The Baptist Insurance Company PLC

Solvency and Financial Condition Report

31 December 2019

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Executive Summary

Introduction

This Solvency and Financial Condition Report (SFCR) has been prepared in line with the requirements of the Solvency II (SII) Regulations, to assist the customers, business partners and shareholders of The Baptist Insurance Company PLC (the Company) and other stakeholders in understanding the nature of the business, how it is managed and its solvency position.

Our business

The Company is an independent, specialist financial services company that provides insurance and risk management advice for churches, as well as offering home insurance for Baptist Ministers, church volunteers and church members.

The vision of the Company is to be the first choice insurer within the Baptist family. The mission is to run a successful business with the highest standards of integrity and help to create safe environments for worship, witness and service.

Success includes being able to generate distributable profits that may be used to strengthen the Company's capital position and to reinvest in the Baptist community through payment of charitable grants.

Business Performance

The Company has seen an excellent performance this year with outstanding investment returns, a market leading underwriting performance and a record high charitable grants allocation. These results are the highest the Company has reported over the last ten years. It comes against a backdrop of the challenging year faced in 2018, in particular, the poor investment performance.

The FTSE experienced a 12.1% gain from the prior year-end, the biggest jump in global stocks since 2009. This resulted in record investment returns of £1,004k with the unrealised gains amounting to £527k, compared to the prior year loss of £538k.

The underwriting performance delivered a strong positive result which has further enhanced the Company’s overall performance and capital position, whilst being able to increase the level of charitable grants distributed back to the Baptist Community.

At £505k, the underwriting performance experienced an increase from the prior year and was mainly driven by large recoveries upon settlement of a number of claims from previous underwriting years. The benign weather experienced contributed to the low volume of claims experienced in the year. In addition to this, the Company was in receipt of a favourable Reinsurance Profit Commission further enhancing the performance.

The Company continued to operate a Joint Administration Agreement with the Administrator, as a result the governance of the Company remained stable and in line with the previous year.

Solvency and Financial Condition

The Company uses the Standard Formula to calculate its Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). A summary of the Company's solvency position at the end of 2019 and the change over the year is shown below:

Summary solvency position	2019 £'000	2018 £'000	Change £'000
Own Funds	**8,119**	**7,071**	1,048
Market risk	2,040	1,419	621
Counterparty default risk	527	501	26
Non-life underwriting risk	60	60	-
Diversification	(374)	(338)	(36)
Basic SCR	2,253	1,642	611
Operational risk	107	107	-
Loss absorbing capacity of deferred tax	(343)	(93)	(250)
Standard Formula SCR	**2,017**	**1,656**	361
MCR	**3,187**	**3,288**	(101)
Coverage ratio (SCR)	**403%**	**427%**	(24%)
Coverage ratio (MCR)	**255%**	**215%**	40%

The Company's regulatory solvency position has remained very strong. Own funds increased by £1,048k in the year mainly due to an increase in retained earnings and a reduction in technical provisions. This is explained in more detail in section E.1.

The Company's SCR increased in the year by £361k, as market risk increased following the growth in equity values experienced in 2019.

More detail on the changes in SCR during the year is given in section E.2.

Outlook for 2020

In early 2020, the existence of a new coronavirus, now known as Covid-19, was confirmed and since this time it has spread across the globe and is now characterised by the World Health Organisation as a pandemic. The Company considers Covid-19 a new emerging risk which impacts market risk, insurance risk and operational risk. These risks are being continually monitored and managed under well-established business continuity plans.

The Company is regularly monitoring solvency levels and no instances of a breach of its Minimum Capital Requirement (MCR), Solvency Capital Requirement (SCR) or the Board's risk appetite have occurred up to the date of this report being published. The impact of the pandemic is covered in more detail in section A.1 'Significant events'. Serving our customers, stakeholders and the health and well-being of Ecclesiastical Insurance Office employees working on behalf of the Company, will continue to be our priority throughout the duration of the outbreak.

The UK insurance market continues to evolve, with strong competition and a key customer focus on price. Uncertainty dominated the political environment throughout both 2018 and 2019 driven by the ongoing

Brexit discussions, with the Government's intent to conclude negotiations during 2020, which could lead to volatility in future periods.

As described in Section C.2, the Company is exposed to market risk, particularly interest rate and equity risk, and this could lead to capital volatility in the future. The Company's capital position remains very strong and is well placed to weather continuing market volatility.

Embedding of regulatory change is expected to continue into 2020. Climate change is considerably a focal point globally now more than ever with measures being put in place to mitigate further disruption. As the Company is a Public Interest Entity, the Non-Financial Reporting Directive (NFRD) Guidelines are expected to have an impact on the operations of the Company. The IBOR reform is a big change to the financial services sector, which will be a focal point in both 2020 and 2021. This could potentially impact the investment returns generated in the year. In addition to this, there are a number of other regulatory trends either cross sector or sector specific themed expected to be rolled out in the year.

Customer centricity is expected to continue, in the form of both industry regulatory developments as well as market pressures and trends. Technological change also continues to shape the industry, presenting both threats and opportunities. Price, as well as customer focus, is expected to be a key driver within the market as a result of increasing competition and a challenging market. The Company's capital position remains very strong and is well placed to withstand continuing market volatility, currency instability and industry pressures.

Directors' Statement of Responsibilities

The Baptist Insurance Company PLC

Financial year ended 31 December 2019

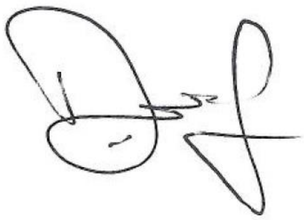
Statement required by Article 55 of the Solvency II Directive

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report (**SFCR**) in all material respects in accordance with the Prudential Regulation Authority (**PRA**) Rules and the Solvency II Regulations.

We are satisfied that:

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

b) It is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.



D. Lane
Chief Executive Officer
Date: 20 May 2020

A. Business and performance

A.1 Business details and group structure

A.1.1 Name and legal form of the company

The Baptist Insurance Company PLC is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office is:

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

A.1.2 Supervisory authority

Prudential Regulation Authority (PRA)
Bank of England
20 Moorgate
London
EC2R 6DA

A.1.3 External auditor

Deloitte LLP
1 New Street Square
London
EC4A 3BZ

A.1.4 Qualifying holdings

The Company has issued 28,284 five percent cumulative ordinary shares of £5 each. These are held by a number of Baptist related organisations and private individuals. Qualifying holdings are as follows:

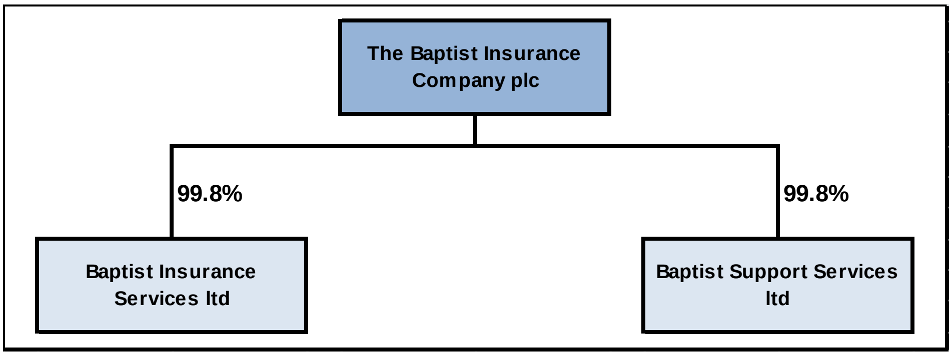
- The Central Baptist Association which holds 3,205 shares equating to 11.331% of the voting rights of the share class.
- Eastern Baptist Association which holds 3,204 shares equating to 11.328% of the voting rights of the share class.

In addition, 1,286 four percent cumulative preference shares of £5 each have been issued. Qualifying holdings are as follows:

- London Baptist Property Board Limited which holds 130 Shares equating to 10.109% of the Share class.
- Gordon Harvey Price holds 238 Shares equating to 18.507% of the Share class.

A.1.5 Group structure

Below is a graphical representation of the group structure and the Company's position within the group:



Both subsidiaries of the Company are incorporated in England and Wales, and are dormant, having not traded since incorporation. The Company holds 998 of the 1,000 ordinary shares of each subsidiary. The remaining shares are held by the directors of the subsidiary as nominees, who are also directors of the Company.

A.1.6 Lines of business

The principal lines of business of the Company are:

- Fire and other damage to property
- General liability

The Company provides insurance and risk management advice for churches, as well as offering home insurance for Baptist Ministers, church volunteers and church members within the United Kingdom.

A.1.7 Significant events

In early 2020, the existence of a new coronavirus, now known as Covid-19, was confirmed and since this time it has spread across the globe and is now characterised by the World Health Organisation as a pandemic. The Company considers Covid-19 a new emerging risk which impacts market risk, insurance risk and operational risk. These risks are being continually monitored and managed under well-established business continuity plans.

The disclosures in this document are based on the position of the Company at 31 December 2019. Any impact arising from Covid-19 relates to conditions arising after this date and, as such, are considered non-adjusting events.

The Company has a robust and regular solvency monitoring process in place together with a strong risk management framework. Since March 2020 the Company has been monitoring the impact of the pandemic on solvency levels, and up to the date of this report being published no instances of a breach of its Minimum Capital Requirement (MCR), Solvency Capital Requirement (SCR) or the Board's risk appetite have been identified.

The Company's market risk is impacted in the form of reduced asset valuations in certain investment classes and uncertainty around valuation. Insurance risk is increased in the form of higher claims, and operational risk is heightened with a significant and rapid migration to a remote working environment and additional pressures and risks associated with key suppliers.

Serving its customers, stakeholders and the health and well-being of Ecclesiastical Insurance Office employees working on behalf of the Company, will continue to be the main priority throughout the duration of the outbreak. The Company will continue to monitor the situation and the advice from the Government as the outbreak evolves, and will take appropriate action.

As at 31 December 2019, the Own Funds of the Company amounted to £8,119k (section E.1) and its MCR was £3,187K (section E.2), equating to a solvency coverage ratio of 255%.

The Directors have assessed the impact of financial market falls and expected impact on trading after the balance sheet date by performing a full solvency calculation as at 31 March 2020. At that date solvency cover had reduced to 234%. The Company's considerable capital resources have proven resilient to the current market disruption, and the Directors can confirm that the Company continues to both meet its Solvency II regulatory requirements (SCR and MCR) and remain above its internal risk appetite.

The Company also expects the trade negotiations between the UK and the EU to increase the risk of continuing investment market volatility and currency instability.

The significant risks to which the Company is exposed and how these are managed are discussed in more detail in section C.

A.2 Performance from underwriting activities

A.2.1 Overall underwriting performance

The underwriting performance for the year was a profit of £505k (2018: £477k). This is following a significant growth in reinsurance profit commission resulting from a favourable claims performance, but offset by the net run-off experience.

During the first half of the year, there were a number of large recoveries upon settlement of a number of liability claims from previous underwriting years. This led to the significant recoveries experienced for the year. The benign weather experienced contributed to the low volume of claims experienced in the year. In addition to this, the Company was in receipt of a favourable Surplus Treaty Profit Commission which further enhanced the performance.

In the year, the Company had 2 run-off claims closed at nil. The net IBNR experienced a charge following on from the year-end review of physical and sexual abuse (PSA) reserves.

Corporate Expenses have experienced an increase from the prior year and this is mainly driven by a provision in place for a third party recovery for which the Company actively continues to pursue.

Gross Written Premium (GWP) increased by 1.6% compared to the prior year (2018: 2.3% decrease). This was driven by the increased competition seen within the market in the year as well as church closures further shrinking the market. It should be noted that both new business and lapses were favourable to budget and the retention rates remained at over 95%.

A.2.2 Performance by material class of business

Underwriting Performance By Material Class Of Business

Description	Property		Liability	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Gross Written Premium	3,224	3,170	294	292
Gross Earned Premium	3,204	3,202	293	294
Gross Incurred Claims	(796)	(1,605)	563	498
Reinsured	*(796)*	*(1,605)*	*486*	*453*
Run-off	*-*	*-*	*78*	*45*
Commission	(13)	(13)	(2)	(2)
Expenses	(160)	(111)	(15)	(10)
Gross Underwriting result	**2,235**	**1,473**	**840**	**780**
Reinsurance Earned Premium	(3,204)	(3,202)	(293)	(294)
Reinsurance Claims	796	1,605	(709)	(464)
Reinsurance Commission	577	225	254	343
Net Underwriting result	**405**	**102**	**91**	**365**

Property

The property account saw a favourable experience compared to the prior year with the gross incurred claims reducing by more than 50%. The causes of this reduction are twofold; a large recovery following settlement of a claim from previous underwriting year and the benign weather experience which led to a decrease in both large and attritional claims for the year.

Liability

The liability account has seen a reduction compared to the prior year but shows a positive result.

The account experienced a number of significant large recoveries following settlement of claims from previous underwriting years, which contributed to the favourable result. In comparison, 2018 experienced significant IBNR releases following a detailed review of assumptions and experience at the time

Run-off claims are historic liability claims including PSA claims. The account was impacted by an increase in net IBNR of £146k following on from the year-end review of the physical and sexual abuse (PSA) reserves held.

The Company only underwrites business in the UK and therefore an analysis by geographical region has not been provided.

A.3 Performance from investment activities

A.3.1 Investment performance by asset class

Investment performance	2019	2018	Inc/(Dec)
	£'000	£'000	£'000
OEIC Income	152	183	(31)
Bank Interest	2	1	1
Total Income	154	183	(29)
Realised Gains / (Losses) On Investments	291	116	176
Unrealised Gains / (Losses) On Investments	527	(538)	1,065
Total investment return	972	(239)	1,211
Instalment Handling Fees	33	33	0
Investment Expenses & Charges	(1)	(1)	-
Net Investment return	1,004	(207)	1,211

Total income for the year was £154k, a 16% decrease on the prior year. This consists of Open Ended Investment Company (OEIC) income received during the year, following a change in the investment portfolio structure resulting in the receipt of lower investment income. Bank interest has increased by £1k from the prior year.

The investment performance in 2019 was exceptional and a significant contrast to the prior year. The FTSE experienced a growth of 12.1% in 2019, the biggest jump in global stocks since 2009, leading to unrealised gains of £527k, which compared to the unrealised losses in 2018 at £538k when the FTSE saw a drastic fall of 12.5%. In addition, there has been a disposal of one OEIC holding resulting in realised gains of £291k compared to £116k in 2018.

Instalment handling fees, which relate to policies that are settled in instalments rather than in full, have remained at a similar level to 2018.

The Company's investment consists wholly of OEIC's and the mix of underlying investments were as follows:

Investment Mix*	2019	2018	Inc/(Dec)
	£'000	£'000	£'000
Fixed Interest	3,848	3,594	254
UK Equities	1,681	1,273	409
Overseas Equities	1,736	1,297	439
Cash	88	61	27
Fair Value	7,354	6,226	1,129

* Based on the fair value at the year end position

A.3.2 Gains and losses recognised directly in equity

The Company has not recognised any gains or losses directly in equity in either the current or the previous reporting period.

A.3.3 Investments in securitisation

The Company does not hold any investments in securitisation.

A.4 Performance from other activities

A.4.1 Other Activities

Other Activities	2019	2018	(Inc)/Dec
	£'000	£'000	£'000
Charitable Grants (paid/accrued)	(314)	(244)	(70)
Financing Costs	(7)	(7)	0
Tax	(231)	-	(231)
	(553)	(252)	(301)

Charitable Grants

Following a continuation of the strong operating performance, the Company allocated £314k in charitable grants in support of the Baptist Community, of which £242k was paid out during the year and £72.5k accrued at the year-end. This was an increase to the £244k allocated in the prior year.

Financing Costs

Financing costs comprise fixed interest preference shares at 4% and ordinary preference shares at 5%, this remains unchanged year on year.

Tax

Due to the strong overall performance for both underwriting and investment activities in the year, the Company had a tax charge of £231k. This contrasts to the prior year, with a nil tax charge following the poor overall performance driven by the significant investment loss.

A.5 Any other information

There is no other material information regarding the Company and or its performance as an insurance undertaking to disclose outside of what has been disclosed in earlier sections.

B. System of governance

B.1 General information on the system of governance

B.1.1 Governing Body – Roles and segregation of responsibilities

Composition and Independence

The Company is governed by a Board of Directors comprising a Non-Executive Chairman, six Non-Executive directors (NEDs) and an Administrator Director.

The Role of the Administrator – outsourcing arrangements

The arrangements for the provision of management and administration services to the Company by an outsourced provider, the Administrator, are set out in the Joint Administrative Agreement (JAA). In accordance with the Company's Articles of Association an Administrator Director, who is an employee of the Administrator, has been appointed to the Board. Authority is delegated by the Board to the Administrator for the sound management of the Company's day to day business.

Appointment of Non-executive Directors

Apart from the Administrator Director, the NEDs of the Company are appointed as either Ordinary Directors or Baptist Union Directors, as permitted in the Company's Articles of Association. The Company believes the size and composition of the Board gives it sufficient independence, balance and depth of professional experience to consider the issues of strategy, performance, resources and standards of conduct.

The Board continually reviews the appropriateness of the Directors through the use of annual Board evaluations, and review of Directors' training and development needs.

Key roles and responsibilities

The Board retains responsibility for ultimate supervision and control of the Company, and is responsible for ensuring compliance of the outsourcing services and reinsurance agreement and all of its regulatory requirements and obligations.

The Board is responsible to the Company's shareholders for the long-term success of the Company, its strategy, values and its governance. Great importance is placed on a well-informed and decisive Board, and Board meetings are scheduled and held regularly throughout the year.

A Board Charter has been developed which establishes a framework for the conduct of the Board and its committees with clear guidelines as to its responsibilities, the expected standard of behaviour, and best practice in fulfilling its obligations to the Company. The Board is responsible for:

- culture and values;
- strategy and direction;
- leadership and organisation;
- governance;
- risk management and controls;
- financial expectations and performance; and
- communication.

Segregation of Responsibilities

The approach to segregation and delegation of responsibilities is set out in the Company's governance framework, which demonstrates the high standards of compliance and corporate governance adopted and followed. The framework establishes appropriate procedures, systems and controls to allow Directors to discharge their duties and obligations effectively. It sets clear expectations for all operations in terms of their strategy, governance, performance, risk parameters and controls to protect the interest of the Company's stakeholders.

Segregation of responsibilities is an important internal control, which helps ensure that no one individual has unfettered powers of decision. By selectively delegating authority and certain functions to various individuals and committees, the Board does not absolve itself of its own responsibilities.

Chairman

The Chairman is responsible for:

- the active leadership of the Board, ensuring its effectiveness in all aspects of its role;
- maintaining an appropriate balance on the Board regarding skills, knowledge, experience and diversity;
- ensuring that all relevant issues are on the Board agenda, that directors receive all appropriate documentation in a timely manner, are enabled and encouraged to play their full part in relevant discussions and debate and that the management team are both supported and challenged;
- through Board committees, ensuring that the management team is adequately resourced and that there are succession plans in place for all directors; and
- ensuring that the CEO/General Manager is working to clear objectives and that their performance and the Board's performance is effectively monitored.

The Chairman is expected to demonstrate the highest standards of integrity and probity, and set clear expectations concerning the company's culture, values and behaviours, and the style and tone of board discussions.

Deputy Chairman

In addition to their other duties as a NED, the Deputy Chairman is responsible for:

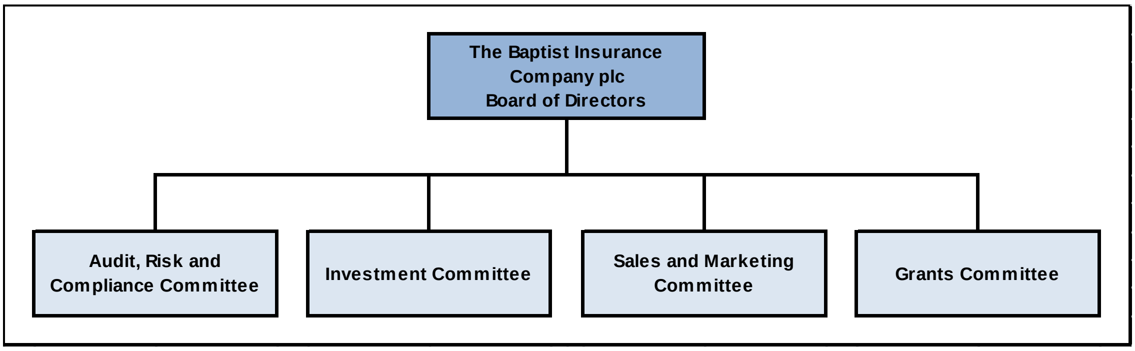
- acting as a sounding board for the Chairman;
- providing support for the Chairman in the delivery of their objectives;
- leading the evaluation of the Chairman;
- acting as an intermediary for the other Directors where necessary; and
- being available to shareholders if they have concerns about the running of the Company that have not been resolved.

Non-Executive Directors

NEDs have a responsibility to uphold high standards of integrity and probity. They should constructively challenge and help develop proposals on strategy and have the same responsibilities and liabilities under legislation and case law as Executive Directors.

B.1.2 Delegation to committees

The Board has established four committees which support the discharge of its duties. Each committee has agreed terms of reference which sets out requirements for membership, meeting administration, committee responsibilities and reporting.



The Board has delegated certain responsibilities to the board committees. Each committee has individual responsibilities, as detailed in their Terms of Reference, which provide delegations of authority and effective reporting structures to the Board. All committees are required to formally report back to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A high level overview of each committee's delegated responsibilities are summarised below:

Audit, Risk and Compliance Committee (AR&CC)

Its responsibilities include:

- overseeing the Company's financial and regulatory reporting processes;
- reviewing the Company's internal financial controls and system of internal controls;
- monitoring the operational effectiveness of risk policies and systems and ensuring a risk management culture is embedded in the Company;
- reviewing the Economic Capital Report and the effectiveness of the systems and processes in place for ensuring compliance with the PRA regulatory regime;
- reviewing the Company's strategic approach to compliance with Solvency II
- reviewing the effectiveness of the outsourced internal audit, financial, risk and compliance functions; and
- managing the relationship with the external auditor.

The committee members have been selected with the aim of providing the relevant financial, insurance, actuarial and commercial expertise necessary to fulfil the committee's duties.

Investment Committee (IC)

The overall management of the Company's investments is delegated to the IC. On recommendation from the committee, the Board sets the overall investment strategy with regard to risk appetite, geopolitical factors, ethical investments, mix of investments, solvency and cash flow requirements and then instructs the fund managers accordingly.

Sales and Marketing Committee

- Its main purposes are:
- to consider and recommend a sales and marketing strategy;
- to ensure the implementation of the Sales and Marketing strategy by management and monitor progress;.
- to consider distribution strategies other than direct sales;
- to consider potential new markets and assess viability;;
- to review monthly business reports;
- maintain and build upon the Company's reputation in the Baptist Community and more widely; and
- to review claims and underwriting performance that facilitate the achievement of the Company's objectives as set out in the Company's Own Risk and Solvency Assessment Report (ORSA) and the three year business plan.

The committee also assists in the development of new products and advertising and distribution channels, and will consider new schemes to enhance the Company's business.

Grants Committee

Its role is to:

- solicit and assess grant applications against set criteria;
- recommend grant distributions to the Board in conjunction with the grants budget proposed by the AR&CC and subsequently agreed by the Board; and
- monitor the effectiveness of grants made.

In addition to meetings of the committee, meetings are arranged by the committee members to meet with potential or current grant recipients.

B.1.3 **Roles and responsibilities of key functions**

The following key functions are outsourced to the Administrator, as part of the JAA;

CEO/General Manager

The CEO/General Manager, who is the Administrator Director and fulfils the Senior Managers Regime (SMR) function of Chief Executive, is an employee of the Administrator and their responsibilities include:

- the delivery of, and reporting to the Board on, the implementation and execution of the Company's strategy;
- developing and managing the relationship with key stakeholders including regulators, customers and shareholders;
- establishing a framework and ensuring the maintenance of a sound system of internal control and risk management and regularly reporting to the Board on its effectiveness;
- establishing a clear set of key performance indicators and key risk indicators within which to monitor progress and where necessary take remedial action; and
- maintain effective open communication with senior insurance managers and NEDs.

Chief Financial Officer (CFO)

The Chief Financial Officer is an employee of the Administrator and fulfils the SMR function of Chief Financial Officer and their responsibilities include;

- management of the financial resources of the Company and reporting to the Board in relation to its financial affairs;
- formulating and evaluating the short- and long- term financial objectives and strategy of the Company;
- providing oversight of supply chain management;
- minimising and managing financial risk exposure through the implementation of suitable internal controls; and
- ensuring compliance with applicable regulatory, financial and tax obligations.

Compliance Function

The Administrator's compliance function provides assurance to the Board that the Company remains compliant with its obligations under the regulatory system and for countering the risk that the Company might be used to further financial crime. It ensures that appropriate mechanisms exist to identify, assess and act upon new and emerging regulatory obligations and compliance risks that may impact the Company.

Internal Audit Function

The Administrator's internal audit function (AIA) derives its authority in respect of the requirements of the Company from the AR&CC. AIA provides objective assurance to the Board, in respect of general insurance risk and associated operational risk that the governance processes, management of risk and systems of internal control of the Administrator are adequate and effective to mitigate the most significant general insurance related risks to the Company. The AIA provides regular reports to the AR&CC.

Risk Function

The Administrator's risk function derives its authority from the Group Audit & Risk Committee (ARC) and provides oversight of the prudent management of risk including financial, operational and conduct risk. The Administrator's Chief Risk Officer (CRO) is accountable to the AR&CC.

Actuarial Function

The Administrator's actuarial function is accountable for all aspects of capital modelling, pricing and reserving for the Company and the independent actuarial function is responsible for providing opinions on the effectiveness of technical provision calculations, underwriting and pricing and reinsurance purchase.

The key functions outsourced to the Administrator ensure the consistent implementation of systems and procedures across the Company. All individuals are required to report regularly to the Board or the relevant committee of the Board.

B.1.4 **Material changes in the system of governance**

There have been no material changes in the system of governance during the year.

B.1.5 Assessment of the adequacy of the system of governance

The Board is ultimately responsible for the system of governance and believes that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, the Board maintains a governance framework which it formally reviews and approves.

The governance framework has been developed to ensure that the Company operates to high ethical values. The framework adopted by the Company ensures that the Board maintains oversight of all risk and governance operations, and upholds its responsibility for delivering long term value for the Company's shareholders. The framework enables the Board to maintain its focus on setting an appropriate culture, aimed at delivering the right outcomes for its customers, whilst discharging its duties effectively.

The JAA ensures that all operational and management services are provided by the Administrator, and the Reinsurance Agreement ensures that all risks underwritten by the Company are 100% reinsured by the Administrator, with the exception of eligible terrorism above a minimum retention and flood risks, which are reinsured by Pool Re and Flood Re respectively. The Board continually reviews the adequacy and effectiveness of the outsourced arrangement with the Administrator including through its annual Board Evaluation. The Chairman of the Board meets annually with the CEO of the Administrator.

The Board, through the ARCC, regularly reviews the adequacy of the system of governance on a general basis and has concluded that it is appropriate and effective based on the nature, scale and complexity of the risks inherent in the business. The effectiveness of the system of governance is considered through the receipt of the following:

- the Own Risk and Solvency Assessment report (ORSA);
- management accounts with full underwriting, claims and investment analyses;
- internal audit report findings;
- compliance report findings;
- compliance with the schedule of services outlined in the JAA;
- compliance with the governance framework and associated governance documentation;
- monthly business reports; and
- reports from the Administrator's nominated key function holders.

B.1.6 Remuneration policy

The Company has no staff. NED's remuneration is set by the Board every two years, taking into account the responsibilities of the directors and receiving advice on levels of remuneration in comparable organisations.

B.1.7 Entitlement to share options, shares or variable components of remuneration

The Company has no staff and the Directors have no entitlement to share options, shares or variable components of remuneration in respect of the Company.

B.1.8 Supplementary pension or early retirement schemes for the members of the board and other key function holders

The Company has no staff and the Directors and other key function holders have no entitlement to supplementary pension or early retirement schemes in respect of the Company.

B.1.9 Material transactions during the reporting period with shareholders, persons who exercise a significant influence, and with members of the board

No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

B.2 Fit and proper requirements

The recruitment of Directors is normally undertaken by using an external recruitment consultant with a brief written by the Chair or Committee Chair depending on the position to be filled – a skill balance is sought across the Board with skills from accounting, actuarial, insurance, investment and general business being the key criteria.

Candidates proposed from the selection process are interviewed by two directors with references taken from employers, past employers and church leaders as the business is largely written within the Baptist market.

Fitness to fulfil the role is assessed through the process and also through post appointment peer review and annual Board effectiveness reviews. In order to determine fitness and propriety of all senior roles within the Company, individuals are subject to a competency-based interview following an analysis of their CV.

The competency-based interview is intended to explore the candidates' experience and qualifications and would explore:

- appropriate market knowledge;
- business strategy;
- financial analysis;
- governance and risk management;
- oversight and controls;
- regulatory framework; and
- cultural fit.

Criminal record checks (DBS) and sanctions checks are carried out for each person in quantifying honesty, integrity and reputation along with a credit check to assist in verifying financial soundness. The Group will also check the Financial Conduct Authority (FCA) register where persons have previously held a regulatory role to check that no disciplinary actions have occurred against them. References are also taken from previous employers.

The Group implemented the Senior Managers and Certification Regime during late 2018 and 2019 which came into effect on 10 December 2018. The Company's approach to Fitness and Propriety was reviewed and refined. In late 2019, the process of assessing fitness and proprietary rolled out for all Senior Managers and Certified persons.

In 2018, the Company identified those employees who were carrying out a certificated role. This is defined as person performing a role which is involved in one of more aspects of the firm's affairs, so far as relating to a regulated activity and those aspects involve, or might involve, a risk of significant harm to the firm or any of its customers. Those who were deemed to be carrying out certificated functions, were assessed against the fitness and proprietary checks in late 2019.

The fitness and proprietary checks consisted of:

- disclosure and barring (DBS) criminal records check;
- credit check;
- individuals self assessment against fitness and proprietary questions;
- check that the employee has undertaken sufficient continuous professional development;
- check that the employee has completed required mandatory training; and
- check that the employee has performed satisfactorily.

B.3 Risk management system including the ORSA

B.3.1 Overview of the risk management system

The Company has outsourced the day to day operation of its business to the Administrator under the JAA. Day to day risk management in conjunction with the activities specified under the JAA is carried out within the Administrator's risk management framework but reflecting the Company's Board approved risk appetite, register and analysis of risk. This comprises the strategies, objectives, policies, guidelines and methodologies needed to ensure that the business is operated on the Company's behalf in line with its expectations, regulatory requirements and commensurate with its own appetite for risk taking. The JAA is the key document which sets out the Board's requirements and expectations of the Administrator.

An effectively operating risk management framework is vital in supporting and promoting the successful and responsible performance of the Company.

B.3.2 Effectiveness of identifying and managing risks

The AR&CC has delegated responsibility from the Board for reviewing the effectiveness of all aspects of the risk management framework including identification and management of risks and receives regular reports from the relevant business areas within the Administrator.

The Board receives regular reports from the AR&CC to ensure that all aspects of the risk management system are robust. Furthermore, as part of their review of the ORSA process and approval of the ORSA document the Board satisfies itself with the effectiveness of the identification and management of the risks faced by the Company in the delivery of its objectives and business strategy.

The Board considers the effectiveness of the overall governance arrangements and in particular the outsourcing agreement together with recommendations for improvement should this be necessary.

B.3.3 Implementation of the risk management function

The JAA formalises the outsourcing arrangement in place with the Administrator who adopts a Three Lines of Defence model to ensure the successful operation of its risk management process. This operates as follows:

- ***1st Line (Business management)*** is responsible for strategy execution, performance identification and management of risks and the application of appropriate controls;
- ***2nd Line (Reporting, oversight and guidance)*** is responsible for assisting the CRO and the Company's Board to formulate risk appetite, establish minimum standards, appropriate reporting, oversight and challenge of risk profiles and risk management activities within each of business areas. and the

- ***3rd Line (Assurance)*** provides independent and objective assurance of the effectiveness of the systems of internal control.

The first line of defence consists of the day to day management and operation of the business and requires that those responsible for this are also responsible for ensuring that a risk and control environment is established as part of the day-to-day operations and for delivering strategy and optimising business performance within an agreed risk and governance framework.

Under current arrangements, the majority of first line activity is outsourced to the Administrator. However; the Board is ultimately responsible for the governance and sound and prudent management of the Company. The Board, in fulfilling its functions and objectives, seeks assurance from the Administrator, its outsourcing partner, to ensure that there is a robust risk and governance framework which includes policies, systems and controls.

The second line of defence comprises the risk and compliance functions of the Administrator who provide reporting to the Board's ARCC. This provides a framework of governance and risk oversight, and monitors and challenges the first line of defence. The second line also provides the business with the necessary training, tools and techniques to manage risk and establish internal controls in an effective way.

The third line of defence is independent and objective assurance of the effectiveness of the Company's systems of internal control. This activity principally comprises the Administrator's internal audit function which provides regular reporting to the ARCC.

There are a number of key roles and responsibilities with regards to the effective implementation and operation of the overall Risk Management Framework:

The Company Board

The Board are responsible for determining strategy and direction in line with its appetite for risk and satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. The Board must also ensure that the ORSA process has been followed and managed effectively.

Audit Risk and Compliance Committee

The Board has delegated responsibility for risk management and internal control to the ARCC. They are responsible for reviewing the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, reporting and management of risks. They also assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. The ARCC recommends the risk appetite to the Board.

Investment Committee

The Board has delegated responsibility for oversight of the Company's investments and associated risk to the Investment Committee (IC). They are responsible for ensuring that the Company operates an investment strategy that is appropriate to the Company's ethics, performance, risk profile and capital management of the business as defined in its statement of investment principles based on its risk appetite and as articulated in the Company's investment policy.

CEO and the Administrator's operational areas (1st Line of Defence)

These areas are responsible for ensuring that there is an ongoing process for the identification, assessment, management and reporting of the significant risks during the course of business operations.

The Administrator's risk function (2nd line of defence)

The risk function facilitates the management and ongoing effectiveness of the risk management framework by providing tools, training and support so stakeholders can effectively discharge their responsibilities. The risk function facilitates the Board risk identification and assessment process and provides guidance to the Board when determining the risk appetite.

The Administrator's internal audit function (3rd line of defence)

The Administrator's Internal Audit function provides an independent opinion over the adequacy and effectiveness of the risk management framework. The Internal Audit function is outsourced to the administrator under the terms of the JAA.

A key component of the governance of the Company is a policy framework covering all important elements of managing the Company's business. This contains a set of policies that provide high level guidance around the following areas with specific policies covering each area in more detail:

- Board policies;
- insurance policies;
- capital policies; and
- risk and governance policies.

The policy framework is communicated to the relevant persons within The Administrator who administer the Company's business under the JAA and provides clarity around the risk management expectations of the Board in all aspects of the operations. The policy framework supports adherence to the Company's risk appetite and risk management principles.

B.3.4 **Own risk and solvency assessment process**

The ORSA assesses all risks in the business, outlines the current solvency position, the business plan for the next three years, summarises the stress testing and scenario analysis undertaken in conjunction with the business plan and projects the solvency position over the planning period. This ensures that the business strategy and plans are formulated and signed off by the Board with full recognition of the Company's risk profile and future capital requirements.

The Company has delegated the production of the ORSA to the Administrator under the terms of the outsourcing agreement. The report is reviewed in detail by the ARCC and approved by the Board, who maintain responsibility for conducting the ORSA and are the ultimate owner and fully involved in the key processes, providing challenge and steer. This process integrates the Company's risk management, business planning and capital management activities. Key steps in the process are:

- establishment and operation of the risk management framework, including policies and the risk appetite;
- assessment of the current risk profile of the business and tolerances and limits to ensure adherence to the risk appetite. This will provide a context for business planning;
- a forward looking risk assessment, including identification of emerging risks;

- a proposed business plan for the chosen time horizon that has been derived with reference to the risk appetite, the risk profile of the business and optimal use of capital;
- identification of the impact of the proposed business plan on the risk profile of the business over the plan horizon. This should cover all risks in the business, both short-term and long-term, and include any risks not covered in the Standard Formula;
- a stress-testing and scenario analysis framework, including reverse stress testing, with assessment in context of the proposed business plan;
- assessment of the capital required to carry out the business plan, particularly the Own Funds necessary to ensure the continued ability to meet regulatory and assessed capital requirements at all times over the plan period;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;
- consideration of how any shortfall in capital might be addressed and the likelihood of success; and
- assessment of the adequacy and quality of the risk management environment.

B.3.5 **Frequency of review**

The ORSA is an ongoing process that operates on an annual cycle with a report being signed off by the Board each year. Regular updating of the key elements is undertaken throughout the year and changes to the risk profile and business plans quantified.

The ORSA process will also be performed upon the occurrence of certain trigger events such a significant external events or material changes to the business strategy.

B.3.6 **Determination of own solvency needs**

The Board and ARCC assess the various risk elements of the business covering credit, operational, underwriting, reserving and investment risk and makes a calculation of the capital requirements arising from those risk elements. Guidance and advice is taken from the CFO, CRO, actuarial and finance teams of the Administrator as well as the ARCC where detailed analysis is undertaken utilising those technical and professional feeds. Insurance risk is covered by the reserving and underwriting assessments carried out on a regular basis by the operational teams.

All aspects of capital management are contained within the Board approved Capital Management Policy. Responsibility for setting objectives and policies relating to own funds rests with the Board. Responsibility for implementing objectives and policies rests with the ARCC through delegation from the Board. Day-to-day management at operational level is outsourced to the Administrator through the JAA.

As such the day-to-day management, compilation of reporting, interaction with risk management systems and stress testing is all carried out by the Administrator under the JAA. Detailed reporting of all aspects of solvency and capital management are reported to the ARCC for detailed review prior to recommendation to the Board for approval

The ARCC and Board receive quarterly reporting which includes a Solvency Statement. The Solvency Statement incorporates scenario testing for significant falls in the UK equity share index (FTSE) and for the £/Euro exchange rate falling to parity. Should a significant market trigger event occur then additional, more frequent reporting would be implemented.

It is the overall policy of the Board to ensure that there is always adequate capital to meet current and future projected requirements from the planning process and to satisfy regulatory requirements. An additional buffer is also maintained above the minimum regulatory requirement in accordance with the Board's risk appetite to cover any possible unforeseen events.

B.4 Internal control system

B.4.1 Internal control system

The Internal control system is implemented by the Board and Chief Executive Officer, to ensure that the Company is managed efficiently and effectively.

The Board has established appropriate Board level policies and a risk appetite. As the day to day operation of the business has been outsourced to the Administrator the business is managed within the Administrator's own internal control system in accordance with the Board's requirements which are detailed within the JAA. The Board monitors the performance of the Administrator and the internal control system on an ongoing basis.

The Control Framework of the business managed by the Administrator comprises the following elements:

- control environment: A business culture that recognises the importance of systems of control and management to ensure the resources and environment is adequate to operate the control framework;
- objective setting: a process to set objectives that support the mission of the company and are consistent with the risk appetite;
- risk assessment: identification and analysis of risks is undertaken and appropriate risk responses are implemented;
- control standards: a policy framework that establishes the Board's minimum standards for the mitigation of risk within the stated appetite;
- control activities: business processes that include control activities designed to mitigate risks to the level required to meet the control objectives;
- monitoring activities: regular monitoring of controls according to their materiality;
- training and communication: effective communication of required control standards and adequate training to ensure those operating or monitoring controls can do so effectively;
- recording: clear documentation of controls to enable the ongoing operation; and
- reporting: reporting of material control effectiveness to allow relevant management or the Board to determine whether objectives are being met or whether action is required to strengthen the control environment.

B.4.2 Compliance function

The Company outsources the provision of compliance services to the Administrator's Compliance function under the terms of the JAA, whilst recognising that responsibility for compliance remains with the Company. This function sits in the second line of the three lines of defence governance system and is responsible for:

- identifying, assessing, monitoring and reporting on the Company's compliance risk exposures;
- assessing possible impact of regulatory change and monitoring the appropriateness of compliance procedures; and
- assisting, challenging and advising the Company in fulfilling its responsibilities to manage compliance risks.

In order to ensure adequate risk control for the Company within their outsourcing arrangement Compliance applies the principles and requirements of the Administrator's compliance charter. This sets out the roles and responsibilities of Compliance and those policies where it has delegated responsibilities.

The charter also sets out the Compliance function's objectives and their key performance measures. Compliance gains its authority from the ARC and the Compliance Director is accountable to the Chairman of that committee.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Administrator's Internal Audit (AIA) function is authorised by the Administrator's GAC to evaluate and report on the adequacy and effectiveness of all controls, including financial, operating, compliance, and risk management.

Adequate and effective risk management, internal control, and governance processes reduce but cannot eliminate the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. Adequate and effective risk management, internal control, and governance processes within the scope of the JAA will therefore provide reasonable, but not absolute, assurance that the Company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

AIA maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist, technical support is necessary to supplement AIA resource, this is available through a co-sourcing contract with an external specialist provider, ensuring that AIA has immediate access to specialist skills where required. AIA confirms to the ARCC that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with.

AIA operate within the Administrator's three lines of defence model which has been adopted by the Company. In order to operate an effective framework AIA maintain regular and ongoing dialogue with the first and second line to maintain a current and timely perspective of business direction and issues.

Demarcation between the third line of defence and the first two lines must be preserved to enable AIA to provide an independent overview on the effectiveness of all risk management and assurance processes in the organisation.

B.5.2 Independence of the internal audit function

To provide for the independence of AIA, the Administrator's Group Chief Internal Auditor is accountable to the Administrator's GAC Chairman and reports on the operation of general insurance controls to the ARCC.

Financial independence, essential to the effectiveness of internal auditing, is provided by the Administrator approving a budget to enable AIA to meet the requirements of its charter.

AIA is functionally independent of the activities audited and the day-to-day internal control processes of the Company and shall be able to conduct an assignment on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the Company covered by the JAA.

The Administrator's Group Chief Internal Auditor and staff of AIA are not authorised to perform any operational duties for the Company or the Administrator or direct the activities of any employee not employed by AIA.

Persons transferred to or temporarily engaged by AIA are not assigned to audit those activities they previously performed until at least one year has elapsed. Furthermore, the demarcation between the third line of defence and the first two lines must be preserved to enable AIA to provide an independent overview to the Board on the effectiveness of all risk management and assurance processes in the organisation.

B.6 Actuarial function

B.6.1 Implementation of actuarial function

The Company outsources the provision of actuarial services to the Administrator's actuarial function under the terms of the JAA. Baptist's Chief Actuary duties are carried out by the Administrator's Actuarial Function Director, who is an experienced qualified actuary, holding an Institute of Actuaries Chief Actuary certificate, accountable for the delivery of the Actuarial Function's objectives. The Actuarial Function resides within the Group Finance area of the Administrator, and as such reports to the Administrator's Group Chief Financial Officer. The Actuarial Function Director uses other actuarial and appropriately experienced resources to discharge his responsibilities, ensuring an appropriate level of independence between those carrying out activities and those reviewing work.

The Actuarial Function's key areas of responsibility are:

- to provide oversight and co-ordinate the calculation of the technical provisions, ensuring appropriateness of data, assumptions, methodologies and underlying models used;
- to give an opinion on the technical provisions to the Board, including assessing the sufficiency and quality of the data used, informing the Board of the reliability and adequacy of the calculation and comparing best estimates to experience;
- to give an opinion on the adequacy of pricing and underwriting to the Board;
- to give an opinion on the adequacy of reinsurance arrangements to the Board as an efficient means to manage risk; and
- to contribute to the effective implementation of the risk management system.

B.7 Outsourcing

B.7.1 Outsourcing policy

The Company has a procurement, purchasing and outsourcing policy that has been agreed by the Board and forms part of the policy framework. The policy covers all procurement activities and material outsourcing arrangements.

The Company's policy is to operate an effective framework for awarding contracts to achieve a quality provision giving consideration to the expected impact on customers. Elements of the policy implementation are outsourced to the Administrator under the terms of the JAA with Ecclesiastical

Insurance Office Plc. The Board remain ultimately responsible for the policy ownership and implementation.

Outsourced contracts are subject to stringent controls. The Board is responsible for making all strategic decisions regarding outsourcing in the context of various key objectives and the various parameters contained within the Company's policy on outsourcing, including:

- ensure compliance with all regulatory obligations and good market practice in the selection, management and termination of suppliers;
- optimise the choice, loyalty and performance of suppliers and business partners to deliver cost effective goods and services and service enhancing solutions across the business;
- ensure that suppliers uphold the corporate values and high standards of compliance with the Company's corporate policies and regulatory obligations;
- provide for the mitigation of operational and financial risks related to outsourcing and procurement activities; and
- ensure effective identification, authorisation and management of material outsourced contracts as defined and in accordance with regulatory requirements.

A defined framework and detailed processes are in place for the appointment of new contracting parties that involves:

- the preparation of a detailed specification and risk assessment before inviting tenders;
- a critical assessment of the capacity and ability of shortlisted suppliers that is appropriate and proportionate to the services and risks;
- completion of a business continuity and information security practices questionnaire by all potential providers; and
- an assessment of these against risk appetite.

Comprehensive written contracts are entered into with accountability for managing the delivery against the contract being clearly assigned to an individual manager within the Administrator. Exit and contingency plans are documented and reviewed on a frequent basis to ensure they remain appropriate.

B.7.2 **Outsourcing of critical or important functions or activities**

There are six contracting parties appointed to deliver critical outsourced services:

- one for the management and administration of insurance activities;
- three for custodian and investment administration services; and
- two for specialist service provisions for specific cover provided in some general insurance products.

All outsourced providers operate from within the United Kingdom. In turn, the Administrator contracts with third parties to deliver services which benefit the Company and all outsourced arrangements entered into by the Administrator are in line with its company policy.

Included within the insurance management and investment outsourcing contracts are provisions for the regular review of the performance of these contracts and is regularly reported to the Board. With these reports and broader oversight and governance arrangements in place the Board are satisfied they are presented with all the information they need to give assurance that the providers are working effectively and within guidelines.

B.8 Any other information

No other material information regarding the system of governance requires disclosure.

C. Risk profile

C.1 Underwriting risk

The most material elements of the Company's underwriting risk are:

- ***Reserving Risk*** – the risk of adverse change in the value of insurance liabilities relating to outstanding claims from prior accident years, arising from differences in the timing and amount of claims settlements and related expenses from those assumed in the best estimate reserves; and
- ***Premium Risk*** – the risk that premiums relating to future accident years will be insufficient to cover all liabilities arising from that business including net of reinsurance non-catastrophe claims and expenses as a result of fluctuations in frequency and severity of claims, timing of claim settlements or adverse levels of expenses.

C.1.1 Underwriting risk exposure

The Company is exposed to risk at a gross level through the direct writing of mainly property exposures with associated liability exposures for predominantly church, commercial and household business.

Reserves are held in respect of long tail liability claims and as with claims of this nature, there is a high level of uncertainty associated with these reserves. The ARCC receives regular reports on the financial performance of the business including details of adverse developments.

There were no material changes to the risk exposures over the reporting period.

C.1.2 Underwriting risk concentration

A key concentration for the business is the number of churches written and the impact on the Company should they be lost. This is an accepted risk as a niche insurer specifically set up for the insurance of these churches.

There are no significant geographical concentrations.

C.1.3 Underwriting risk mitigation

The mitigation is the use of reinsurance. Since 1998 the business has been 100% reinsured with the Administrator except for a small element relating to terrorism and flood, which is reinsured with Pool Re and Flood Re respectively. The Company receives a profit commission based on the results of the business reinsured to the Administrator. The ARCC is responsible for monitoring the performance and making recommendations to the Board based on the profit commission figures.

The ARCC and Sales and Marketing committee receive audit reports prepared by the Administrator in relation to underwriting matters and require regular updates on the progress of actions to rectify any issues arising. These are covered within a schedule of the JAA.

The adequacy of the incurred but not reported (IBNR) provisions held is reviewed by the Administrator's Actuarial Reserving team quarterly following which a report is provided to the Board. This provides information relating to the review of reserve adequacy. There is also an Actuarial Function Opinion report produced annually for the Board which provides an opinion on the reserves.

C.1.4 Underwriting risk sensitivity

Relevant stress tests were carried out to simulate the impact of an ongoing rate reduction on existing business with immaterial loss of policy volumes and a potential deterioration in the historic insurance liabilities.

The first stress test considers a rate reduction over a 3 year period whilst claims and expenses remain at their planned level. The results indicate that whilst there is an adverse impact on the profit,the solvency coverage remains largely static.

The second stress test assesses the impact of a sudden adverse development on the Company's historic claims above and beyond existing claims reserves and assumes that no reinsurance recoveries can be made on the claims. This scenario has a significant adverse impact on the profits and results in a fall in the capital coverage although not to critical levels.

The Company is well placed to withstand such adverse events in isolation, and these stress tests do not raise material concerns over solvency or the ability to meet the Company's internal risk appetite.

C.2 Market risk

Market risk is the risk that the Company is adversely affected by movements in the value of its financial assets arising from a change in interest rates, equity and property prices, credit spreads or foreign exchange rates.

C.2.1 Market risk exposure

The overall management of the Company's investments is delegated to the IC. The IC sets the overall investment strategy with regard to risk, return, liquidity ,ethical requirements and climate change (as measured by the carbon footprint) requirements and then considers whether to invest in specific funds or cash securities.

The Company has a Statement of Investment Principles (SIP), reviewed by the Investment Committee and approved by the Board in November 2019, which sets out the principles of governing decisions around the Company's investments. The Governance document outlines principles related to risk including the consideration of the Company's MCR, volatility of Asset classes, Credit Ratings, Duration, Asset Allocation, Liquidity and the nature and term of the investments. The Principles are designed to limit the concentration of risk and mitigate overall investment risk.

Market risk is the most significant risk for the Company and this is largely due to the underlying exposure to equities held. The company has a relatively prudent appetite to risk and keeps the Asset Allocation within the SIP which is biased towards Fixed Interest Securities where volatility is considered to be much lower.

C.2.2 Compliance with prudent person principle

The IC is made up of four suitably qualified Directors including the Chair of the Board and is accountable to the Board. The Committee monitor the performance and risk of the investments on a quarterly basis and meet formally at least four times a year to conduct a rolling review of all Investment and Treasury funds. The IC formally report to the Board and provide recommendations where appropriate.

The IC has an agreed formal Terms of Reference which was reviewed in November 2019 and approved by the Board and is required to review the SIP at least annually.

The IC has delegated powers to monitor and provides challenge to the Fund managers on the performance of the investments on an annual basis. The company invests directly in OEIC funds that are structured to invest in other companies with the ability to adjust constantly its investment criteria and fund size.

The OEIC's are chosen for the collective characteristics of the assets in the fund and their geographical diversification. The IC regularly reviews the makeup and concentration of companies in the funds under investment and receives investment valuations on a monthly basis with a detailed report sent annually.

C.2.3 **Market risk concentration**

The Company invests in OEIC's for the specific reason of diversification of credit risk. The Royal London Short Duration Credit Fund for example has investments in 315 companies as at 31 December 2019, with the largest holding accounting for 1.5% of the total OEIC value. In the equity based EdenTree Amity International OEIC fund, the largest single holding is 4.2% of the fund by value.

The Fund Manager regularly reviews and reports annually on the creditworthiness of each sector in the Credit funds and individual company performance in the collective funds. The Company also monitors the credit ratings /securitisation profile of assets in bond portfolios.

The IC adheres to the asset allocation benchmarks as agreed in the SIP. Historically the most volatile asset class has been equity and the SIP limits investment in this asset class to 40% with a 10% tolerance.

C.2.4 **Market risk mitigation**

Investments are either held by a custodian bank or listed on the Stock market thus the Company has full title to the Assets. Where investments are made in cash deposits the bank's credit ratings are viewed by the committee and diversification is considered at all times. In addition the IC has formal agreements and set procedures for withdrawing funds or switching investments.

The IC regularly considers changes in the macro and political environment and implements risk reduction programs when appropriate. The IC also considers diversification in terms of geographical spread, sector and number of investments.

The SIP provides a policy benchmark for each asset class designed to limit market risk e.g Equity type investments will not be more than 40% (tolerance plus 10%) of portfolio value as the Long Term Asset Allocation. The IC monitors movements in each of the Asset Classes and look for sustainable trends in financial markets and the environment as part the risk mitigation strategy.

No mitigation against equity, currency or interest rate risk is undertaken by way of hedging or derivatives.

C.2.5 **Market risk sensitivity**

Stress tests have been carried out to assess the ability of the Company to withstand shock events.

The first stress test assumes a 30% fall in the Company's equity-based investments, with no change in projections for interest-bearing securities, to simulate a stock market crash. The stress test generated a pre-tax loss in the year of the crash with a recovery in the following years.

The second stress test combines the impact of a 10% decrease in the stock market with an increase in post-1998 net claims costs on an annual basis over the plan period. This combination of events was intended to demonstrate the impact of a situation that generates a surge in claims at the same time as a prolonged drop in investments. This had an extreme impact and resulted in pre-tax losses over the plan period.

It was established that both scenarios would result in the coverage of the capital requirement reducing. The second scenario would generate the greatest falls although not to the extent that the regulatory capital requirement or the internal risk appetite would be breached.

C.3 Credit risk

C.3.1 Credit risk exposure

The risk that intermediaries, specifically reinsurers and premium debtors, default on their obligations to the Company.

The largest exposure for the Company is from the reinsurance agreement with the Administrator. This results in a potentially large amount of outstanding claim recoveries. The Company is also exposed to premium debtor default risk through the insurance business underwritten and cash at bank default risk, but these are not considered material.

The company has reinsured 100% all ongoing business since 1998 and therefore retains no net insurance risk on business incepted after this date. This gives rise to a reliance on a single reinsurance counterparty. The Board considers that this is an acceptable risk due to the financial benefits provided by the reinsurance arrangements. There were no material changes over the reporting period.

C.3.2 Credit risk concentration

The key concentration exists due to the 100% reinsurance arrangement in place with the Administrator. There is also a further reinsurance arrangement in place with a single reinsurer that relates to the pre 1998 liabilities. There are no specific concentrations in respect of premium debtor default.

C.3.3 Credit risk mitigation

The key mitigant is the formal reinsurance arrangement in place with the Administrator.

The Company's risk appetite includes guidance on the institutions to be used for holding cash. Exposures are monitored regularly as part of the financial information and risk appetite review.

The Board also monitors the financial performance of the Administrator and the Group Chief Executive of the Administrator attends a Board meeting annually to update on the financial performance and strength. The Chief Executive Officer of the Company is also employed by the Administrator and provides updates on key developments.

Regular reporting is provided to the AR&CC on the pre 1998 liabilities and the reinsurer's response to the claims notified.

C.3.4 **Credit risk sensitivity**

The Company considers the risks to the business and stress and scenario testing is carried out on the most material risks identified on a regular basis.

C.4 Liquidity risk

C.4.1 **Liquidity risk exposure**

Liquidity risk is the risk that the company will not have sufficient financial resources to meet any obligations as they fall due, or will only be able to access these resources at an excessive cost. This is most likely to arise when there is a significant catastrophe event which results in significant claim payments at short notice.

The liquidity of the Company is assessed through analysis of the cash flows expected to be needed as a result of the forecast claims.

There have not been any material changes to this risk over the reporting period.

C.4.2 **Liquidity risk concentration**

There are not considered to be any material liquidity risk concentrations.

C.4.3 **Liquidity risk mitigation**

The cash flows are analysed by the Administrator on behalf of the Board to assess the bank balances required to be maintained to pay the claims arising. The Company maintains minimum cash balances which are considered to be adequate to pay claims under normal circumstances.

There is a facility in place to allow for cash calls to be made against the Company's reinsurer. These can be made in the event of large payments due on large individual claims or an accumulation of smaller claims arising from the same event, usually as a result of weather or other natural catastrophe event.

The ARCC considers the analysis of the cash flows on a quarterly basis and is responsible for determining the minimum acceptable level for the company bank accounts.

The company's investments are all held in OEICs which are deemed to be readily realisable.

C.4.4 **Liquidity risk sensitivity**

The Company considers the risks to the business and stress and scenario testing carried out on the most material risks identified on a regular basis.

The Board has considered this risk and the existing controls as part of the ongoing risk management process. Although scenario testing has not been carried out on this element, this is regularly reviewed.

C.4.5 **Expected profit in future premiums**

Expected profits in future premium are calculated using the expected combined operating measure derived from realistic business plans and applied to the future bound premium, including current premium debtors. The result is apportioned to line of business using the profile of premium written.

The total amount of the expected profit included in future premiums is £43k.

C.5 Operational risk

C.5.1 Operational risk exposure

The key operational risk that the Company is exposed to is through the JAA with the Administrator. The Administrator carries out all operational and administrative elements of the business on the Company's behalf. The Company does not have its own staff or systems so is reliant on the Administrator for the provision of all services which are specified in the JAA.

The ARCC receives a monthly business report and quarterly operational risk dashboard from the Administrator which provide reporting on the key operational business areas and operational risks. An annual evaluation of the performance of the Administrator against the requirements of the JAA is also undertaken. In addition, ad hoc reports on specific items are provided to the ARCC where appropriate to enable the Board to assess the level of acceptable risk.

There have not been any material changes to the risk exposure over the reporting period.

C.5.2 Operational risk concentration

There is a reliance on the Administrator through the outsourcing agreement for all operational and administrative elements of the business resulting in a material risk concentration. The Company does not have its own staff or systems and so is completely reliant on the Administrator for the services specified in the JAA.

This is an accepted risk due to the business model of the Company.

C.5.3 Operational risk mitigation

The Company has a Procurement, Purchasing and Outsourcing Policy as referred to under section B.7 which covers the material outsourcing arrangements.

The JAA is the legal outsourcing contract which details the exact services to be provided. The Board monitors the performance of the Administrator against the JAA on a regular basis. An annual evaluation of the performance of the Administrator against the requirements of the JAA is also undertaken.

C.5.4 Operational risk sensitivity

The Board has considered this risk and the existing controls as part of the ongoing risk management process. Although scenario testing has not been carried out on this element, this is regularly reviewed.

C.6 Other material risks

C.6.1 Other material risk exposure

The Company regards reputational risk as a key risk. This is the potential for events to occur which could have a negative reputational impact upon the Company. This would generally be due to the operation of one or more of the other risk types, for example, a system failure could result in an inability to service policyholders and claimants and result in reputational damage in the eyes of these customers, or as a result of the actions of any of the persons associated with the Company.

The Board is responsible for the management of reputational risk and considers the potential impacts to the business as part of the ongoing strategic discussions. The assessment of a number of the other risk types considers reputational impacts as a key component in determining the materiality.

There have been no material changes to the risk exposure over the reporting period.

C.6.2 **Other material risk concentration**

There are no other material risk concentrations to note.

C.6.3 **Other material risk mitigation**

Reputational risk is mitigated through the effective management of the other key risk types and also through the response to such events if negative reputational impacts occur. Capital is not held against reputational risk.

The Board monitors the ongoing effectiveness of the risk mitigation at their regular meetings and as part of the monitoring of the other risk types.

C.6.4 **Other material risk sensitivity**

The Company considers the risks to the business and stress and scenario testing is carried out on the most material risks identified on a regular basis.

The Board has considered this risk and the existing controls as part of the ongoing risk management process. Although scenario testing has not been carried out on this element, this is regularly reviewed.

C.7 Any other information

The Board has assessed that there is no other material information to note.

D. Valuation for solvency purposes

All material asset and liability classes other than technical provisions have been valued in accordance with Article 75 of Directive 2009/138/EC ('the Directive') and Articles 7 to 16 of the Delegated Regulation (EU) 2015/35 ('the Delegated Act'), taking into account the European Insurance and Occupational Pensions Authority (EIOPA) publication 'EIOPA-BoS-15/113 – *Guidelines on recognition and valuation of assets and liabilities other than technical provisions*'.

Technical provisions have been valued in accordance with Articles 76 to 86 of the Directive.

As permitted by Article 9 of the Delegated Act, the valuation of assets and liabilities are based, where appropriate, on the valuation method used in the preparation of the annual financial statements. The financial statements have been prepared in accordance with international financial reporting standards (IFRS) and audited by external auditors.

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £74k (Equivalent to 1% of IFRS net assets).

International Accounting Standard (IAS) 39, Financial Instruments: Measurement and Recognition, requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirement is different.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification.

Financial instruments designated as at fair value through profit or loss are subsequently carried at fair value. This category consists of financial investments.

All other financial assets and liabilities are held at amortised cost using the effective interest method, except for short-term receivables and payables where the recognition of interest would be immaterial.

The Directors consider that the carrying value of those financial assets and liabilities not carried at fair value approximates to their fair value.

D.1 Assets

D.1.1 Solvency II valuation of assets

A copy of the Quantitative Reporting Template (QRT) 'S.02.01.02 – Balance sheet' is included in Appendix 1, which is a list of assets and liabilities by type. The table below summarises the SII net valuation of assets and liabilities and the difference compared to the financial statements prepared in accordance with IFRS, with a breakdown of the valuation of assets:

Solvency II Valuation	2019 As reported IFRS Basis	Reclassify to aid comparison	2019 Reclassified IFRS valuation	Net valuation movement	2019 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	13,632	(236)	13,396	(1,796)	11,600
Total liabilities	6,206	(236)	5,970	(2,341)	3,629
Net assets	7,426	-	7,426	545	7,971
Breakdown of asset valuation					
Technical provisions - Reinsurance recoverables	4,748	279	5,027	(1,793)	3,234
Investments	7,356	-	7,356	-	7,356
Cash and cash equivalents	1,010	-	1,010	-	1,010
Insurance & intermediaries receivables	230	(230)	-	-	-
Reinsurance receivables	285	(285)	-	-	-
Receivables (trade, not insurance)	3	-	3	(3)	-
Total assets	13,632	(236)	13,396	(1,796)	11,600

The table includes reclassification of certain IFRS assets and liabilities to aid comparability. This has been done as items such as reinsurance payables, which are included within other liabilities in the annual financial statements, are included within the valuation of reinsurance recoverables for SII provided they are not past their due date. Moving this balance from liabilities to assets removes the need to disclose the same difference in both assets and liabilities.

Technical provisions - Reinsurance Recoverables

The valuation of reinsurers' share of technical provisions and the differences in valuation methodology compared with the financial statements are covered in section D.2.

Investments - Participations

Included within investments are subsidiary undertakings that are dormant, having not traded since incorporation and have been valued at cost. The Directors consider that cost approximates to their fair value.

Investments other than participations

The fair value measurement basis used to value financial assets or liabilities held at fair value, which includes investments, is categorised into a fair value hierarchy as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equities in active markets, listed debt securities in active markets and exchange traded derivatives.

Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange traded.

Level 3: fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes unlisted equities, including investments in venture capital, and suspended securities.

All financial instruments recognised by the company and designated at fair value are classified as level 1.

Cash and cash equivalents

This comprises on demand deposits with banks. Cash balances are not subject to a significant risk of change in value and are considered to be held at fair value.

Insurance & intermediaries receivables and reinsurance receivables

Due to the short term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. For SII, this only comprises debtor balances past due. Debtor balances that are not past due are future cash flows that form part of technical provisions as covered in sections D.2 below. As no balances are past due, this balance is nil for SII.

Receivables (Trade, not insurance)

The valuation of non-insurance receivables is nil as SII excludes £2k of prepayments which have no economic value.

D.2 Technical provisions

D.2.1 **Solvency II valuation of technical provisions and assumptions used**

Under SII the technical provisions are made up of:

- discounted best estimate claims provisions;
- discounted best estimate premium provisions; and
- risk margin.

The non-life technical provisions (TPs) are calculated as a sum of best estimate and risk margin using a three-stage process of grouping data for homogeneous risks, selecting methodologies and setting assumptions which take into account the economic, underwriting and reserving cycles.

The reserving process captures material factors via engagement and interaction across relevant business areas, particularly the claims and underwriting functions. These factors may not be inherent in the historical data, for example a change introduced to the claims management philosophy may impact the incurred development pattern going forward.

The level of governance applied in setting the TPs is varied depending on the reporting date. The full governance framework is applied as an on-going cycle of activity, particularly driven by external financial reporting dates. Multiple review steps are in place, plus an external audit. This framework is used to sign-off the key reserving assumptions for both the IFRS statutory accounts, and the SII TPs.

The reserving framework is structured such that sufficient oversight exists within the reserve setting process through reviews by key stakeholders within management, by the Actuarial Function Director, and ultimately by the Board via committee. This ensures there is an independent challenge to the process and results, and that future developments within the business are incorporated into the projections where appropriate.

Modelling methodologies and assumptions

The nature of input assumptions for the reserving models used in projecting ultimate claims costs varies based on the class of business modelled, the levels of historical data available and the nature and complexity of the underlying risk. The final choice of model and assumptions involves professional actuarial judgement and a technical review within the reserving governance framework.

The following methods are used accordingly:

- Incurred Development Factor Method (DFM) used either in isolation for 'fire and other property damage' classes or in combination with other methods for liability and latent classes;
- Bornhuetter-Ferguson Method (BF) used primarily for more recent development years for the liability classes;
- frequency-severity approach for liability classes; and
- simplified methods likes scaling based on exposure measures and Events Not in Data (ENID).

Once the best estimates are calculated, all future years' cash flows are discounted to present value using the prescribed EIOPA risk-free discount curve for the relevant currency interest rate-term structure. No transitional arrangements or adjustments are applied for the non-life TPs relating to matching or volatility adjustment.

Valuation

Claims provisions, premium provisions and risk margin by class are reported on 'QRT S.17.01.02 – Non-life technical provisions'. The two major contributors to the TPs are the 'general liability' and 'fire and other property damage' classes of business.

Risk margin

The SCR used for calculating the risk margin is a subset of the full standard formula calculated on a 1-year view of risk, reflecting only those risks on already obligated future business as at the balance sheet date.

D.2.2 **Level of uncertainty**

The estimation of the ultimate liability arising from claims made under non-life insurance contracts is subject to uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments. Examples of uncertainty include:

- whether a claims event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the potential for periodic payment awards, and uncertainty over the discount rate to be applied when assessing lump sum awards;

- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

While the best estimate TPs calculation targets reserving for the average or expected future cost within a range of possible outcomes, due to the uncertainties it is likely that the actual costs will differ from the reserved amount.

Sensitivity analysis

In order to better understand the underlying uncertainty, a range of possible outcomes are tested and analysed. Sensitivity Analysis is a technique used to understand the variability of possible outcomes. This is done by analysing the change in TPs as a result of adjusting a single input parameter.

The table below shows the results of several sensitivity tests, which have been selected to provide coverage of a broad range of risks, which it is foreseeable could materialise within the next 12 months. This is for illustrative purposes and does not represent an exhaustive list of possible events:

SII net best estimate sensitivities to future scenarios		
Risk	Sensitivity applied	£k
Claims inflation	+ 1.0% each year applied cumulatively	23
Discount rate shift	+ 0.5% to spot rate at all durations	-9
Reinsurance default	All reinsurer ratings downgraded to B	28

The largest sensitivity considered historically has been the reinsurance default shock, which is still the case due to the critical part that reinsurance strategy plays in the business model of the Company. Counterparty default risk remains an important component of the Company SCR, therefore the risk margin is also sensitive to this item.

The choice of yield curve shock is based on the assumption that if there are upward or downward rate cycles, the Bank of England will change the interest rates by 25 basis points (bps) at a time, with an assumption of two base rate changes per year translating to an equivalent up or down shift at all durations.

The inflation and discount rate sensitivities are individually broadly symmetric in that an equivalent decrease in the respective inputs will decrease or increase the TPs by a similar order as the above.

D.2.3 Comparison of solvency II technical provisions with valuation in annual financial statements

The building blocks making up the TPs can be split between those for which the valuation methodology is compatible between SII and current IFRS, and those which by requirements of the SII technical specifications will necessarily be different.

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the accounts are currently undiscounted whereas a SII discount rate is prescribed by EIOPA and applied to the total reserves.

Other adjustments relate to different definitions of contract boundaries, the allowance for future earned profits and the consideration of future premium cash inflows in the premium provision for SII:

Net technical provisions	2019 £'000	2018 £'000
IFRS Technical Provisions net of debtors and creditors	312	411
Adjustment for risk margin	(548)	(416)
Adjustment for discounting	(22)	(30)
Other adjustments	(83)	(95)
SII Net technical provisions	(341)	(130)

D.2.4 Use of the matching adjustment, the volatility adjustment, the transitional risk-free interest rate-term structure and Use of the Article 308[d] transitional deduction

The matching adjustment, volatility adjustment, use of the transitional risk-free interest rate-term structure and use of the transitional deduction is not applied to the non-life insurance TPs.

D.2.5 Recoverables from reinsurance contracts and special purpose vehicles

The recoverables are calculated separately by class of business taking into account the arrangements that are in place for each year of loss. Other than for losses prior to 1998, the reinsurance arrangement is for 100% of the business. The operational management of the portfolio and any retrocession arrangement decisions affecting the profit share are delegated to the Administrator as part of this arrangement.

The relative size of reinsurance recoverables included in the TPs from period to period is closely linked to the relative size of reserves by class, subject to occurrence or otherwise of unusually large losses for the excess of loss accounts.

D.2.6 Material changes in the assumptions made in the calculation of technical provisions compared to the previous reporting period

There have been no significant changes to previously used assumptions for the premium provision, which remain aligned to business plans.

D.3 Other liabilities

D.3.1 Solvency II valuation of other liabilities

A copy of the Quantitative Reporting Template (QRT) 'S.02.01.02 – Balance sheet' is included in Appendix 1, which is a list of assets and liabilities by type. The table below summarises the SII net valuation of assets and liabilities and the difference compared with the financial statements prepared in accordance with IFRS, with a breakdown of the valuation of liabilities:

Solvency II Valuation	2019 As reported IFRS Basis	Reclassify to aid comparison	2019 Reclassified IFRS valuation	Net valuation movement	2019 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	13,632	(236)	13,396	(1,796)	11,600
Total liabilities	6,206	(236)	5,970	(2,341)	3,629
Net assets	7,426	-	7,426	545	7,971
Breakdown of liability valuation					
Technical provisions - non-life	5,510	(171)	5,339	(2,446)	2,893
Payables (trade, not insurance)	481	-	481	(7)	474
Deferred tax liabilities	-	-	-	112	112
Other liabilities	2	-	2	-	2
Insurance payables	59	(59)			-
Reinsurance payables	6	(6)	-	-	-
Subordinated liabilities	148	-	148	-	148
Total liabilities	6,206	(236)	5,970	(2,341)	3,629

The table includes reclassification of certain IFRS assets and liabilities to aid comparability, as explained in section D.1.

Technical provisions – non-life

The valuation of technical provisions and the differences in valuation methodology compared with the financial statements is covered in section D.2.

Payables (trade, not insurance)

Trade payables consists of tax payable, amounts due to suppliers and accrued costs. The balances are all due within one year and are valued at their carrying value of amortised cost.

Included within 'Payables (trade, not insurance)' are unpresented cheques and unclaimed capital and dividends which are removed in the SII valuation as they have no economic value.

Deferred tax liabilities

The calculation of deferred tax for use in the financial statements is based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the year-end date. For the current reporting period the value of deferred tax liability was nil.

A deferred tax asset in respect of accrued charitable grant payments had not been recognised in the financial statements as the volatility of the insurance business and investment markets may lead to insufficient profits arising next year to recover it. The relief for gift aid cannot be carried forward to recover in future years, and therefore has not been recognised to offset any deferred tax liability that arises under SII.

For SII the deferred tax liability has been calculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities. As this timing difference is not expected to reverse in the foreseeable future, the tax rate used is 17%, being the rate of corporation tax that becomes effective from April 2020.

Any other Liabilities

Intercompany balances with the Company’s dormant subsidiaries are shown as any other liabilities. In light of their immateriality, their amortised cost is assumed to approximate to their fair value.

Reinsurance payables

Only amounts past their due date are included in reinsurance payables under SII as amounts not past their due date form part of TPs which is covered in Section D.2.

Subordinated Liabilities

This comprises share capital issued by the Company. The Company's ‘preference’ and ‘ordinary’ preference shares are entitled to annual dividends of 4% and 5% respectively on the amount paid up. The Company has an obligation at the year-end date in relation to the dividends payable on the shares and, because of this, the Company is required to account for the whole of its called up share capital as 'permanent interest-bearing capital' in the statement of financial position under IAS 32, Financial Instruments: Presentation. Both classes of issued shares are fully paid up.

Under SII the called up value of these shares are valued as part of liabilities, but can be recognised as capital in the Company’s Own Funds, which is covered in section E.2.

D.4 Alternative methods for valuation

No alternative valuation methods have been used in the valuation of SII assets or liabilities.

D.5 Any other information

There is no other information that requires disclosure regarding the valuation of assets and liabilities.

E. Capital Management

Under SII capital that the Company can use to meet its regulatory SCR and MCR is called Own Funds. Off balance sheet items that can be called upon to absorb losses are called Ancillary Own Funds. The Company does not hold any such items.

The excess of assets (section D.1.1) over liabilities (section D.3.1) plus qualifying subordinated debt less any foreseeable distributions constitutes basic own funds:

Basic Own Funds	**2019 £'000**	**2018 £'000**
SII Valuation of assets	11,600	10,976
SII Valuation of liabilities	(3,629)	(4,053)
Excess of assets over liabilities	7,971	6,923
Qualifying subordinated debt	148	148
Foreseeable distributions	-	-
Basic own funds	8,119	7,071

Basic own funds are classified into tiers. Restrictions on how much of each tier can be used to cover the SCR and MCR are covered in sections E.1.3 and E.1.4 respectively.

The Company's ‘preference’ and ‘ordinary’ preference shares are classified as qualifying subordinated debt as both classes of preference capital are subordinate to all other debts and are irredeemable.

E.1 Own funds

E.1.1 Own funds - objectives, policies and processes

The Company is committed to delivering the highest standards of financial and investment management, and all aspects of solvency.

The capital management policy covers all aspects of capital management, the definition and monitoring of capital available establishing the core principles around the distribution and capital raising, along with the associated allocation and use.

This Policy forms part of The Company’s policy framework, which is a mechanism for statements of intent adopted by the Board, subject to local market, business practices and regulatory conditions.

The overall responsibility for reviewing and approving the capital management policy lies with The Board. The responsibility for the policy implementation resides with The Board through the ARC who are involved in managing capital and solvency.

The Board, supported through the JAA on a day to day operational level will ensure that:

Regulatory and legislative

- current and future rules are monitored and understood, particularly regarding the definition of capital and various capital requirements.

Definition and monitoring of capital available

- capital is maintained at a sufficient quality in order to meet current and future projected requirements over the business plan period, ensure the Company has a defined risk appetite regarding the quality and tiering of capital required to meet its own internal appetite for solvency.
- sufficient capital is held in order to satisfy capital requirements, regulatory or otherwise.
- the level of capital available in the Company is monitored on a regular basis in accordance with an agreed process.
- there is regular monitoring and review of the quality and tiering of capital, in order to assess whether the targets are met (on an ongoing basis).

Definition and monitoring of capital requirements (Solvency)

- all current and future capital requirements (regulatory or otherwise) are understood at all times. Ensure the Company has an agreed definition of an 'Economic Capital Requirement', reflecting its own view of risk.
- the Company has an agreed risk appetite to ensure a satisfactory level of capital coverage on all relevant bases – including a statement of coverage for its economic and regulatory capital.
- the Company has at least enough capital to meet its regulatory requirements at all times.
- all capital requirements covered by the risk appetite are calculated and the relevant solvency position reviewed on a regular basis – in accordance with an agreed process.
- relevant stakeholders (i.e. regulators) are informed of any adverse changes to solvency positions in excess of agreed reporting levels.
- future capital requirements and projected solvency positions throughout the period of the business plan are assessed as part of the ORSA process.

Principles around the distribution and raising of capital

- there is a clearly defined process for assessing level of dividends and grants prior to any payment being made.
- there is a clearly defined process for monitoring market conditions and future capital needs in order to assess the requirement and benefit of capital raising or redemptions.
- appropriateness for raising or redeeming capital is assessed against all other principles outlined in this policy (e.g. solvency coverage, capital quality).

Principles around the allocation and use of capital

- there is an agreed approach to setting and monitoring the return on capital.
- there is a clear process for determining when a strategic decision should take into account a capital perspective; this must cover all decisions that materially change the use of capital or solvency position.
- each such decision-making considers the impact on solvency, capital allocation, return on capital and any other principles included in this policy.

The Board will continue to monitor and maintain the integrity of the Capital Management Policy, standards and guidance to ensure they reflect the culture of the business and the regulatory environment in which it operates.

Reports detailing performance against this policy or any business critical changes will be reviewed periodically, but at least annually, by the ARC. Any breaches to this Policy or any incidents must be escalated immediately to the Chairman and Chairman of the ARC.

This Policy is reviewed every three years taking into account any changes to legislation, or more frequently should a significant change in the business, market or regulatory environment occur. The policy was last reviewed in August 2018.

Business planning is conducted annually over a three year horizon.

E.1.2 Movement in own funds compared to prior period

A copy of the QRT ‘S.23.01.01 – Own Funds’ is included in Appendix 6. The table below is a summary of own funds, by tier, with comparison to the prior year:

Analysis of Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Preference share capital	148	-	148	-	-
Reconciliation reserve	7,971	7,971	-	-	-
	8,119	7,971	148	-	-
2018					
Preference share capital	148	-	148	-	-
Reconciliation reserve	6,923	6,923	-	-	-
	7,071	6,923	148	-	-
Movement in own funds					
Preference share capital	-	-	-	-	-
Reconciliation reserve	1,048	1,048	-	-	-
	1,048	1,048	-	-	-

The £148k of preference share capital is recognised as a liability in the Company’s IFRS financial statements and had previously been classified as tier 2 capital for the purposes of SII.

Following clarification with the PRA regarding eligibility criteria, it has been determined that both classes of preference shares do not meet all the criteria required for inclusion in own funds as SII compliant capital. As permitted under Article 308b of the SII Directive they have now been classified as tier 1 capital on a transitional basis. The transitional arrangement expires in 2026, after which the preference shares will no longer be recognised as SII own funds. As they are not material to the solvency cover of the Company there is currently no intention to redeem or replace these instruments. No ancillary own funds have been recognised.

The reconciliation reserve is primarily retained earnings from the financial statements adjusted for differences in valuation between the financial statements and SII, as covered in section D. An analysis of the reconciliation reserve is included in Appendix 6.

The table below summarises the key movements in the reconciliation reserve between the current and prior year:

Movement in reconciliation reserve	£'000
Prior year balance	**6,923**
IFRS Retained earnings for year	956
Movement in SII revaluations:	
Net technical provisions	112
Other	(20)
Total movement for year	**1,048**
Current year balance	**7,971**

Two key components of the IFRS retained earnings for the year are underwriting performance, covered in section A.2, and investment performance, covered in section A.3. Other items, such as tax and grant payments are covered in section A.4.

E.1.3 Eligible amount of own funds available to cover the Solvency Capital Requirement

Analysis of eligible own funds available to cover the SCR	2019 £'000	2018 £'000
Tier 1	7,971	6,923
Restricted tier 1	148	148
Eligible tier 1 own funds	8,119	7,071
Eligible tier 2 own funds	-	-
Eligible tier 3 own funds	-	-
Total eligible own funds	**8,119**	**7,071**
Ineligible own funds	**-**	**-**
Total own funds	**8,119**	**7,071**

Restricted tier 1 own funds cannot form more than 20% of total tier 1 own funds. Tier 2 own funds cannot amount to more than 50% of the SCR and Tier 3 own funds cannot amount to more than 15% of the SCR.

E.1.4 Eligible amount of own funds available to cover the Minimum Capital Requirement

Analysis of eligible own funds available to cover the MCR	2019 £'000	2018 £'000
Tier 1	7,971	6,923
Restricted tier 1	148	148
Eligible tier 1 own funds	8,119	7,071
Eligible tier 2 own funds	-	-
Total eligible own funds	8,119	7,071
Ineligible own funds	-	-
Total own funds	**8,119**	**7,071**

Restricted tier 1 own funds cannot form more than 20% of total tier 1 own funds. Tier 2 capital cannot amount to more than 20% of the MCR and Tier 3 capital cannot be used to cover the MCR.

E.1.5 Comparison between solvency II own funds and equity reported in the financial statements

Reconciliation from IFRS net assets to Solvency II own funds		2019 £'000	2018 £'000
Equity as reported in IFRS Financial Statements		**7,426**	**6,470**
Recognise subordinated debt (preference share capital) as equity		148	148
Revalue technical provisions:	Gross technical provisions	(1,794)	(1,942)
	Reinsurers' share	2,447	2,483
Adjust for assets and liabilities with no SII fair value		4	5
Impact of revaluation on deferred tax		(112)	(93)
Solvency II Valuation of own funds		**8,119**	**7,071**

Both classes of preference capital of the Company, which are included within liabilities in the IFRS financial statements, can be recognised as restricted tier 1 capital for solvency purposes in accordance with transitional arrangements.

Technical provisions are revalued on a SII basis as described in section D.2.

Some assets and liabilities such as prepayments are removed from the SII valuation as they are inadmissible or deemed to have no measurable fair value.

The difference between the Solvency II value of net assets and the value used for the calculation of tax gives rise to an adjustment to the deferred tax provision, as covered in section D.3.

E.1.6 Transitional arrangements

1,286 4% cumulative preference shares of £5 each, with a SII value of £6k, and 28,284 5% cumulative ordinary shares of £5 each, with a SII value of £142k, are recognised as restricted tier 1 under transitional arrangements.

E.1.7 Ancillary own funds

Approval has not been sought for any form of ancillary own funds.

There is no unpaid share capital in issue and no material letters of credit, guarantees or any other legally binding commitments have been identified or recognised.

E.1.8 Items deducted from own funds and restrictions affecting the availability and transferability of own funds

No items have been deducted from basic own funds, and there is no significant restriction affecting the availability and transferability of own funds.

E.2 Solvency Capital Requirement [SCR] & Minimum Capital Requirement [MCR]

E.2.1 SCR and MCR

The SCR is the amount of capital that the Company is required to hold as required by the SII Directive. The Company uses the Standard Formula SCR calculation which is defined in the SII Delegated Act. This is formula based and consists of modules for each risk type, and adjustments for diversification and the loss absorbing capacity of deferred tax. A breakdown of the SCR elements applicable to the Company is given in the following section.

The MCR is the higher of the absolute floor (£3,187k) and the combined MCR.

The combined MCR is based on the linear MCR, subject to a cap (45% of the SCR) and floor (25% of the SCR). The Linear MCR is a simplistic calculation based on factors applied to net written premiums and net best estimate of TPs, analysed by class of business.

A copy of the QRTs 'S.25.01 – Solvency Capital Requirement' and 'S.28.01 – Minimum Capital Requirement' are reproduced in appendices 7 and 8 respectively.

As at 31 December 2019 the SCR for the Company was £2,017k, and the MCR was £3,187k. Both amounts are still subject to supervisory assessment.

E.2.2 SCR by risk module and Changes to the SCR and MCR compared to the prior period

The following table gives a breakdown of the standard formula SCR of the Company and summarises the movement in the SCR and MCR between the current and prior year:

Capital Requirements	2019	2018	Change
	£'000	£'000	£'000
Market risk	2,040	1,419	621
Counterparty default risk	527	501	26
Non-life underwriting risk	60	60	-
Diversification	(374)	(338)	(36)
Basic SCR	2,253	1,642	611
Operational risk	107	107	-
Loss absorbing capacity of deferred tax	(343)	(93)	(250)
SCR	**2,017**	**1,656**	**361**
MCR	**3,187**	**3,288**	**(101)**

The Company has utilised the transitional calculation for equity risk in the calculation of the SCR. This transitional option tapers the capital charge that is applied to equities until 2023 when using the standard formula, but only for assets held prior to January 2016. The increase in market risk is a combination of an increase in equity values and the associated increase in exposure, as detailed in section A.3, and the unwinding of the transitional calculation of equity risk.

The loss absorbing capacity of deferred tax has increased due to an increase in the timing difference between IFRS and Solvency II technical provisions.

The MCR is equivalent to the absolute floor for both the current and prior year. As the absolute floor is quoted in Euros and not the reporting currency of sterling, changes in exchange rate, and not movement in the absolute floor, is the driver of the change compared to the prior year.

E.2.3 **Use of simplified calculations and undertaking specific parameters and use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC**

No simplifications or undertaking specific parameters have been used in calculating the standard formula SCR. As no capital add-on has been applied, and no undertaking specific parameters have been utilised, no illustration of their impact is necessary and use of the option provided for in the third subparagraph of Article 51(2) of the Directive has not been made.

E.2.4 **Inputs used in the calculation of the MCR**

A copy of the QRT 'S.28.01.01 - Minimum Capital Requirement' showing the inputs used for the calculation of the MCR is included in Appendix 8.

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

The duration-based equity risk sub-module has not been used.

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

An internal model has not been used in calculating the Company's SCR.

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

E.5.1 **MCR non-compliance**

There has been no breach of the MCR during the reporting period.

E.5.2 **SCR non-compliance**

There has been no breach of the SCR during the reporting period.

E.6 Any other information

No further information regarding the capital management of the company is required.

Appendix 1 – QRT S.02.01.02 Balance Sheet

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	7,356
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	2
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	7,354
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	3,233
R0280	*Non-life and health similar to non-life*	3,233
R0290	*Non-life excluding health*	3,233
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
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	1,010
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	11,600

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	2,892
R0520	*Technical provisions - non-life (excluding health)*	2,892
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	2,764
R0550	*Risk margin*	128
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	112
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	475
R0850	Subordinated liabilities	148
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	148
R0880	Any other liabilities, not elsewhere shown	2
R0900	**Total liabilities**	3,629
R1000	**Excess of assets over liabilities**	7,971

Appendix 2 – QRT S.05.01.02 Non-life premiums, claims and expenses by line of business

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business							3,224	294		20		43					3,582
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							3,224	294		20		43					3,582
R0200	Net							0	0		0		0					0
	Premiums earned																	
R0210	Gross - Direct Business							3,204	293		19		44					3,560
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							3,204	293		19		44					3,560
R0300	Net							0	0		0		0					0
	Claims incurred																	
R0310	Gross - Direct Business							796	-563		0		1					234
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share							796	-709		0		1					88
R0400	Net							0	146		0		0					146
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net							0	0		0		0					0
R0550	**Expenses incurred**							-405	-237		1		-10					-651
R1200	**Other expenses**																	
R1300	**Total expenses**																	-651

Appendix 3 – QRT S.05.02.01 Non-life premiums, claims and expenses by country

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	3,582						3,582
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	3,582						3,582
R0200	Net	0						0
	Premiums earned							
R0210	Gross - Direct Business	3,560						3,560
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	3,560						3,560
R0300	Net	0						0
	Claims incurred							
R0310	Gross - Direct Business	234						234
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	88						88
R0400	Net	146						146
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0						0
R0550	**Expenses incurred**	-651						-651
R1200	**Other expenses**							
R1300	**Total expenses**							-651

Appendix 4 – QRT S.17.01.02 Non-life technical provisions

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**							0	0		0		0					0
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
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross							560	58		-4		1					615
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							1,177	90		-1		7					1,273
R0150	**Net Best Estimate of Premium Provisions**							-617	-33		-2		-5					-658
	Claims provisions																	
R0160	Gross							654	1,494		0		1					2,149
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							645	1,315		0		1					1,960
R0250	**Net Best Estimate of Claims Provisions**							9	179		0		0					189
R0260	**Total best estimate - gross**							1,214	1,552		-4		2					2,764
R0270	**Total best estimate - net**							-608	147		-2		-5					-469
R0280	**Risk margin**							67	61		0		0					128
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**							1,281	1,613		-4		3					2,892
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							1,822	1,405		-1		8					3,233
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							-541	208		-2		-5					-341

Appendix 5 – QRT S.19.01.21 Non-life insurance claims

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Accident Year

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

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											-43	-43	-43
R0160	2010	575	1,201	88	31	13	6	112	55	0	0		0	2,079
R0170	2011	467	351	41	-1	-1	74	0	0	19			19	949
R0180	2012	474	274	37	10	18	0	7	0				0	820
R0190	2013	416	318	65	5	0	0	1					1	806
R0200	2014	847	359	47	6	-3	0						0	1,256
R0210	2015	291	479	124	-1	0							0	893
R0220	2016	465	256	19	5								5	745
R0230	2017	461	284	102									102	847
R0240	2018	818	736										736	1,555
R0250	2019	256											256	256
R0260												Total	1,076	10,163

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											1,096	968
R0160	2010	0	0	0	0	0	0	94	47	54	58		51
R0170	2011	0	0	0	0	0	67	61	60	53			47
R0180	2012	0	0	0	0	54	50	45	48				42
R0190	2013	0	0	0	61	39	41	44					39
R0200	2014	0	0	365	45	37	40						35
R0210	2015	0	270	46	41	44							39
R0220	2016	514	210	160	81								72
R0230	2017	879	286	115									110
R0240	2018	909	218										208
R0250	2019	557											538
R0260												Total	2,149

Appendix 6 – QRT S.23.01.01 Own Funds

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	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	7,971	7,971			
R0140	Subordinated liabilities	148		148	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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**	8,119	7,971	148	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	8,119	7,971	148	0	0
R0510	Total available own funds to meet the MCR	8,119	7,971	148	0	
R0540	Total eligible own funds to meet the SCR	8,119	7,971	148	0	0
R0550	Total eligible own funds to meet the MCR	8,119	7,971	148	0	
R0580	**SCR**	2,017				
R0600	**MCR**	3,187				
R0620	**Ratio of Eligible own funds to SCR**	402.59%				
R0640	**Ratio of Eligible own funds to MCR**	254.76%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	7,971
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	7,971
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	43
R0790	**Total Expected profits included in future premiums (EPIFP)**	43

Appendix 7 – QRT S.25.01.21 Solvency Capital Requirement

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	2,040		
R0020	Counterparty default risk	527		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	60		
R0060	Diversification	-374		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	2,253		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	107
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-343
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**	2,017
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	2,017
	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

Appendix 8 – QRT S.28.01.01 Minimum Capital Requirement

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	MCR_{NL} Result	15

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	147	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	15
R0310	SCR	2,017
R0320	MCR cap	908
R0330	MCR floor	504
R0340	Combined MCR	504
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	3,187

Appendix 9 – Glossary of abbreviations

The Company	The Baptist Insurance Company PLC
The Administrator	The provider of outsourced management and administration services.
The Delegated Act	Solvency II Delegated Regulation (EU) 2015/35
The Directive	Solvency II Directive 2009/138/EC
AIA	The Administrator's internal audit function
ARC	Audit, Risk and Compliance Committee
CFO	Chief finance officer
CRO	Chief risk officer
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not in Data
EU	European Union
F&O	Fire & Other Property Damage
GAC	The Administrator's Group Audit Committee
GEP	Gross Earned Premiums
GIC	Gross Incurred Claims
GL	General Liability
GWP	Gross written premium
IAS	International Accounting Standard
IBNR	Incurred but not reported
IC	Investment Committee
IFRS	International financial reporting standards
JAA	Joint Administration Agreement
KFH	Key Function Holder
MCR	Minimum Capital Requirement
NED	Non-executive Director
OCR	Outstanding Case Reserves
OEIC	Open Ended Investment Company
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
PSA	Physical & sexual abuse
QRT	Quantitative Reporting Template
SII	Solvency II
SIP	Statement of Investment Principles
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SIMR	Senior Insurance Managers Regime
TPs	Technical provisions
UPR	Unearned Premium Reserve