group Remuneration Policy, which promotes a performance-based culture
    b. the Board and Senior Leadership Team Diversity Policy.

Executive Committee and leadership groups

The Group Executive Committee has the responsibility to oversee all aspects of the business plan and has established four internal leadership groups to ensure there is balanced focus on the running of the business, delivery of the change programmes, and setting the strategic direction of the business.

The 'Change the Business' Leadership Group has responsibility for the delivery and monitoring of the strategic objectives from the business plan.

The 'Run the Business' Leadership Group has responsibility for the overseeing delivery against operational business plan objectives and ensuring high standards of customer service are maintained.

The 'Develop the Business' Leadership Group has responsibility for the setting and developing the future vision of all lines of business and driving the innovation agenda.

The 'Business Assurance Leadership Group' has responsibility for interpreting and overseeing the implementation of new governance and regulatory requirements. It has a responsibility to identify emerging risks and oversee the implementation of risk mitigation plans for the Group.

Key functions

The system of governance includes the Risk, Compliance, Actuarial and Internal Audit functions. These are fulfilled internally apart from the Actuarial function which is outsourced to Deloitte MCS Limited (Deloitte).

The main roles and responsibilities for these functions are set out later in this section.

Remuneration, employee benefits and practices

The Group provides a range of benefits to employees, including paid holiday arrangements, other non-monetary benefits, defined benefit and defined contribution pension plans.

The Remuneration and Nominations Committee is responsible for reviewing the ongoing appropriateness of remuneration policies. It aims to ensure that pay for both staff and Executives is fair, sufficiently competitive to attract and retain talented people, and aligned to the interests of customers and the long-term sustainability of the business.

The aim is to ensure that salaries are broadly aligned with similar roles in the market. Base salaries are generally benchmarked against comparable organisations (financial services and other employers in the region etc.) and the general policy is to benchmark to the market median point.

The remuneration components are balanced and so that fixed components represent a significantly higher proportion of total remuneration than variable bonuses. It is felt that this helps to promote sound and effective risk management and does not encourage excessive risk taking.

If applicable, discretionary bonuses to Executives are considered by the Remuneration and Nominations Committee and aligned to both the delivery of Executive Team objectives as well as personal objectives. Staff bonuses are predominantly based on individual performance, behaviours and the achievement of individual targets.

The Group provides a defined contribution arrangement for employees in The People's Pension which complies with, and exceeds, the government's mandatory automatic enrolment requirements. The defined benefit pension scheme closed to new entrants in January 2014.

Members of the Board receive a fixed fee. Board members are not covered by incentive programmes and do not receive performance-based remuneration. Fees are set at a level that is market aligned and reflects the qualifications and competencies required, the responsibilities and the time the Board members are expected to allocate to discharge their obligations as Board members. No pension contributions are payable on Board members' fees.

Transactions with persons who exercise a significant influence

There were no material transactions with persons who exercise a significant influence on the Group and with members of the administrative, management or supervisory body.

B.2 Fit and proper requirements

The Group ensures that people in leadership or other key positions are sufficiently competent to do so. This is based on the professional qualifications, expertise and experience of the individuals in the following areas:

- Insurance and financial markets
- Business strategy and business model
- System of Governance
- Financial and actuarial analysis
- Legal and regulatory framework and requirements

The Group undertakes a wide range of personal and professional checks on its employees when they join and annually where appropriate.

The Group has a policy and a procedure to meet the regulatory requirements for Fit and Proper Persons. These controls ensure that all those holding controlled functions, senior insurance management function, key function holders and key function performers:

- meet the requirements of the regulators' 'fit and proper' test and follow its principles
- comply with the Statement of Responsibilities
- report anything that could affect their ongoing suitability.

The Board will consider during its assessment of an approved person their diversity of qualifications, knowledge and relevant experience to ensure that the Group is managed and overseen in a professional manner.

The process of assessment for an approved person role includes the following:

- A written job description outlining the duties and responsibilities of the role
- An assessment of the level of fitness and propriety required for the role, based on the formally documented job description and person specification
- Verification of identity, relevant qualifications, experience, references and professional memberships where required
- A process that matches the person with the requirements of the role
- Approval by the Board is required prior to the appointment and the FCA/PRA, where required.

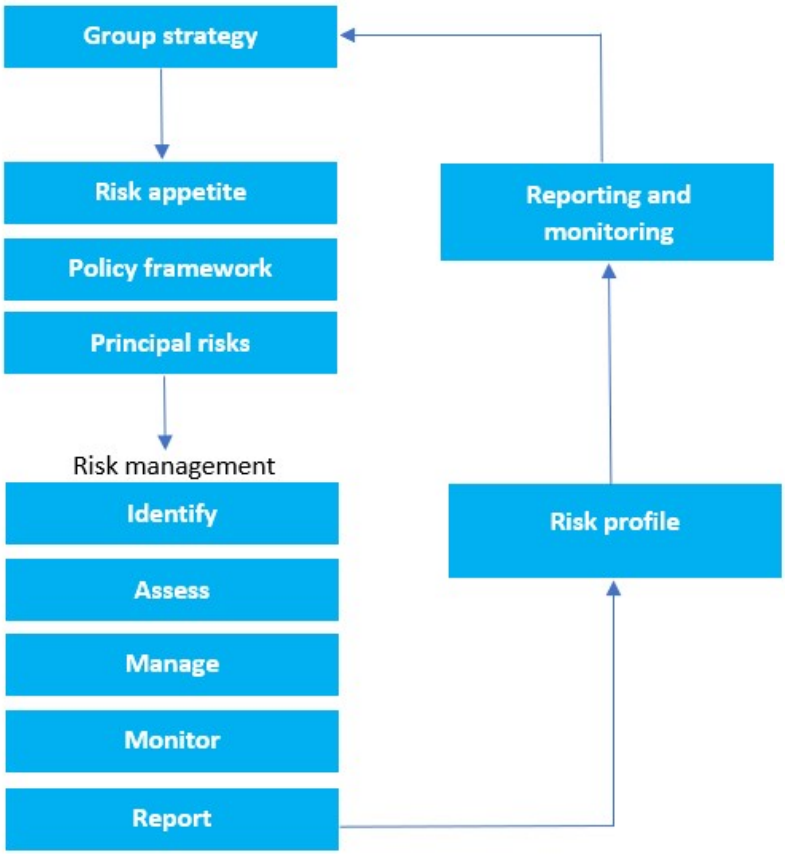
At appropriate intervals, individuals will be required to confirm that there have been no changes to the information provided at the point of approval and consequently, the fitness and propriety status is unchanged.

The Group's policy requires the ongoing monitoring of fitness and propriety. This includes a review of ongoing adherence to the conduct standards and continual professional development in annual reviews. The policy requires individuals who are performing a key function to complete a questionnaire self-assessment form based on their honesty, integrity and reputational soundness.

The primary mechanism for tracking ongoing competency is the Group's performance management process. This includes monitoring of an approved person's individual financial soundness.

B.3 Risk management system

The Group maintains an enterprise risk management framework (ERMF), setting out how risk management operates throughout the Group and how it is linked to risk appetite and risk policies, the strategy, the business and solvency and capital management. The key objective of the ERMF is to ensure that the Group has a sound and consistent basis for identifying, measuring, controlling, monitoring and reporting risk at all levels. The Group's ERMF enables the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Risk appetite, stress testing and the identification of emerging risks are integral to the framework.



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

The Group's risk governance framework and ownership structure ensures oversight of and accountability for the effective management of risk.

The GARC delegates authority for risk management to the CEO, who delegates to the members of the Executive Committee. The Group Director of Business Assurance chairs the Business Assurance Leadership Group, who has accountability for providing risk oversight.

Three lines of defence

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

- The First Line of Defence is management who are responsible for owning and managing risks to achieve the business objectives on a day-to-day basis.

- The Second Line of Defence is the risk and compliance functions. The risk function is accountable for the design and implementation of the Enterprise Risk Management Strategy and Framework and the provision of proportionate oversight of and challenge to the business' management of risks, events and management actions. The compliance function supports and advises the business on the management of its regulatory, financial crime and conduct risks. It is accountable for maintaining the compliance standards and frameworks which the Group operates and monitoring and reporting on its compliance risk profile.

  These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

- The Third Line of Defence is an independent assurance function from the operational functions that is made up of internal audit who are responsible for providing an evaluation of the adequacy and effectiveness of the internal controls system and other elements of the system of governance.

Risk management process

The risk management process enables the Group to manage risk in a structured and consistent way and is summarised below:

Stage	Explanation
Identify	The Group has a team of experts in the risk function who sit down with our leaders and managers regularly to understand the risks they face and what they are doing to avoid or address those risks. Identification of current and emerging risks, including those presented in our change programmes, which could impact the achievement of business strategic objectives.
Assess	Assessment of risks on an inherent and current basis in terms of likelihood and impact of occurrence. Assessments are made using quantitative or qualitative measures which facilitates a consistent way to the sizing and categorisation of risk.
Manage	Management of current risk exposure within risk appetite through the implementation of mitigating actions. Action plans are used to ensure residual risk exposure is maintained at or brought back within risk appetite, to address control weaknesses or manage remediation (if necessary) following an event.
Monitor	All risks are mapped to a risk category to support effect monitoring and reporting. The use of Key Risk Indicators ensures management actions are being delivered.
Report	Regular reporting of the risk profile and progress of action plans. Escalation of notable changes to risk profiles to relevant committees and GARC.

Risk management objectives

The management of risk is fundamental to our activities at a strategic, tactical and operational level and seeks to ensure that the risk appetite is reflective of the Group's overall business strategy.

Our risk objectives are shown below

Risk objective	Risk appetite statement
Overriding Group risk objective	The Group recognises that its long-term sustainability depends on having enough capital to meet its liabilities as they fall due, protecting its reputation and the integrity of its relationship with members and other stakeholders. As part of this, the Group has appetite for market and insurance risk to enable and assist it to undertake its primary activity of providing pensions.
Maintain capital adequacy	The Group seeks to maintain a minimum Financial Strength Ratio of 150% and free assets of at least £25m for B&CEIL and of at least 150% for the Group as a whole.
Maintain a stable and efficient capital management	The Group aims to exceed both planned and unexpected cash flow requirements that arise following a 1 in 200 years insurance, market or credit risk event.

Risk objective	Risk appetite statement
Protect the interests of the Group and members	The Group has no appetite for material risks resulting in reputational damage, regulatory or legal breach, poor customer outcomes, fines or prosecutions and other types of non-budgeted operational losses associated with the Group's conduct and activities. The Group will maintain a robust and proportionate internal control environment.
Comply with legal and regulatory requirements	The Group has no appetite for material risks resulting in non-compliance with legal or regulatory requirements.

The risk appetite statements define the risks the Group is prepared to accept in pursuit of achieving its strategic objectives, these statements are supported by key risk indicators and key performance indicators designed to provide an early warning that appetite may be breaches without management action being taken.

Regular leadership meetings and committee meetings take place to monitor limits and implement remedial actions as required. A record is maintained of appropriate management actions that have been taken to mitigate the effects of a breach. In the event a breach occurs, it is communicated through the appropriate governance channels.

We did not see any material breaches to our risk appetite during the year.

Risk profile

The Group writes primarily unit-linked pensions business. These contracts do not include any financial options or investment guarantees. In addition, the Group writes short-term protection business, although new business volumes are low. It has a legacy term assurance contract which is closed to new business.

Capital is primarily generated by the excess of annual management charge income over expenses incurred in acquiring and administering the unit-linked pensions business.

The Group's risk profile is stable and generally changes only gradually from year to year.

In this context the Group defines the risk profile as a complete view of all possible risk types that each of the entities may face. This means the Group has a clear and complete view of all the types of risks that could potentially have an impact on the Group.

The principal risks to which the Group is exposed are underwriting, counterparty default, market, credit, liquidity and operational risks. These are considered within the ORSA report and presented to the Board on at least an annual basis.

B.4 Own Risk and Solvency Assessment (ORSA)

The ORSA is a central component of the ERMF and the key internal processes undertaken to determine the own funds necessary to ensure that the Group's overall solvency needs are always met. The ORSA addresses all key risks that the Group has identified (both internal and external) that are applicable to the Group and considers the business strategy and required capital over a five-year period. These processes are reviewed periodically throughout the year at various governance committees enabling frequent decision-making.

The ORSA is facilitated by the enterprise risk team and supported by subject matter experts across the business including actuarial, compliance and finance. Outcomes of the ORSA are taken into consideration by the Executive Committee.

The ORSA report is presented to the Board for challenge and approved annually, which is consistent with the stable nature of the Group's capital needs over time. The conclusions from the report are taken into consideration in assessing the Group's risk and capital profile related to the strategic plan. The agreed outcomes and conclusions of the ORSA are approved by the Board.

The ORSA report is used to explain the current and forecasted capital and solvency position of the Group throughout the strategic period. Sometimes interim ORSAs may be created if specific triggers occur during the reporting period.

The ORSA process includes:

- A review of business plans, risk registers and risk appetite statements
- Review, testing and assessment by the actuarial function
- Review, assessment and reporting from the risk function
- Issuing of the final ORSA for approval and submission to the PRA.

The Group SCR defines the amount of capital that the Group must hold to satisfy regulatory requirements. The Minimum Capital Requirement (MCR) represents the absolute minimum level of capital that the Group must hold to avoid regulatory action. The Board has adopted the standard formula as the method for calculating the required capital needs of the Group.

As part of this assessment several stress and scenario tests are selected by the Board to understand how sensitive the Group's financial and solvency position is to certain events or under different strategic planning assumptions. The outputs are reviewed by management and challenged by the Board and, where appropriate, opportunities are noted, and conclusions drawn. The key conclusions from the ORSA process are summarised in the report which will be discussed and challenged by the Board. Strategic business decisions are made after consideration of the outputs of the SCR and ORSA process.

B.5 Internal control system

The system of internal control is designed to manage and minimise the risk of failure to achieve the overall business objectives. In pursuing these objectives, internal controls can only provide a reasonable and not absolute assurance against material misstatement or loss. These internal controls are documented in risk registers and procedure documents, which set out the detailed processes for all aspects of the management of the Group on a day-to-day basis.

The Group has established and maintains a system of governance which provides for the sound and prudent management of the business and includes:

- A transparent organisation structure with clear allocation and appropriate segregation of responsibilities
- An effective system for the review of management information and transparent decision-making
- Compliance with the system of governance requirements.

The GARC is responsible for maintaining oversight of the control environment within the Group with the internal audit function through planned and commissioned reviews of processes and providing an opinion on the internal control framework of the Group's business.

The Compliance function is responsible for:

- Identifying, assessing, monitoring and reporting on the Group's compliance risk exposure
- Assessing the possible impact of legislative change and monitoring the appropriateness of compliance procedures
- Assisting, supporting and advising the Group in fulfilling its responsibilities to manage compliance risks.

The Risk function is responsible for:

- Identifying, managing, monitoring and reporting on current and emerging risks
- Setting the overall risk management and strategic framework
- Monitoring and assisting in the effectives operation of the Group's risk management framework and maintaining an accurate view of the Group's risk profile and
- Contributing to the ORSA process.

Both functions are independent of the operational functions and provide limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system and the relevant legal and regulatory requirements of the business. These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

The Group Director of Business Assurance is responsible for reporting to the Board on all compliance and risk related matters, with day-to-day monitoring completed by both the Head of Risk and Business Continuity and the Head of Regulatory and Product Assurance.

Each key function provides regular reports to the GARC and Board as well as attending committee and Board meetings.

B.6 Internal audit function

The Internal audit function helps and supports the Board and Executive Committee in their aim to achieve strategic and operational objectives, protect the reputation and the sustainability of the Group and discharge their corporate governance responsibilities. Internal audit achieves this by:

- Providing assurance to the Board that risk management processes and controls established by management are adequate and effective to manage key business risks by developing and operating a risk based internal audit cycle
- Assessing whether all significant risks are identified by management and the risk function and are reported to the Board and the Executive Committee
- Monitoring and reporting on the adequacy of risk controls, acting independently from the operational functions as the Third Line of Defence.

It operates in accordance with the Internal Standards for the Professional Practice of Internal Auditing and is independent of operational functions. To both preserve and reinforce its independence and objectivity, the primary reporting line for internal audit is to the Chair of the GARC who is an independent Non-Executive Director. The GARC is responsible for the appointments and removal of the Internal Audit Manager. The Chair of GARC sets objectives for the Internal Audit Manager. The Internal Audit Manager communicates and interacts directly with the Chair of GARC and with members of the Committee in between Committee meetings or where escalation is required.

The Internal Audit Manager also maintains a reporting line to the Group Director of Business Assurance, to report on the outcome of audit activity, assessment on the control environment and for day-to-day administrative purposes, although these administrative purposes do not include any matters that could influence the internal audit function in delivering its mandate.

It is imperative that the internal audit function acts as an independent, objective assurance and consulting function. The function constitutes an integral element of the Group's control framework. It does not hold any executive responsibilities or accountability for risk management or systems of internal control, other than to appraise their effectiveness through being exempt from undertaking any executive or operational duties or any activity that may impair the internal audit function's judgement.

The Internal Audit Manager confirms to the GARC, at least annually, the organisational independence of the function.

B.7 Actuarial function

The Actuarial function is outsourced to Deloitte. The responsibilities of the Chief Actuary are set out under Conditions Governing Business 6, in the PRA Handbook. These are to:

- Coordinate the calculation of technical provisions
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions
- Oversee the calculation of technical provisions in the cases set out in Technical Provisions 12 of the PRA Rulebook (these cases are where approximations are needed)
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk-management system (referred to in Conditions Governing Business 3), with respect to the risk modelling underlying the calculation of the SCR, the MCR and to the Group's ORSA.

B.8 Outsourcing

The Group outsources and enters into outsourcing arrangements only when there is a sound commercial basis for doing so, and where the risk can be effectively managed. An outsourcing policy sets out the requirements for outsourcing critical or important functions and activities.

A due diligence process is undertaken prior to any final decision being made to determine whether to outsource any business activity. This addresses all material factors that would impact on the potential service provider's ability to perform the business activity. The outsourcing arrangements are subject to regular review and any significant findings of this review are reported to the Board.

The following is a list of the material operational functions the Group has outsourced together with the jurisdiction in which the service provider of such functions or activities are located.

Name of provider	Service outsourced	Relationship owner	Jurisdiction
B&CEFSL	Intra-group IT and policy administration	CEO	UK
Deloitte MCS	Actuarial function	Group Director of Finance	UK
OAC	Actuarial services – general insurance	Group Director of Finance	UK
Hymans	Administration and actuarial services	Group Director of Finance	UK
LGIM	Investment management	Chief Investment Officer	UK
SSGA	Investment management	Chief Investment Officer	UK
Barnett Waddingham	Investment advice	Chief Investment Officer	UK
Cameron McKenna Nabarro Olswang LLP	Legal advice	Group Director of Business Assurance	UK

B.9 Assessment of the adequacy of the Group's system of governance

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

The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence. An explanation of these responsibilities can be found in this section.

During the year, the Board approved the 2017 Own Risk and Solvency Assessment (ORSA) following detailed review and challenge to management by the Solvency II Committee. The ORSA reports contain additional information including an assessment of non-quantifiable risks, appropriateness of the standard formula, technical provisions and the outcomes of stress and scenario tests and reverse stress tests.

The Group undertakes a Risk and Control Certification process on a regular basis, in which each business area conducts a review of the effectiveness of its risk management and internal controls system.

Our external auditors undertook an audit of the Group for the 12 months ended 31 March 2018. The audit report was reviewed by the Group Audit and Risk Committee (GARC) in July 2018 before the Group's 2018 Annual report and financial statements were approved. As part of the year end process the GARC noted that following the review, no issues have been identified that could be considered to represent:

- Material fraud or irregularities
- Material systemic control weaknesses or breakdown
- No evidence of repeat occurrence of material issues.

The Group has identified certain principal risks as being applicable to the Group, for example as referred to in the ORSA and summarised in the Group's 2018 Annual report and financial statements and robustly assesses these principle risks. The Board sets and monitors adherence to the risk strategy, risk appetite and risk framework. Within this overall context, the Board has over time approved a system of governance which includes the Matters Reserved to the Board, the Board Committee's terms of reference, risk appetite statements, the enterprise risk management framework (ERMF) and Group policies.

The Group has assessed its structure and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the Group.

B.10 Any other material information regarding the system of governance

B&CEHL appointed several new Directors and, as noted above, PSFL became the intermediate holding company of B&CEIL and B&CEFSL.

C. Risk profile

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

This section of the report captures the overall risk status of the Group considering all the material risks to which the Group is exposed. For each major risk grouping, this section provides a description of:

- risk exposure
- measures used to assess the risk
- risk concentration
- risk mitigation
- risk sensitivity.

Prudent Person Principle

Under the Prudent Person Principle, firms are expected to understand fully the risks relating to their investments, make proper provision for them via the SCR and ensure that investment decisions are made in the best interests of policyholders. All investment risks must be properly identified, measured, monitored, managed, controlled and reported.

Prudence is evidenced in the manner through which investment strategies are developed, implemented and monitored and in the guidance provided by the Investment Committee and Board.

The investment function is responsible for ensuring that the Group only invests in assets and instruments where the risks of which can be properly identified, measured, monitored, managed and reported in accordance with the Investment policy. The Group invests its assets in accordance with the Prudent Person Principle by way of a robust investment governance structure with oversight provided by the Investment Committee assisted by the Group's professional advisors.

Assets are invested in a prudent manner and subject to ongoing monitoring and oversight, this includes:

- Limiting investments in assets not admitted to trading on a regulated financial market
- Diversifying exposure across a variety of asset classes, geographic regions and issuers
- Measuring and monitoring risk exposure on a quarterly basis
- Reviewing the performance of all investments held against market conditions, strategic benchmarks and investment guidelines set by the Group
- Reviewing the investment objectives of each entity within the Group to ensure the investment strategy remains appropriate.

Risk mitigation techniques

All material risks which the Group is exposed to, are identified and recorded in the risk register. The risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to management, the GARC and the Board.

The following list outlines the actions/techniques used for managing all risks within the Group:

Treatment	Actions required
Risk tolerance	The Group will have considered all other management techniques to reduce the impact and/or likelihood of the risk and may proceed to accept the current level of risk in line with agreed risk appetite.
Risk treatment	The Group where possible will take actions to reduce the impact of a risk.
Risk transfer	The Group outsources several activities and, in some cases, the associated risks with carrying out those activities. The Group retains responsibility for these and manages its outsourcing relationships accordingly.
Risk termination	Where risks are outside of risk appetite and there are no commercially viable means of reducing the risk, the group may remove the risk.

The Group conducts various stress tests to assess the implications and sensitivity of various scenarios on the capital position of the group. These are completed as part of the ORSA process. Overall the ORSA exercise concludes that under severe financial scenarios, the Group remains well capitalised with capital more than the SCR.

C.1 Underwriting risk

This is the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing and reserving assumptions. Insurance risk includes fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Group at the time of underwriting.

The Group has underwriting risk predominantly in the following areas:

- **Life underwriting risk:**
  - Expense risk – the risk that expenses escalate to a higher level than expected
  - Lapse risk – the risk of loss from changes in the level of lapse rates. For the Group, the risk is that lapse rates are lower than expected.

- **Health underwriting risk:**
  - Reserve risk – the variability that might occur between the reserves established for past events and the actual claim payments and reserves that will need to be established at the next year end
  - Premium risk – the variability that might occur between the liabilities recognised for future events occurring out of cover that has already been paid for
  - Health catastrophe risk – relates to mass accident events and accident concentration risk related to the accident cover provided by the Group.

The life underwriting risk exposure is through the EasyBuild product, while the health underwriting risk is through the Employer Accident Cover and RapidCash products.

The Group monitors and controls underwriting risks through a range of processes:

- B&CEIL has outsourced the administration of EasyBuild to B&CEFSL to reduce expense risk
- The Term Life product is reinsured under a 90% quota share agreement with Swiss Re. This helps to mitigate the small amount of mortality risk that B&CEIL is exposed to.

The overall diversified solvency capital requirement for the life underwriting module at 31 March 2018 was £2.4m (£2.7m undiversified). The overall diversified solvency capital requirement for the health underwriting module at 31 March 2018 was £0.9m (£1.1m undiversified).

There was a significant reduction in the SCR requirement for underwriting risk during the reporting period following the sizeable reduction in EasyBuild policies.

C.2 Market risk

This is the risk of loss in value of an investment arising from movements in market prices.

The Group is exposed to market risk on both its linked and non-linked assets as follows:

- **Equity risk** – the risk of loss in value of equities due to a fall in equity markets

  A fall in equity markets would impact the following:

  - The non-linked equity holdings held by the Group, including the L&G Mixed Investment 0-35%
  - The net asset value of the Group's strategic investments (B&CEFSL and CBH)
  - The unit-linked equity holdings of the EasyBuild scheme; the consequence of the latter on the Group is that the expected future income from the EasyBuild annual management charges would fall as the value of the underlying funds falls
  - The staff defined benefit pension scheme; the consequence of this on the Group is that a fall in the value of the pension scheme assets could lead to a requirement for B&CEHL to make additional deficit payments to repair the scheme's funding position.

- **Interest rate risk** – the risk of adverse movement in value of those assets and liabilities the values of which are sensitive to changes in the term structure of interest rates.

  Movements in interest rates would impact the following:

  - the non-linked fixed interest holdings (gilts and corporate bonds) held by the Group through the LGIM pooled funds
  - the unit-linked fixed interest holdings of the EasyBuild scheme
  - the non-unit best estimate liability in respect of EasyBuild, and
  - the staff defined benefit pension scheme; the consequence of this on the Group is that a fall in the value of the pension scheme assets or an increase in the value of the pension scheme liabilities could lead to a requirement for B&CEHL to make additional deficit payments to repair the scheme's funding position.

  The impact of both an interest rate increase and an interest rate decrease are considered and the more onerous is used to determine the capital requirement.

- **Spread risk –** the risk of changes in the value of assets or liabilities to changes in the level or volatility of credit spreads over the risk-free interest rate.

  The Group has exposure through its unit-linked liabilities and through the LGIM pooled funds due to corporate bonds and those sovereign debt holdings that are not deemed to be risk-free.

- **Concentration risk** – the risk arising from large investments in individual counterparties or single name exposures.

  The Group has exposure through the LGIM pooled funds.

- **Currency risk** – the risk of reductions in earnings and or value of assets due to deviations in currency exchange rates.

  Currency movements would impact on the following which all have exposure to overseas investments:

  - The non-linked equity holdings held by the Group, including the L&G Mixed Investment 0-35%
  - The unit-linked equity holdings of the EasyBuild scheme; the consequence of this on the Group is that the expected future income from the EasyBuild annual management charges would fall as the value of the underlying funds falls
  - the staff defined benefit pension scheme; the consequence of this on the Group is that a fall in the value of the pension scheme assets could lead to a requirement for B&CEHL to make additional deficit payments to repair the scheme's funding position.

- **Property risk** – the risk of the loss in value of immovable property due to adverse movement in the property markets.

  A fall in property values would impact:

  - The value of the land and premises the Group owns and operates from
  - The staff defined benefit pension scheme. A fall in the value of the pension scheme assets could lead to a requirement for B&CEHL to make additional deficit payments to repair the scheme's funding position.

The Group's greatest area of risk exposure is market risk. Significant market risk is accepted within the Group's risk appetite and is seen as an inherent part of the part of the Group's business whilst it continues to operate unit-linked pension business.

The Group monitors and controls market risk through a range of processes:

- The Board has established an Investment Committee which meets at least quarterly to provide oversight of the Group's investment activities
- The Group has an appointed professional investment adviser who attends all Investment Committee meetings and provides formal advice for all investment decisions taken
- The Group has an in-house investment team led by the Chief Investment Officer
- The Group invests in diversified investments funds
- The Group has established investment policies which restrict where it will invest, including asset type and quality
- The Group uses well regarded and high-profile investment managers. When selecting investment managers, the Group followed a robust selection process before appointing them and carries out regular reviews to ensure they are adhering to agreed policies
- The unit-linked funds are reinsured to Managed Pension Funds Limited.

The overall diversified solvency capital requirement for the market risk module at 31 March 2018 was £17.7m (£22.4m undiversified).

There was a significant reduction in the SCR requirement for market risk during the reporting period following the sizeable reduction in EasyBuild policies which significantly reduced the value of the assets held within B&CEIL.

C.3 Default risk

This is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

The Group has credit risk predominantly in the following area:

- Counterparty default - The risk that a counterparty to a financial instrument will default on its obligations thereby causing financial loss to the Group.

For the Group, the most significant counterparty exposures are the reinsured unit funds to Managed Pensions Fund Limited (MPF) within the State Street Corporation group, and several cash at bank holdings held as liquid assets within the Group and the staff defined benefit pension scheme.

The Group monitors counterparty risk through a range of processes:

- Where reinsured liabilities are in excess of £10m, the reinsurers must have an S&P credit rating of AA- or above (or a solvency ratio of greater than 196% where the reinsurer does not have a rating). Where the rating falls below this level, a new reinsurer will be sought unless there are exceptional circumstances. Where the liabilities are below £10m, the S&P credit rating must be A- (minus) or better
- The Board sets credit rating limits and regularly reviews the credit ratings of counterparties
- The Board reviews regularly the Solvency II Financial Strength Ratio of Managed Pension Funds Limited
- The Group perform stress tests and identify management actions should such stresses occur.

The controls around counterparty risk are therefore limited but it should be noted that financial due diligence is carried out prior to appointment of reinsurers and banks used by the Group.

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

The overall net solvency capital requirement for the credit risk module at 31 March 2018 was £3.4m.

The main material changes to the level and nature of counterparty risk exposure has reduced following the EasyBuild transfer to The People's Pension due to the reduced exposure to MPF.

C.4 Liquidity risk

This is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The primary liquidity risk of the Group is the obligation to pay claims to policyholders as they fall due.

The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

The Group's exposure to liquidity risk is low since it maintains a high level of liquid assets to meets its liabilities. Liquidity risk is not considered as a separate stress under the standard formula SCR as at 31 March 2018.

The finance team carries out regular cash flow projections to ensure that enough cash is held on deposit to meet upcoming outflows.

The Group also has significant holdings in investment instruments which can be realised at short notice if required.

The Group is writing very little new business so the profit in future premiums is not material.

C.5 Operational risk

This is the risk of loss or adverse consequences for the Group resulting from inadequate or failed internal processes, people or systems, cyber risk, or from external events.

The Group has no appetite for financial losses arising from failings or errors from people, processes and systems, particularly when such losses could translate into:

- A negative impact on the Group's reputation
- An inability to provide services to our customers
- A breach of applicable laws and regulations

The Group has categorised operational risk into the following areas:

- **Information Technology (IT)**
  - The risk arising from lack of effectiveness, integrity, reliability, capacity and/or availability of IT infrastructure
  - The risks of the inability to protect data from unauthorised access, use, disclosure, disruption, modification and/or destruction.
- **People and fraud**
  - The risk of inadequate recruitment practises, development, management or retention of employees and/or contractors.
- **Process management**
  - The risk to a department's service arising from a failure to carry out operational processes in an accurate, timely or complete manner.
- **Regulatory and Legal**
  - The risk of change in regulations or law that might affect the industry or business in which we operate.
- **Outsourcing**
  - The risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner or third party.

The Group monitors and controls operational risk through a range of processes:

- The Group's risk management framework is designed to enable it to capture and monitor risk information in a robust and consistent way
- Risk and control assessments – the risk management framework requires all teams across the business to carry out a risk and control self-assessment regularly
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirements includes an assessment and quantification of the operational risk exposure.

Operational risks are regularly reviewed, including an annual in-depth analysis and discussion at risk assessment meeting with management and relevant committees.

The Group is subject to concentration in its operational risks, for example, our IT systems. These include the risk of losses in a number of scenarios such as system outages and data security breaches. Technology remains at the core of our Group operations and focus is on upgrading our IT systems to capabilities, aimed at improving the digital offering, operational efficiency and customer experience.

Our operations are based at our Head Office in Crawley, in the event of a catastrophic event which results in our office being out of action, we have business continuity plans for critical functions which should ensure continuity of service to our customers without significant interruption. Our operations would continue from our second office in Crawley, or from our disaster recovery site located approximately 20 miles from Crawley.

Operational risks are quantitatively assessed for impact on the basis of financial loss and qualitatively for reputational considerations using a Board agreed assessment matrix. Operational risks are categorised into groupings of risk and reported to the GARC and Boards on a quarterly basis.

The Group holds Solvency II capital to manage these risks calculated on the basis of Solvency II SCR. For the purposes of calculating the Solvency II SCR it is calculated by considering a number of scenarios at a 1-in-200 level.

No material changes to the operational risk profile have occurred during the reporting period.

C.6 Risk sensitivity

To monitor the impact of the sensitivity of material risk and events on the Group's Solvency II surplus asset position, the Group performed several tests when producing the 2017 Group ORSA Report. The below provides an overview of key tests performed:

- **Investment in strategic activities:** This considers the ongoing strategic investment and the impact of the associated risks on our capital.

- **Product changes and poor performance of schemes:** This considered the transfer of EasyBuild out of B&CEIL and into The People's Pension - a range of different transfer timings were considered. Additionally, scenarios were run considering the impact of The People's Pension performing below expectations.

- **Global market crisis:** This considers an adverse market movement, mass lapses of EasyBuild policies and a reduced solvency ratio for the reinsurance counterparty Managed Pension Funds.

- **Adverse impact of Brexit scenario:** Considers a scenario of an equity downturn of 34%, a mass lapse of 60% of employed policyholders, a downgrade of State Street Corporation from AA to A, a fall in risk-free rates and a 20% increase in expenses.

Under each stress scenario, assets and liabilities and the SCR are revalued and each of the stressed balance sheets is projected over a five-year period.

The 2017 Group ORSA report was approved by the Group on 16 November 2017 and the 2018 ORSA report is currently in development.

C.7 Other material risks

Reputational risk is not considered a material risk within the Group; however, it is considered within the impact of other risk types.

Strategic risks are associated with strategic implementation and formulation are considered within the Group Risk Register and monitored by the Executive Committee.

The Group is not exposed to any other material risks. On an annual basis, the Group assesses its risk profile against the risk elements included in the standard formula calculation. This assessment considers key risks, stresses and correlations between them and has concluded that the standard formula remains appropriate for the business.

C.8 Any other information

The risk exposures calculated as part of the SCR were:

Breakdown of Group Solvency Capital Requirement (£000)		
Risk	31 March 2018[1]	31 March 2017[1]
Life Underwriting risk		
Mortality	1	193
Longevity	231	-
Expense	2,280	3,388
Lapse (decrease)	147	-
Lapse (mass)	-	15,683
Life Catastrophe	-	59
Total before diversification	2,659	19,323
Diversification benefit	(232)	(1,673)
Total	2,427	17,650
Health Underwriting risk		
NSLT Health Underwriting	291	340
Health Catastrophe	780	780
Total before diversification	1,071	1,120
Diversification benefit	(173)	(195)
Total [2]	898	926
Market risk		
Equity	6,355	28,529
Interest rate (up)	1,705	3,261
Credit spread	3,414	3,962
Concentration	529	548
Currency	2,133	8,864
Property	1,638	1,600
Total before diversification	15,774	46,764
Diversification benefit	(4,364)	(10,273)
Total	11,410	36,491
Counterparty default risk	7,219	16,943
Total risk capital before diversification	21,954	72,010
Diversification benefit[3]	(5,760)	(19,621)
Total risk capital[4]	16,194	52,389
Operational risk	767	194
Capital requirement for residual undertakings	6,663	-
Total Solvency Capital Requirement [2]	23,623	52,584

1. *Loss amounts are the reductions in Own Funds because of each of the stresses, based on the impact each stress has on both the assets and the liabilities.*
2. *Apparent discrepancy due to rounding.*
3. *Diversification benefit between the Life underwriting, Health underwriting, Market and Counterparty default risk modules.*
4. *Total risk capital from the Life underwriting, Health underwriting, Market and Counterparty default risk modules after allowing for the diversification benefit within these modules.*

D. Valuation for Solvency II purposes

This Valuation for Solvency Purposes section of the report describes the valuation of assets, technical provisions and other liabilities and changes from the UK GAAP basis to a Solvency II basis. The section also outlines the approach and methodology underlying the valuation.

D.1 Valuation of assets

To calculate the Group solvency position, Method 1 (Default method): Accounting consolidation-based method has been used. Assets have been valued according to the requirements of the Solvency II Directive and related guidance, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The following table sets out the assets and liabilities held as at 31 March 2018:

Assets	Solvency II £000	UK GAAP £000	Solvency II Movement £000
Intangible assets	-	117	(117)
Property, plant & equipment	6,550	4,123	2,427
Holdings in related undertakings	30,285	-	30,285
Collective investment undertakings	80,326	62,004	18,322
Assets held for unit-linked contracts	68	68	-
Reinsurance recoverables - Other Life	15	15	-
Reinsurance recoverables - Life (unit-linked)	7,041	7,045	(4)
Insurance receivables	-	-	-
Cash and cash equivalents	2,405	37,501	(35,096)
Any other assets, not elsewhere shown	2,414	21,729	(19,315)
Total assets	**129,104**	**132,602**	**(3,498)**
Liabilities			
Technical provisions - Health	361	306	55
Technical provisions - Other Life	66	67	(1)
Technical provisions - Life (unit-linked)	16,859	7,113	9,746
Deferred tax liabilities	99	99	-
Payables (trade, not insurance)	4,752	4,752	-
Any other liabilities, not elsewhere shown	6,025	11,828	(5,803)
Total liabilities	**28,162**	**24,165**	**3,997**
Excess of assets over liabilities	**100,942**	**108,437**	**(7,495)**

For comparison, the following table sets out the assets and liabilities held as at 31 March 2017:

Assets	Solvency II £000	UK GAAP £000	Solvency II Movement £000
Intangible assets	-	203	(203)
Property, plant & equipment	6,400	4,610	1,790
Holdings in related undertakings	18,063	-	18,063
Collective investment undertakings	101,001	82,548	18,453
Assets held for unit-linked contracts	547	547	-
Reinsurance recoverables - Other Life	15	15	-
Reinsurance recoverables - Life (unit-linked)	1,048,319	1,048,948	(629)
Insurance receivables	907	907	-
Cash and cash equivalents	3,276	33,950	(30,674)
Any other assets, not elsewhere shown	1,355	11,395	(10,040)
Total assets	**1,179,883**	**1,183,123**	**(3,290)**
Liabilities			
Technical provisions - Health	460	391	69
Technical provisions - Other Life	115	117	(2)
Technical provisions - Life (unit-linked)	1,032,750	1,049,495	(16,745)
Deferred tax liabilities	128	128	-
Payables (trade, not insurance)	4,267	4,267	-
Any other liabilities, not elsewhere shown	7,365	11,563	(4,198)
Total liabilities	**1,045,085**	**1,065,691**	**(20,876)**
Excess of assets over liabilities	**134,798**	**117,162**	**17,636**

The valuation principles applied to the following assets under Solvency II are consistent with those used in the UK GAAP accounts and are explained below with any differences noted.

Holdings in related undertakings

Following Article 171 in the Delegated Acts, the subsidiaries B&CEFSL and CBH have been reported as holdings in related undertakings as they are strategic equity investments. B&CEFSL is authorised and regulated by the FCA as an administration and distribution services company and CBH, as a national scheme for the management of occupational health in the construction industry, is not regulated.

The values for B&CEFSL and CBH are consolidated in the UK GAAP figures on a line for line basis but for Solvency II they are treated as strategic investments and are shown as Holdings in related undertakings with a value of £30,285k (2017: £18,063k). They are measured at net asset value under fair value principles and adjusted for intangible assets and inter-company balances. B&CEFSL equates to £30m of this value and is reliant on its contracts with other B&CE entities for its income, therefore its fair value is likely to be the actual net assets.

Intangible assets

Under Solvency II, intangibles can only be ascribed a value when they can be sold separately, and it can demonstrate there are quoted prices in active markets for same or similar assets. All intangible assets do not meet those conditions and, therefore, are ascribed a value of nil.

Property, plant and equipment

Under the Solvency II basis, where it is found that an active market exists amounts are presented at fair value, which is the independently assessed market value, or a suitable proxy. Where no market value or suitable proxy exists, a value of nil is ascribed.

This differs from UK GAAP which permits a depreciated cost model.

Investments in collective investment undertakings

Investments in collective investment undertakings are valued at fair value based on market value at the reporting date which is bid price or, where investments are dealt at a single price, then this value is used for both UK GAAP and Solvency II.

Under Solvency II, the fair value of an externally-managed collective investment undertaking used for the management of short-term liquidity by the Group with a fair value of £18,326k (2017: 22,465k) has been re-classified as a collective investment undertaking from cash and cash equivalents under UK GAAP. The remaining difference relates to collective undertakings held by B&CEFSL which have been reclassified within Holdings in related undertakings.

Reinsurance recoverables

Reinsurance recoverables are separately identified between Reinsurance recoverables - Other Life and Reinsurance recoverables - Life (unit-linked). The only difference to the UK GAAP valuations relates to a counterparty default adjustment which is not included under UK GAAP, see paragraph below on 'Material differences between Solvency II and UK GAAP valuation'.

Cash and cash equivalents

Under UK GAAP cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition. Cash and cash equivalents are held at fair value under UK GAAP.

Under UK GAAP, cash and cash equivalents includes £18,326k (2017: £22,465k) being the fair value of an externally-managed collective investment undertaking used for the management of short-term liquidity by the Group. Under Solvency II, the £18,326k (2017: £22,465k) has been re-classified under collective investment undertakings and £16,770k (2017: £8,210k), relating to B&CEFSL and CBH, has been re-classified as part of the Holdings in related undertakings.

Any other assets

The difference relates to the reclassification of other assets of B&CEFSL and CBH, £19,314k (2017: £10,040k) to Holdings in related undertakings. The valuation of any other assets is representative of fair value.

Material differences between the Solvency II and UK GAAP asset valuation

There was one key difference between the approach to valuing assets under Solvency II and under UK GAAP in 2017. This was in respect of a counterparty default adjustment required under Solvency II.

Under Solvency II (in accordance with the Delegated Regulation (EU) 2015/35, Article 42), a counterparty default adjustment is applied to the unit-linked assets to consider the expected losses in the event of default by Managed Pension Funds. This adjustment is £4k (2017: £629k) and is deducted from the value of unit-linked assets. Such an adjustment is not required under UK GAAP.

D.2 Technical provisions

There are a few differences in the valuation methodology for technical provisions between Solvency II and UK GAAP.

The table below shows the technical provisions by Solvency II line of business. The UK GAAP results are shown for comparison.

Technical provisions (£000)	2018		2017	
	Solvency II	UK GAAP	Solvency II	UK GAAP
Index-linked and unit-linked insurance				
Best-estimate / reserve	15,339	7,112	1,013,416	1,049,495
Risk margin	1,520		19,333	
Total	**16,859**		**1,032,750^**	
Reinsurance recoverable	7,041	7,045	1,048,319	1,048,948
Total after allowing for recoverables	**9,818**	**67**	**(15,569)**	**547**
Other life insurance				
Best-estimate / reserve	66	67	115	117
Risk margin	-		-	
Total	**66**		**115**	
Reinsurance recoverables	15	15	15	15
Total after allowing for recoverables	**51**	**52**	**100**	**102**
Workers compensation and Income protection insurance				
Best-estimate / reserve	281	306	386	391
Risk margin	81		74	
Total	**362^**		**460**	
Reinsurance recoverables	-	-	-	-
Total after allowing for recoverables	**362**	**306**	**460**	**391**
Net technical provisions, after recoverables	**10,231**	**425**	**(15,009)**	**1,040**

^ *Difference due to rounding*

Calculation methodology

Index-linked and unit-linked insurance

Solvency II regulations classify the EasyBuild product as 'Index-linked and unit-linked insurance'. The EasyBuild best estimate liability (BEL) is made up of a non-unit BEL (£8.3m) plus a unit BEL (£7.0m).

The non-unit BEL is derived at an individual policy level from the difference between the present value of the following expected future cash flows:

- the proportion of annual management charges that will be received by B&CEIL on each EasyBuild policy and
- future EasyBuild expenses expected to be incurred by B&CEIL.

The non-unit BEL is now positive, reflecting the fact that future expenses are expected to exceed future charges.

For 2018 the calculation of the non-unit BEL was refined in line with Article 339 of the Solvency II delegated regulations to classify the outsourcing arrangement for administration between B&CEIL and B&CEFSL as an intra-group transaction. This change increased the technical provisions, specifically the non-unit BEL, and increased the SCR.

The unit BEL is calculated using the unit price that would have been applied to claims made on that day. This is a mid-day, mid-market price.

The risk margin is calculated using the cost-of-capital approach prescribed in the Solvency II regulations. Projected capital requirements are calculated for individual risks using appropriate risk drivers.

Other life insurance

B&CEIL's Term Assurance product is classified as 'Other life insurance'. It closed to new business several years ago and there are just 10 policies in-force as at 31 March 2018 (2017: 13).

Because of its low materiality, a proportionate approach to calculating the Term Assurance BEL has been taken. The gross BEL is £17,000 and is set to equal the level of the Solvency II reserve held since 31 March 2009 when there were approximately 80 policies still in-force. An additional BEL is held to cover administration expenses that exceed the reasonable level of expenses allowed for within the Solvency II reserve.

A risk margin has not been calculated for this line of business for reasons of proportionality.

Worker's compensation and Income protection insurance

B&CEIL's Employee Accident Cover (EAC) product is a group accident policy sold to employers, classified under Solvency II as 'Workers' compensation'. RapidCash is a short-term personal accident policy, classified as 'Income protection'.

The BEL for each of these products covers claims and expenses in respect of:

- events that have occurred prior to the valuation date, and
- periods after the valuation date for which a premium has already been paid.

To calculate the BEL, an ultimate loss ratio (a long-term ratio of claims paid to premiums received) is assumed for each cohort. Claims which have not yet matured are assumed to be captured by the difference between this ultimate loss ratio and the loss ratio experienced to date. In addition, to allow for adverse fluctuations, future claims costs are subject to a minimum run-off pattern assumed for each underwriting year.

The risk margin is calculated using the cost-of-capital approach prescribed in the Solvency II regulations.

Main assumptions

Index-linked and unit-linked insurance

Expenses

The expenses are derived as the total EasyBuild expenses that the Group expects to incur over the year from the valuation date, divided by the total number of EasyBuild policies in force at the valuation date. The Group performs an annual expense analysis to inform these expected costs.

Interest rates

As specified by the Solvency II regulations, B&CEIL uses the GBP risk-free rate structure published by EIOPA to discount future cash flows in the calculation of technical provisions. B&CEIL did not use a matching adjustment or a volatility adjustment at 31 March 2018.

Expense inflation

The expense inflation assumption is based on an assumed long-term rate of Retail Price Index inflation, calculated using real and nominal long-term gilt yields. An adjustment is made to consider the Average Weekly Earnings index inflation, as the majority of EasyBuild expenses within the Group relate to professional fees and salary costs, and expense increases are, therefore, linked closely to wage inflation.

Unit growth

Solvency II regulations state that all assets are assumed to earn the same basic risk-free rate. The EasyBuild unit fund is, therefore, assumed to grow in line with the same risk-free term structure used to discount future cash flows.

Lapse rate

Lapse rate assumptions are set using an analysis of experience together with expectations of any future changes in lapse rates.

Mortality

The EasyBuild mortality assumption is set as a fixed percentage (90%) of standard AM/F92 mortality tables. Annual investigations are carried out to monitor experience against assumed mortality rates.

Other life insurance

The simplified approach taken to calculating the term assurance BEL means that assumptions for this line of business are not required.

Worker's compensation and Income protection insurance

The key assumptions used to derive the BEL for both EAC and RapidCash are the ultimate loss ratios and run-off. These are derived based on experience. The Group is not aware of any significant changes in the external environment that suggest that the history used is no longer relevant for future experience.

Level of uncertainty associated with the value of technical provisions

Uncertainty in the technical provisions is driven by deviations between the best estimate assumptions and future experience. For the Group, the EasyBuild technical provisions are most sensitive to the level of assumed expenses.

Uncertainty in expenses is relatively low given the low volumes of EasyBuild business following the transfer of the business to The People's Pension. The majority of the expenses remaining within the Group relate to fees for professional services, with budgets agreed with third-party providers prior to the financial year.

Differences between Solvency II technical provisions and UK GAAP technical provisions for valuation in financial statements

The main differences between the Solvency II and the UK GAAP technical provisions are in respect of EasyBuild:

- The Solvency II technical provisions calculation uses best estimate assumptions whereas the UK GAAP technical provision for linked liabilities is accounted for as an investment contract and is carried at the underlying investment market value at the year-end;
- The Solvency II technical provisions include a risk margin.

Reinsurance recoverables

B&CEIL has the following reinsurance arrangements in place:

- 90% of the closed term assurance business (other life insurance) is reinsured to Swiss Re under a quota share arrangement. B&CEI passes 90% of premiums received to Swiss Re and, in return, Swiss Re pays out 90% of any death claims incurred.
- 100% of the EasyBuild (Index-linked and unit-linked insurance) unit funds are reinsured with Managed Pension Funds Limited (MPF), a subsidiary of State Street Corporation Limited. This is not a typical reinsurance arrangement in the sense that it is an enabler of risk transfer or income smoothing. Instead, MPF acts as a fund manager for B&CEIL's EasyBuild funds.

The table below shows the amounts of recoverables from reinsurance contracts for each Solvency II line of business. The Group has no exposure to special purpose vehicles.

(£000)	Recoverables from reinsurance contracts 31 March 2018	Recoverables from reinsurance contracts 31 March 2017
Index-linked and unit-linked insurance[1]	7,041	1,048,318
Other life insurance	15	15
Worker's compensation and income protection insurance	-	-
Total	**7,056**	**1,048,333**

Note: 1. includes an adjustment for counterparty default in accordance with Solvency II regulations

Matching adjustment, volatility adjustment, transitional risk-free interest rate term structure, and transitional deduction

The Group has not applied any matching adjustment, volatility adjustment, transitional risk-free interest rate term structure, or transitional deduction.

D.3 Other liabilities

The following table sets out the classes of other liabilities as at 31 March:

Liability	2018			2017		
	Solvency II £000	UK GAAP £000	Solvency II Movement £000	Solvency II £000	UK GAAP £000	Solvency II Movement £000
Deferred tax liabilities	99	99	0	128	128	0
Payables (trade, not insurance)	4,752	4,752	0	4,267	4,267	0
Any other liabilities	6,025	11,828	(5,803)	7,365	11,563	(4,198)
Total other liabilities	**10,876**	**16,679**	**(5,803)**	**11,760**	**15,958**	**(4,198)**

Valuation of other liabilities

Other liabilities have been valued according to the requirements of the Solvency II Directive and related guidance, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The valuation principles applied to these other liabilities under Solvency II are consistent with those used in the UK GAAP accounts, notably:

There is no difference to the valuation of either Payables or Any other liabilities between UK GAAP and Solvency II. The payables and any other liabilities balances are the amounts required to be paid to settle the obligations and are consistent with fair value.

The balances relating to B&CEFSL and CBH of £5,803k (2017: £4,198k) have been reclassified to Holdings in related undertakings.

E. Capital management

The Capital Management section of the report describes the internal operational structures/procedures underlying capital management within the Group. The Capital Plan is updated regularly if material change occurs to the Group risk or capital profile, business strategy, the macro-economic outlook or if regulatory feedback warrants a change.

E.1 Own funds

The primary objective of the Group's capital management policies is to maintain economic and regulatory capital in accordance with risk appetite. The Group's capital and risk objectives are closely aligned, and support the Group business planning activities, whilst also recognising the critical importance of protecting member interests.

The Board intends on maintaining surplus capital more than regulatory requirements.

The Group undertakes an ORSA exercise at least annually, or whenever the risk profile of the Group changes. The ORSA exercise incorporates the business planning process which typically considers a five-year period. The ORSA process considers several scenarios to ensure that the Group will remain solvent under a range of foreseeable events.

The Group's capital requirements are forecast and compared against available capital on a regular basis. The Group is currently comfortably solvent, but if forecast capital was insufficient, actions would be taken by the Board to either raise additional capital or reduce risk.

There have been no material changes to the objectives, policies or procedures with respect to the management of own funds during the year.

Eligible own funds

The Group classifies its own funds as tier 1, tier 2, or tier 3 depending on the characteristics of the capital.

The Group's own funds as at 31 March are summarised in the table below:

Own fund item	2018			2017		
	Tier	£000	%	Tier	£000	%
Reconciliation reserve	1 - unrestricted	100,942	100.0	1 - unrestricted	134,798	100.0
Total		**100,942**	**100.0%**		**134,798**	**100.0%**

Tier 1 capital is the best form of capital for the purposes of absorbing losses due to it being high quality and permanent. Only the Group's Tier 1 own funds may be used towards meeting the MCR.

As at 31 March 2018, total available own funds to meet the SCR and the MCR are £100,942k (2017: £134,798k), all of which is tier 1 - unrestricted. The eligible own funds over SCR ratio is 427% (2017: 256%) and the eligible own funds over MCR ratio is 1853% (2017: 1223%).

None of the Group's own funds are subject to transitional arrangements and the Group has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

The Group's own funds are not subject to capital fungibility restrictions and are, therefore, available to absorb losses in their entirety.

Changes to own funds over the year

Own funds have decreased by £33,856k from £134,798k to £100,942k. Details of the movement from the 2017 figures can be seen in the table below:

Assets	2018 £000	2017 £000	Movement £000
Property, plant & equipment	6,550	6,400	150
Holdings in related undertakings	30,285	18,063	12,222
Collective investment undertakings	80,326	101,001	(20,675)
Assets held for unit-linked contracts	68	547	(479)
Reinsurance recoverables - Other Life	15	15	-
Reinsurance recoverables - Life (unit-linked)	7,045	1,048,948	(1,041,903)
Counterparty default adjustment (1)	(4)	(629)	625
Insurance receivables	-	907	(907)
Cash and cash equivalents	2,405	3,276	(871)
Any other assets, not elsewhere shown	2,414	1,355	1,059
Total assets	**129,104**	**1,179,883**	**(1,050,779)**
Liabilities			
Technical provisions - Health (2)	361	460	(99)
Technical provisions - Other Life (3)	66	115	(49)
Technical provisions - Life (unit-linked) (4)	16,859	1,032,750	(1,015,891)
Deferred tax liabilities	99	128	(29)
Payables (trade, not insurance)	4,752	4,267	485
Any other liabilities, not elsewhere shown	6,025	7,365	(1,340)
Total liabilities	**28,162**	**1,045,085**	**(1,016,923)**
Excess of assets over liabilities	**100,942**	**134,798**	**(33,856)**

(1) Counterparty default adjustment

In accordance with Solvency II regulations, a counterparty default adjustment has been applied to the value of unit-linked assets (see section D.1 of this report). This adjustment is calculated based on the probability of default of the counterparty (MPF), and the loss incurred in the event of default.

The probability of default of MPF, determined based on its solvency ratio, has not changed over the year. The significant fall in the unit fund over the year means that loss in the event of default has decreased. This has resulted in a substantial decrease in the absolute value of the counterparty default adjustment.

(2) Technical provisions – Health

The technical provisions in respect of RapidCash and Employer Accident Cover have decreased over the year. The principal reason for the decrease in the RapidCash provision is a change in the allocation of future expenses in respect of claims payments. For Employer Accident Cover, the principal reason is a reduction in the value of the claims reported but not yet settled.

(3) Technical provisions – Other Life

The movement in the technical provisions in respect of the Term Assurance product is due to a reduction in the expected present value of future expenses.

(4) Technical provisions – Life (unit-linked)

The technical provisions in respect of EasyBuild have decreased. The driver of this change is the transfer of the majority of the EasyBuild business to The People's Pension. The transfer has led to the following impacts:

1. Unit BEL has decreased over the period with funds transferred to The People's Pension.
2. The risk margin has decreased over the period because it is based on the risk capital requirements for life underwriting risk and counterparty default risk. The reduction in the unit funds over the year has resulted in decreases in capital requirements, and hence a decrease in the risk margin.

The decrease in technical provisions has been partially offset by an increase in the non-unit BEL, which has become positive (in previous years a negative BEL has been held). This is due to the reduction in size of the unit fund over the year leading to a decrease in expected future annual management charge income and, therefore, an increase in the EasyBuild non-unit BEL.

Reconciliation to UK GAAP reserves to Solvency II excess of assets over liabilities

The following table provides a reconciliation of reserves under UK GAAP to Solvency II excess of assets over liabilities.

	2018 £000	2017 £000
Opening UK GAAP reserves	**108,437**	**117,162**
Adjustments to property, plant and equipment	2,427	1,790
Adjustments to intangible fixed assets	(118)	(203)
Adjustments to technical provisions	(9,804)	16,049
SII excess of assets over liabilities	**100,942**	**134,798**

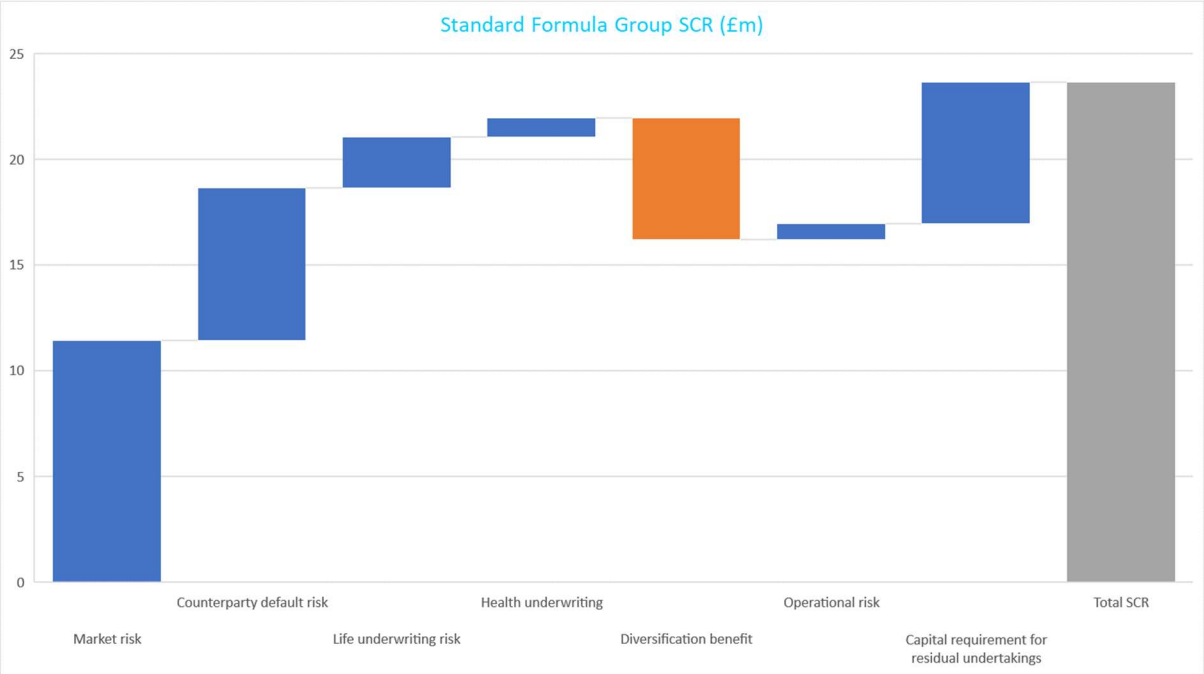
E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

The Group applies the standard formula for the calculation of the Solvency Capital Requirement. To calculate the Group solvency position, Method 1 (Default method): Accounting consolidation-based method has been used.

The capital requirement by risk module are presented in the table below:

Risk module	2018 £000	2017 £000
Market risk	11,409	36,491
Counterparty default risk	7,219	16,943
Life underwriting risk	2,427	17,650
Health underwriting risk	898	926
Undiversified basic Solvency Capital Requirement	**21,953**	**72,010**
Diversification	(5,760)	(19,621)
Basic Solvency Capital Requirement	**16,193**	**52,389**
Operational risk	767	194
Capital requirement for residual undertakings	6,663	-
Solvency Capital Requirement [1]	**23,623**	**52,584**

1. *Apparent discrepancy due to rounding*



The simplification set out in Article 96 of the commission delegated regulation 2015/35 for calculating the life catastrophe risk sub-module of the life underwriting risk module has been used for the calculation of the SCR for the Group. This simplification is not material.

The Group has not used undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC, or made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC.

The diversification benefits have been calculated using the standard formula correlation matrix.

Minimum Capital Requirement

The table below shows the inputs used to calculate the Minimum Capital Requirement for B&CEIL.

	2018 £000	2017 £000
Linear MCR	158	167
Solo SCR	11,961	44,085
MCR cap (45% of SCR)	5,382	19,838
MCR floor (25% of SCR)	2,990	11,021
Combined MCR	2,990	11,021
Absolute floor of the MCR (€6.2m)	5,447	5,583
Minimum Capital Requirement	**5,447**	**11,021**

The Linear MCR is calculated as prescribed in Article 249 of the Commission Delegated Regulation 2015/35. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the solo SCR respectively, giving the Combined MCR. For both years the Combined MCR has been set at the minimum level, i.e. equal to 25% of the solo SCR.

The absolute floor is prescribed by EIOPA in Euros (€6.2m for B&CEIL). The MCR is calculated as the higher of the Combined MCR and the absolute floor. The MCR is based on the absolute floor in 2018 as it is higher than the Combined MCR, and in 2017 it was based on the Combined MCR as it was higher than the absolute floor.

The Group SCR floor is equivalent to the MCR.

Solvency ratio

The solvency position of the Group at year end was as follows:

	2018 £000	2017 £000
Solvency II Own Funds (A)*	100,942	134,798
Solvency capital requirements (B)	23,623	52,584
Solvency II free assets (A – B) *	77,319	82,214
Financial Strength Ratio (A / B)	**427%**	**256%**

** Minor rounding discrepancy*

The Financial Strength Ratio has increased over the year and remains significantly more than the Board's stated minimum of 150%.

Non-compliance with the MCR and non-compliance with the SCR

There was no breach of the MCR or SCR during the reporting period.

E.3 Any other information

In July 2018 B&CEIL approved a capital reduction of £20m that was actioned in August 2018. This follows the transfer of EasyBuild members to The People's Pension which reduced the capital requirements of B&CEIL. In August 2018, B&CEIL approved a £20 dividend to PFSL and the impact of this is shown in line R0720 Foreseeable dividends, distributions and charges within the B&CEIL QRT S23.01.22 and has no impact on the group QRTs. Subsequently in August 2018 PFSL subscribed and paid for £20m of ordinary share capital in B&CEFSL.

Appendix A. Annual quantitative reporting templates

The following pages contain the QRTs listed below for the Group. All figures are presented in thousands of pounds except for ratios which are in decimals.

QRT ref	QRT Template name
S.02.01.02	Balance sheet
S.05.01.02.01	Premiums, claims and expenses by line of business - Non-life
S.05.01.02.02	Premiums, claims and expenses by line of business - Life
S.23.01.22	Own funds
S.25.01.22	Solvency Capital Requirement - for undertakings on Standard Formula
S.32.01.22	Undertakings in the scope of the group

	QRT S.02.01.02 Balance sheet	Solvency II value
CHM	**Assets**	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	6,550
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	110,612
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	30,285
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	80,326
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	68
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:	7,056
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 health and index-linked and unit-linked	15
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	15
R0340	Life index-linked and unit-linked	7,041
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
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	2,405
R0420	Any other assets, not elsewhere shown	2,415
R0500	**Total assets**	129,105

		Solvency II value
CHM	**Liabilities**	C0010
R0510	Technical provisions – non-life	361
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	0
R0540	Best Estimate	0
R0550	Risk margin	0
R0560	Technical provisions - health (similar to non-life)	361
R0570	TP calculated as a whole	0
R0580	Best Estimate	281
R0590	Risk margin	81
R0600	Technical provisions - life (excluding index-linked and unit-linked)	66
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)	66
R0660	TP calculated as a whole	0
R0670	Best Estimate	66
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	16,859
R0700	TP calculated as a whole	0
R0710	Best Estimate	15,339
R0720	Risk margin	1,520
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	99
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	4,752
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	6,025
R0900	**Total liabilities**	28,163
R1000	**Excess of assets over liabilities**	100,942

QRT S.05.01.02.01 Premiums, claims and expenses by line of business - Non-life

CHM		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Income protection insurance	Workers' compensation insurance	
		C0020	C0030	C0200
	Premiums written			
R0110	Gross - Direct Business	447	656	1,103
R0120	Gross - Proportional reinsurance accepted	0	0	0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share	0	0	0
R0200	Net	447	656	1,103
	Premiums earned			
R0210	Gross - Direct Business	447	656	1,103
R0220	Gross - Proportional reinsurance accepted	0	0	0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share	0	0	0
R0300	Net	447	656	1,103
	Claims incurred			
R0310	Gross - Direct Business	44	6	50
R0320	Gross - Proportional reinsurance accepted	0	0	0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share	0	0	0
R0400	Net	44	6	50
	Changes in other technical provisions			
R0410	Gross - Direct Business	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0
R0430	Gross - Non- proportional reinsurance accepted			0
R0440	Reinsurers'share	0	0	0
R0500	Net	0	0	0
R0550	**Expenses incurred**	201	725	926
R1200	**Other expenses**			0
R1300	**Total expenses**			926

QRT S.05.01.02.02 Premiums, claims and expenses by line of business - Life

CHM		Line of Business for: **life insurance**		**Total**
		Index-linked and unit-linked insurance	Other life insurance	
		C0230	C0240	C0300
	Premiums written			
R1410	Gross	7,401	2	7,404
R1420	Reinsurers' share	7,880	2	7,883
R1500	Net	-479	0	-479
	Premiums earned			
R1510	Gross	7,401	2	7,404
R1520	Reinsurers' share	7,880	2	7,883
R1600	Net	-479	0	-479
	Claims incurred			
R1610	Gross	1,060,463	3	1,060,467
R1620	Reinsurers' share	1,060,463	0	1,060,463
R1700	Net	0	3	3
	Changes in other technical provisions			
R1710	Gross	-1,042,382	-50	-1,042,432
R1720	Reinsurers' share	-1,041,903	0	-1,041,903
R1800	Net	-479	-50	-529
R1900	**Expenses incurred**	6,285	10	6,295
R2500	**Other expenses**			0
R2600	**Total expenses**			6,295

CHM	QRT S.23.01.22 Own funds	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0020	Non-available called but not paid in ordinary share capital at group level	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	Non-available subordinated mutual member accounts at group level	0		0	0	0
R0070	Surplus funds	0	0			
R0080	Non-available surplus funds at group level	0	0			
R0090	Preference shares	0		0	0	0
R0100	Non-available preference shares at group level	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0120	Non-available share premium account related to preference shares at group level	0		0	0	0
R0130	Reconciliation reserve	100,942	100,942			
R0140	Subordinated liabilities	0		0	0	0
R0150	Non-available subordinated liabilities at group level	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	The amount equal to the value of net deferred tax assets not available at the group level	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	Non available own funds related to other own funds items approved by supervisory authority	0	0	0	0	0
R0200	Minority interests (if not reported as part of a specific own fund item)	0	0	0	0	0
R0210	Non-available minority interests at group level	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	0	0	0	0	0
R0240	whereof deducted according to art 228 of the Directive 2009/138/EC	0	0	0	0	
R0250	Deductions for participations where there is non-availability of information (Article 229)	0	0	0	0	0
R0260	Deduction for participations included by using D&A when a combination of methods is used	0	0	0	0	0
R0270	Total of non-available own fund items	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	100,942	100,942	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0380	Non available ancillary own funds at group level	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	0	0	0	0	
R0420	Institutions for occupational retirement provision	0	0	0	0	0
R0430	Non regulated entities carrying out financial activities	0	0	0	0	
R0440	Total own funds of other financial sectors	0	0	0	0	0
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0	0	0	0	0
R0460	Own funds aggregated when using the D&A and a combination of method net of IGT	0	0	0	0	0
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	100,942	100,942	0	0	0
R0530	Total available own funds to meet the minimum consolidated group SCR	100,942	100,942	0	0	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	100,942	100,942	0	0	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR	100,942	100,942	0	0	
	Consolidated Group SCR					
R0610	**Minimum consolidated Group SCR**	5,447				
R0630	**Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)**					
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	18.5321				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	100,942	100,942	0	0	0
R0670	**SCR for entities included with D&A method**					
R0680	**Group SCR**	23,623				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	4.2731				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	100,942				
R0710	Own shares (held directly and indirectly)	0				
R0720	Forseeable dividends, distributions and charges	0				
R0730	Other basic own fund items	0				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0750	Other non available own funds	0				
R0760	**Reconciliation reserve before deduction for participations**	100,942				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	0				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0				
R0790	**Total Expected profits included in future premiums (EPIFP)**	0				

CHM	QRT S.25.01.22 Solvency Capital Requirement - for undertakings on Standard Formula	Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	11,409		
R0020	Counterparty default risk	7,219		
R0030	Life underwriting risk	2,427		
R0040	Health underwriting risk	898		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-5,760		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	16,193		

CHM	**Calculation of Solvency Capital Requirement**	C0100
R0130	Operational risk	766
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	16,960
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	23,623
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	5,447
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	0
R0520	Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	0
R0530	Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	0
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	6,663
	Overall SCR	
R0560	SCR for undertakings included via D and A	0
R0570	**Solvency capital requirement**	23,623

QRT S.32.01.22 Undertakings in the scope of the group

C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
								Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Country	**Identification code of the undertaking**	**Type of code of the ID of the undertaking**	**Legal name of the undertaking**	**Type of undertaking**	**Legal form**	**Category (mutual/non mutual)**	**Supervisory Authority**	**% capital share**	**% used for the establishment of consolidated accounts**	**% voting rights**	**Other criteria**	**Level of influence**	**Proportional share used for group solvency calculation**	**YES/NO**	**Date of decision if art. 214 is applied**	**Method used and under method 1, treatment of the undertaking**
C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0180**	**C0190**	**C0200**	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**
GB	213800RXILVL7GEOSL94	LEI	B&CE Holdings Limited	5	Insurance Holding Company	2								1		1
GB	213800YSPE5VPOYZWV78	LEI	B & C E Insurance Limited	4	Composite undertaking	2	Prudential Regulation Authority	1.0000	1.0000	1.0000		1	1.0000	1		1
GB	213800YRN7B3VWF9CZ24	LEI	B & C E Financial Services Limited	99	Other	2		1.0000	1.0000	1.0000		1	1.0000	1		1
GB	213800TB5WXOQW6IVI52	LEI	Constructing Better Health	99	Other	2			1.0000	1.0000		1	1.0000	1		1
GB	213800WPRHTGN2VYRC84	LEI	Building and Civil Engineering Benefits Scheme Trustee Limited	99	Other	2				1.0000		1	1.0000	1		1
GB	213800Y53LFKJAKM8848	LEI	People's Financial Services Limited	5	Insurance Holding Company	2		1.0000	1.0000	1.0000		1	1.0000	1		1

Appendix B. Annual quantitative reporting templates - Company

The following pages contain the QRTs listed below for B&CE Insurance Limited. All figures are presented in thousands of pounds except for ratios which are in decimals.

QRT ref	QRT Template name
S.02.01.02	Balance sheet – Company
S.05.01.02.01	Premiums, claims and expenses by line of business - Non-life – Company
S.05.01.02.02	Premiums, claims and expenses by line of business – Life - Company
S.12.01.02	Life and health SLT technical provisions – Company
S.17.01.02	Non-life technical provisions – Company
S.19.01.21	Non-life insurance claims information – Company
S.23.01.01	Own funds - Company
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula – Company
S.28.02.01	Minimal capital requirement – both life and non-life insurance activity

	QRT S.02.01.02 Balance sheet - Company	Solvency II value
CHM	**Assets**	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	64,157
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	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	64,157
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	68
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:	7,056
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 health and index-linked and unit-linked	15
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	15
R0340	Life index-linked and unit-linked	7,041
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
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	269
R0420	Any other assets, not elsewhere shown	1,142
R0500	**Total assets**	72,692

		Solvency II value
CHM	**Liabilities**	C0010
R0510	Technical provisions – non-life	361
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	0
R0540	Best Estimate	0
R0550	Risk margin	0
R0560	Technical provisions - health (similar to non-life)	361
R0570	TP calculated as a whole	0
R0580	Best Estimate	281
R0590	Risk margin	81
R0600	Technical provisions - life (excluding index-linked and unit-linked)	66
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)	66
R0660	TP calculated as a whole	0
R0670	Best Estimate	66
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	14,122
R0700	TP calculated as a whole	0
R0710	Best Estimate	12,602
R0720	Risk margin	1,520
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	99
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	260
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	3,079
R0900	**Total liabilities**	17,987
R1000	**Excess of assets over liabilities**	54,705

QRT S.05.01.02.01 Premiums, claims and expenses by line of business - Non-life - Company

CHM		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Income protection insurance	Workers' compensation insurance	
		C0020	C0030	C0200
	Premiums written			
R0110	Gross - Direct Business	447	656	1,103
R0120	Gross - Proportional reinsurance accepted	0	0	0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share	0	0	0
R0200	Net	447	656	1,103
	Premiums earned			
R0210	Gross - Direct Business	447	656	1,103
R0220	Gross - Proportional reinsurance accepted	0	0	0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share	0	0	0
R0300	Net	447	656	1,103
	Claims incurred			
R0310	Gross - Direct Business	44	6	50
R0320	Gross - Proportional reinsurance accepted	0	0	0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share	0	0	0
R0400	Net	44	6	50
	Changes in other technical provisions			
R0410	Gross - Direct Business	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0
R0430	Gross - Non- proportional reinsurance accepted			0
R0440	Reinsurers'share	0	0	0
R0500	Net	0	0	0
R0550	**Expenses incurred**	201	725	926
R1200	**Other expenses**			0
R1300	**Total expenses**			926

QRT S.05.01.02.02 Premiums, claims and expenses by line of business - Life - Company

CHM		Line of Business for: **life insurance obligations**		**Total**
		Index-linked and unit-linked insurance	Other life insurance	
		C0230	C0240	C0300
	Premiums written			
R1410	Gross	7,401	2	7,404
R1420	Reinsurers' share	7,880	2	7,883
R1500	Net	-479	0	-479
	Premiums earned			
R1510	Gross	7,401	2	7,404
R1520	Reinsurers' share	7,880	2	7,883
R1600	Net	-479	0	-479
	Claims incurred			
R1610	Gross	1,060,463	3	1,060,467
R1620	Reinsurers' share	1,060,463	0	1,060,463
R1700	Net	0	3	3
	Changes in other technical provisions			
R1710	Gross	-1,042,382	-50	-1,042,432
R1720	Reinsurers' share	-1,041,903	0	-1,041,903
R1800	Net	-479	-50	-529
R1900	**Expenses incurred**	6,285	10	6,295
R2500	**Other expenses**			0
R2600	**Total expenses**			6,295

QRT S.12.01.02 Life and Health SLT Technical Provisions - Company

CHM		Index-linked and unit-linked insurance		Other life insurance		**Total (Life other than health insurance, including Unit-Linked)**
			Contracts without options and guarantees		Contracts without options and guarantees	
		C0030	C0040	C0060	C0070	C0150
R0010	**Technical provisions calculated as a whole**	0		0		0
R0020	**Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole	0		0		0
	Technical provisions calculated as a sum of BE and RM					
	Best Estimate					
R0030	**Gross Best Estimate**		12,602		66	12,668
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		7,041		15	7,056
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		5,561		51	5,612
R0100	**Risk Margin**	1,520		0		1,520
	Amount of the transitional on Technical Provisions					
R0110	Technical Provisions calculated as a whole	0		0		0
R0120	Best estimate		0		0	0
R0130	Risk margin	0		0		0
R0200	**Technical provisions - total**	14,122		66		14,188

QRT S.17.01.02 Non-Life Technical Provisions - Company

CHM		**Direct business and accepted proportional reinsurance**		**Total Non-Life obligation**
		Income protection insurance	**Workers' compensation insurance**	
		C0030	C0040	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0
	Technical provisions calculated as a sum of BE and RM			
	Best estimate			
	Premium provisions			
R0060	Gross	2	5	7
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0
R0150	Net Best Estimate of Premium Provisions	2	5	7
	Claims provisions			
R0160	Gross	37	237	273
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0
R0250	Net Best Estimate of Claims Provisions	37	237	273
R0260	**Total Best estimate - gross**	39	242	281
R0270	**Total Best estimate - net**	39	242	281
R0280	**Risk margin**	11	69	81
	Amount of the transitional on Technical Provisions			
R0290	Technical Provisions calculated as a whole	0	0	0
R0300	Best estimate	0	0	0
R0310	Risk margin	0	0	0
	Technical provisions - total			
R0320	Technical provisions - total	50	311	361
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	0	0
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	50	311	361

QRT S.19.01.21 Non-life Insurance Claims Information (simplified template for the public disclosure) - Company Total Non-Life Business

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

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

		Development year												
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**In Current year**	**Sum of years (cumulative)**
CHM		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**											0	0	0
R0160	**N-9**	276	42	0	0	0	0	0	0	0	0		0	318
R0170	**N-8**	187	37	0	0	0	0	0	0	0			0	223
R0180	**N-7**	204	135	53	6	9	9	0	0				0	416
R0190	**N-6**	214	108	67	0	0	0	0					0	389
R0200	**N-5**	93	90	15	9	0	0						0	207
R0210	**N-4**	105	84	48	0	0							0	237
R0220	**N-3**	132	60	15	2								2	209
R0230	**N-2**	60	35	18									18	113
R0240	**N-1**	82	48										48	130
R0250	**N**	67											67	67
R0260												**Total**	135	2,309

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year											
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**Year end (discounted data)**
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	**Prior**												0
R0160	**N-9**	0	0	0	0	0	0	0	0	0	0		0
R0170	**N-8**	0	0	0	0	0	0	0	0	0			0
R0180	**N-7**	0	0	0	0	0	0	0	0				0
R0190	**N-6**	0	0	0	0	0	0	0					0
R0200	**N-5**	0	0	0	0	0	0						0
R0210	**N-4**	0	0	0	0	0							0
R0220	**N-3**	0	0	0	0								0
R0230	**N-2**	0	0	5									5
R0240	**N-1**	0	65										65
R0250	**N**	179											204
R0260												**Total**	273

CHM	QRT S.23.01.01 Own Funds - Company	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of					
R0010	Ordinary share capital (gross of own shares)	60,000	60,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	1,772	1,772			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-27,067	-27,067			
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	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	**Total basic own funds after deductions**	34,705	34,705	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	34,705	34,705	0	0	0
R0510	Total available own funds to meet the MCR	34,705	34,705	0	0	
R0540	Total eligible own funds to meet the SCR	34,705	34,705	0	0	0
R0550	Total eligible own funds to meet the MCR	34,705	34,705	0	0	
R0580	**SCR**	11,961				
R0600	**MCR**	5,447				
R0620	**Ratio of Eligible own funds to SCR**	2.9016				
R0640	**Ratio of Eligible own funds to MCR**	6.3716				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	54,705
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	20,000
R0730	Other basic own fund items	61,772
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-27,067
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

	QRT S25.01.21 Solvency Capital Requirement - for undertakings on Standard Formula - Company	Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	8,519		
R0020	Counterparty default risk	4,924		
R0030	Life underwriting risk	1,596		
R0040	Health underwriting risk	898		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-4,163		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	11,774		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	187
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	11,961
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	11,961
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

QRT S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity - Company

		Non-life activities	Life activities
		MCR(NL,NL) Result	MCR(NL,L)Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	118	0

		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
R0030	Income protection insurance and proportional reinsurance	39	447	0	0
R0040	Workers' compensation insurance and proportional reinsurance	242	656	0	0

		Non-life activities	Life activities
		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	0	40

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance/SP V) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance/SP V) total capital at risk
		C0090	C0100	C0110	C0120
R0230	Index-linked and unit-linked insurance obligations	0		5,561	
R0240	Other life (re)insurance and health (re)insurance obligations	0		51	
R0250	Total capital at risk for all life (re)insurance obligations		0		55

	Overall MCR calculation	C0130
R0300	Linear MCR	158
R0310	SCR	11,961
R0320	MCR cap	5,382
R0330	MCR floor	2,990
R0340	Combined MCR	2,990
R0350	Absolute floor of the MCR	5,447

		C0130
R0400	**Minimum Capital Requirement**	5,447

	Notional non-life and life MCR calculation	**Non-life activities**	**Life activities**
		C0140	C0150
R0500	Notional linear MCR	118	40
R0510	Notional SCR excluding add-on (annual or latest calculation)	8,934	3,027
R0520	Notional MCR cap	4,020	1,362
R0530	Notional MCR floor	2,233	757
R0540	Notional Combined MCR	2,233	757
R0550	Absolute floor of the notional MCR	2,196	3,250
R0560	Notional MCR	2,233	3,250

For more information:

0300 2000555

info@bandce.co.uk

www.bandce.co.uk

B&CE Holdings Limited
Manor Royal, Crawley, West Sussex, RH10 9QP.

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