Simplyhealth

Simplyhealth Group Limited
& Simplyhealth Access

Solvency and Financial Condition Report (SFCR)

31 December 2016

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Executive Summary

Executive Summary

Welcome to our first Solvency and Financial Condition Report.

This is our opportunity to inform you of our solvency and capital position under the new Solvency II regulatory regime that was introduced from 1 January 2016.

Business and performance

Simplyhealth exists to meet our purpose, to help people make the most of life through better everyday health. Our ambition is to be the first people to turn to for extra help with everyday health. Simplyhealth's strategic objective is to generate a long-term sustainable profit from our businesses, whilst building a diversified everyday health business offering 'delivery, funding, advice and guidance'.

Simplyhealth has been contributing to everyday health since 1872 - long before the existence of the NHS. Today, we help over 3 million people across the UK to access the everyday health products, services and support that they need, when they need them, at a price they can afford and with the healthcare professionals they choose. We offer a wide range of products and services with one thing in common: a resolute commitment to support people's everyday health needs – now and into the future.

As it has been throughout our history, corporate giving, working with our charitable partners, is an important part of how we fulfil our purpose.

In 2016, we donated £1.6m to our charitable partners in line with our ongoing pledge to donate 10% of our business operating profits[1] and investment income each year; supporting health-related charities that share our dedication to helping people with everyday health conditions continue to make the most of life.

Simplyhealth Group Limited ("the Company") is the ultimate parent undertaking of a number of subsidiary undertakings. We show our legal structure in section A.1.3, describe our key businesses in section A.1.2, and list significant events that took place during the year in section A.1.4.

The Simplyhealth Group (Simplyhealth Group Limited together with its consolidated subsidiaries, "the Group" or "SHG") made a loss for the year after tax of £1.5m (2015: profit of £12.6m), reducing accounting reserves to £276.0m (2015: £277.5m) a decrease of 0.5% (2015: an increase of 4.8%). These results are after amortisation of goodwill on business acquisitions of £13.0m. This loss arises from continued investment into the business that will support business growth and future cost savings.

Simplyhealth Access ("SHA"), a wholly owned subsidiary undertaking of Simplyhealth Group Limited, operates as a regulated insurer of medical expenses. Its principal activity is the sale and administration of insurance products related to healthcare. There have been no material changes in the types of business written during the year. Simplyhealth Access made a profit after tax on continuing activities for the year of £9.3m (2015: £7.7m).

We have analysed our underwriting performance in section A.2, investment performance in A.3, and performance of other activities in section A.4.

1 Business operating profit is defined as balance on the general business technical account of £33.8m plus other income of £19.0m less other charges of £41.1m.

Systems of Governance

Simplyhealth Group Limited is a company limited by guarantee; this means it does not have shareholders. Simplyhealth operates for the benefit of its customers, present and future.

At the heart of our governance framework is the board of directors at Simplyhealth Group Limited ("the Board"). The Board's role is to ensure that Simplyhealth is successful for all of our stakeholders, setting strategic direction, providing entrepreneurial leadership and watching over the effective management of the key risks the business faces. To assist the Board in carrying out its duties, the Board delegates some of these responsibilities, although not accountability, to a number of Board Committees and to the Chief Executive Officer. The roles of these committees are outlined in section B.1.5.

We have described our risk management system in section B.3. The Group's approach to risk is underpinned by a Risk Appetite Statement which articulates the limits within which risk-taking can occur. The Group sets and keeps under regular review its approach to risk-taking/management so that it remains relevant to the running of the business, delivery of the strategy and compliance with all relevant laws and regulations or rules of professional bodies or trade associations. This will include:

- Risk measures, limits, triggers (Key Risk Indicators or KRIs) and owners for each material risk that the Group faces as set out in the Group Risk Appetite Statement.
- The Group will keep under review the Group Board KRIs to ensure that risk taking is consistent with risk limits and that the Executive is taking adequate actions to respond to emerging changes in risk exposures.
- The Group will remain alert to the interrelationship between Group level strategic risks and other material risks, including individual material risk exposures at a business unit level, which may put the success of the Group's overall business plan at risk. Strategic risk will be managed, monitored and reported at an aggregated level in line with the risk framework.

The Group adopts the 'Three Lines of Defence' operating model as part of its risk management framework. This operating model supports strong alignment between risk management, accountability, decision-making and reward. This is outlined in section B.3.5.

There have been no material changes in the systems of governance during the year with the exception of the following:

- Tim Brooke, Chair of the Risk & Capital Committee, resigned as a non-executive director. A suitable replacement for the vacant non-executive position is being recruited.
- Richard Harris, Chair of the Audit Committee, was appointed interim Chair of the Risk and Capital Committee.

The Board has assessed the Group's corporate governance system 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 within Simplyhealth.

Risk profile

The Board acknowledges that the Group needs to take risks to successfully deliver the strategy. Delivering on business objectives and seizing commercial opportunities requires putting capital at risk in a responsible and structured manner.

The Group has a material exposure to the following risks:

- Underwriting risk: The risk of loss arising from inadequacies in pricing and underwriting of insurance policies and of claims experience being materially different to expectations.
- Market risk: The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
- Operational risk: The risk of loss arising from the inadequacy or failures of processes, people, systems or as a result of external events.

The Group has the necessary systems and structures in place to identify, measure and mitigate these risks. These processes are described in section C.

Simplyhealth's risk profile has materially changed during the year:

- Underwriting and operational risk: The risks attributable to the Private Medical Insurance ("PMI") business, sold to AXA PPP healthcare Limited ("AXA PPP") on 1st August 2015, reduced significantly as the contractual obligations to policyholders related to this business transitioned to AXA PPP upon renewal of each policy.
- Market risk: The Group updated its investment strategy and transitioned an investment portfolio that was substantially invested in bonds issued by the UK Government (Gilts) into a diverse mix of investments calculated to provide target returns within a defined risk appetite and managed by an experienced external investment manager, Schroder Investment Management Limited.

Valuation for solvency purposes

Under Solvency II, assets and liabilities are valued on a market-consistent basis:

- Assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.
- Liabilities, other than technical provisions, are valued at the amount for which they could be transferred, or settled, between knowledgeable, willing parties in an arm's length transaction.
- Technical provisions are valued as the current amount an insurer would have to pay for an immediate transfer of its obligations to another insurer calculated on a discounted cashflow basis.

In section D, we have analysed the balance sheet movements between the valuation under UK GAAP for the financial statements and the valuation for Solvency II.

Capital Management

Our regulatory capital and reserves underpin our commitment to support the needs of our customers. We maintain sufficient reserves to honour our commitments to our customers but our strong capital base means that we can invest in developing our business for the benefit of current and future customers while maintaining a secure balance sheet and solvency position. Additional information on the Group's approach to capital management can be found in section E.

The Group has used the 'Standard Formula' method as prescribed by the European Insurance and Occupational Pensions Authority ("EIOPA") to calculate the Solvency Capital Requirement ("SCR") without undertaking-specific parameters or simplifications.

At 31 December 2016:	**SHG** £m	**SHA** £m
Solvency II Eligible Own Funds	206.1	195.7
Solvency Capital Requirement	61.1	61.0
Solvency II Capital Ratio	337%	321%

The Group regularly monitors its capital to ensure that all entities are able to operate on a going concern basis and also to ensure that regulated entities meet regulatory requirements.

Simplyhealth has complied with all regulatory capital requirements throughout the year.

Simplyhealth Group Limited

Consolidated statement of comprehensive income

Year ended 31 December 2016

	2016	2015		
	Continuing operations £m	Continuing operations £m	Discontinued operations £m	**Total £m**
TECHNICAL ACCOUNT				
Total technical income	**247.8**	256.2	74.3	330.5
Total claims incurred	**(160.3)**	(171.2)	(57.2)	(228.4)
Total operating expenses	**(53.7)**	(49.7)	(15.5)	(65.2)
Balance on the general business technical account	**33.8**	35.3	1.6	36.9
NON-TECHNICAL ACCOUNT				
Investment returns:				
Income from investments	**2.8**	3.0	-	3.0
(Losses) / gains on realisation of investments	**(1.7)**	4.8	-	4.8
Unrealised gains / (losses) on investments	**4.7**	(6.7)	-	(6.7)
Investment charges and expenses	**(0.5)**	(0.5)	-	(0.5)
Other income and charges:				
Other income	**19.0**	19.2	2.6	21.8
Other charges	**(41.1)**	(41.3)	(1.3)	(42.6)
Reversal of impairment of land and buildings	**0.4**	0.7	-	0.7
Donations	**(1.6)**	(1.6)	-	(1.6)
Amortisation of goodwill and other intangibles	**(13.0)**	(12.7)	-	(12.7)
Profit on ordinary activities before exceptional items and tax	**2.8**	0.2	2.9	3.1
Restructuring of insurance operations	**(2.0)**	-	-	-
Profit on disposal of operations	**-**	-	12.7	12.7
Profit on ordinary activities before tax	**0.8**	0.2	15.6	15.8
Tax charge on profit on ordinary activities	**(2.3)**	-	(3.2)	(3.2)
(Loss) / profit and total comprehensive income for the financial year	**(1.5)**	0.2	12.4	12.6

Simplyhealth Access

Statement of comprehensive income

Year ended 31 December 2016

	2016	2015		
	Continuing operations £m	Continuing operations £m	Discontinued operations £m	**Total £m**
TECHNICAL ACCOUNT				
Total technical income	**247.8**	256.2	74.3	330.5
Total claims incurred	**(160.3)**	(171.2)	(57.2)	(228.4)
Total operating expenses	**(82.7)**	(79.2)	(15.5)	(94.7)
Balance on the general business technical account	**4.8**	5.8	1.6	7.4
NON-TECHNICAL ACCOUNT				
Investment returns:				
Income from investments	**2.7**	2.8	-	2.8
Gains on realisation of investments	**0.5**	5.9	-	5.9
Unrealised gains / (losses) on investments	**2.5**	(7.8)	-	(7.8)
Investment charges and expenses	**(0.5)**	(0.5)	-	(0.5)
Income from shares in group undertakings	**2.0**	-	-	-
Other income and charges:				
Other income	**1.8**	1.6	1.3	2.9
Reversal of impairment of land and buildings	**0.4**	0.5	-	0.5
Impairment of fixed asset investments	**(1.3)**	-	-	-
Profit on ordinary activities before exceptional items and tax	**12.9**	8.3	2.9	11.2
Restructuring of insurance operations	**(2.0)**	-	-	-
Profit on disposal of operations	**-**	-	6.1	6.1
Profit on ordinary activities before tax	**10.9**	8.3	9.0	17.3
Tax charge on profit on ordinary activities	**(1.6)**	(0.6)	(0.8)	(1.4)
Profit and total comprehensive income for the financial year	**9.3**	7.7	8.2	15.9

A. Business and Performance

A. Business and Performance

A.1 Business

A.1.1 Registered office, Regulators and External Auditors

Simplyhealth has prepared a single Solvency and Financial Condition report ("SFCR") in accordance with waiver 2919907 granted by the Prudential Regulation Authority ("PRA") on the 16th November 2016. The single SFCR comprises information at the level of the Group and information related to the wholly owned regulated insurance undertaking within the Group, Simplyhealth Access.

Ultimate parent undertaking:	Simplyhealth Group Limited
Regulated insurance undertaking:	Simplyhealth Access
Registered office:	Hambleden House Waterloo Court Andover Hampshire, SP10 1LQ
Independent external auditor:	Grant Thornton UK LLP 30 Finsbury Square London, EC2P 2YU
Regulators:	The Prudential Regulation Authority regulates our activities related to the provision of non-life insurance products: Prudential Regulation Authority Bank of England 20 Moorgate London, EC2R 6DA The Financial Conduct Authority regulates our activities related to the provision of non-life insurance products, as well as credit and credit related activities to individuals and client companies. Financial Conduct Authority 25 The North Colonnade London, E14 5HS

A.1.2 Introduction to key undertakings within the Group

Simplyhealth Group Limited

Simplyhealth Group Limited ("the Company") is a private company that is limited by guarantee. It is the ultimate parent undertaking of a number of subsidiary undertakings. All investments are held either directly by Simplyhealth Group Limited or through 100% controlled subsidiaries.

The Simplyhealth Group ("the Group" or "SHG") is comprised of three principal companies: Simplyhealth Access, Denplan Limited and Simplyhealth Wellbeing Limited. Together, the Group helps over 3 million people across the UK to access the everyday health products, services and support they need, when they need them at a price they can afford and with the healthcare professionals they choose. The Group is based entirely within the United Kingdom with its principal offices in Andover and Winchester.

Simplyhealth Access

Simplyhealth Access ("SHA") is a private unlimited company with share capital. It is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA to conduct non-life insurance business in the UK. All of the share capital issued by Simplyhealth Access is owned by its immediate parents, Simplyhealth Holdings Limited and Simplyhealth Nominees Limited.

Simplyhealth Access operates as a regulated insurer of medical expenses, offering access to a range of health plans for both individuals and corporate customers. It is the UK's leading health cash plan provider, helping policyholders gain access to everyday healthcare. Key benefit categories within the products include services from dentists, opticians, physiotherapists and chiropractors.

Denplan Limited

Denplan Limited ("Denplan") develops, sells, and administers healthcare payment plans which are sold by dentists to their patients. Denplan also distributes dental insurance products underwritten by Simplyhealth Access to corporate clients and individuals. Denplan is the UK's leading provider of dental care plans, and enables customers to budget for preventative dental care, helping to keep teeth and gums healthy and to prevent problems in the future.

Denplan and its subsidiary company The Animal Healthcare Company Limited also provide similar services and products to the veterinary profession and pet owners, supporting pet health needs.

During the year Denplan commenced its investment in a new dental partnership funding programme; its wholly owned subsidiary Denplan Partnerships Limited secured investment in two dental practices through taking 50% interests in joint venture partnerships. This strategic opportunity will see Denplan strengthen its support for, investment in and involvement with our member dentists and in the future of private, preventive dentistry.

Simplyhealth Wellbeing Limited

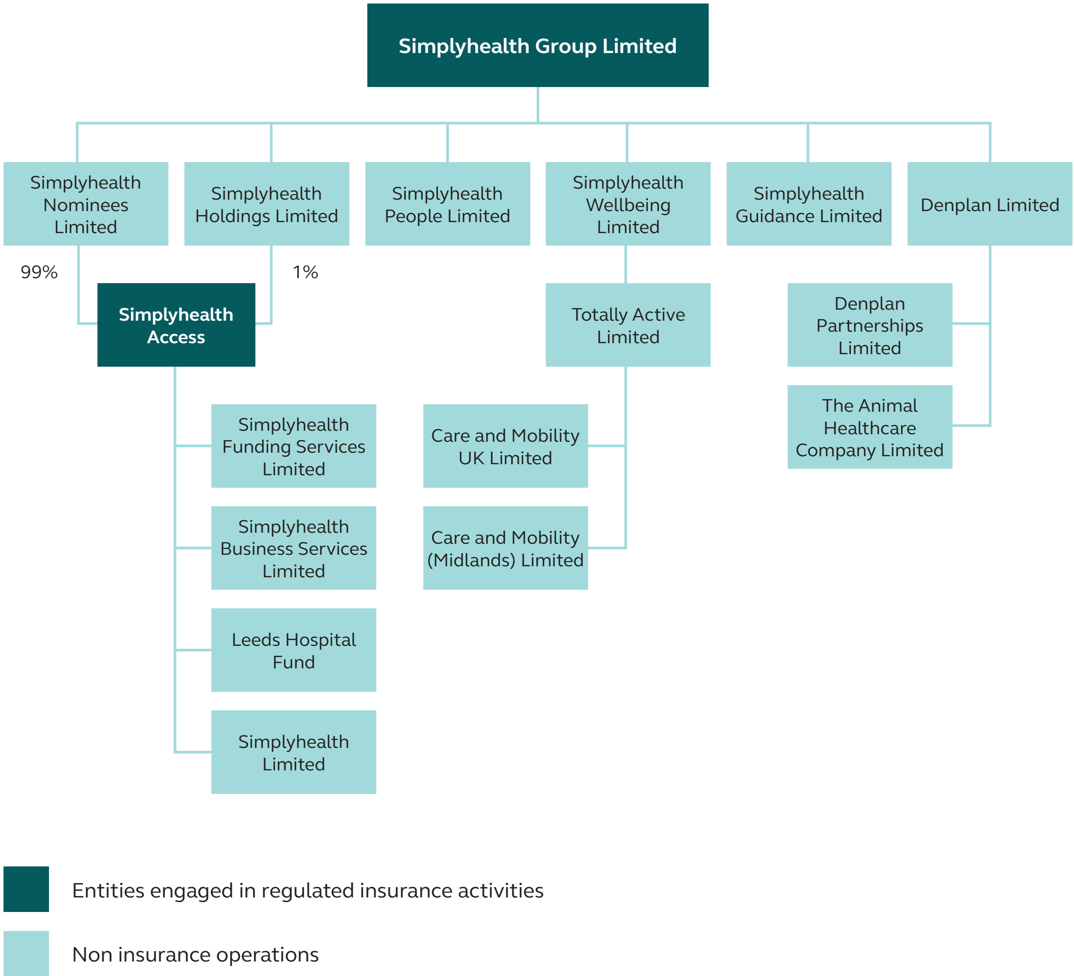
The Simplyhealth Wellbeing subgroup operates retail trading operations providing guidance and selling a range of products and services to help people get the most out of life; these include mobility products, daily living aids and support with modifying people's homes to enable them to live independently. These services are provided under the trading names 'The Unlimited Company', 'Care and Mobility' and 'Independent Living'.

A.1.3 Legal Structure

Scope of the Group

There are no differences between the scope of the Group used within the consolidated financial statements and the scope of the Group for consolidated data in calculating group solvency in accordance with Article 335 of the Delegated Regulation 2015/35.

Group structure



Undertakings within the Group	Company registration number	Principal activity
Incorporated in England and Wales:		
Simplyhealth Group Limited	05445654	Ultimate parent undertaking
The Animal Healthcare Company Limited	03302348	Provision of administration for veterinary pet health plans
Care and Mobility (Midlands) Limited	05156683	Provision of mobility and health-related products
Care and Mobility UK Limited	05207914	Provision of mobility and health-related products
Denplan Limited	01981238	Provision of dental scheme administration
Denplan Partnerships Limited	09514902	Provision of investment in joint ventures in dental practices
Leeds Hospital Fund	00064929	Owns property for use within the Group
Simplyhealth Access	00183035	Provision of insurance services
Simplyhealth Business Services Limited	09523886	Provision of health scheme administration
Simplyhealth Funding Services Limited	03681199	Arrangement of loans to dental practices and retail customers
Simplyhealth Guidance Limited	10476781	Provision of health-related guidance services
Simplyhealth People Limited	05551895	Provision of people for Group activities
Totally Active Limited	04932453	Provision of mobility and health-related products
Non-trading entities:		
Simplyhealth Holdings Limited	05603119	Investment holding company
Simplyhealth Nominees Limited	05603124	Investment holding company
Simplyhealth Wellbeing Limited	05432144	Investment holding company
Simplyhealth Limited	09514902	Non-trading

Employees

The average number of employees during the year across the Group was 1,344 of which 866 worked in Simplyhealth Access.

A.1.4 Significant events during the reporting period

The following significant events occurred during 2016:

1. Acquisition of 50% interests in two dental practices through the formation of limited liability partnerships (LLPs) with the incumbent proprietor of the dental practice.
2. The Unlimited Company opened three new retail stores in England, extending its provision of daily living aids, mobility products and services supporting people living independently at home.
3. In May 2016, Simplyhealth decided to close its Leeds and Manchester offices to consolidate customer service operations in Andover and Winchester.
4. On 1 October 2016, Practice Plan for Vets Limited ("PPV"), a subsidiary of Simplyhealth Access, sold its business activity including all the associated assets and liabilities related to the administration and collection of payment plans for veterinary practices, to Denplan Limited. On the same date PPV acquired a loan book from Denplan Limited that consisted of a number of loans to dental practices. As of 1st October 2016 PPV's principal activity is to manage this loan book and collect repayments and interest from third parties. PPV changed its name to Simplyhealth Funding Services Limited on 13th October 2016.

A.2 Underwriting Performance

A.2.1 Underwriting performance on continuing operations

Please refer to the Statement of Comprehensive Income for the year ended 31st December 2016 shown on pages 9 and 10.

All premiums are generated through medical expense insurance activity within the UK, with the exception of £1.0m where the risk falls predominantly in Gibraltar and the Channel Islands. On the basis of materiality, geographical segmental reporting has not been prepared.

Continuing operations performed consistently with the previous year with technical income less claims incurred of £87.5m in 2016 (2015: £85.0m).

The claims loss ratio on continuing operations improved to 64.7% in 2016 (2015: 66.8%).

Operating expenses increased to £53.7m in 2016 (2015: £49.7m) for the Group, and to £82.7m (2015: £79.2m) for Simplyhealth Access. This increase was due to operational changes and initiatives implemented during the year that will support business growth and future cost savings. Simplyhealth Access operating expenses exceed those of the Group as Simplyhealth Access incurs costs in relation to services provided by other Group companies which are eliminated on consolidation.

Net income on the general business technical account for continuing operations consequently fell by £1.5m to £33.8m in 2016 (2015: £35.3m) for the Group, and in Simplyhealth Access it fell by £1.0m to £4.8m in 2016 (2015: £5.8m).

A.2.2 Discontinued operations

On 1st August 2015 the Group sold the fixed assets, goodwill and other trading assets, and also reinsured 100% of the insurance liabilities and net premiums of its Private Medical Insurance ("PMI") business, under two separate agreements with AXA PPP healthcare Limited ("AXA PPP"). The statement of comprehensive income has been presented with the results of this part of the business shown separately under 'Discontinued operations'.

During 2016 the Group has continued to operate the remaining contractual obligations of the PMI business until all contracts transition to AXA PPP on renewal. The liabilities associated with this are actually reinsured with AXA PPP with the effect that all premiums earned and claims incurred by the Group in the current year are matched by amounts due to/from AXA PPP and there is no net profit or loss for the year.

Gross premiums written in relation to discontinued operations amounted to £9.0m in 2016 (2015: £122.9m).

A.3 Investment Performance

A.3.1 Investment portfolio

Simplyhealth manages its investment portfolio within three general classifications:

- Liquidity requirement: Short-term realisable investments including cash, certificate of deposits (CD) and treasury bills, held to support liquidity requirements. This portfolio is managed by Royal London Asset Management on behalf of Simplyhealth.
- Core Fixed Income Fund ("CFIF"): A dedicated Simplyhealth fund which comprises of bonds and fixed income securities, including derivatives that are used to hedge or facilitate efficient portfolio management. The fund's investment objective is capital preservation over investment return. This portfolio is managed by Schroder Investment Management Limited ("Schroders") on behalf of Simplyhealth.
- Dynamic Multi-Asset Fund ("DMAF"): This fund represents capital above our solvency capital and business investment requirements. The fund's investment objective is to deliver positive returns over a market cycle within a defined risk appetite, based on long-term capital growth and income, through investment in collective investment schemes as well as directly held transferable securities, derivatives, cash, deposits, warrants and money market instruments. This portfolio is managed by Schroders on behalf of Simplyhealth.

A.3.2 Investment performance during the year

Investment returns in 2015 reflected holdings substantially positioned in Gilts targeting modest returns and managing capital and liquidity exposures. During 2016, Simplyhealth changed its investment strategy and transitioned the management of the investment portfolio to Schroders, and divided the portfolio into the CFIF and DMAF funds.

Investment returns in 2016 were higher due to improvements in the equity and bond markets in the latter half of 2016. The £3.2m loss on derivatives is offset by gains within other investment products, as the derivatives are used to hedge against potential risks.

All gains or losses on financial investments are recognised through the statement of comprehensive income.

The tables below exclude returns from investments in subsidiary undertakings.

SHG:	Year Ended 31 December 2016						Year Ended 31 December 2015				
	Equity Instruments	Debt Instruments	Multi-Asset Funds	Derivatives	Other	**Total**	Equity Instruments	Debt Instruments	Multi-Asset Funds	Other	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income from investments	0.6	1.7	0.3	-	0.2	**2.8**	1.4	1.2	-	0.4	**3.0**
(Losses) / gains on realisation of investments	(0.7)	1.3	-	(2.8)	0.5	**(1.7)**	2.6	0.5	1.7	-	**4.8**
Unrealised gains / (losses) on investments	0.8	2.3	2.0	(0.4)	-	**4.7**	(4.8)	0.3	(2.2)	-	**(6.7)**
Investment charges and expenses	-	-	-	-	(0.5)	**(0.5)**	-	-	-	(0.5)	**(0.5)**
Net investment returns	**0.7**	**5.3**	**2.3**	**(3.2)**	**0.2**	**5.3**	**(0.8)**	**2.0**	**(0.5)**	**(0.1)**	**0.6**

A.3.2 Investment performance during the year (continued)

SHA:	Year Ended 31 December 2016						Year Ended 31 December 2015				
	Equity Instruments £m	Debt Instruments £m	Multi-Asset Funds £m	Derivatives £m	Other £m	**Total £m**	Equity Instruments £m	Debt Instruments £m	Multi-Asset Funds £m	Other £m	**Total £m**
Income from investments	0.6	1.7	0.3	-	0.1	**2.7**	1.4	1.2	-	0.2	**2.8**
Gains / (losses) on realisation of investments	1.2	1.6	-	(2.8)	0.5	**0.5**	2.7	0.7	2.5	-	**5.9**
Unrealised gains / (losses) on investments	(1.1)	2.0	2.0	(0.4)	-	**2.5**	(4.9)	0.1	(3.0)	-	**(7.8)**
Investment charges and expenses	-	-	-	-	(0.5)	**(0.5)**	-	-	-	(0.5)	**(0.5)**
Net investment returns	**0.7**	**5.3**	**2.3**	**(3.2)**	**0.1**	**5.2**	**(0.8)**	**2.0**	**(0.5)**	**(0.3)**	**0.4**

A.4 Performance of other activities

Please refer to the Statement of Comprehensive Income for the year ended 31st December 2016 shown on pages 9 and 10.

In addition to the results outlined in sections A.2 and A.3, the following material income and expenses were incurred during 2016:

1. Restructuring of insurance operations; expenses of £2.0m (2015: £nil) includes expenses incurred in the closure of the Group's offices in Manchester and Leeds.
2. Simplyhealth Access impaired its investment in Simplyhealth Funding Services Limited (formerly Practice Plan for Vets Limited) by £1.3m (2015: £nil) following the sale of its pet health plan business to Denplan Limited. Please refer to section A.1.4 (point 4) for further details.
3. The Group conducts a range of trading activities outside the regulated insurance activities. Other income and charges includes the consolidated results from non-insurance companies within the Group. Denplan Limited is the major contributor to other income and charges through its administration of capitation plans within the dental and veterinary markets.
4. The Group also donated £1.6m (2015: £1.6m) to charitable partners and community initiatives.

A.5 Any other information

There are no other material matters in respect to the business or performance.

B. System of Governance

B. System of Governance

B.1 General information on the system of governance

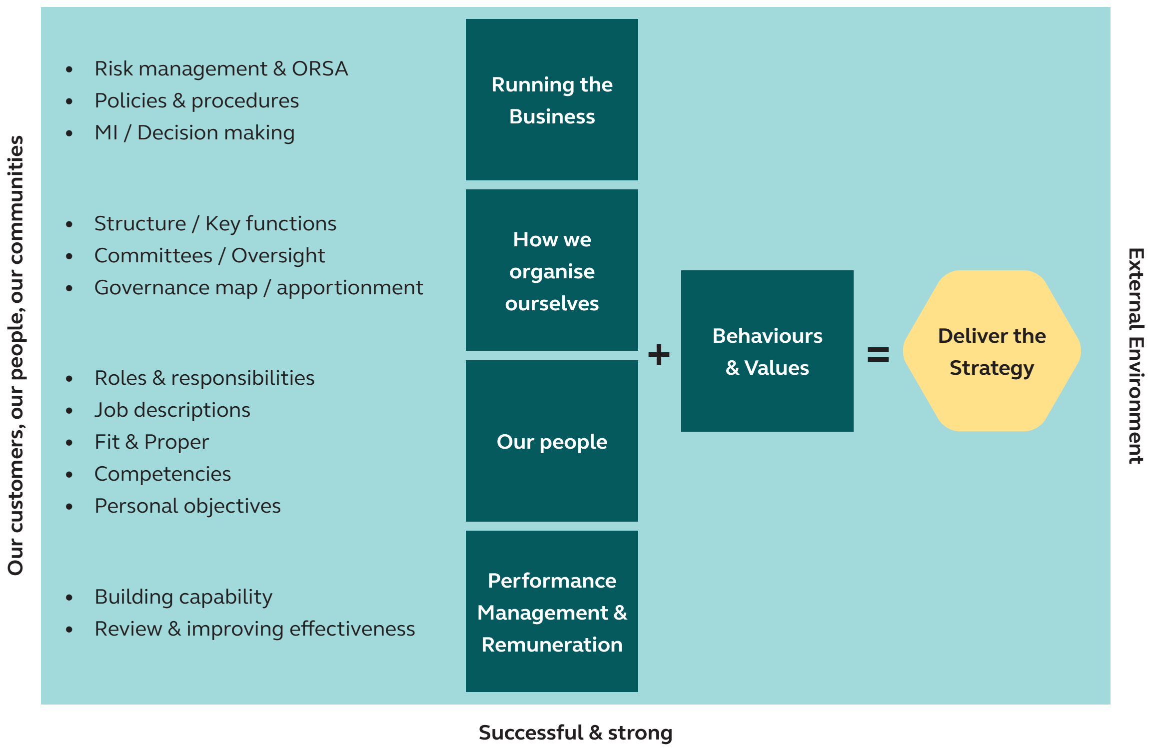
B.1.1 Incorporation and constitution

Simplyhealth Group Limited is a company limited by guarantee; this means it does not have shareholders and operates for the benefit of its customers, present and future. The Memorandum and Articles of Association of Simplyhealth Group Limited define the purpose of Simplyhealth, the responsibilities of its directors and the relationship between Simplyhealth and its voting members.

Simplyhealth is committed to mutual values and to re-investing retained profits for the benefit of its customers, its people and the communities in which it operates, as well as giving 10% of profits to charitable purposes. The Group's core purpose is to assist people with their everyday health needs, enabling them to access affordable products, services and support to ensure they can make the most of everyday life. Accordingly, the system of governance is designed to ensure that the Group and its constituent parts are well positioned to continue to deliver this purpose while effectively managing the risks associated with the underlying business activities. The system of governance is reviewed annually by the Board.

As the Group has neither shareholders nor a requirement to distribute profits to members, the role of voting members and the Board of Directors in providing effective governance is particularly important. The Group Constitution, as illustrated below, provides an overview of the principles of the system of governance and how it is a foundation for the delivery of the Group's strategy.

Simplyhealth Group Constitution – Memorandum & Articles of Association



B.1.2 The Voting Members

The Group is governed by its voting members who have no beneficial interest in, or rights to, its assets. The voting members have the responsibility to exercise their membership rights, including voting rights, with a view to promote the objects of Simplyhealth in the best interest of the Group and our customers (present and future) as detailed in the Memorandum of Association.

The voting members of Simplyhealth make decisions at its general meetings by ordinary or special resolutions.

B.1.3 The Board of Directors

The directors who served during the year to 31st December 2016 were:

Ken Piggott Non-executive Chairman

Tim Brooke Non-executive
(resigned 1st October 2016)

Mike Hall Non-executive

Richard Harris Non-executive

Alex Pike Non-executive

Romana Abdin Chief Executive

Ben Kent Executive

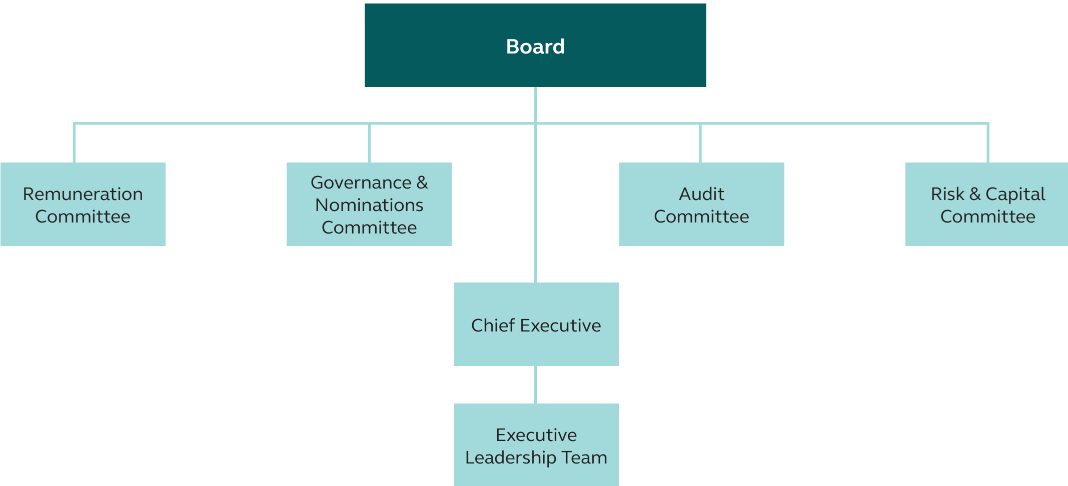
James Glover served as Company Secretary throughout the year.

B.1.4 Governance Structure

Simplyhealth's decision-making and organisational structure support the effective governance of the business in meeting its strategic goals, the effective delivery of excellent levels of service to its customers and its operation within applicable regulations. The governance model for Simplyhealth is designed to be proportionate to the nature, scale and complexity of the risks facing the Group.

The Board assesses and regularly reviews the ethical and economic position of the business and considers significant changes affecting factors such as the organisation, operations, customers, the external environment, the financial position of the business and the risk profile of the Group. This oversight is provided through the operation of key committees of the Board.

B.1.5 The Simplyhealth Group committee structure



Role of the Board & Board Committees

At the heart of our governance framework is the Simplyhealth Board. The Board's role is to ensure Simplyhealth is successful for all of our stakeholders, setting strategic direction, providing entrepreneurial leadership and watching over the effective management of the key risks the business faces. The Board is accountable for ensuring effective governance, overseeing financial control of the business, ensuring that investments are managed properly, that all material business risks are managed and that funding is allocated efficiently and according to capital adequacy requirements. It is also accountable for ensuring that the company stays true to its Constitution, and is in a position to achieve its corporate giving as an intrinsic part of delivering Simplyhealth's purpose.

To assist the Board in carrying out its duties, the Board delegates some of these responsibilities, although not accountability, to a number of Board Committees. These Committees operate under delegated authority from the Board, enabling specific matters to be considered in depth and reported back to the Board and, where appropriate, making recommendations for final decision by the Board.

The Remuneration Committee

This committee is responsible for:

- Developing and recommending to the Board the remuneration principles for the Chairman, Chief Executive, Executive Directors and the Company Secretary, having regard to advice from internal and external guidance.
- Recommending to the Board the individual remuneration packages of the Chairman, Chief Executive, Executive Directors and the Company Secretary, including any bonuses and any other incentive payments.
- Setting and reviewing the principles and parameters of Simplyhealth remuneration policy on a group-wide basis.

The committee recognises the need to secure the right people for Simplyhealth, and ensures individuals are rewarded based on performance that is consistent with the delivery of Simplyhealth's purpose, values and long-term strategy.

The Governance and Nominations Committee

This committee is responsible for:

- Evaluating and monitoring Simplyhealth's governance framework, including the governance structure and governance principles, to ensure they meet Simplyhealth's current and future strategic needs and support best practice.
- Recommending to the Board candidates for appointment to ensure that collectively the balance of skills, experience, independence, knowledge and diversity on the Board are appropriate to Simplyhealth's operations and the regulated environment in which it operates.
- Periodically evaluating the composition and performance of the Board, its Committees and individual Directors.
- Ensuring appropriate succession plans are in place for key roles.

The Audit Committee

This committee is responsible for:

- Reviewing the effectiveness of Simplyhealth's system of control for managing financial and non-financial risks.
- Monitoring the integrity of Simplyhealth's financial statements including significant reporting judgements contained within them.
- Reviewing and monitoring the effectiveness and objectivity of both the internal and external audit function.
- Reviewing the effective implementation and operation of regulatory requirements and obligations.
- Reviewing reports and recommendations provided by internal and external audit and other assurance functions.
- Reporting and making recommendations to the Board on any matters where it considers that action or improvement is needed.
- Overseeing the adequacy and effectiveness of Simplyhealth's 'Whistleblowing' arrangements.
- Annual review of the Governance Map.

In doing so, the Audit Committee ensures that the delivery of Simplyhealth's strategy is subject to scrutiny and challenge, and its system of control is proportionate to the risks faced.

The Risk and Capital Committee

This committee is responsible for:

- Overseeing, understanding and reviewing Simplyhealth's risk profile, advising the Board on principal risk exposures and future risk strategy, including recommending the levels of key risk appetite for the business.
- Reviewing and challenging the management of risk, ensuring suitable risk management techniques and disciplines are applied, and ensuring that the capital held by the business supports its risk profile.
- Ensuring that future capital requirements of the business are appropriately and adequately considered and planned for over the business-planning horizon. This includes ensuring the robustness and adequacy of the Group's Own Risk and Solvency Assessment (ORSA).
- Overseeing and advising the Board on the embedding and maintenance of a suitable risk management culture in Simplyhealth in accordance with the risk management framework.
- Supporting the stewardship of Simplyhealth's assets and the prudent use of resources to deliver prosperity, growth and long-term sustainability.

Chief Executive delegated authority

The setting of, and overseeing delivery of, the strategy is the responsibility of the Board. The Board delegates responsibility to the Chief Executive to lead Simplyhealth, and the Chief Executive in turn delegates defined levels of responsibility for strategic and operational decision-making to members of the Executive Leadership Team.

The Chief Executive of Simplyhealth has delegated authority from, and is responsible to, the Board for directing and promoting the successful operation and development of Simplyhealth, implementing the strategy set by the Board to deliver our purpose, in a way that is consistent with our values and risk appetite.

Supporting this, the Chief Executive has a robust operational governance structure in place to manage the performance of the business and the delivery of the strategy.

The Executive Leadership Team

The Executive Leadership Team comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Corporate Affairs Officer & Company Secretary, the Chief Strategy Officer, the Chief Commercial Officer (Retail & Delivery), the Managing Director of Corporate & Consumer, the Managing Director of Professionals, and the Managing Director of The Unlimited Company.

Its responsibilities include:

- Formulating (for Board approval), reviewing, communicating and managing the delivery of the Group's strategy, taking into account Simplyhealth's purpose, risk profile, capital requirements and solvency position.
- Leading performance across the Group, including operational, financial and people matters, reporting results to the Board and its committees as required.
- Maintaining an effective organisational structure which supports delivery of strategic and operational plans and manages succession planning for key roles.
- Ensuring the Simplyhealth Group maintains an effective internal control framework, which supports compliance with relevant legislation and regulations.
- Monitoring and reviewing the risk profile of the Group such that this enables the Group to mitigate significant operational, financial, compliance and other risks, in line with Simplyhealth's risk appetite, reporting these to the Board as required.
- Quarterly review and agreement of the Governance Map.

Chief Corporate Affairs Officer and Company Secretary

Responsibilities include:

- Ensuring that board procedures are followed and regularly reviewed.
- Establishing and maintaining the Governance Map for the quarterly review and agreement of the Executive Leadership Team and annual submission to the Audit Committee.
- Oversight of second and third line accountabilities supporting:
    - Effective identification, management and mitigation of risks;
    - Compliance with legal and regulatory obligations;
    - Effective internal audit; and
    - Legal support for the Group.
- Oversight and delivery of external communications and brand strategies for Simplyhealth.

B.1.6 Key functions

Simplyhealth maintains the following key functions as required under Solvency II:

- Risk Management function;
- Compliance function;
- Actuarial function; and
- Internal Audit function.

These functions play an integral role in Simplyhealth's system of governance as they provide oversight, challenge and independent assurance of the activities performed by the business to ensure risks are being managed appropriately.

Further descriptions of these functions' roles, responsibilities and resources are provided in sections B.3, B.4, B.5 and B.6.

B.1.7 Material changes in the system of governance

The following changes took place during the year:

- Tim Brooke, Chair of the Risk & Capital Committee, resigned as a non-executive director. A suitable replacement for the vacant non-executive position is being recruited.

- Richard Harris, Chair of the Audit Committee, was appointed as interim Chair of the Risk and Capital Committee.

B.1.8 Remuneration policy

B.1.8.1 Overarching approach to remuneration

Our approach to remuneration is set in line with our business strategy, ensuring that we reward successful achievement of our long-term goals and that we incentivise individuals to deliver these in a responsible and appropriate way. Remuneration is aligned to our risk profile and risk appetite, and our approach seeks to maintain an adequate capital position and ensure the sustainability of the Group. Our intention is to offer a reward structure that supports our proposition as an employer of choice and that is conducive to our employer brand.

Our reward structure is designed to ensure we reward the successful achievement of our business objectives and that we incentivise the achievement of these in a responsible and appropriate way. As such, the Group's remuneration policy applies to all entities and employees, up to and including the Executive Directors.

Reward is made up of a number of separate elements including individual base pay, company performance bonuses and a choice of employee benefits.

The Group aims to apply a consistent and fair approach to setting base pay and we make informed pay decisions by taking into account our focus and approach to performance management to ensure that in return our people deliver the performance needed with the right behaviours.

We recognise that different roles within the Group are required to take different risks. In deciding the remuneration approach we seek to ensure that individuals are rewarded only for making decisions within our risk appetite. For this reason elements of remuneration look different for different levels within the business and for different levels of risk taken within roles.

The proportion of fixed versus variable remuneration is carefully considered to ensure that there is not an over reliance on variable remuneration and that remuneration does not incentivise the individual to take risks or act in a manner which is not in the long term interests of the Group or the customer. The specific arrangements are recorded at individual bonus scheme level, demonstrating how they link to the Group Remuneration Principles and are aligned to our business strategy and risk appetite.

At Simplyhealth the way we do things is always as important as what we do. For that reason the right behaviours and approach to work are always required and failing to behave in the right way is unacceptable. This is reflected in our approach to remuneration, where how we do things will be considered as much as what we deliver.

All bonus schemes are based on both collective and individual performance and behaviours. The amount paid on all bonus schemes is determined at the end of the financial year having reviewed business performance results and the capital adequacy position. Bonuses would be at risk if there are shortfalls in the Group's performance unless otherwise stated and agreed, and included in this would be how we have effectively managed our principal risks. All results are subject to the external audit of the year-end financial accounts.

B.1.8.2 Directors' Remuneration Policy

The Company recognises the importance of the Board of Directors in setting the values and direction of the Company. In order to attract and retain Directors with the required skills and experience, the Company must be competitive in the rewards offered to its Directors while ensuring that their remuneration promotes the long-term success of the Company and the Group. All rewards are set by the Remuneration Committee of Non-Executive Directors of the Board, after comparison with market data provided by external consultants.

Non-Executive Directors

The role of the Non-Executive Directors is to provide challenge and advice, and to oversee the performance of the Company and Group. Simplyhealth therefore regards it as inappropriate that they should be financially incentivised on the Group's profitability or other financial performance measures. Each Non-Executive Director is paid a fee, with further allowances paid to those who take on extra roles, such as chairing one of the Board sub-committees, or acting in the capacity of Senior Independent Director.

The Non-Executive Directors are not employees of any company in the Simplyhealth Group, and are appointed to three-year terms of office, renewable by re-election for up to a further two periods of three years each. It is normal company policy to rotate the Non-Executive Directors in order that they retain their independence and objectivity.

Executive Directors

The role of the Executive Directors is to run the Company and Group on a day-to-day basis and Simplyhealth therefore regards it as essential that they are incentivised to meet its business goals. It is the Company's belief that each Executive Director must deliver and contribute to the overall success of the business and work effectively within the Executive Team, as they cannot deliver alone. Therefore they are rewarded on both personal and collective performance. Executive director remuneration is made up of the following elements:

- Salary and benefits – which are contractual as an employee of the Company and Group, and are set competitively against market norms. Salary will not be increased in line with market norms where individual performance and leadership behaviours are not at the level required for successful stewardship of the business.
- Annual bonus – the level of which is decided based on the achievement of overall business objectives for the year and the individual performance and leadership behaviours of the Executive.
- Long Term Incentive Plan ("LTIP") – based on the achievement of business goals over a three year period, details of which are provided below. This element of the reward is designed to incentivise the Executive team to take decisions in the long term interest of the business, as well as retaining their skills in the absence of a share option scheme.

The Executive Directors are permanent employees and employment continues until terminated by either party under the terms of the contract of employment. The notice period of these contracts is twelve months.

Pay and benefits in the year

The following amounts are paid or payable to the Directors for their service during the year:

Executive Directors	Salary £	Bonus £	Benefits £	Total 2016 £	Total 2015 £
Romana Abdin	374,487	196,162	100,438	671,087	649,524
Ben Kent	262,300	137,068	56,697	456,065	445,259
Jamie Wilson (resigned 10 March 2015)	-	-	-	-	51,124
Total	**636,787**	**333,230**	**157,135**	**1,127,152**	**1,145,907**
Non-Executive Directors					
Ken Piggott	131,635	-	-	131,635	120,655
Richard Harris	56,417	-	-	56,417	50,463
Mike Hall	56,442	-	-	56,442	53,363
Tim Brooke (resigned 1 October 2016)	39,167	-	-	39,167	48,463
Alex Pike	44,542	-	-	44,542	32,129
Total	**328,203**	**-**	**-**	**328,203**	**305,073**

B.1.8.3 Long-Term Incentive Plan (LTIP)

All of the Executive Directors participate in an LTIP, which effectively provides an incentive payment based on the business performance over a three-year period. The payment value is calculated as follows:

- An allocation based on 26% of the Director's total remuneration is made at 1st January each year.
- At the beginning of the three year LTIP performance period, the Board agrees the key long term objectives and measures, both financial and non-financial.
- At the end of each year, the Remuneration Committee reviews progress made towards the three year objectives and metrics and ensures that these remain appropriate and relevant for the remainder of the LTIP performance period.
- At the end of the three year LTIP performance period the Remuneration Committee reviews performance against the objectives and measures to determine the amount of LTIP payment. None of the initial allocation is guaranteed meaning that if performance is below the required level less than or none of the allocation may be paid. Where performance is better than required an uplift may be made to the initial allocation to a maximum of 50%.

All amounts are payable in cash, since the Group has no shares. At the end of the year, the following benefits had accrued in respect of the schemes:

	Notional value at 31 December 2016	Notional value at 31 December 2015
	£	£
Romana Abdin	415,540	282,843
Ben Kent	321,318	169,634
Total	**736,858**	**452,477**

The amounts in the table above are not included in Directors' remuneration.

During the year, the following amounts were granted to Directors in respect of the schemes:

	Notional value at 31 December 2016	Notional value at 31 December 2015
	£	£
Romana Abdin	212,827	165,277
Ben Kent	160,262	104,769
Jamie Wilson (resigned 10 March 2015)	-	(4)
Total	**373,089**	**270,042**

Under the scheme which matured in 2016 the following amounts, which are included in the notional value above, became payable to the Directors:

	Payable at 31 December 2016	Payable at 31 December 2015
	£	£
Romana Abdin	178,527	80,130
Ben Kent	154,082	8,578
Jamie Wilson (resigned 10 March 2015)	-	-
Total	**332,609**	**88,708**

LTIP payments were granted and paid during the year as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Accrued at 1 January	452,477	497,884
Granted during the period	373,089	270,042
Paid in respect of the 2012 scheme	-	(158,935)
Paid in respect of the 2013 scheme	(88,708)	(96,834)
Paid in respect of the 2014 scheme	-	(59,680)
Accrued at 31 December	**736,858**	**452,477**

B.1.8.4 Pension contributions

The Executive Directors were members of a Money Purchase Group Pension Scheme. During the year they opted to receive a cash payment in lieu of further pension contributions.

The Group made the following payments during the year on behalf of the Directors in respect of pension contributions:

	Year ended 31 December 2016	Year ended 31 December 2015
	£	£
Romana Abdin	22,140	87,762
Ben Kent	19,382	76,963
Jamie Wilson (resigned 10 March 2015)	-	11,540
Total	**41,522**	**176,265**

B.1.9 Material related party transactions

Simplyhealth does not have any shareholders and there have been no material transactions with persons who exercise a significant influence on the group or with members of the administrative, management or supervisory body.

No member of the Board of Directors had any interest in any contracts with the Group at the end of the year or at any time during the year, except that they are all contributors of Simplyhealth Group Limited as required by the Articles of Association.

B.2 Fit and proper requirements

The Group's fitness and propriety policy reflects the Senior Insurance Manager Regime ("SIMR") fit and proper requirements. The Group ensures that the persons accountable for the running of Simplyhealth, or who are in key functions, have the following required attributes to enable them to perform their role effectively and in accordance with any relevant regulatory requirements:

1. Personal characteristics, including being of good repute and integrity;
2. Competence, knowledge and experience;
3. Qualifications;
4. Has undergone or is undergoing the required level of training; and
5. Is regarded as a custodian for the benefit of future generations.

The Nominations Committee ensures the Board and Key Function Holders collectively possess appropriate qualifications, experience and knowledge about, at least, the following:

- Insurance and financial markets;
- Business strategy and business model;
- Solvency II requirements for the system of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

The Group employs the following procedures to assess the fitness and propriety of persons approved to perform a controlled function and other notified Key Function Holders:

- Competency-based recruitment processes;
- Induction programme, including specific briefings for Approved Persons;
- Background checks, including criminal records, credit references and employment references, through an external agency;
- Performance against the applicable PRA Conducts Standards and FCA Conduct Rules;
- Regular performance reviews and assessments carried out at least annually; and
- Self-attestation annually.

Simplyhealth's assessment of fitness and propriety includes reviewing:

- Personal characteristics e.g. honesty, integrity and reputation;
- Financial soundness;
- Competence and capability e.g. qualifications, knowledge, experience, training;
- Past business conduct and ongoing performance against conduct standards;
- Time commitment; and
- Any conflicts of interest.

With respect to the appointment of the Approved Person, both Simplyhealth and the individual concerned are required to declare that the information supplied in support of the application is accurate and complete to the best of the their knowledge. The PRA and FCA will validate the information provided against their records. The regulator may also interview candidates applying to perform certain roles.

Approved Persons receive a briefing from Simplyhealth on appointment and annually thereafter. It is designed to inform them of the following:

- The objectives of the PRA and FCA;
- The high level regulatory requirements applicable to the regulated business of Simplyhealth;
- How individual fitness and propriety is assessed;
- Where individual accountabilities are documented;
- When the regulator might take enforcement action; and
- The changes that need to be notified to the regulator.

Persons approved to perform a controlled function are required to maintain their 'fit and proper' status.

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

B.3.1 The role of risk management

We consider risk management to be a fundamental part of good management practice and a significant aspect of corporate governance; therefore we take this responsibility very seriously. We take measures to embed risk management principles throughout our organisation, business and brands. The effective management of risk is central to our culture and our decision-making and provides an essential contribution towards the achievement of our strategy and objectives.

The Group has developed an Enterprise Risk Management Policy that stipulates the minimum standard for risk management and internal control for all parts of the Group and for all categories of risk.

In turn, this enables reasonable assurance to be provided to the Board and external stakeholders that Simplyhealth is achieving the following risk management and internal control objectives:

- Effective risk and capital management that secures an appropriate level of solvency and protection for policyholders;
- Strong alignment between risk management, accountability, decision-making and reward;
- Effective and efficient operations that are aligned to the Group's strategic objectives and risk appetites;
- Reliable non-financial and financial information, that meets internal and external reporting requirements including prudential reporting; and
- Compliance with applicable and emerging laws, regulations and administrative provisions.

B.3.2 Risk management function

In order to deliver our strategic objectives, we adopt a responsible and balanced approach to risk-taking so that significant risks are identified and managed. This supports long-term sustainability and growth and enables us to respond dynamically to strategic opportunities while maintaining an appropriate and proportionate approach to running the business.

The risk management function is required to:

- Facilitate the implementation of the risk-management system;
- Assist the Board and other functions in the effective operation of the risk management system;
- Monitor and report on the risk management system;
- Monitor the general risk profile of the undertaking as a whole;
- Report to the Board on material risks;
- Advise the Board on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- Identify and assess emerging risks;
- Co-operate closely with the actuarial function; and
- Implement and oversee a suitable Own Risk and Solvency Assessment ("ORSA") process.

B.3.3 Risk management approach

The Group acknowledges that it needs to take risks to successfully deliver the strategy. Delivering on business objectives and seizing commercial opportunities requires putting capital at risk in a responsible and structured manner.

Our approach to risk management consists of the following components:

1. Agreement of a risk appetite statement, in relation to a defined risk, which the Group accepts and manages, which sets the philosophy and high level measures for the level of risk the Group is willing to accept;
2. A risk management system which ensures that all principal risks are identified, assessed and managed in accordance with the risk appetite framework. The Group's risk management policies are reviewed at least annually;
3. Regular risk monitoring and reporting, ensuring any concentration of risk by risk type, entity or function is assessed and management action agreed on a timely basis. Group Risk Reporting provides an assessment of risk at both the Group, Business Unit and where appropriate functional level; and
4. An effective risk and control culture which is focused on the sustainability of Simplyhealth, risk awareness, ethical behaviour and the fair treatment of customers and employees.

The Board, via the Risk and Capital committee, is ultimately responsible for the risk appetite and for maintaining a robust risk management system.

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B.3.4 Risk management framework

The Group maintains a risk management framework which establishes how risk management operates across the business. This framework links together our operating environment, business strategy, decision making and capital management, alongside defined risk appetites, so that there is an appropriate forward-looking view of the risks facing our business. This includes the adoption of the 'Three Lines of Defence' operating model for defining risk management within roles and responsibilities. This operating model supports strong alignment between risk management, accountability, decision making and reward.

The framework is used to provide a comprehensive and consistent approach for identifying, measuring, controlling, monitoring and reporting risk; for establishing risk appetite; and for managing capital. The framework sets out the processes involved in the identification, assessment, analysis, management and mitigation of risk as required to meet the Group's commercial, strategic and regulatory objectives, including the requirements of the UK financial services regulators and the Solvency II Directive.

B.3.5 Three Lines of Defence

The Group's Three Lines of Defence Operating Model (as shown overleaf) embeds:

- Responsibility for the day-to-day identification, analysis, assessment and management of risks, processes, controls and data quality with a single owner in each first line business unit;
- A consistent second and third line of defence for the whole Group;
- A proactive, open and transparent relationship between the Three Lines of Defence that encourages:
    - Early consultation on business plans to enable risks and implications to be assessed;
    - Prompt escalation of issues from the first line to the relevant key function, including process control failures resulting in regulatory breaches or near misses; and
    - Collaboration to investigate the root cause of issues, taking appropriate remedial actions and making improvements to enhance the management of risk.

First Line of Defence

- Delivers risk management activities in line with risk standards, including ensuring adequate assessment of both the risk and its control strategy.
- Includes the day to day management of risk as well as risk-based decision-making within risk appetite.
- Establishes and reports against a range of key risk and control indicators.
- Proactively monitors the risk and control environment relevant to their part of the business.

Second Line of Defence

- Responsible for developing and overseeing the Group risk management strategy, the framework for identifying and managing risk and the risk standards which support the Group operating within its risk appetite.
- Supports the setting of Board Risk Appetite triggers and monitors business activity against those triggers.
- Acts as a business partner, helping the business analyse risk-taking against risk appetite to better support the strategic direction of the business.
- Critically assesses the first line assessments of risk and controls.
- Performs evaluations of risk management effectiveness against a range of external benchmarks.

Third Line of Defence

- Provides objective assurance over the effective and efficient operations of the roles, responsibilities and activities of the first and second lines.

B.3.5 Three Lines of Defence (continued)

'Three Lines of Defence' Operating Model		
Leadership Team	**Risk & Capital Committee**	**Audit Committee**
Business Delivery	Oversight and Challenge	Independent Assurance
First Line of Defence • Day to day risk management • Operational Management & Performance • Implement governance and risk control frameworks	**Second Line of Defence** • Risk Management Function • Compliance Function • Actuarial Function • Design governance risk and control frameworks • Monitor adherence to risk framework • Provide timely information	**Third Line of Defence** • Internal Audit • External Audit • Chief Actuary • Other Assurance Providers • Objective review of framework application • Independent oversight of first and second lines.

B.3.6 Risk governance

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives, including the setting of the Group's overall risk appetite. The Board delegates oversight of risk management to a Board sub-committee, the Risk and Capital Committee.

Day to day oversight and challenge of our risk management and reporting processes rests with the Group Risk and Compliance function. Each part of the business actively manages its own register of key risks. These are used to capture and manage the principal risks and uncertainties faced by the business and to help produce the consolidated, Group-wide view of risks compared to agreed levels of risk-taking based upon the Group risk appetite principles.

The Group Risk and Compliance function reports to the Risk and Capital Committee on a quarterly basis. The Group risk register is updated regularly, and enables management and the Board to understand the nature of, and responses to, the key risks facing the organisation. Risks are analysed and presented with an indication as to the likelihood of them arising, the potential magnitude of the impact of the risk, together with actions being taken to reduce the impact that a risk could have on the business should it materialise.

As part of our risk governance we consider the potential consequences which could arise, should the risk profile and solvency capital requirements of the business deviate significantly from the risk profile used in the assessment of level of solvency capital required, based upon application of the standard formula. Were a significant deviation to be identified, this would be reported to the Risk and Capital Committee as part of an update to the Group's ORSA.

B.3.7 Risk culture

The Group promotes an effective risk and control culture which is focused on the sustainability of Simplyhealth, risk awareness, ethical behaviour and the fair treatment of customers and employees. The Board articulates, embeds and maintains a culture of good conduct and openness which is adopted and embedded throughout Simplyhealth in the delivery of its strategic and business objectives.

The Group adopts values, attitudes and behaviours that support this culture to guide risk conversations and decision-making throughout the Group, reinforced by the tone from the top and aligned remuneration practices.

Simplyhealth operates a values based System of Governance. Expected values and behaviours are reflected in the policies, standards and statements that complement each other to form a Simplyhealth Behaviours and Ethics code.

Behaviours consistent with good governance are encouraged and reinforced through performance management, reward, recognition and remuneration arrangements.

B.3.8 Own Risk and Solvency Assessment (ORSA)

Integration into the organisation structure

The ORSA involves an analysis of the risks to the business plans and how these risks might affect the amount of capital Simplyhealth is required to hold in order to run its business safely and in line with the requirements of the Solvency II directive, known as the Solvency Capital Requirement ("SCR").

The ORSA draws on the Group's business plan and has been developed by the Group Risk and Compliance function in collaboration with each Business Unit in order to assure that the risks facing each part of the Group's overarching plan are comprehensively assessed, and that adequate capital is allocated to each type of risk.

The ORSA considers the future development of the organisation's solvency position and risk profile over its business planning period under a central set of assumptions that reflect the Board's best estimate view of the performance of the organisation and relevant changes to its external business environment. The ORSA is designed to provide the Board and key stakeholders of the business with insight into, and a comprehensive understanding of, the risks, capital and solvency implications of achieving the strategic ambitions of Simplyhealth.

The ORSA is an important part of the strategic and decision making process as well as the risk management framework. All strategic and material operational decisions, such as mergers and acquisitions or new product offerings are incorporated into the ORSA, before binding decisions are made to ensure that the effect on capital requirements is within appetite. This enables Simplyhealth to allocate a capital requirement to each of these decisions.

In the event of a major strategic change, which was not modelled as part of the existing business plan, a new ORSA would be prepared. Before any binding decision is made, the revised ORSA will be submitted to the Board to demonstrate that the proposed change is within Simplyhealth's risk and capital capacity. The most obvious example would be a future merger or acquisition opportunity which, by its nature, cannot be pre-planned.

The ORSA is implemented as an ongoing process which involves regular analysis, discussion and decision-making points throughout the year, and is considered as a standing item in the agenda for all Board meetings.

Assessment of Solvency Needs

The Group calculates its SCR on two bases: the 'Standard Formula' as prescribed by the European Insurance and Occupational Pensions Authority ("EIOPA"), and a slightly more complex model that more accurately reflects the risk profile of Simplyhealth. In order to maintain a prudent approach to capital adequacy the higher of the two is used to set our level of required capital.

Simplyhealth has defined its solvency risk appetite, and includes a capital buffer above the SCR as calculated through application of the Standard Formula. The level of this buffer is subject to annual review with the Risk and Capital Committee. The valuation of own funds is regularly monitored, and significant variation from expected valuation trends may be considered as a trigger for reassessment of the capital requirement. Furthermore, strategic business decisions which impact on the performance expectations for the Group would similarly be assessed as to their impact on solvency capital requirements, and may also trigger a reassessment of capital requirements which would be undertaken through an ad hoc update to the ORSA.

The Risk & Capital Committee convenes on a quarterly basis and reviews a report that includes an updated assessment of the organisation's risk profile and any related impacts on the SCR and ORSA calculation. Capital management and monitoring is an integral part of the risk management framework and the Risk & Capital committee plays a central role in ensuring that the capital position and solvency needs are viewed in the context of the risk profile.

Review and Approval

The Simplyhealth Leadership team is responsible for the oversight of the ORSA process and will review and challenge the quantification of risks prior to their inclusion in the final ORSA report. This team is specifically charged with considering the solvency implications of strategic plans and changes and to highlight these and any risks to the Risk team.

The Board has ultimate responsibility and accountability for risk in the organisation and plays an active part in the performance of the ORSA, which includes initial steering as to how the ORSA approach is designed and regular challenge on risk identification, management and mitigation. While the underlying processes that constitute the ORSA are performed throughout the year as part of the day to day management of the business and in accordance with the risk management framework, a full report detailing the outcomes of those processes is produced for review and approval by the Board on an annual basis. The Board provides final approval of the ORSA outcomes and report and specifically confirms it has:

- An understanding of the risks to the business;
- An understanding of the underlying assumptions in the SCR calculation and ORSA; and
- An understanding of the impact of movements in the underlying assumptions.

B.4 Internal control system

B.4.1 Internal control system

Simplyhealth's internal control system is designed to provide reasonable assurance of:

- Compliance with laws and regulations, and internal policies and procedures;
- The effectiveness and efficiency of operations; and
- Accuracy and reliability of financial and non-financial information.

The system is designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. This oversight involves the participation of the Board, the Executive Leadership Team, the Audit Committee, the Risk & Capital Committee, Group Risk and Compliance, Legal, Internal Audit, the Chief Actuary, and senior management. The day to day responsibility for implementation and maintenance of the internal control system rests with Simplyhealth's various Senior Insurance Manager Functions (SIMF), Significant Influence Functions (SIF), Controlled Functions (CF), Key Function Holders and Business Unit leadership teams.

Simplyhealth promotes the importance of appropriate internal controls by:

- Ensuring all employees are aware of their role in the internal control system;
- Ensuring a consistent implementation of the internal control systems across the Group; and
- Establishing and maintaining monitoring and reporting mechanisms for decision making processes.

B.4.2 Compliance

The Group Risk and Compliance function is responsible for the identification and assessment of compliance risk. It advises the Board on compliance with relevant legal and regulatory requirements and assesses the possible impact of any future changes that may affect the Group or its subsidiaries.

In addition, Simplyhealth has a separate compliance team embedded within the Funding Business that is responsible for assessing and monitoring the adequacy of first line of defence arrangements in Simplyhealth Access for meeting its regulatory requirements and the direct management of compliance risk. As part of the Three Lines of Defence model there is a continuous and collaborative working relationship between the Group Risk and Compliance function and Funding Business Unit compliance team that facilitates effective oversight and challenge.

B.5 Internal audit function

B.5.1 Internal audit

Internal Audit is defined as being an: *"…independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."*[2] This is achieved by assessing the effectiveness of systems and processes designed to manage risk and improve performance in the organisation, or providing advice to help improve them where necessary. This helps to protect the assets, reputation and sustainability of the organisation, while providing the Board and senior management with assurance that supports their duties to the organisation's stakeholders.

The Simplyhealth Internal Audit team aims to provide this assurance through reviews covering:

- The adequacy, integrity and effectiveness of the processes and systems of financial, operational and management control and their operational impact on business risks;
- The extent to which assets and interests of the Group are acquired economically, used efficiently, accounted for and safeguarded from loss arising from inefficient operation, fraud or disregard for operational objectives; and
- The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure and report it.

It is essential that Internal Audit remains impartial and unbiased and that the team is not put in a position that could lead to a possible conflict of interest between audit and any other responsibilities. In this respect, Simplyhealth has implemented the Three Lines of Defence model of assurance, which is described in more detail in section B.3.5. In this way, Internal Audit remains independent from the business lines and Auditors have no operational responsibility or authority over any of the activities they assess. They do not implement internal controls, develop or update procedures, or carry out activities that could impair their judgement, and Auditors recruited internally will not review activities or functions in which they have been involved in the preceding 12 months.

Internal Audit's working practices and outputs comply with The Chartered Institute of Internal Auditors International Professional Practices Framework and the International Standards for the Professional Practice of Internal Auditing. The scope, actions, roles and responsibilities of the Internal Audit team are detailed in the Internal Audit Charter which provides the Board's delegated authority for Internal Audit to act independently and access all information necessary to perform its duties. The work of the team is also monitored for potential threats to its independence and objectivity, and is subject to regular internal quality assurance reviews, and periodic external assessment.

2 Institute of Internal Auditors, 31 December 2016, https://global.theiia.org/about/about-internal-auditing/pages/about-internal-auditing.aspx

B.5.2 The Internal Audit Team

The Director of Internal Audit formally reports to the Chair of the Audit Committee and there are open communication lines between the Director of Internal Audit and Non-Executive Directors. The Director of Internal Audit has private meetings with the Chair of the Audit Committee and Non-Executive Directors in advance of Audit Committee meetings without the presence of Executive Directors. There is an administrative link to the Chief Corporate Affairs Officer but, to avoid any conflicts of interest, the Chief Corporate Affairs Officer has no day to day involvement in the activities of the team.

Reporting to the Director of Internal Audit, the Internal Audit team is made up of an Internal Audit Manager and three Auditors, each professionally qualified and with a range of experience of different organisations and processes. This mixture of skills and experience aims to ensure that the team deliver high quality professional audit and consultancy services. Where the annual planning process identifies risks for review which are not matched by the team's skill set, arrangements are in place to outsource or co-source audit activities to specialist partners / audit firms. Decisions over outsourcing are made by the Director of Internal Audit in conjunction with the Audit Committee.

B.5.3 The Audit Process

Internal Audit works with management to take account of the overall risks to the organisation's objectives, assess the controls in place to mitigate those risks and engages with the internal governance structures both at planning and reporting stages. This provides a joined up view of the area under review so that appropriate depth and focus is applied to each review. The methodology used includes clearly defined stages through which each audit assignment is planned, controls are tested and the outcome discussed with management before formal reporting of the findings. This is fully aligned to the Institute of Internal Auditors ("IIA") Standards to ensure the quality of the output.

B.6 Actuarial function

The Group has appointed an external actuarial firm, Milliman LLP, to perform the Actuarial Function tasks and selected a named professional, Joanne Buckle (FIA), within that firm to perform the role of Chief Actuary. The Chief Actuary has met the requirements of an Approved Person and holds an appropriate practising certificate from the Institute and Faculty of Actuaries in the UK. The Chief Actuary reports to the Chief Financial Officer whilst the ultimate responsibility of the role is to the Board.

The contract between Simplyhealth and the service provider is reviewed annually following the delivery of the Actuarial Function Holder ("AFH") Report to the Board. The Chief Financial Officer is responsible for overseeing the performance of the service provider and for ensuring the quality of the service, and reports on the service levels and performance of the provider to the Board on a regular basis (at least annually).

The day-to-day tasks overseen by the Actuarial Function are performed by the Pricing and Underwriting team and Finance, Treasury and Investment team within the Simplyhealth Finance function. Simplyhealth ensures there is an appropriate segregation of duties to enable the Chief Actuary to perform an independent assessment of the Actuarial Function's performance by separating the 'production' activities from the 'review' process. This structure ensures there are no conflicts of interest between these functions.

B.7 Outsourcing

Outsourcing arrangements present an increased reliance on third parties for activities, functions and other services, although Simplyhealth remains ultimately responsible for providing these activities to its customers, employees and other stakeholders. Simplyhealth is therefore required to manage the risks associated with outsourcing by maintaining appropriate controls throughout the lifecycle of the arrangement from initial set-up, to on-going day-to-day operation and the end or transfer of the arrangement.

Outsourcing arrangements may affect Simplyhealth's exposure to operational risk through significant changes to, and reduced control over, people, processes and systems used in outsourced activities. However, the outsourcing policy requires a broad consideration of any risks associated with a particular outsourcing arrangement that may potentially impact Simplyhealth's strategic objectives and risk profile. The final decision regarding the suitability of a particular outsourcing arrangement will be determined by the impact the arrangement will have on Simplyhealth's overall risk profile and its ability to meet its regulatory obligations.

Material or critical outsourcing is subject to specific regulatory requirements. This includes additional systems and controls and the requirement to notify the appropriate regulator when Simplyhealth intends to enter into a new or significantly changed material or critical outsourcing arrangement.

Simplyhealth is also required to ensure that the contractual agreements for material or critical outsourcing arrangements require the service provider to co-operate with the regulator in a similar way to that required of Simplyhealth itself. This includes aspects such as meeting with the regulator and providing access to information and premises.

The Board maintains a formal, written outsourcing policy which is reviewed on at least an annual basis. This policy includes detailed guidance as to how an outsourcing arrangement should be enacted, monitored and ultimately concluded if circumstances dictate.

Simplyhealth outsources some of its operational functions and activities in order to benefit from both external expertise and economies of scale.

The following critical or important operational functions have been outsourced:

Activity	Jurisdiction
Solvency II Actuarial Services	UK
Management of investment assets under a delegated authority	UK
Insurance administration and claims handling services	UK
Claims handling / case management of medical assistance for PMI travel policyholders	UK
Policy inception, administration and claims handling of Denplan products underwritten by Simplyhealth Access	UK
Back office claims handling service provider	India
Cloud based software and storage	UK

The above arrangements are reviewed regularly to ensure the outsourcing risks are mitigated and service quality remains within appetite.

B.8 Any other information

The Board has assessed the Group's corporate governance system 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 within Simplyhealth.

C. Risk Profile

C. Risk Profile

C.1 Underwriting risk

C.1.1 Material risks

Underwriting risk refers to the risk of loss arising from inadequacies in pricing and underwriting of insurance policies and of claims experience being materially different to expectations. The majority of underwriting risk to which the Group is exposed is of a short-term nature and generally does not significantly exceed 12 months.

The lines of risk underwritten by the Group are restricted to healthcare insurance in which the Group has substantial experience. Where the Group wishes to enter new lines this is done using a controlled approach in order to manage the risk associated with new areas of business.

Each class of contract has a large population of homogeneous policyholders that are based throughout the UK. No one client represents more than 10% of total turnover. Therefore, no insurance contracts are deemed subject to concentration risk.

C.1.2 Measures used to assess the risk

The following measures are used to assess underwriting risk:

Business performance report

- The Group's business plan incorporates the projection of income and claims three years into the future. This information is used to track actual performance against expected levels, enabling corrective action to be put in place where necessary.
- All factors contributing to variances within income and claims are analysed on a monthly basis. This includes new business and lapse volumes, portfolio mix, average claims costs and claim frequencies. The resultant impact on loss ratios is reviewed to understand performance and assess results in the context of risk appetite.
- A business performance report is produced monthly which is communicated across management levels, up to and including the Board.

Reserving process

- The Group performs an 'expected versus actual' analysis on its technical provisions on a regular basis.
- This analysis is reviewed within monthly management meetings and regular reserving committees so that future calculations can be informed by and calibrated using historical estimates alongside forward looking assumptions. The review process includes the Chief Financial Officer, the Director of Finance & Underwriting, the Group Director of Finance, and the Chief Actuary.
- Deviations from actual performance are tracked to ensure it is kept within risk appetite.

Solvency Capital Requirement

- The standard formula includes an assessment and quantification of the health underwriting risk.
- The risk modules considered are lapse risk, premium and reserve risk and health catastrophe risk.

ORSA

- An assessment of underwriting risk is included within the ORSA.

C.1.3 Risk mitigation techniques

Underwriting risk is mitigated in the following ways:

- Continuing underwriting risk is managed through regular underwriting reviews. These reviews ensure that benefits and prices are managed in a way that delivers competitive products, providing tangible benefits to our customers, while delivering a sustainable operating model which supports the Group's purpose.
- Pricing is generally based on historical claims frequencies and claims severity averages, adjusted for inflation, trended forward to recognise anticipated changes in claims patterns, conditions in the insurance market and a profit loading that adequately covers the cost of capital.
- The Group aims to acquire the correct mix of insurance business, at a price that provides value for our customers and supports a sustainable commercial position, while at the same time protecting itself from excessive insurance claims.
- Underwriting limits are in place to enforce appropriate risk selection criteria and pricing.
- Large corporate clients may be subject to contractual clauses which limit excessive claims loss ratios.

The product governance committee also plays an important role in mitigating potential underwriting risk as part of the duties delegated to it by the Executive Leadership Team. Meetings are held on a bi-monthly basis and its key members include the Chief Underwriting Officer, the Director of Finance & Underwriting, the Group Director of Finance, the Director of Finance for Professionals, the Director of Legal and Business Affairs, Director of Risk & Compliance, Compliance Leader for Funding, the Managing Director of the Corporate & Consumer Business Unit and the Managing Director of the Professionals Business Unit.

The product governance committee is responsible for:

- Ensuring the Group maintains an effective internal governance framework in relation to product management and development.
- Ensuring the Group remains compliant with relevant legislation and regulations.
- Monitoring and reviewing the existing product portfolio in line with the Group's risk appetite.
- Overseeing new product propositions and development in line with the Group's risk appetite.
- Receiving reports on product performance issues or new business opportunities, so that it can consider the potential impact on the financial stability and effective operation of the Group.
- Providing oversight of the strategy of the product development function.

The Group monitors the effectiveness of these techniques through the regular reporting of underwriting performance results.

C.1.4 Prudent person principle

Not applicable to underwriting risk.

C.1.5 Risk sensitivities

The Group carries out stress and scenario testing as part of its risk management system.

The Directors have assessed that a deterioration of 5% is the highest reasonably possible change in the loss ratio. A deterioration of 5% in the loss ratio during the year would have resulted in a £12.4m reduction in profit before tax and a £9.9m reduction in equity. This represents 4.8% of the Group's solvency capital.

During the year, the Group conducted a stress test based on a scenario equivalent to a 1-in-200 year type of event. Both the Group, and Simplyhealth Access, have sufficient capital to withstand the impact of this scenario.

C.2 Market risk

C.2.1 Material risks

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

The Group has potential exposures to the following types of market risk:

- Currency risk: Arises from the investment portfolio, with some investments denominated in currencies other than sterling.
- Equity price risk: Arises due to direct financial investments in equity securities and through other investment products with values linked to equity price movements.
- Interest rate risk: Arises primarily from valuation movements on financial investments that are measured at fair value and have fixed interest rates.
- Spread risk: Arises from the sensitivity of the value of financial investments due to changes in the level of or in the volatility of credit spreads over the risk-free interest rate term structure.
- Concentration risk: Arises as a result of a large investment in individual counterparties and single name exposures.
- Property risk: Arises as a result of sensitivity to the level or in the volatility of property market prices.

Simplyhealth's exposure to market risk has materially changed over the period. The Group updated its investment strategy in 2016 and transitioned an investment portfolio that was substantially invested in bonds issued by the UK Government (Gilts) into a diverse mix of investments calculated to provide target returns with a defined risk appetite. Further details can be found in section A.3.1.

The Group's highest concentration of risk within its investments related to a single counterparty which represented 2.3% of the investment portfolio at 31 December 2016.

C.2.2 Measures used to assess the risk

The following measures are used to assess market risk:

Investment monitoring

- Fund valuations are monitored daily.
- Value-at-Risk (VaR) is monitored by fund against expected values weekly.
- Market analysis and volatility reviews are performed with the fund manager on a regular basis.
- Quantitative analysis of stress tests on tail risk scenarios are performed on a monthly basis with the investment manager.
- Movements in the investment portfolio in a rolling twelve month period are monitored on a monthly basis.

Committee and management reviews

- The Risk and Capital Committee oversees all investments, including cash balances, of the Group. The Committee meets quarterly to discuss and provide challenge to the decisions of the investment manager appointed by the Committee.
- The Investment Management Team ("IMT") comprises the Chief Financial Officer, the Group Director of Finance , the Head of Risk and Compliance, the Group Financial Controller and Treasurer, a further member of the Executive Leadership Team, as well as representatives from Schroders and an independent external investment adviser. The IMT meets quarterly to review the performance and positions of the investment portfolio in accordance with the strategy set by the Board.

C.2.2 Measures used to assess the risk (continued)

Solvency Capital Requirement

- The standard formula includes an assessment and quantification of market risk.
- This assessment includes a detailed review of the investment portfolio assessing the nature and capital implications for each individual holding; 'the full look through basis'.

ORSA

- An assessment of market risk is included within the ORSA.

C.2.3 Risk mitigation techniques

The Group's market risk is primarily attributable to its investment portfolio.

The Group's core fixed income fund has the investment objective of capital preservation over investment return and is designed to hold funds supporting the SCR of the Group. These assets meet the required security, quality, liquidity and availability characteristics in accordance with the Group's appetite. The dynamic multi-asset fund is outlined in section A.3.1.

The investment strategy is set by the Board and management follows this strategy in making investment decisions. The investment portfolio is reviewed by the Risk and Capital Committee to ensure that investments are maintained in line with the investment strategy.

The aim of the investment strategy is to generate a consistent and relatively predictable level of return while seeking to protect the capital value of investments. Investment income will be used to support the delivery of the business plan. Investment liquidity will be managed to ensure investments can be released to enable investment in strategic objectives.

Any potential market risk impact is managed through the active management of Simplyhealth's investment portfolio by its investment manager. The overarching aim of the investment manager is to generate acceptable returns, maintaining sufficient liquidity, while minimising the risk of excessive losses, within agreed board risk appetites.

C.2.4 Prudent person principle

The Group has appointed Schroders to manage the investment portfolio. Schroders has a discretionary mandate to invest assets with a view to achieving the investment objectives set by the Board within pre-agreed risk restrictions. Schroders is obliged under the agreement with Simplyhealth to act in good faith and with reasonable care and skill, and by having regard to the Prudent Person Principle as instructed by the Group, when investing the Group's assets.

Simplyhealth performs regular reviews of the investment portfolio to ensure:

- Investments are of a suitable quality and are within the pre-agreed restrictions set by the Board;
- Assets are only invested in instruments which can be suitably modelled and valued;
- Sufficient analysis is provided to allow Simplyhealth to fully understand the nature of all investments, including those within collective investment schemes, on a detailed look through basis;
- Assets are properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole;
- Derivative instruments are only used insofar that they contribute to a reduction in currency or interest rate risks or facilitate efficient portfolio management;
- The Group is not exposed to excessive risk concentrations;
- The portfolio has sufficient assets to cover derivative positions to ensure that these positions are proportionate in size to the overall portfolio; and
- The assets held by the Group are compliant with the Solvency II Directive.

C.2.5 Risk sensitivities

The sensitivity of reserves to reasonable movements in market risk variables, each considered in isolation, is shown in the following table:

Variable	Change in variable	Potential increase / (decrease) in profit after tax and equity
Interest rate risk	-50 basis points +200 basis points	0.4 (1.7)
Equity price risk	+ 10% -10%	2.2 (2.2)
Currency risk	+15% -15%	(2.1) 2.1
Credit spread risk	-50 basis points +50 basis points	(1.0) 1.0

The analysis of market risk sensitivity has been derived by the Group's independent external investment manager, using standard valuation techniques. It has been assumed that:

- the value of fixed income investments will vary inversely with changes in interest rates;
- equity prices will move by the same percentage across all territories;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel; and
- credit spreads will move by the same percentage across all instruments and counterparties.

The Group also used the standard formula SCR to perform stress testing, which is calibrated at a 1-in-200 year adverse event. Both the Group, and Simplyhealth Access, have sufficient capital to withstand the impact of this scenario.

C.3 Credit risk

C.3.1 Material risks

Credit risk is the risk that counterparties will cause a financial loss to the Group by failing to discharge a financial obligation. The Group has exposure from the following areas:

- Amounts held with banks and other financial institutions;
- Counterparty defaults on debt securities;
- Reinsurers' share of insurance liabilities (excluding unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance premium debtors; and
- Amounts due from other group undertakings and guarantees offered to other group entities.

The Group has material cash holdings which are held with a number of banks, we operate a system of limits for deposit values for each bank which are informed by the credit ratings, capital ratios and other financial information of each institution.

C.3.2 Measures used to assess the risk

The following measures are used to assess and manage credit risk:

Regular monitoring

- Cash balances are regularly reviewed to monitor and limit concentrations of risk.
- Weekly reviews of credit default swap (CDS) rates for each institution.
- Total levels of debt and deposits are managed to within approved limits. An allowance for doubtful debts is maintained and regularly monitored as part of the Group's internal financial reporting processes.

Solvency Capital Requirement

- The standard formula includes an assessment and quantification of counterparty default risk.

ORSA

- An assessment of credit risk is also included within the ORSA.

C.3.3 Risk mitigation techniques and the prudent person principle

The credit risk exposure from financial investments and cash deposits is managed and maintained at a low level by controlling exposure to particular institutions within defined risk appetite limits. Performance against limits is monitored through review of credit ratings, capital ratios and other financial information for counterparties as issued by international credit rating agencies. The Group's risk policies limit the maximum exposure to credit risk with any single counterparty to £45m.

The Group's sole reinsurance counterparty is AXA PPP following the reinsurance agreement entered into as part of the sale of the PMI business. The credit risk is mitigated through a claims float which covers the Group's liability to pay claims on behalf of the reinsured. The reinsured claims are settled on a monthly basis in arrears by AXA PPP and the Group can use the claims float to cover timing differences which adversely affect its cash flow.

The agreement under which the Group's investment portfolio is managed by a third party sets out clearly the parameters under which the Investment Manager can operate including: the definition of eligible instruments; asset allocation between the range of eligible instruments, the acceptable credit rating of counterparties, and acceptable levels of concentration risk. Adherence to this policy is monitored by the Risk and Capital Committee.

Premium and other trade debtors are relatively low in value and subject to strict credit control and oversight.

C.3.4 Risk sensitivities

While significant, credit risk is not a material risk for Simplyhealth. The Group has used the standard formula SCR to perform stress testing, which is calibrated at a 1-in-200 year adverse event in relation to credit risk. Both the Group, and Simplyhealth Access, have sufficient capital to withstand the impact of this scenario.

C.4 Liquidity risk

C.4.1 Material risks

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities or insurance contract liabilities when they fall due.

The Group is exposed to daily calls on its available cash resources from claims arising from insurance contracts and to settle its financial liabilities.

C.4.2 Measures used to assess the risk

The following measures are used to assess credit risk:

Cash flow projections

- The Group performs cash flow projections over its business planning time period. This information along with forecast performance information is used to assess overall liquidity risk as part of the Group's going concern assessment on an annual basis.
- Regular reviews of liquid resources, commitments, liabilities are undertaken as part of day to day operations and inform the current and forecast view of liquidity risk.
- The Group also reviews the effect on liquidity in the event of material changes during the year.

Treasury management

- The Group's overall treasury needs are considered over the short and medium term.
- The Group's ability to cover its working capital requirements is monitored against appetite on a monthly basis.
- There have been no instances where assets have had to be liquidated to meet financial obligations. This eventuality is monitored and would be reported if it were to arise.

ORSA

- An assessment of liquidity risk is included within the ORSA.

C.4.3 Risk mitigation techniques and the prudent person principle

The Group has robust processes in place to manage liquidity risk and has available cash balances and other readily marketable assets in case of exceptional need. The Group's risk policies are designed to manage the risks associated with asset and liability matching. Simplyhealth's principal liabilities consist of technical provisions which are of short duration. Insurance contracts do not generally exceed 12 months, and on average, 99% of claims are settled within twelve months of being incurred.

The Group's liquidity risk policy is based upon the following key principles:

- The size, nature and timing of cash flows and overall budgeted spend of the Group will determine the Group's liquidity needs;
- Simplyhealth intends to hold sufficient cash to cover all liabilities as they fall due, including as calculated to be needed in the context of a major stress scenario;
- Sufficient cash will be held for liquidity purposes in immediate or short notice access accounts and not tied into fixed term accounts; and
- Whilst not intended for this purpose, investments in the CFIF & DMAF can be converted into cash to provide further liquidity should this be needed.

The Group considers the composition of its assets in terms of their nature, duration, and liquidity to be appropriate and sufficient to meet the Group's obligations as they fall due in line with its asset and liability management policy.

C.4.4 Expected profit in future premiums

Expected profits included in future premiums ("EPIFP") is calculated as the difference between:

- The technical provision using best estimate assumptions without a risk margin; and
- The technical provisions without a risk margin under the assumption that no further premiums will be received in the future for any reason other than the insured event having occurred, regardless of any legal or contractual rights of the policyholder to discontinue the policy.

This calculation is performed at a homogeneous risk group level.

The total value of EPIFP at 31st December 2016 is £6.3m for the Group and £4.7m for Simplyhealth Access.

C.4.5 Risk sensitivities

Liquidity risk is actively managed across the business; however it is not a material risk to Simplyhealth, and therefore no specific risk sensitivity is provided.

C.5 Operational risk

C.5.1 Material risks

Operational risk could lead to financial loss, customer detriment, reputational damage and potentially failure to meet regulatory objectives. It arises from inadequacies or failures of processes, people, and systems or from external events.

As may be expected in a business transitioning through a time of change, our strategic intentions have created an increased risk of operational failures. Challenging demands on resources and skills within the business could negatively affect the operational capacity and capability of our business and the resilience of our operational systems and processes. These demands include risks relating to information security particularly as it relates to the safety of our customer's data. In accordance with the Enterprise Risk Management Policy, the management and governance culture of our business continues to be enhanced specifically to address this challenge.

In common with any other organisation there is a risk that our recent changes have not delivered the necessary structure intended to successfully achieve our strategic objectives. Accordingly the Board, senior management team and Business Unit leadership teams are closely monitoring the performance of the organisation in order to gauge the success of the transition and to be able to quickly and effectively react to any significant underperformance.

In the execution of its day to day activities Simplyhealth is exposed to a number of potential operational risks, including:

- Regulatory and legislative initiatives and reforms, such as Solvency II, which may affect the Group's business plan or operating model.
- Information and communications technology (ICT) – the failure or material underperformance of ICT would have a detrimental effect on our ability to operate the business and service our members.

C.5.1 Material risks (continued)

- Information security – The personal information that Simplyhealth holds in relation to it members may be the target of a cyber-attack by criminals.
- Outsourcing – Simplyhealth uses a number of third parties to perform certain activities on its behalf, and there is therefore a risk that one or more third parties might fail to deliver the agreed service.
- Skills and competence – If Simplyhealth fails to maintain a suitably skilled and competent workforce there will be a heightened risk of poor customer service.
- Financial crime – Insurers generally face the risk of fraudulent claims against policies, plus the risk of internal fraud by employees and agents.

During the year there have been no material operational risk losses or incidents that require disclosure.

C.5.2 Measures used to assess the risk

The following measures are used to assess operational risk:

Risk logs

Operational risks are primarily identified, assessed and managed by the organisation's Business Units through their risk logs. Risk logs set out the key risks, their causes and consequences, and an assessment of the likelihood of those risks occurring along with an estimate of the potential impacts. A standard methodology is used to ensure consistency across the organisation, and the overall process is facilitated by the Group Risk & Compliance department who have the necessary expertise and experience to ensure the process is performed to a high standard.

As part of the Board's assessment of top risks facing the group they consider those operational risk topics which are most significant to the organisation and affect every Business Unit, such as IT and information security. This ensures that operational risk is viewed from both a top down and a bottom up perspective, providing a comprehensive view across the organisation. The Group Risk & Compliance department also facilitates the Board's top risk assessment process, thereby ensuring that the assessment identifies and assesses risks on a consistent basis across the different levels of the organisation.

Solvency Capital Requirement

- The standard formula includes an assessment and quantification of operational risk.

ORSA

- An assessment of operational risk is included within the ORSA.

C.5.3 Risk mitigation techniques

As operational risk generally stems from people, processes, systems and external events Simplyhealth seeks to mitigate the risk through the operation of a robust governance framework with clear roles and responsibilities, supported by policies and procedures that are designed to support staff in performing their day to day tasks while effectively managing the risks inherent in those tasks.

The Group's Enterprise Risk Framework serves to identify potential risks and control weaknesses, which drives the continued improvement of systems and processes as well as informing the training and development of staff. As an integral part of the Enterprise Risk Management Framework, the individual risk logs aid Business Unit management teams in understanding their operational risk profile and implementing the necessary actions and monitoring to appropriately manage their risks.

C.5.4 Prudent person principle

Not applicable to operational risk.

C.5.5 Risk sensitivities

The Group has assessed the impact on its regulatory capital in the event of a material operational risk scenario.

Both the Group, and Simplyhealth Access, have sufficient capital to withstand the impact of this scenario and would not be in danger of breaching our regulatory capital requirement.

C.6 Other material risks

Brexit

On 23rd June 2016, the United Kingdom (“UK”) voted to leave the European Union (“EU”). The exact nature, process and timing of the UK’s exit from the EU are not clear. Although the Group has limited exposure to markets outside the UK, the wide economic uncertainty resulting from this vote may impact adversely on the Group’s strategy.

The risks and uncertainties associated with exiting from the EU have been considered by the Directors and, while they continue to monitor the impact of the referendum, they do not currently believe there will be a material adverse impact on the Group’s results or financial position in the current or following financial year.

Group Risk

Simplyhealth conducts a range of trading activities outside the regulated insurance activities. Group risk reflects the risks that the different legal entities within the Simplyhealth Group can expose the Group to through their activities. For instance, a material failure to deliver the business plan in Simplyhealth Access may have consequences for the growth ambitions of the non-insurance business conducted by Simplyhealth Wellbeing as the Group may not be able to fully fund investments in non-insurance activities.

Group risk is addressed by robust corporate governance and risk management frameworks that ensure risks are effectively and coherently identified, assessed, mitigated, managed and monitored across the Group. These frameworks also facilitate the timely and comprehensive reporting of business performance and risk management to the Board that allows them to effectively manage the Group.

C.7 Any Other Information

There are no other material matters in respect to the Group’s risk profile.

D. Valuation for Solvency Purposes

D. Valuation for Solvency Purposes

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 and FRS 103. Fair value comprises the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Under Solvency II, Article 75 of Directive 2009/138/EC requires that (unless otherwise stated):

- Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and
- Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable, willing parties in an arm's length transaction.

The functional currency of the Group is pounds sterling as this is the currency of the primary economic environment in which the Group operates. All valuations are presented in pounds sterling and are drawn up to 31st December each year.

The Directors have considered in detail the Group's forecast performance, as well as its capital and liquidity resources. On this basis the Directors have a reasonable expectation that, despite uncertain market conditions, the Group has sufficient capital and liquidity facilities to ensure that it will continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in preparing the financial statements and the Solvency II Balance Sheet.

D.1 Assets

Asset Class	Note	Solvency II Valuation Basis	SHG Solvency II Value	SHG Financial Statements Value	SHA Solvency II Value	SHA Financial Statements Value
		£m	£m	£m	£m	£m
Goodwill and negative goodwill	1	No economic value	-	62.9	-	-
Other intangible assets	2	No economic value	-	11.8	-	1.0
Deferred acquisition costs	3	No economic value	-	0.3	-	2.6
Property, plant and equipment held for own use	4	Revaluation model to fair value	8.1	8.1	6.8	6.8
Property (other than for own use)	4	Revaluation model to fair value	2.0	2.0	-	-
Deferred tax assets	5	Fair value	0.7	1.9	1.0	1.5
Investment holdings in related undertakings	6	Adjusted Equity Method	-	0.9	3.0	1.1
Bonds	7	Fair value	109.2	108.5	109.2	108.5
Collective investment undertakings	7	Fair value	86.5	66.5	86.5	66.5
Reinsurers' share of technical provisions	8, 9	Fair value	2.6	3.0	2.6	3.0
Insurance and intermediaries receivables	10	Fair value	3.4	21.7	0.9	19.2
Reinsurance receivables	8	Fair value	1.1	1.1	1.1	1.1
Receivables (trade, not insurance)	11	Fair value	3.3	4.1	1.1	1.9
Cash and cash equivalents	12	Fair value	39.1	59.1	17.7	37.7
Any other assets, not elsewhere shown	13	Lower of cost and net realisable value	0.4	0.4	-	-
Total Assets			**256.4**	**352.3**	**229.9**	**250.9**

Note 1: Goodwill and negative goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is not an identifiable and separable asset in the marketplace. The economic value ascribed for solvency purposes is nil.

Note 2: Other intangible assets

Simplyhealth has no intangible assets that can be traded in an active market. The economic value ascribed for solvency purposes is nil.

Note 3: Deferred acquisition costs

Costs relating to the acquisition of new insurance contracts that were deferred to the extent that they are expected to be recovered out of future margins are not allowable as an asset under the Solvency II regime. The economic value ascribed for solvency purposes is nil.

Note 4: Property, plant and equipment

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings — 50 years

Leased assets — over the term of the lease

Motor vehicles — 4 years

Computer hardware — 2 to 4 years

Fixtures, fittings and office equipment — 4 to 10 years

Assets in the course of construction are not depreciated and are reviewed annually for indicators of impairment.

Individual freehold properties are revalued to fair value every year at the accounting year-end under the revaluation model. Properties are valued by professional external valuers using the Royal Institution of Chartered Surveyors ("RICS") guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property. The valuation process requires judgement to be exercised in determining a number of similar properties for which active market prices can be obtained. Further adjustments are then made, if necessary, for any difference in the nature, location or condition of the specific property.

Other tangible fixed assets have not been re-measured for solvency purposes on the basis that it is not a material holding.

The valuation for solvency purposes does not differ from the financial statements.

Payments in respect of operating leases are charged to the income statement on a straight-line basis over the term of the lease, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term. The Group is obligated to the following minimum lease payments under non-cancellable operating leases as at 31st December 2016:

	SHG	SHA
	£m	£m
within one year	1.3	0.1
between one and five years	2.1	-
after five years	-	-
	3.4	**0.1**

Note 5: Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the statement of financial position date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future, have occurred at that date. Timing differences are differences between the Group's taxable profits and its results, as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments, in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) or liability that is recognised in a business combination is different from the value at which it is recognised, a deferred tax asset or liability is recognised for the additional tax that will arise in respect of that difference. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and liabilities are not discounted.

For solvency purposes, deferred tax is determined in reference to the Solvency II balance sheet. The change in value reflects the recognition of expected future taxable profits arising from temporary timing differences.

Note 6: Investment holdings in related undertakings

Within the financial statements:

- Investment in subsidiaries is stated at cost less provision for any impairment; and
- The Group's interest in a joint venture is represented by its share in the net assets of the joint venture less any provision for impairment.

For solvency purposes, the Group determines the economic value of its related undertakings using the 'adjusted equity method'. This method requires the net assets of the underlying undertakings to be valued in accordance with Solvency II valuation principles on a 'look through' basis. Goodwill, intangible assets and deferred acquisition costs within the underlying undertaking are given no value.

Quoted prices within an active market are not available for any Group undertakings and therefore cannot be used in this valuation.

Note 7: Investments

The Group has designated the debt instruments, derivative assets and liabilities and collective investment schemes in its investment portfolio as fair value through profit and loss.

The Group uses derivatives for the purpose of efficient portfolio management and to reduce risk in aspects of the Group's investment activities. The Group uses forward foreign exchange contracts and index linked futures for these purposes.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Net gains or losses arising from changes in the fair value of the derivative financial instruments are recognised immediately in the statement of comprehensive income within the heading 'Investment Returns'.

The Amendment to FRS 102 sets out the measurement bases that can be used to value financial assets and liabilities held at fair value. The different methods of valuation are categorised into a hierarchy as follows:

- Level 1: assets and liabilities for which fair values have been measured using the unadjusted quoted price in an active market for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Note 7: Investments (continued)

The following table analyses the investments held at fair value according to the above hierarchy:

At 31 December 2016	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds (fixed income securities)	-	108.7	0.5	109.2
Collective investment undertakings	-	86.5	-	86.5
Total investment assets	**-**	**195.2**	**-**	**195.7**
Derivative liabilities	**-**	**(0.4)**	**-**	**(0.4)**

The valuation technique used for the Bonds included in level 3 is based on a discounted cash flow model with inputs that are derived from the yield and duration of the bond rather than observable market data.

The Solvency II valuation reflects the following reclassifications:

- £0.7m accrued interest related to fixed income securities (see Note 11); and
- £20.0m short-term money market funds from cash and cash equivalents (see Note 12).

Note 8: Reinsurance

The Group assumes and cedes reinsurance in the normal course of business as part of the management of business acquisitions and divestments.

Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance liabilities.

Within the financial statements, the amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Note 9: Reinsurers' share of technical provisions

For solvency purposes, this value represents the best estimate of the amounts recoverable from reinsurers in relation to the best estimate technical provisions calculated under Solvency II. The amounts recoverable are calculated separately for premium provisions and claims provisions.

Simplyhealth assesses the probability of default each quarter. It has determined that a deduction for expected losses due to default is not required as this risk has been mitigated through the provision of a claims float that covers that liability to pay claims on behalf of the reinsured business.

Note 10: Insurance and intermediaries receivables

The Group accounts for its insurance business on a monthly or annual basis depending on the period of cover provided by the contract.

Within the financial statements, insurance and intermediaries receivables are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

For solvency purposes, insurance premium receivables that are not overdue are transferred to technical provisions. The resultant balance corresponds to the amount due for payment by policyholders. These are expected to be paid within one year.

Note 11: Receivables (trade, not insurance)

This balance corresponds to receivables not related to the insurance business.

The Solvency II valuation reflects a reclassification of accrued interest (£0.7m) related to fixed income securities (see Note 7).

Note 12: Cash and cash equivalent

Within the financial statements, cash and cash equivalents consist of cash balances and deposits held at call with banks with less than 90 days maturity from date of deposit. This includes funds held on behalf of third parties that are not available for use by the Group or Company.

Third-party funds comprise cash held on behalf of customers to administer claims under service contracts and are maintained in separate bank accounts. Following generally accepted industry practice, these amounts are disclosed separately within cash, with a corresponding creditor disclosed in 'Payables (trade, not insurance)'. The inclusion of these funds on the statement of financial position therefore has no impact on the net assets of the Group.

Under Solvency II, cash and cash equivalents are valued at the amount payable on demand. Short-term money market funds (£20.0m) have been reclassified to collective investment undertakings (see Note 7) in accordance with the Solvency II definition.

Note 13: Any other assets

Stocks are stated at the lower of cost and net realisable value. Costs represent all expenses incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and delivery. Provision is made for obsolete, slow-moving or defective items where appropriate.

Stock is not re-measured to fair value on the basis that stock is not a material holding.

D.2 Technical provisions

Health (similar to non-life): Medical Expenses	SHG		SHA	
	Solvency II Value	Financial Statements Value	Solvency II Value	Financial Statements Value
	£m	£m	£m	£m
Provision for unearned premiums	-	18.7	-	18.7
Provision for claims outstanding	-	18.8	-	18.8
Best estimate (Claims provision + premium provision)	16.9	-	18.0	-
Risk margin	1.3	-	1.3	-
Technical provisions	**18.2**	**37.5**	**19.3**	**37.5**

D.2.1 Valuation under financial statements

Technical provisions within the financial statements are comprised of a provision for outstanding claims and a provision for unearned premium.

D.2.1.1 Provision for outstanding claims

The provision for outstanding claims at the year-end is based on historical claims experience and current expectations. Any over or under provision is adjusted as part of claims incurred in the following year.

The provision for outstanding claims represents an estimate of the ultimate cost of settling all claims (including direct and indirect claims settlement costs) which have occurred up to the statement of financial position date. This includes a provision for claims incurred but not yet paid, the value of which is based on a best estimate plus a provision for adverse development of claims costs within a range of possible outcomes. These figures are based on the overall claims risk profile as measured by the cost, frequency, deviation from historical trends and sensitivity of claims to market factors and include a fixed level of prudence based on the Group's risk appetite. The basis and calculation of both the estimates and the provision for adverse development are reviewed annually against claims experience.

D.2.1.2 Unearned premium provision

The unearned premium provision represents the proportion of premiums written in the financial year that relate to periods of risk in future accounting years. It is calculated separately for each insurance contract and on a pro rata basis.

D.2.2 Valuation under Solvency II

Under Solvency II, technical provisions are valued in accordance with Article 77 of the Solvency II Directive 2009/138/EC. The Directive requires that technical provisions represent the current amount an insurer would have to pay for an immediate transfer of its obligations to another insurer calculated on a discounted cashflow basis.

Technical provisions under Solvency II comprise a claims provision best estimate, a premium provision best estimate and a risk margin.

The bases, methods and main assumptions used for the valuation of technical provisions are as follows:

Calculation basis

- The Group uses a going concern basis of calculation.
- The Group's insurance exposure is to a single line of business, Medical Expenses.
- Technical provisions are estimated using a deterministic approach, in which outcomes are precisely determined through known relationships and best estimate assumptions using a mathematical model.

Segmentation

- The Group segments its insurance and reinsurance obligations into homogeneous risk groups and performs all key best estimate calculations at this level.

Best Estimate

- The calculation of the best estimates is based upon up-to-date and credible information and realistic assumptions and is performed using adequate, applicable and relevant actuarial and statistical methods.
- The technical provision has been assessed on a best estimate basis, and is intended to represent the expected value over a reasonable range of estimates. As such, these estimates do not contain margins for prudence. An allowance is made for low probability high severity events beyond the range of reasonable foreseeable; this is referred to as ENID (Events not in Data).
- The claims provision best estimate and premium provision best estimate are calculated separately as required for non-life insurance undertakings.
- The best estimates are calculated gross, without deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately in accordance with Article 81 of the Solvency II Directive 2009/138/EC using a similar methodology and approach. Reinsurance recoverables relate wholly to insurance liabilities ceded to AXA PPP in relation to the PMI business which was sold on 1st August 2015.

Cash flow basis

- Technical provisions are calculated and projected on a cash flow basis, incorporating all expected cash inflows and outflows required to settle insurance obligations over their full lifetime.
- All cash flows are subject to discounting using the basic risk free rates published by EIOPA (without the matching adjustment and volatility adjustment). It is calculated on the assumption that cash flows occur midway through each year.

Expenses

- Expenses include all amounts that will be incurred servicing the obligations of the insurance contracts. This includes, but is not limited to, administrative expenses, investment management expenses, claims management expenses, insurance premium tax, and acquisition costs not yet incurred. The allocation of overheads is performed on a going concern basis, and as such, assumes contracts will run to their maturity and a proportion of expected future costs will be covered by future business.
- The expenses calculation is based upon the amount that another insurer is likely to incur if they were taking over the management of the business at the valuation date. This does not include costs associated with the transfer of business between insurers.

Level of uncertainty associated with the value of technical provisions

- The Group performs a sensitivity analysis and an expected versus actual analysis on the Solvency II technical provisions.
- Based on this information, the disclosed value of technical provisions is expected to lie within 10% of its true value with a 95% degree of confidence.

D.2.2.1 Claims provision best estimate

This provision is equivalent to the discounted best estimate of all future cash flows relating to claim events arising prior to the valuation date.

The underlying best estimate is equal to the provision for claims incurred but not yet paid as used within the financial statements (see section D.2.1.1). This provision is determined using traditional actuarial techniques for health businesses including the Chain Ladder Method, and, for more recent incurred periods, blending this with a trended expected cost Per Member Per Month, (the Projection method), adjusted for monthly seasonality.

The following items are also included in the claims provision best estimate:

- An ENID (Events not in Data) allowance;
- An estimate of future expenses that would be incurred servicing these obligations;
- Insurance premium receivables related to earned premiums that are not overdue; and
- A discounting adjustment.

D.2.2.2 Premium provision best estimate

This provision is equivalent to the discounted best estimate of all future cash flows relating to claims occurring after the valuation date and covering the unexpired exposure of existing contracts and committed but not incepted contracts.

The underlying best estimate is determined using a forward looking monthly projection of all insurance obligations related to future exposure until the contract boundary. This includes an adjustment for lapses and mid-term cancellations which are projected in line with business expectations. Expected claims costs arising from these obligations are projected in line with historical claims experience and current expectations.

The following items are also included in the premium provision best estimate:

- An ENID (Events not in Data) allowance;
- An estimate of future expenses that would be incurred servicing these obligations;
- Insurance premium receivables related to future premiums that are not overdue; and
- A discounting adjustment.

D.2.2.3 Risk Margin

The risk margin is the amount that another insurer taking on the liabilities at the valuation date would require over and above the best estimates.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the obligations over their lifetime at a prescribed cost of capital rate of 6% per annum.

The default method 1 risk margin calculation involves an approximation of individual risks or sub-risks within some or all modules and sub-modules within the calculation of future SCR's.

As Simplyhealth is a mono-line insurer writing standard healthcare products over a twelve month period, the Group has chosen to calculate the risk margin using the method 2 simplification as described in guidelines 61 and 62 within EIOPA's 'Guidelines on the valuation of technical provisions'.

Under the method 2 calculation, the whole SCR for each future year is approximated by using the ratio of the best estimate at that future year to the best estimate at the valuation date (assuming that the risk profile remains unchanged over time).

The SCR considered at the valuation date includes the following risks:

- Underwriting risk with respect to the transferred business;
- Counterparty default risk with respect to the reinsurer; and
- Operational risk.

D.3 Other liabilities

Liability Class	Note	Solvency II Valuation Basis	SHG Solvency II Value	SHG Financial Statements Value	SHA Solvency II Value	SHA Financial Statements Value
		£m	£m	£m	£m	£m
Derivative liabilities	7	Fair value	0.4	0.4	0.4	0.4
Reinsurance payables	16	Fair value	3.0	3.6	3.0	3.6
Payables (trade, not insurance)	17	Fair value	28.7	34.8	11.5	17.1
Total other liabilities			**32.1**	**38.8**	**14.9**	**21.1**

Note 16: Reinsurance payables

Reinsurance payables within the financial statements are comprised of amounts owed to reinsurers, reinsurers' share of deferred acquisition costs and reinsurers' share of receivables.

For solvency purposes, reinsurers' share of deferred acquisition costs is ascribed no economic value in accordance with Note 3. Insurance premium receivables that are not past-due are also transferred to Technical Provisions in accordance with Note 10.

Note 17: Payables (trade, not insurance)

This balance corresponds to payables not related to the insurance business. It is principally comprised of accruals, trade and sundry creditors, corporation tax and insurance premium tax. It also includes third party funds as described in Note 12.

For solvency purposes, insurance premium tax payable is transferred to Technical Provisions. An accrual in relation to claims management charges is also transferred to Technical Provisions.

D.4 Alternative methods for valuation

The Group does not use any alternative methods for valuation.

D.5 Any other information

There are no differences between the valuation bases, methods and assumptions applied to the Group and those applied to Simplyhealth Access.

E. Capital Management

E. Capital Management

E.1 Own funds

E.1.1 Management of own funds

The Group holds sufficient solvency capital to ensure that it can continue to trade and meet its obligations to policyholders in all but the most extreme circumstances. Capital adequacy is tested in the context of significant stress events including an adverse movement in markets and/or the incidence of key operational, commercial or financial risks. The Group regularly monitors its capital to ensure that all entities are able to continue as going concerns and also to ensure that regulated entities meet regulatory requirements.

The Group maintains a solvency capital position which is the higher of:

- The SCR calculated using the standard formula calculation; and
- The Internal Capital Adequacy measure as calculated through the ORSA assessment. This draws on a regular, group wide assessment and evaluation of key operational, financial and commercial risks affecting all areas of the business.

In addition, a 'buffer' is held to provide sufficient capital to support the Group meeting its financial obligations in the event of significant unfavourable changes to the economic environment and/or the occurrence of unforeseen business risks which we are unable to fully quantify and incorporate in the initial assessments of regulatory capital (SCR/ORSA). Capital headroom is calculated on the basis of our risk appetite which has been approved by the Board of Directors.

Capital above this 'buffer' provides headroom which may be allocated to continued investment in the development of the Group's operations, subject to our risk appetite and our targeted rates of return on capital. The Group sets a target rate of return for investment proposals to qualify for funding.

Certain projects will be undertaken to support risk management, improvement in processes and/or compliance with regulatory requirements. In such cases financial targets may not be relevant.

The development of the Group's operations supports our objective to meet customers' everyday health needs, our key goal is therefore to grow our customer base and the range and depth of everyday health services that we can offer. Achievement of this goal depends upon investing in commercially sustainable businesses, rather than earning a return from financial investments. We only hold financial investments to the extent that this is required to meet our solvency capital requirements, as calculated to include the buffer, or while we are identifying new investment opportunities. As part of this approach, we keep in mind our portfolio mix and the benefits of diversification for risk management purposes and balance the requirements of risk management, return and liquidity.

The composition of the Group's capital by source will adhere to the following capital classification as a minimum threshold in order to maintain the loss absorbency capacity of the Group's own funds:

- A minimum 50% of the SCR must be covered by Tier 1 own funds.
- Restricted Tier 1 own funds will constitute less than 20% of the Total Tier 1 own funds used to cover the SCR and Minimum Capital Requirement ("MCR").
- A maximum of 15% of the SCR will have a Tier 3 capital classification.

Roles, Responsibilities and Governance Arrangements

- The Chief Financial Officer is responsible for the Capital Management Policy on behalf of the Board of Directors. The Board is also responsible for the definition of our risk appetite.
- Governance over the implementation and operation of Capital Management is provided by the Risk and Capital Committee.
- Revision of key elements of the Capital Management Policy, such as an alteration of our approach to meeting regulatory capital requirements or the composition of our own funds, will be subject to approval within this Governance structure.
- The Capital Management policy is reviewed at least annually, or more often as required. The need for a review would be triggered by material change in the insurance activities of the group, the solvency capital ratio or significant changes in the economic environment.
- A report on the operation of the capital management policy is presented to the Risk and Capital Committee bi-annually.
- Day to day responsibility for oversight and operation of the Capital Management policy is delegated to the Group Director of Finance.

Development of Capital Plan

The Group operates three measures of forward looking financial projection which support determination of the capital plan:

- Annual Business Plan – providing a three year projection of the financial performance of existing operations;
- Quarterly Forecast – providing a forecast of financial performance for existing operations for the balance of the current year; and
- Strategic plan – high level financial projection for the Simplyhealth Group incorporating a high level forecast of performance from existing operations, and estimated contribution from the development of new operations based on the strategic deployment of capital to new investment opportunities. This is also referred to as the '10 Year Financial Ambition'.

In addition to the three Group level financial projections, the development of specific significant business ventures is supported by detailed economic and financial business plan models. These models project performance over a ten year period and support decisions on the allocation of capital and resources to incubate and grow these businesses.

The strategic plan is used as a reference point to assess the performance trajectory of the Group against its long term strategic goals.

The annual business plan supports the optimisation of resource allocation to existing businesses, and to business development activities, in the near and medium term. This business plan forms the core basis for assessment of capital adequacy under 'normal' trading conditions, and in the context of potential business risks and economic shocks as assessed through our ORSA process.

Quarterly forecasts provide a regular check on expected near term performance in the context of longer term targets. Forecasts provide an opportunity to identify, evaluate, manage and mitigate risks arising in the performance period. The forecast will provide the latest assessment of near-term financial performance to inform capital allocation decisions.

E.1.2 Components of own funds

Own Funds, within each undertaking in the Group, are principally comprised of retained reserves. Retained reserves is classified as unrestricted Tier 1 capital as it is available, or can be called upon demand, to fully absorb losses on a going-concern basis, as well as in the case of winding-up (permanent availability). The Group's Own Funds have been calculated net of any intra-group transactions.

Simplyhealth maintains an appropriate level of capital within each tier to remain compliant with the thresholds allowable.

Simplyhealth's capital structure is as follows:

		SHG		SHA	
		At 31 December 2016	At 1 January 2016 (unaudited[3])	At 31 December 2016	At 1 January 2016 (unaudited[3])
Capital Tier	**Details**	**£m**	**£m**	**£m**	**£m**
Unrestricted Tier 1	Share capital and reserves	205.4	195.5	194.7	179.5
Tier 3	Deferred tax	0.7	2.1	1.0	1.9
Eligible Basic Own Funds to cover the MCR		**205.4**	**195.5**	**194.7**	**179.5**
Eligible Own Funds to cover the SCR		**206.1**	**197.6**	**195.7**	**181.4**

The increase in unrestricted tier 1 capital for the Group results from a reduction in inadmissible assets due to the amortisation of goodwill and intangible assets during the year (see section E.1.3).

The increase in unrestricted tier 1 capital for Simplyhealth Access is a result of profits generated during the year.

During 2016, Simplyhealth Access received dividends from Simplyhealth Funding Services Limited of £2m, and Simplyhealth Group Limited received dividends from Simplyhealth Access of £2.5m.

3 1 January 2016 results have been presented for comparative purposes and are unaudited.

E.1.3 Reconciliation of UK GAAP equity to Solvency II eligible own funds

	SHG		SHA	
	At 31 December 2016	At 1 January 2016 (unaudited[3])	At 31 December 2016	At 1 January 2016 (unaudited[3])
	£m	£m	£m	£m
UK GAAP equity per audited financial statements	276.0	277.5	192.3	185.5
Inadmissible asset: Goodwill and intangible assets	(74.7)	(83.8)	(1.0)	(1.3)
Inadmissible asset: Deferred acquisition costs	(0.3)	(0.4)	(2.6)	(1.3)
Adjust technical provisions to Solvency II basis	7.3	5.2	5.6	2.1
Other valuation differences	(2.2)	(0.9)	1.4	(1.9)
Solvency II Eligible Own Funds	**206.1**	**197.6**	**195.7**	**181.4**

Goodwill, intangible assets and deferred acquisition costs are all inadmissible assets under Solvency II. Technical provisions under UK GAAP are comprised of a provision for outstanding claims and a provision for unearned premium. Under Solvency II, Technical provisions are comprised of a Claims Provision, Premium Provision and Risk Margin. Please refer to section D.2 for further details.

Other valuation differences include the revaluation of investment in subsidiaries from the amount held on the UK GAAP balance sheet to Net Assets as valued under the adjusted equity method. Please refer to section D.1 for further details.

A deferred tax adjustment is also recognised to reflect a tax debt to be paid at a later date because of a future profit which is already anticipated in the Solvency II balance sheet.

Simplyhealth's own funds are not subject to transitional arrangements, not does it have any ancillary own funds (committed but unpaid lines of capital).

Simplyhealth Group Limited is subject to a £5,000 deduction on its own funds arising from a local capital requirement to conduct other regulated activities within the Simplyhealth Funding Services Limited undertaking.

There are no other restrictions affecting the availability, transferability or fungibility of own funds in any undertaking across the Group.

3 1 January 2016 results have been presented for comparative purposes and are unaudited.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Simplyhealth uses the 'Standard Formula' method as prescribed by EIOPA to calculate the SCR and MCR. It did not use any undertaking specific parameters or simplifications to calculate the below SCR results.

The Group performed a standard formula appropriateness assessment during the year and concluded that the Standard Formula method is appropriate and will remain so on a 12 month forward looking basis. An assessment is performed on an annual basis. A summary of the SCR calculation is set out below.

	SHG		SHA	
Risk Modules	At 31 December 2016 £m	At 1 January 2016 (unaudited[3]) £m	At 31 December 2016 £m	At 1 January 2016 (unaudited[3]) £m
Health Underwriting Risk	40.2	55.6	40.1	55.6
Counterparty Default Risk	4.1	5.2	4.5	4.4
Market Risk	24.8	13.7	24.5	13.2
Diversification Credit	(15.4)	(12.4)	(15.5)	(11.6)
Basic SCR Requirement	53.7	62.1	53.6	61.6
Operational Risk	9.4	11.7	9.4	11.7
Loss Absorbency Capacity of Deferred Tax (LACDT)	(2.0)	(1.7)	(2.0)	(3.5)
Solvency Capital Requirement (SCR)	**61.1**	**72.1**	**61.0**	**69.8**
Minimum Capital Requirement (MCR)	**15.2**	**18.0**	**15.2**	**17.5**

Simplyhealth's SCR reduced in 2016 as a result of the following factors:

- Earned premiums reduced from £330.5m to £247.8m, resulting primarily from the sale of the PMI business on 1st August 2015. This lowered the capital requirement on both the health underwriting risk and operational risk modules.
- This was partially offset by an increase in market risk following the transition from an investment portfolio substantially invested in bonds issued by the UK Government (Gilts).

The MCR is pre-determined within the Solvency II legislation and corresponds to an amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk if insurance undertakings were allowed to continue their operations. The MCR is calibrated to the Value-at-Risk of the basic own funds of an insurance undertaking subject to a confidence level of 85% over a one year period. The MCR has been calculated as 25% of the SCR in accordance with article 248(1) of the Delegated Regulations 2015/35.

The PRA has made use of the option not to require the entities in its jurisdiction to disclose the capital add-on (if any) during a transitional period ending 31 December 2020.

There are no material diversification effects at Group level as Simplyhealth Access is the only insurance undertaking within the Group and it dominates the consolidated result.

The final amount of the SCR is subject to supervisory assessment.

3 1 January 2016 results have been presented for comparative purposes and are unaudited.

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

Simplyhealth uses the ‘Standard Formula’ method as prescribed by EIOPA to calculate the SCR and MCR. It did not use any undertaking specific parameters or simplifications to calculate the below SCR results.

The Group performed a standard formula appropriateness assessment during the year and concluded that the standard formula method is appropriate and will remain so on a 12 month forward looking basis. An assessment is performed on an annual basis. A summary of the SCR calculation is set out below.

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

Simplyhealth does not use any internal model to calculate the SCR.

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

There have been no periods of non-compliance with the MCR or SCR for the Simplyhealth Group, or any subsidiary undertaking, during the year.

E.6 Any other information

Simplyhealth maintains an appropriate amount of capital resources to cover the remaining risks as fronting insurer, following the transfer of renewal rights on the PMI portfolio to AXA PPP.

Statement of Directors' responsibilities

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) rules and SII Regulations. The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Group must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Group must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report & Accounts, confirm that, to the best of their knowledge:

- Throughout the financial year in question, the Group and its solo insurance undertakings have complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and
- It is reasonable to believe that, at the date of the publication of the SFCR, the Group and its solo insurance undertakings continue so to comply, and will continue so to comply in future.

By Order of the Board

Ben Kent, Executive
11 May 2017

Report of the external independent auditor to the Directors of Simplyhealth Group Limited (‘the Company’) pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion

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

- The ‘Valuation for Solvency Purposes’ and ‘Capital Management’ sections of the Single Solvency and Financial Condition Report of Simplyhealth Group Limited as at 31 December 2016, **(‘the Narrative Disclosures subject to audit’)**;
- The company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21 and S28.01.01 for Simplyhealth Access **(‘the company Templates subject to audit’)**; and
- The Group templates S02.01.02, S23.01.22, S.25.01.22 and S32.01.22 for Simplyhealth Group Limited **(‘the Group Templates subject to audit’)**.

The Narrative Disclosures subject to audit, the company Templates subject to audit and the Group Templates subject to audit are collectively referred to as the **‘relevant elements of the Single Solvency and Financial Condition Report’.**

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

- The ‘Business and Performance’, ‘System of Governance’ and ‘Risk Profile’ elements of the Single Solvency and Financial Condition Report;
- The company templates S05.01.02, S05.02.01, S19.01.21 for Simplyhealth Access;
- The Group templates S05.01.02, S05.02.01 for Simplyhealth Group Limited; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Single Solvency and Financial Condition Report **(‘the Statement of Directors’ responsibilities’)**.

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

In our opinion, the information subject to audit in the relevant elements of the Single Solvency and Financial Condition Report of Simplyhealth Group Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Single Solvency and Financial Condition Report section of our report. We are independent of Simplyhealth Group Limited in accordance with the ethical requirements that are relevant to our audit of the Single 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 Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Single Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's and Simplyhealth Access' 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 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 the 'Capital Management' sections of the Single Solvency and Financial Condition Report, which describe the basis of accounting. The Single Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single 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 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 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 Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Single Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single 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.

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

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

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

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

This report is made solely to the Company's directors, as a body, in accordance with rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms. Our audit work has been undertaken so that we might state to the Company's directors those matters we are required by the rules to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body for our audit work, for this report, or for the opinions we have formed.

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

Report on Other Legal and Regulatory Requirements

Other Information

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

Grant Thornton UK LLP
Statutory auditor, Chartered Accountants
London
11 May 2017

The maintenance and integrity of the Simplyhealth Group Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Single Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix — relevant elements of the Single Solvency and Financial Condition Report that are not subject to audit

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

- The following elements of Group template S.23.01.22
  - Rows R0410 to R0440 — Own funds of other financial sectors
- Elements of the Narrative Disclosures (including tabular information therein) subject to audit identified as 'Unaudited'

Quantitative Reporting Templates (Group QRT)
Simplyhealth Group Limited

General information

Participating undertaking name	Simplyhealth Group Limited
Group identification code	213800RMKBQM55BCRM77
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	EN
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The group is using local GAAP (other than IFRS)
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.23.01.22	Own Funds
S.25.01.22	Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22	Undertakings in the scope of the group

All figures are presented in thousands of pounds with the exception of ratios that are in decimal.

Please note that totals may differ from the component parts due to rounding.

S.02.01.02 - Balance sheet

	Assets	Solvency II value C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	672
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	8,152
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	197,735
R0080	Property (other than for own use)	1,975
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	20
R0110	Equities - listed	0
R0120	Equities - unlisted	20
R0130	Bonds	109,184
R0140	Government Bonds	54,757
R0150	Corporate Bonds	54,426
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	86,547
R0190	Derivatives	9
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	0
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:	2,568
R0280	Non-life and health similar to non-life	2,568
R0290	Non-life excluding health	0
R0300	Health similar to non-life	2,568
R0310	Life and health similar to life, excluding index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,406
R0370	Reinsurance receivables	1,070
R0380	Receivables (trade, not insurance)	3,246
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	39,141
R0420	Any other assets, not elsewhere shown	426
R0500	**Total assets**	256,415

S.02.01.02 - Balance sheet (continued)

	Liabilities	Solvency II value C0010
R0510	Technical provisions - non-life	18,161
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)	18,161
R0570	TP calculated as a whole	0
R0580	Best Estimate	16,867
R0590	Risk margin	1,295
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
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)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	408
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	43
R0830	Reinsurance payables	3,046
R0840	Payables (trade, not insurance)	28,669
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in BOF	0
R0870	Subordinated liabilities in BOF	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	50,328

R1000	**Excess of assets over liabilities**	206,087

S.05.01.02 - Premiums, claims and expenses by line of business

Non-life		Medical expense insurance	Total
		C0010	C0200
Premiums written			
R0110	Gross - Direct Business	256,406	256,406
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	9,027	9,027
R0200	Net	247,379	247,379
Premiums earned			
R0210	Gross - Direct Business	313,569	313,569
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	65,740	65,740
R0300	Net	247,829	247,829
Claims incurred			
R0310	Gross - Direct Business	201,080	201,080
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	45,328	45,328
R0400	Net	155,752	155,752
Changes in other technical provisions			
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non-proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0
R0550	**Expenses incurred**	58,387	58,387
R1200	**Other expenses**		2,016
R1300	**Total expenses**		60,402

S.05.02.01 - Premiums, claims and expenses by country

Non-life

		C0010	C0070
R0010		Home Country	Total Top 5 and home country
		C0080	C0140
Premiums written			
R0110	Gross - Direct Business	256,406	256,406
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	9,027	9,027
R0200	Net	247,379	247,379
Premiums earned			
R0210	Gross - Direct Business	313,569	313,569
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	65,740	65,740
R0300	Net	247,829	247,829
Claims incurred			
R0310	Gross - Direct Business	201,080	201,080
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	45,328	45,328
R0400	Net	155,752	155,752
Changes in other technical provisions			
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non-proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0

R0550	**Expenses incurred**	58,387	58,387
R1200	**Other expenses**		2,016
R1300	**Total expenses**		60,402

S.23.01.22 - Own Funds

	Basic own funds before deduction for participations in other financial sector	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
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	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
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	205,415	205,415			
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	672				672
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
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				
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	5	5	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**	5	5	0	0	0
R0290	**Total basic own funds after deductions**	206,082	205,410	0	0	672

S.23.01.22 - Own Funds (continued)

		Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
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
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 institutions, 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 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)	206,082	205,410	0	0	672
R0530	Total available own funds to meet the minimum consolidated group SCR	205,410	205,410	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)	206,082	205,410	0	0	672
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	205,410	205,410	0	0	
R0610	**Minimum consolidated Group SCR**	15,240				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	1347.79%				
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)**	206,082	205,410	0	0	672
R0680	**Group SCR**	61,147				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	337.03%				
Reconciliation reserve		**C0060**				
R0700	Excess of assets over liabilities	206,087				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	0				
R0730	Other basic own fund items	672				
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**	205,415				
Expected profits						
R0770	Expected profits included in future premiums (EPIFP) - Life business	0				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	6,336				
R0790	**Total Expected profits included in future premiums (EPIFP)**	6,336				

S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement C0110	USP C0080	Simplifications C0090
R0010	Market risk	24,838		0
R0020	Counterparty default risk	4,110		
R0030	Life underwriting risk	0	None	0
R0040	Health underwriting risk	40,210	None	0
R0050	Non-life underwriting risk	0	None	0
R0060	Diversification	(15,457)		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	53,699		

	Calculation of Solvency Capital Requirement	**C0100**
R0130	Operational risk	9,407
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	(1,959)
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	61,147
R0210	Capital add-ons already set	0
R0220	Solvency capital requirement for undertakings under consolidated method	61,147
	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	15,240
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	0
R0520	Institutions for occupational retirement provisions	0
R0530	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	0
	Overall SCR	
R0560	SCR for undertakings included via D&A	0
R0570	Solvency capital requirement	61,147

S.32.01.22 - Undertakings in the scope of the group

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	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
								% 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	213800RMKBQM55BCRM77	LEI	Simplyhealth Group Limited	Insurance holding company as defined in Article 212(1)(f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority					Dominant		Included in the scope		Method 1: Full consolidation
GB	213800O4EQIDJORG2I30	LEI	Simplyhealth Access	Non-life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800LVGQMD8A1DT388	LEI	Care and Mobility (Midlands) Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800TMCNNLDANEA835	LEI	Care and Mobility UK Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800IWORFTLU23G981	LEI	Denplan Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800S5UHOV14N66Z40	LEI	Denplan Partnerships Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	21380079AEQNY2HIYH04	LEI	Leeds Hospital Fund	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800J11JGBVSSJXV94	LEI	Simplyhealth Business Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	21380082WL8PCGRNF629	LEI	Simplyhealth Funding Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	21380098D8MES2KKVN41	LEI	Simplyhealth Guidance Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800AC4TSSNVI4Q244	LEI	Simplyhealth Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800NYSSIRGDFS9522	LEI	Simplyhealth Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800V8HRR3L4HUR462	LEI	Simplyhealth Nominees Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800GWO6QO64BWB775	LEI	Simplyhealth People Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	213800NBJ8V6KTKKSK83	LEI	Simplyhealth Wellbeing Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	2138003H5G7PG2KD5F30	LEI	The Animal Healthcare Company Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
GB	2138002SRWZV5PJRVD67	LEI	Totally Active Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

Quantitative Reporting Templates (Solo QRT)
Simplyhealth Access

General information

Undertaking name	Simplyhealth Access
Undertaking identification code	213800O4EQIDJORG2I30
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - for groups on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

All figures are presented in thousands of pounds with the exception of ratios that are in decimal.

Please note that totals may differ from the component parts due to rounding.

S.02.01.02 - Balance sheet

	Assets	Solvency II value C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	991
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	6,769
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	198,790
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	3,031
R0100	Equities	20
R0110	Equities - listed	0
R0120	Equities - unlisted	20
R0130	Bonds	109,184
R0140	Government Bonds	54,757
R0150	Corporate Bonds	54,426
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	86,547
R0190	Derivatives	9
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	0
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:	2,568
R0280	Non-life and health similar to non-life	2,568
R0290	Non-life excluding health	0
R0300	Health similar to non-life	2,568
R0310	Life and health similar to life, excluding index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	921
R0370	Reinsurance receivables	1,070
R0380	Receivables (trade, not insurance)	1,145
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	17,752
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	230,007

S.02.01.02 - Balance sheet (continued)

	Liabilities	Solvency II value C0010
R0510	Technical provisions - non-life	19,345
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)	19,345
R0570	TP calculated as a whole	0
R0580	Best Estimate	18,050
R0590	Risk margin	1,295
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
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)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	408
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	43
R0830	Reinsurance payables	3,046
R0840	Payables (trade, not insurance)	11,448
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in BOF	0
R0870	Subordinated liabilities in BOF	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	34,291

R1000	**Excess of assets over liabilities**	195,716

S.05.01.02 - Premiums, claims and expenses by line of business

Non-life		Medical expense insurance	Total
		C0010	C0200
Premiums written			
R0110	Gross - Direct Business	256,406	256,406
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	9,027	9,027
R0200	Net	247,379	247,379
Premiums earned			
R0210	Gross - Direct Business	313,569	313,569
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	65,740	65,740
R0300	Net	247,829	247,829
Claims incurred			
R0310	Gross - Direct Business	201,080	201,080
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	45,328	45,328
R0400	Net	155,752	155,752
Changes in other technical provisions			
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non-proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0
R0550	**Expenses incurred**	87,243	87,243
R1200	**Other expenses**		2,016
R1300	**Total expenses**		89,259

S.05.02.01 - Premiums, claims and expenses by country

	Non-life	C0010	C0070
R0010		Home Country	Total Top 5 and home country
		C0080	C0140
	Premiums written		
R0110	Gross - Direct Business	256,406	256,406
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	9,027	9,027
R0200	Net	247,379	247,379
Premiums earned			
R0210	Gross - Direct Business	313,569	313,569
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	65,740	65,740
R0300	Net	247,829	247,829
Claims incurred			
R0310	Gross - Direct Business	201,080	201,080
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	45,328	45,328
R0400	Net	155,752	155,752
Changes in other technical provisions			
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non-proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0
R0550	**Expenses incurred**	87,243	87,243
R1200	**Other expenses**		2,016
R1300	**Total expenses**		89,259

S.17.01.02 - Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance	
		Medical expense insurance	Total Non-Life obligation
		C0020	C0180
R0010	Technical provisions calculated as a whole	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0
Technical provisions calculated as a sum of BE and RM			
Best estimate			
	Premium provisions		
R0060	Gross	(680)	(680)
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(88)	(88)
R0150	**Net Best Estimate of Premium Provisions**	(592)	(592)
	Claims provision		
R0160	Gross	18,730	18,730
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	2,656	2,656
R0250	**Net Best Estimate of Claims Provisions**	16,074	16,074
R0260	**Total best estimate - gross**	18,050	18,050
R0270	**Total best estimate - net**	15,483	15,483
R0280	**Risk margin**	1,295	1,295
	Amount of the transitional on Technical Provisions		
R0290	Technical Provisions calculated as a whole	0	0
R0300	Best estimate	0	0
R0310	Risk margin	0	0
R0320	**Technical provisions - total**	19,345	19,345
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	2,568	2,568
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	16,777	16,777

S.19.01.21 - Non-Life insurance claims

Z0010 **Accident year / underwriting year : Accident Year**

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
	Year	Development year												In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior											26		26	26
R0160	N-9	0	0	0	0	27	7	1	2	7	5			5	49
R0170	N-8	0	0	0	132	28	12	43	12	14				14	241
R0180	N-7	0	0	914	94	30	25	23	18					18	1,104
R0190	N-6	0	27,416	601	97	26	43	34						34	28,217
R0200	N-5	234,518	25,542	417	80	79	53							53	260,689
R0210	N-4	286,288	31,945	625	241	100								100	319,199
R0220	N-3	244,118	32,937	891	232									232	278,178
R0230	N-2	241,664	29,571	921										921	272,156
R0240	N-1	245,019	24,255											24,255	269,274
R0250	N	192,105												192,105	192,105
R0260													Total	217,764	1,621,239

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
	Year	Development year												Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0		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	30									29
R0230	N-2	0	0	219										217
R0240	N-1	0	967											961
R0250	N	17,551												17,522
R0260													Total	18,730

S.23.01.01 - Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	194,724	194,724			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	991				991
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	195,716	194,724	0	0	991
	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

S.23.01.01 - Own Funds (continued)

Available and eligible own funds		Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0500	Total available own funds to meet the SCR	195,716	194,724	0	0	991
R0510	Total available own funds to meet the MCR	194,724	194,724	0	0	
R0540	Total eligible own funds to meet the SCR	195,716	194,724	0	0	991
R0550	Total eligible own funds to meet the MCR	194,724	194,724	0	0	

R0580	**SCR**	60,962
R0600	**MCR**	15,240
R0620	**Ratio of Eligible own funds to SCR**	321.05%
R0640	**Ratio of Eligible own funds to MCR**	1277.68%

Reconciliation reserve		**C0060**
R0700	Excess of assets over liabilities	195,716
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	992
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	Reconciliation reserve	194,724

Expected profits		
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	4,736
R0790	Total Expected profits included in future premiums (EPIFP)	4,736

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	24,505		0
R0020	Counterparty default risk	4,481		
R0030	Life underwriting risk	0	None	0
R0040	Health underwriting risk	40,090	None	0
R0050	Non-life underwriting risk	0	None	0
R0060	Diversification	(15,563)		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	53,514		

	Calculation of Solvency Capital Requirement	**C0100**
R0130	Operational risk	9,407
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	(1,959)
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	60,962
R0210	Capital add-ons already set	0
R0220	Solvency capital requirement	60,962

	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

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCRNL Result	12,354

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0020	Net (of reinsurance) written premiums in the last 12 months C0030
R0020	Medical expense insurance and proportional reinsurance	15,483	247,379
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRNL Result	0

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

	Overall MCR calculation	**C0070**
R0300	Linear MCR	12,354
R0310	SCR	60,962
R0320	MCR cap	27,433
R0330	MCR floor	15,240
R0340	Combined MCR	15,240
R0350	Absolute floor of the MCR	2,251
R0400	**Minimum Capital Requirement**	15,240

Glossary

The Group or SHG	The Simplyhealth Group (Simplyhealth Group Limited together with its consolidated subsidiaries)
The Company	Simplyhealth Group Limited
SHA	Simplyhealth Access
AFH	Actuarial Function Holder
AXA PPP	AXA PPP healthcare Limited
CF	Controlled Functions
CFIF	Core Fixed Income Fund
Delegated Regulations 2015/35	Commission Delegated Regulation (EU) 2015/35
Denplan	Denplan Limited
DMAF	Dynamic Multi-Asset Fund
EIOPA	European Insurance Occupational Pensions Authority
ELT	Executive Leadership Team
EPIFP	Expected Profit in Future Premium
EU	European Union
FCA	Financial Conduct Authority
IIA	Institute of Internal Auditors
IMT	Investment Management Team
IPT	Insurance Premium Tax
LTIP	Long Term Incentive Plan
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
PMI	Private Medical Insurance
PPV	Practice Plan for Vets Limited
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Template
RICS	Royal Institution of Chartered Surveyors
RSR	Regular Supervisory Report
Schroders	Schroder Investment Management Limited
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SIF	Significant Influence Functions
SIMF	Senior Insurance Manager Functions
SIMR	Senior Insurance Manager Regime
TP	Technical Provision
UK	United Kingdom