BaptistInsurance
Experts in church and home insurance

The Baptist Insurance Company PLC Solvency and Financial Condition Report

For the year ended 2024

The Baptist Insurance Company Plc
Company Registration Number 00083597

Contents

Executive Summary

Introduction

This Solvency and Financial Condition Report (SFCR) has been prepared in line with the requirements of the Solvency II (SII) Regulations per the Prudential Regulation Authority (PRA) Rulebook, 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 operating performance for 2024 was a profit of £519k, driven by the investment performance which experienced significant unrealised gains reflecting the market conditions experienced in the year, although volatile movements continued to be seen in certain periods. This was however slightly offset by the underwriting performance which saw a loss of £344k which was adverse to both budget and the prior year result.

The investment return reported a net gain of £864k driven by unrealised gains of £490k (2023: gain of £554k). The positive performance saw all funds held by the Company deliver unrealised gains reflecting performance of the global stock markets despite continued economic and political volatility. Gains of £95k were also realised in the year following selective disinvestments of parts of the portfolio.

The underwriting performance was a loss in the year of £344k, mainly driven by there being no profit commission receivable in the year resulting from an adverse claims performance, particularly on the property account with a number of large claims seen in the year. Company expenses were £274k and net incurred claims were £80k driven by an increase in the pre-71 claims reserving of £79k.

As a result of the overall operating performance, combined with the strong solvency coverage, the Company was able to distribute charitable grants back to the Baptist Community of £360k, slightly higher than the planned level.

The Company continued to operate a Joint Administration Agreement (JAA) 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 2024 and the change over the year is shown below:

Summary solvency position	2024 £'000	2023 £'000	Change £'000
Own Funds	**8,404**	**8,745**	(341)
Market risk	2,865	2,311	554
Counterparty default risk	737	712	25
Non-life underwriting risk	73	77	(4)
Diversification	(517)	(489)	(28)
Basic SCR	3,158	2,611	547
Operational risk	126	124	2
Loss absorbing capacity of deferred tax	-	(71)	71
Standard Formula SCR	**3,284**	**2,664**	620
MCR	3,500	3,495	5
Coverage ratio (SCR)	**256%**	**328%**	(72%)
Coverage ratio (MCR)	**231%**	**250%**	(19%)

The Company's regulatory solvency position has remained strong at 231%, a decrease of 19% from the prior period. Own funds decreased by £341k in the year, primarily due to the poor underwriting performance in the year, although investment gains have gone some way to reducing this impact. The movement in Own Funds is explained in more detail in section E.1.

The Company's SCR increased in the year by £620k driven by an increase in equity risk, reflecting the increase in Equity markets and subsequent increase in equity values in the period as well as an increase in the symmetric adjustment, an adjustment that in the case of 2024 applies additional risk to the calculation and so increasing the value of that risk. Also due to the deferred tax liability moving to an asset in the year due to the divergence in valuation of technical provisions between IFRS and SII there is no longer a loss absorbing capacity for deferred tax.

The SCR remains below the MCR of £3,500k and hence MCR is the Capital requirement. The MCR remains at the absolute floor and is now valued as per PRA prescribed Sterling value in the period.

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

Outlook for 2025

Whilst inflation rates are still above Bank of England targets (3% vs 2%), there have been small cuts to the interest rates, and it's expected that there could be further cuts throughout the year to aid the government's goal of Economic growth. Continued unrest in Israel and Ukraine could lead to further uncertainty in the market, but despite this the UK economy is predicted to grow in 2025, with GDP expected to see a modest rise of 0.75% as per the Bank of England's latest forecast.

The Company regularly monitors solvency levels and no instances of a breach of its MCR or its SCR have occurred nor have there been any breaches in the Board's risk appetite up to the date of this report being published.

The business continues to navigate through challenging economic conditions and heightened geopolitical tensions. The insurance market, once characterized by low inflation, low interest rates, and integrated global markets, now contends with rising inflation, higher interest rates, and increased protectionism. The ongoing impact of these economic conditions on businesses is being closely monitored. With businesses having an increased online presence, cybersecurity remains a focal point. Insurers continue to prioritize climate change and sustainability, along with navigating ongoing political volatility, particularly in the wake of recent extreme natural disasters and escalating political tensions.

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 2024

Statement required by the Solvency II section of the PRA Rulebook

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

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 Rulebook 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: 26 March 2025

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:

Benefact House
2000 Pioneer Avenue
Gloucester Business Park
Brockworth
Gloucester
GL3 4AW

A.1.2 **Supervisory authority**

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

A.1.3 **External auditor**

Ernst & Young LLP
The Paragon
32 Counterslip
Redcliffe
Bristol
BS1 6BX

A.1.4 **Qualifying holdings**

The Company has in issue 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:

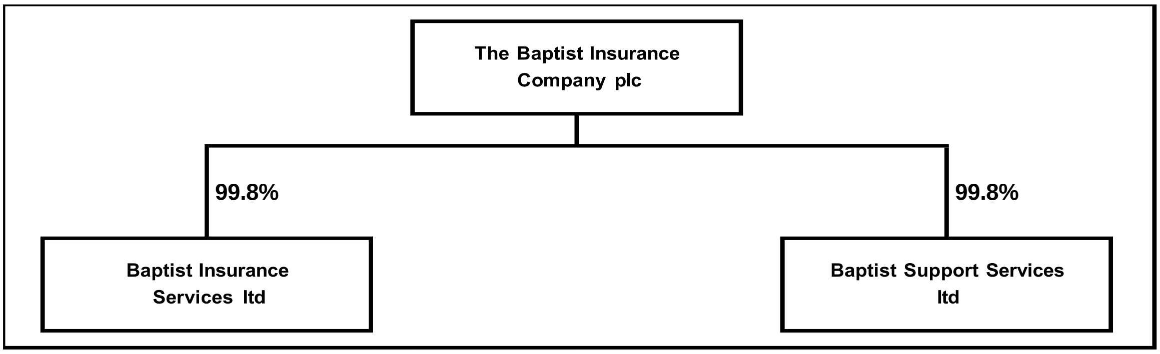
- The Central Baptist Association which holds 3,205 shares equating to 11.331% of the voting rights of the share class.
- Eastern Baptist Association which holds 3,204 shares equating to 11.328% of the voting rights of the share class.

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:



The Company as well as both of its subsidiaries are incorporated in England and Wales. The subsidiaries 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; and
- 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**

During 2024, whilst interest rates and inflation stabilised, borrowing rates began to rise and so whilst there was positive news in most equity markets, bond yields have risen in the period causing bond values to fall. Geopolitical factors, including continuing tensions in the Middle East continue to hold back markets. These factors have contributed to the financial risks faced by the Company and impacted the value of its investments. Whilst rates of inflation have reduced they remain above the Bank of England target and whilst there has been a recent cut in interest rates in early 2025, they are expected to remain relatively stable over the rest of the year. Growth forecasts for 2025 in the United Kingdom have been halved, with investor confidence still fairly low.

These and other risks are being continually monitored and the Company is managing the ongoing impact of these, utilising business continuity and risk management processes where appropriate.

The Company has a robust and regular solvency monitoring process in place together with a strong risk management framework. Whilst 2024 solvency surplus is extremely strong, the Company continues to monitor the impact of key risks. Up to the date of this report being published no instances of a breach of its MCR, SCR or the Board's risk appetite have been identified.

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 loss of £344k (2023: profit of £192k). This follows the absence of reinsurance profit commission received in the year resulting from an adverse claims performance, particularly on the property account with several large claims seen in the year, notably due to escape of water/water ingress, two large fire claims, accidental damage and malicious damage claims and some impact from floods and storms. The performance of the pre 1998 run-off account was also a loss, while corporate expenses saw a small decrease on the prior year.

The pre-1998 run-off account saw a loss of £79k following a £70k net increase in the Company run-off incurred but not reported (IBNR) for pre 1971 claims, driven by a reserving adjustment to reflect inflationary increases on Physical Sexual and Abuse (PSA) claims. No new pre 1998 run off claims have been experienced for the year to date, however, movements have been experienced in relation to existing claims including three claims that have closed in the year. The overall impact of these was a decrease of £109k gross (£nil net), largely driven by recoveries received in December on two claims totaling £105k.

Following the transition to International Financial Reporting Standard (IFRS) 17 in the prior year, discounting is now applied within all reserves with a total decrease in the year on all reserves of £140k gross (£9k net). There was also an increase in the Claims Handling Reserve (ICHR) of £10k.

Corporate Expenses have experienced a decrease from the prior year, primarily driven by lower audit fees which were higher in the previous year as a result of the IFRS 17 transition, partly offset by an increase to Directors' fees following the appointment of a new Director in the year, as well as increased legal and professional fees.

Gross Written Premium (GWP) increased by 3.0% compared to the prior year (2023: 3.4% increase). Indexation and mid-term adjustments were key contributors to the GWP growth. New business was adverse to budget whilst retention rates remained strong at 98.5%.

A.2.2 **Performance by material class of business and by geographical region**

Underwriting Performance by Material Class of Business

Description	Property		Liability	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Gross Written Premium	3,854	3,784	343	293
Gross Earned Premium	3,834	3,738	307	296
Gross Incurred Claims	(2,590)	(1,919)	63	58
Reinsured	*(2,590)*	*(1,919)*	*(104)*	*(23)*
Run-off	-	-	*167*	*80*
Commission	(15)	(14)	(1)	(1)
Expenses	(246)	(260)	(22)	(21)
Gross Underwriting result	983	1,545	347	332
Reinsurance Earned Premium	(3,834)	(3,738)	(307)	(296)
Reinsurance Claims	2,573	1,894	(126)	225
Reinsurance Commission	24	193	1	37
Net Underwriting result	(254)	(106)	(85)	298

Other business is not considered material and consists of personal accident and pecuniary loss. The net underwriting result was -£7k (2023: £1k).

Property

The property account reported an underwriting loss of £253k, adverse to the previous year's loss of £106k. During the year, a number of large claims were registered, predominantly due to accidental damage, escape of water and malicious damage, as well as two fire claims and a storm claim. This adverse experience has however been slightly mitigated by a favourable weather and attritional experience. As a result of the increased large claims experience, the Reinsurance Commission seen has been much lower than the previous year. Expenses however have decreased from the previous year, with savings on certain costs such as audit fees, partly net off with increases on others such as Directors' fees following the appointment of a new Director in the year.

Liability

The liability account reported a loss of £85k, an adverse movement on the previous year. This was largely driven by a reserving adjustment to reflect inflationary increases on PSA claims. More detail on the valuation of technical provisions is given in section D.

Further adverse experience was seen following the Reinsurance Commission on Post-1998 liability claims experience with one new large claim registered in the year resulting in a lower commission received this year.

Net run-off experience has been minimal in the year. Run-off claims are historic liability claims including PSA claims. No new Pre 1998 run off claims have been experienced for the year, however movements have been experienced in relation to existing claims totaling -£109k gross/£nil net release on five claims now closed, with the release driven by two claim recoveries received in the year totaling £105k. The Pre 1998 Company run-off IBNR experienced an decrease of £32k gross/ increase of £79k net, with the net increase driven by the PSA inflationary adjustment, as noted above. Discounting has also been recognised in the year, with a decrease on run-off IBNR of £12k gross/£9k net. As at the end of the year, the resulting run-off claims and IBNR movements stood at a decrease of £166k gross and an increase of £57k net.

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	2024	2023	Inc/(Dec)
	£'000	£'000	£'000
OEIC Income	226	220	6
Bank Interest	9	7	2
Total Income	235	227	8
Realised Gains / (Losses) on Investments	95	167	(72)
Unrealised Gains / (Losses) on Investments	490	554	(64)
Total Investment Return	820	948	(128)
Instalment Handling Fees	41	39	2
Discounting	7	11	(4)
Investment Expenses & Charges	(4)	(5)	1
Net Investment Return	864	993	(129)

Total income consisted primarily of Open-Ended Investment Company (OEIC) income received during the year by the Company. For the year, this amounted to £226k, a 3% increase on the prior year. Bank interest was a small amount of £9k in the year, an increase on the prior year.

The total investment return to December 2024 was a profit of £820k compared to a prior year investment gain of £948k. The continued positive performance was seen across all funds held by the Company which all delivered unrealised gains reflecting the positive performance of the global stock markets showing recovery after recent economic and political volatility, although volatility has still been seen throughout the year. Gains of £95k were also realised in the year following a £250k disinvestment of part of the portfolio.

Instalment handling fees, which relate to policies that are settled in instalments rather than in full, have remained at a similar level to 2024.

The Company's investments consist wholly of OEICs and the mix of underlying investments were as follows, with the net change driven by part disposals in the year offset by unrealised gains on the remaining investments:

Investment Mix	2024	2023	Inc/(Dec)
	£'000	£'000	£'000
Fixed Interest	3,556	3,467	89
UK Equities	1,126	912	214
Overseas Equities	3,885	3,164	721
Cash	99	88	11
Fair Value	8,666	7,631	1,035

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	2024	2023	Inc/(Dec)
	£'000	£'000	£'000
Charitable Grants (paid/accrued)	(360)	(297)	(63)
Financing Costs	(7)	(7)	-
Tax	17	(237)	254
	(350)	(541)	191

Charitable Grants

The Company distributed £360k in charitable grants in support of the Baptist Community. This was slightly higher than the amount allocated in 2023 of £297k and higher than the budget of £300k.

Financing Costs

Financing costs comprise fixed interest preference shares at 4% and ordinary preference shares at 5%. There have been no changes in the year.

Tax

The Company's tax credit for the year was £17k made up of a corporation tax charge of £8k and a deferred tax credit of £25k, largely driven by adjustments to the tax charge in respect of prior periods (2023: tax charge of £237k driven by investment gains).

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

The Company is governed by a Board of Directors (the Board) comprising eight Non-Executive directors (NEDs) (including the Chair) 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 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 Board evaluations, and review of Directors' training and development needs.

Key roles and responsibilities

The Board retains ultimate responsibility for the governance and sound prudent management 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 (the 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.

Chair

The Chair 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;
- demonstrating the highest standard of integrity and probity, setting clear expectations concerning the Company's culture, values and behaviours, and the style and tone of Board discussions;
- through Board committees, seeking assurance that the management team is adequately resourced and that there are succession plans in place for all directors;
- ensuring that the Chief Executive Officer (CEO)/General Manager is working to clear objectives and that their performance and the Board's performance is effectively monitored; and
- appraising the performance of individual directors in conjunction with the Senior Independent Director (SID).

Senior Independent Director

In addition to their other duties as a NEDs, the SID is responsible for:

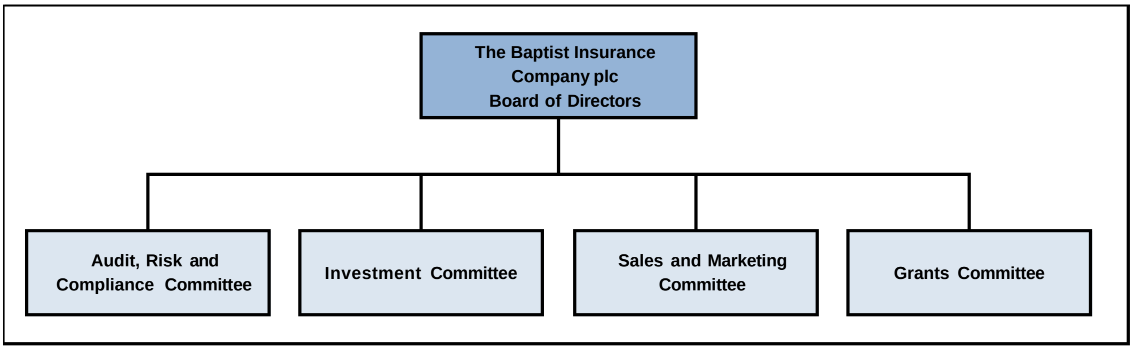
- acting as a sounding board for the Chair, as appropriate;
- leading the evaluation of the Chair and working with the Chair to appraise the performance of individual Directors;
- acting as an intermediary for the other Directors where necessary;
- meeting with the other Directors without the Chair present if required; and
- being available to the shareholders if they have any 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)

The role of the AR&CC is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- the integrity of the financial, narrative and regulatory statements and other financial information;
- the Company's system of internal controls and risk management (including whistleblowing arrangements and climate change considerations);
- the internal and external audit process and auditors; and
- the processes for compliance with laws, regulations and ethical codes of practice.

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 IC, 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.

The IC discharges its duties having regard to the Company as a whole and climate change considerations.

Sales and Marketing Committee

The role of the Sales and Marketing Committee is to assist the Board in fulfilling independent oversight responsibilities (including the implementation of and adherence to the Consumer Duty) by reviewing and monitoring the development of the Sales and Marketing strategy, activities and operations.

Grants Committee

The role of the Grants Committee is to:

- recommend to the Board, in conjunction with the AR&CC, the level of grants to be made each year out of the Company's distributable profits;
- recommend to the Board, the apportionment of the total grant sum agreed;
- assess grant applications and make recommendations to the Board ensuring that the grant making criteria and application process is followed correctly;
- ensure that all agreed grants are made promptly;
- monitor the effectiveness of grants made;
- assess ways in which the grant-making can be improved and recommend any changes in grant giving to the Board;
- liaise with the appropriate departments of the Baptist Union of Great Britain (BUGB) as to any specific grants to be made; and
- decide on specific evangelistic, mission or other projects and report recommendations to the next Board meeting.

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 and Certification Regime (SM&CR) 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
- maintaining effective open communication with senior managers and NEDs.

Chief Financial Officer (CFO)

The CFO is an employee of the Administrator and fulfils the SM&CR function of CFO and their responsibilities include:

- management of the financial resources of the Company and reporting to the AR&CC and 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.

Internal Audit Function

The Administrator's internal audit function (AIA) provides objective assurance to the AR&CC and the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Company. The AIA provides regular reports to the AR&CC. Further information is provided in section B.5.

Risk and Compliance Function

The Administrator's risk function facilitates the prudent management of risk including, conduct risk and climate change risk for the Company. The Administrator's Chief Risk and Compliance Officer (CRO) is accountable to the AR&CC.

The Administrator's compliance function provides assurance to the AR&CC and 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.

Further information on the risk and compliance functions are provided in sections B.3 and B.4.

Actuarial Function

The Administrator's actuarial function supports 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 TP calculations, underwriting and pricing and reinsurance purchase. Further information is provided in sections B.6.

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 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 Framework is formally reviewed and approved by the Board following recommendation from the AR&CC.

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 Board Evaluation and by reviewing associated agreements. The Chair of the Board meets regularly with the CEO of the Administrator.

The Board, mainly through the AR&CC, 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 (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 typically 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

B.2.1 **Skills, knowledge and expertise requirements**

The Company is committed to ensuring that all fit and proper regulatory requirements are met for its senior leaders within the SM&CR.

The PRA and Financial Conduct Authority (FCA) consider that the most important factors in assessing an individual's fitness and propriety are:

- honesty, integrity and reputation;
- competence and capability; and
- financial soundness;

In order to initially determine fitness and propriety all prospective senior role holders take part in a multistage interview process, supported by psychometric testing, involving relevant stakeholders. The candidates' knowledge, experience and qualifications in such areas as market knowledge, business strategy, financial analysis, working within regulated frameworks, and governance and risk management are fully explored. Due diligence is fulfilled through pre-employment checks and referencing that are carried out upon an offer being accepted.

B.2.2 **Ensuring ongoing fitness and propriety**

Ongoing adherence to these standards is assessed through performance review cycles and is subject to further confirmation through an annual fit and proper process, carried out for all individuals caught within the SM&CR, covering:

- competence and performance in carrying out the documented responsibilities of the role;
- Continuous Professional Development (CPD) and training to maintain knowledge and skills;
- completion of regular mandatory company training;
- disclosure and barring criminal records and credit checks; and
- self-assessment against fitness and proprietary questions

Where the Company becomes aware of concerns regarding the fitness and propriety of a person in a relevant role it will investigate and take appropriate action without delay in line with the Fitness and Propriety policy. The regulator will be notified of any action where necessary.

B.3 Risk management system including the ORSA

B.3.1 **Overview of the risk management system**

Under the JAA the Company has outsourced the day to day operation of its business operations to the Administrator. 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, risk register and analysis of risk.

The Administrators risk management framework comprises of 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.

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 to assist in these activities. The Board receives regular reports from the AR&CC which enable it to ensure that all aspects of the risk management system are robust.

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.

Implementation of the risk management function

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

- ***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)*** led by the CRO, is responsible for assisting the Company's Board to formulate risk appetite, establish minimum standards, develop appropriate second line risk reporting, oversight and challenge of risk profiles and risk management activities. This is subject to oversight and challenge by the AR&CC;
- ***3rd Line (Assurance)*** provides independent and objective assurance of the effectiveness of the systems of internal control. This activity principally comprises internal audit which is subject to oversight and challenge by AR&CC.

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 first line, Business Management, of the Administrator 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 second line risk reporting to the Board's AR&CC as part of the services provided under the JAA. This provides a framework of governance and independent risk oversight, including monitoring and providing challenge to the first line of defence. The second line also provides the operational areas 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 as part of the services provided under the JAA, and provides regular reporting to the AR&CC.

There are a number of key roles and responsibilities concerning the effective implementation and operation of the overall risk management framework:

The Company Board

The Board is responsible for:

- determining strategy and direction in line with its appetite for risk;
- gaining satisfaction over the integrity of financial information and that financial controls and systems of risk management are robust and defensible; and
- ensuring that the ORSA process has been followed and managed effectively.

Audit Risk and Compliance Committee

The AR&CC has been delegated responsibility for risk management and internal control from the board. Responsibilities of the AR&CC include:

- reviewing the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, reporting and management of risks;
- assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks; and
- recommending the risk appetite to the Board.

Investment Committee

The Board has delegated responsibility for oversight of the Company's investments and associated markets risks to the IC. They are responsible for ensuring that the Company operates an investment strategy that is appropriate to the Company's ethics, performance objectives, risk appetite and capital management strategy, as defined in its statement of investment principles 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 bears responsibility for facilitation of:

- the management and ongoing effectiveness of the risk management framework by providing tools, training and support so stakeholders can effectively discharge their responsibilities; and
- the Board's risk identification and assessment process and providing guidance to the Board when determining the risk appetite.

The Administrator's Internal Audit Function (3rd line of defence)

The AIA provides an independent opinion over the adequacy and effectiveness of the risk management framework.

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.3.3 **Own risk and solvency assessment process**

The ORSA is a vital and integral process that assesses the overall solvency needs and the capital, and other resources, required to deliver the agreed business plans. The objective of the ORSA is to demonstrate that a firm has, or can access, the resources necessary to carry out its business plan in the context of risk policy, risk appetite, a forward looking assessment of risks, the potential for stress and the quality of its risk management environment.

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 JAA. The Board is the ultimate owner and fully involved in the key processes, providing challenge and ultimate approval of the ORSA report.

The ORSA report is reviewed in detail by the AR&CC before being recommended for approval by the Board. The ORSA 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 provides a context for business planning;
- a forward looking risk assessment, including identification of emerging risks;
- a 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.3.4 **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 are quantified.

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

B.3.5 **Determination of own solvency needs**

The Board and AR&CC 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 AR&CC where 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 of the Administrator.

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 AR&CC through delegation from the Board.

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 AR&CC for detailed review prior to recommendation to the Board for approval.

The AR&CC and Board receive quarterly reporting which includes a Solvency Statement. The Solvency Statement incorporates scenario testing covering risks that the Company is exposed to. Should a significant trigger event occur then additional, more frequent reporting would be implemented as required.

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 CEO, to ensure that the Company is managed efficiently and effectively.

The Board has established appropriate Board level policies and a risk appetite to ensure that business objectives are achieved. As day-to-day operations 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 to required standards;
- 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 oversight; 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 under the terms of the JAA to the Administrator, whilst recognising that responsibility for managing compliance risks remains with the Company.

Group Compliance sits within the second line of defence and is the independent control function that oversees conduct risks in scope, as detailed in the Group Risk Taxonomy, and monitors the first line of defence controls. It does this by:

- identifying and assessing FCA compliance risks associated with the Company's current and proposed future business activities (including new products, business relationships and any extension of operations both within the UK and abroad);
- advising management on FCA regulations, rules and standards and informing them of developments in these areas;
- assessing and monitoring the appropriateness of and compliance with internal regulatory policies, procedures and guidelines and, where appropriate, making recommendations for improvement; and
- escalating any material breaches of FCA regulation as necessary to the Board and, where appropriate, to the regulators;

In order to ensure adequate risk control for the Company within their outsourcing arrangements, Group Compliance will:

- Provide regular assessments of the adequacy and effectiveness of the Company's compliance risk management, internal compliance controls and regulatory governance processes and systems;
- Identify and escalate significant conduct compliance related issues to the Company's Board and highlight potential improvements to address concerns identified;
- Have in place a robust process to follow-up the Board's responses to issues raised by Group Compliance;
- Periodically provide information on the status and results of Compliance Monitoring activity;

B.5 Internal audit function

B.5.1 **Implementation of the internal audit function**

The AIA is authorised by the Administrator's Ecclesiastical Insurance Office plc Audit Committee (EIO AC) 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 maintain 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 AR&CC 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 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 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 will report functionally to the BG ARC Chair and administratively (for example, day-to-day operations) to the Group CEO and has access to the Chairman of the AR&CC.

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.

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. The Company'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 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 TPs, ensuring appropriateness of data, assumptions, methodologies and underlying models used;
- to give an opinion on the TPs 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 (EIO). 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/exit plans 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 five 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
- one 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.

B.8 Any other information

There is no other material information to report regarding the system of governance of the Company.

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 AR&CC receives regular reports on the financial performance of the business including details of adverse developments.

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 key mitigation to underwriting risk is the use of reinsurance. Since 1998 the business has been almost 100% reinsured with the Administrator except for specific arrangements in place for eligible terrorism and flood risks 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 AR&CC is responsible for monitoring the performance and making recommendations to the Board based on the profit commission figures.

The AR&CC 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 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. An Actuarial Function Opinion report is also produced annually for the Board which provides an opinion on the reserves.

C.1.4 **Underwriting risk sensitivity**

Relevant stress tests are carried out annually to simulate the impacts of potential underwriting risks including ongoing reductions on existing business with immaterial loss of policy volumes and a potential deterioration in the historic insurance liabilities.

The first stress test considered a rate reduction over the 3-year planning period whilst claims and expenses remain at their planned level. The second stress test assesses the impact of a sudden adverse development on the Company's historic claims above and beyond existing claims reserves assuming that no reinsurance recoveries could be made on the claims.

In both instances whilst a slight reduction in the capital coverage is also noted overall in both scenarios it continues to remain comfortably above the Company's risk appetite. As such 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, 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 requirements and then considers whether to invest in specific funds or cash securities.

The Company has a Statement of Investment Principles (SIP), which is regularly reviewed by the IC and subsequently approved by the Board, 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 regulatory capital requirement, volatility of asset classes, credit ratings, duration, asset allocation, liquidity and the nature of the investments. The Principles are designed to limit the concentration of risk and mitigate overall investment risk.

The Company has established a Main Fund to provide an agreed level of solvency cover, with assets in excess of this cover able to be invested in a Secondary Fund.

Market risk is the most significant risk for the Company and this is largely due to the underlying exposure to equity investment assets. The Company has a relatively prudent appetite to risk and keeps the long-term asset allocation in the Main Fund within a specified SIP, which is weighted towards Fixed Interest securities where volatility is considered to be much lower.

C.2.2 **Compliance with prudent person principle**

The IC is accountable to the Board. The IC monitors the performance and risk of the investments and is accountable to the Board. The committee meets formally at least four times a year to conduct a rolling review of all Investment and Treasury funds and reports to the Board providing recommendations where appropriate.

The IC has an agreed formal Terms of Reference, which was last reviewed in December 2024 and subsequently approved by the Board. It also reviews the SIP at least annually, this last being performed in January 2025.

The IC has been given delegated powers to monitor and provide challenge to the Fund managers on the performance of the investments on an annual basis. The Company invests directly in Open Ended Investment Company (OEIC) funds that are structured to invest in a wide range of securities.

The OEICs 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 regular investment valuations, with a detailed report sent annually.

C.2.3 **Market risk concentration**

The Company invests in OEICs for the reason of diversification of market risk allowing access to a wider range of underlying assets than would be practical with direct investment. The Royal London Short Duration Credit Fund for example has investments in over 300 securities as at 31 December 2024, with the largest holding accounting for 1.6% of the total OEIC value.

The Fund Manager regularly reviews and reports annually on the creditworthiness of investments in the credit fund and Company performance in the equity-based funds. The Company also monitors the credit ratings /securitisation profile of assets in bond portfolios.

The IC adheres to the asset allocation parameters as agreed in the SIP for the Main Fund.

C.2.4 **Market risk mitigation**

Investments are held by the Investment Managers’ custodian banks, this giving the Company security over the assets. Where investments are made in cash deposits the bank's credit worthiness is considered by the IC 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 external 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. Historically the most volatile asset class has been equity and the SIP limits investment in this asset class to 40% (with a 10% tolerance) of portfolio value in the Main Fund as the Long-Term Asset Allocation. Greater investment discretion is allowed in the Secondary Fund.

The IC monitors movements in each of the asset classes and looks 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 fall in the Company’s equity-based investments, with no change in projections for interest-bearing securities, to simulate a stock market crash. This is roughly equivalent to the magnitude of the equity falls during March 2020 at the height of the market crash at the onset of the Covid-19 pandemic.

The second stress test combines the impact of a 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 demonstrates the impact of an event that generates a surge in claims at the same time as a prolonged drop in investments.

Both the scenarios would result in the coverage of the capital requirement reducing with the second scenario generating a greater fall over the plan period. However, in each scenario the coverage of the regulatory capital requirement remains comfortably in excess of the Company's risk appetite.

C.3 Credit risk

C.3.1 **Credit risk exposure**

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

The largest exposure for the Company arises from the reinsurance agreement with the Administrator resulting in a potentially large amount of outstanding claim recoveries.

The Company has reinsured 100% of 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. No material changes were noted over the reporting period.

In addition, the Company is also exposed to premium debtor default risk through the insurance business underwritten and cash at bank default risk, however these are not considered material.

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 some of 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 who holds a high credit rating.

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 Chief Executive of the Administrator provides an annual update on the financial performance and strength. The CEO 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. Further to this, should it be required, the Company has the option of liquidating investments held to generate cash.

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 significant 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 AR&CC 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

Stresses and scenario tests are carried out on Liquidity Risk. Stress test one assumes cash flows are 10% higher than expected for the next six months. Stress test two is more extreme and looks at the liquidity strain driven by a weather catastrophe event.

For both stress tests an overdraft facility would be arranged to cover the temporary cash shortfalls.

C.5 Operational risk

C.5.1 Operational risk exposure

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The definition includes conduct of business, other aspects of compliance and legal risk but excludes strategic and reputational risks which are considered separately in section C.6 Other material risk.

The key operational risk that the Company is exposed to is outsourcing risk through the JAA in place 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 AR&CC 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 evaluation of the performance of the Administrator against the requirements of the JAA is also undertaken annually. In addition, ad hoc reports on relevant items are provided to the AR&CC where appropriate to enable the Board to assess the level of acceptable risk.

There have not been any material changes to the risk profiles 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 Outsourcing 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.

Mitigation techniques are in place in the form of controls for operational risks in which the Company is exposed too. Preventative and directive controls are sought to either avoid a particular risk materialising or to lessen its impact if it does. Detective controls provide value in helping to flag a changing risk exposure which allows for corrective actions to be taken to prevent the risk exposure from threatening the achievement of the strategic objectives of the Company.

In respect of regulatory and legal risk, this is managed by maintaining a strong ethical culture, an effective governance infrastructure.

Information security, including cyber, remains a key operational risks for the Company. Cyber risk is critical due to the ever changing landscape with the volumes of threats seen across all types of businesses continuing to increase. This risk is managed by a wide-ranging set of preventative and detective controls within the material outsourcer of which are under constant review.

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**

In addition to those risks noted, the Company also notes the following key material risks:

Strategic risk - relates to risks associated with the effective development and ongoing implementation of the Company's strategy. It also covers wider risks relating to the competitive and macro environment. The Company is naturally exposed to the risk of failing to develop or implement an appropriate strategy for the business. This could arise from a failure to adequately identify or assess the threat presented by competitors, failure to fully understand our markets or setting a strategy without due regard to the capability of fulfilling.

Reputational Risk - there 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.

Climate Risk - climate change risk relates to the financial risks arising through climate change. The key impacts for the Company are physical risks (event driven or longer term shifts), the transition risks of moving towards a lower carbon economy and liability risks associated with the potential for litigation arising from an inadequate response.

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.

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.6.3 **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 have been valued in accordance with the PRA Rulebook.

As permitted by the PRA Rulebook, 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 UK adopted International Accounting Standards (IAS) and audited by external auditors.

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £81k (equivalent to 1% of IFRS net assets).

IFRS 9, Financial Instruments, requires the classification of certain financial assets and liabilities into separate categories for which the accounting treatment is different. This replaced IAS 39, Financial Instruments: Measurement and Recognition, and was adopted on the 1st January 2023.

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) 'IR.02.01 – 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	**2024**		**2024**		**2024**
	As reported IFRS Basis	Reclassify to aid comparison	**Reclassified IFRS valuation**	Net valuation movement	**Solvency II Valuation**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total Assets	15,440	-	**15,440**	(2,526)	12,914
Total Liabilities	7,105	**-**	**7,105**	(2,447)	4,658
Net assets	**8,335**	-	**8,335**	**(79)**	**8,256**
Breakdown of asset valuation					
Technical provisions - Reinsurance recoverables	6,497	-	6,497	(2,812)	3,685
Investments	8,668	21	8,689	-	8,689
Cash and cash equivalents	220	(21)	199	1	200
Deferred tax assets	25	-	25	290	315
Receivables (trade, not insurance)	30	-	30	(5)	25
Total assets	**15,440**	-	**15,440**	**(2,526)**	**12,914**

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.

Receivables (Trade, not insurance)

The valuation of non-insurance receivables is nil as SII excludes £5k 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 TPs are made up of:

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

The non-life 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 including 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 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 IR.17.01 – 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	21
Discount rate shift	- 1.0% to spot rate at all durations	18
Reinsurance Default	All reinsurer ratings downgraded to BBB	25

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 inflation and discount rate sensitivities are individually broadly symmetric in that adopting downward or upward change in the respective inputs will impact the TPs by a similar order as the above, but with opposite sign.

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 SII discount rate is prescribed by the PRA. In contrast, the discount rate used in the IFRS accounts is tailored to reflect the characteristics of the liabilities.

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	2024 £'000	2023 £'000
IFRS Technical Provisions net of debtors and creditors	159	536
Adjustment for unearned profit	(86)	(125)
Adjustment for claims reserve	27	29
Other differences including measurement of risk	432	(428)
SII Net technical provisions	532	12

A key SII basis difference for the Company continues to be the allowance for future assumed profit commission income, giving reduced premium provision impact of £86,000 (2023: £125,000). The impact is partly offset due to SII best estimate claims reserves being £27,000 higher, driven by allowance for expenses (2023: £29,000 higher). The remaining valuation difference is driven by the SII risk margin being lower than is used for the appetite for sufficiency held in the accounts.

D.2.4 **Use of the matching adjustment**

The matching adjustment is not applied to the non-life insurance TPs.

D.2.5 **Use of the volatility adjustment**

The volatility adjustment is not applied to the non-life insurance TPs.

D.2.6 **Use of the transitional risk-free interest rate-term structure**

The use of the transitional risk-free interest rate-term structure is not applied to the non-life insurance TPs.

D.2.7 **Use of the PRA Rulebook transitional deduction**

The use of the transitional deduction is not applied to the non-life insurance TPs.

D.2.8 **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.2.9 **Material changes in the assumptions made in the calculation of TPs compared to the previous reporting period.**

There have been no significant changes to previously used assumptions; premium provision assumptions remain aligned to business plans.

D.3 Other liabilities

D.3.1 **Solvency II valuation of other liabilities**

A copy of the QRT 'IR.02.01 – 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	2024 As reported IFRS Basis	Reclassify to aid comparison	2024 Reclassified IFRS valuation	Net valuation movement	2024 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	15,440	-	15,440	(2,526)	12,914
Total Liabilities	7,105	-	7,105	(2,447)	4,658
Net assets	**8,335**	-	**8,335**	**(79)**	**8,256**
Breakdown of liability valuation					
Technical provisions - non-life	6,656	-	6,656	(2,439)	4,217
Payables (trade, not insurance)	299	-	299	(8)	291
Deferred tax liabilities	-	-	-	-	-
Other liabilities	2	-	2	-	2
Subordinated liabilities	148	-	148	-	148
Total liabilities	**7,105**	-	**7,105**	**(2,447)**	**4,658**

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.

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. The tax rate used is 25%.

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.

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 is 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	2024 £'000	2023 £'000
SII Valuation of assets	12,914	13,267
SII Valuation of liabilities	(4,658)	(4,670)
Excess of assets over liabilities	8,256	8,597
Qualifying subordinated debt	148	148
Foreseeable distributions	-	-
Basic own funds	8,404	8,745

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 AR&CC 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; and
- 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. 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; and
- 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; and
- 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; and
- all 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 AR&CC. Any breaches to this Policy or any incidents must be escalated immediately to the Chair of the Board and Chair of the AR&CC.

The Policy is reviewed periodically taking into account any changes to legislation, or more frequently should there be significant change in the business, market or regulatory environment occur.

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 'IR.23.01 – 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		
2024	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Preference share capital	148	-	148	-	-
Deferred Tax Asset	315	-	-	-	315
Reconciliation reserve	7,941	7,941	-	-	-
	8,404	7,941	148	-	315
2023					
Preference share capital	148	-	148	-	-
Deferred Tax Asset	-	-	-	-	-
Reconciliation reserve	8,597	8,597	-	-	-
	8,745	8,597	148	-	-
Movement in own funds					
Preference share capital	-	-	-	-	-
Deferred Tax Asset	315	-	-	-	315
Reconciliation reserve	(656)	(656)	-	-	-
	(341)	(656)	-	-	315

As permitted under the PRA Rulebook, preference shares have 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	**8,597**
IFRS Mvmt in Retained earnings	152
Movement in SII revaluations:	
Net technical provisions	(896)
Other	87
Total movement for year	**(657)**
Current year balance	**7,940**

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

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		2024 £'000	2023 £'000
	Tier 1	7,941	8,597
	Restricted tier 1	148	148
Eligible tier 1 own funds		8,089	8,745
Eligible tier 2 own funds		-	-
Eligible tier 3 own funds		315	-
Total eligible own funds		**8,404**	**8,745**
Ineligible own funds		-	-
Total own funds		**8,404**	**8,745**

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		2024 £'000	2023 £'000
	Tier 1	7,941	8,597
	Restricted tier 1	148	148
Eligible tier 1 own funds		8,089	8,745
Eligible tier 2 own funds		-	-
Total eligible own funds		8,089	8,745
Ineligible own funds		-	-
Total own funds		**8,089**	**8,745**

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		2024 £'000	2023 £'000
Equity as reported in IFRS Financial Statements		**8,335**	**8,142**
Recognise subordinated debt (preference share capital) as equity		148	148
Revalue technical provisions:	Gross technical provisions	2,439	2,444
	Reinsurers' share	(2,812)	(1,921)
Adjust for assets and liabilities with no SII fair value		4	3
Impact of revaluation on deferred tax		290	(71)
Solvency II Valuation of own funds		**8,404**	**8,745**

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.

TPs 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 SII 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 & Minimum Capital Requirement

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 PRA Rulebook. The Company uses the Standard Formula SCR calculation which is defined in the SII PRA Rulebook. 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 (£3,500k) 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 'IR.25.04 – Solvency Capital Requirement' and 'IR.28.01 – Minimum Capital Requirement' are reproduced in appendices 6 and 7 respectively.

As at 31 December 2024 the SCR for the Company was £3,284k, and the MCR was £3,500k. Both amounts are still subject to supervisory assessment.

E.2.2 SCR by risk module

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	2024	2023	Change
	£'000	£'000	£'000
Market risk	2,865	2,311	554
Counterparty default risk	737	712	25
Non-life underwriting risk	73	77	(4)
Diversification	(517)	(489)	(28)
Basic SCR	3,158	2,611	547
Operational risk	126	124	2
Loss absorbing capacity of deferred tax	-	(71)	71
SCR	**3,284**	**2,664**	**620**
MCR	**3,500**	**3,495**	**5**

The increase in market risk is predominantly due to higher equity risk. Equity risk has increased due to an increase in the symmetric adjustment, in 2024 this is an additional risk element added to the calculation and so increasing the equity risk, as well as positive market movements as most equity markets increased in the period and so increasing the value of the equity at risk.

All other risk modules have remained stable.

The loss absorbing capacity of deferred tax has been removed following the difference in the valuation of TPs from IFRS to SII moving from a deferred tax liability to a deferred tax asset.

The MCR is equivalent to the absolute floor for both the current and prior year. The absolute floor is the prescribed PRA Sterling rate at end of 2024.

E.2.3 Use of simplified calculations

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 PRA Rulebook has not been made.

E.2.4 Inputs used in the calculation of the MCR

A copy of the QRT 'IR.28.01 - Minimum Capital Requirement' showing the inputs used for the calculation of the MCR is included in Appendix 7.

E.2.5 Changes to the SCR and MCR compared to the prior period

There have been no other changes to the SCR and MCR in the period, other than those detailed above.

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 IR.02.01.02 Balance Sheet

IR.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	315
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)	8,689
R0080	*Property (other than for own use)*	
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*	8,666
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	21
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:	3,685
R0280	*Non-life and health similar to non-life*	3,685
R0315	*Life and health similar to life, excluding 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)	25
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	200
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	12,914

		Solvency II value
	Liabilities	C0010
R0505	Technical provisions - total	4,217
R0510	*Technical provisions - non-life*	4,217
R0515	*Technical provisions - life*	
R0542	Best estimate - total	4,135
R0544	*Best estimate - non-life*	4,135
R0546	*Best estimate - life*	
R0552	Risk margin - total	82
R0554	*Risk margin - non-life*	82
R0556	*Risk margin - life*	
R0565	Transitional (TMTP) - life	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
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)	291
R0850	Subordinated liabilities	148
R0860	*Subordinated liabilities not in Basic Own Funds*	
R0870	*Subordinated liabilities in Basic Own Funds*	148
R0880	Any other liabilities, not elsewhere shown	2
R0900	**Total liabilities**	4,658
R1000	**Excess of assets over liabilities**	8,256

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

IR.05.04.02
Non-life income and expenditure : reporting period

		All business (including annuities stemming from accepted non-life insurance and reinsurance contracts)	All non-life business (excluding annuities stemming from accepted insurance and reinsurance contracts)	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance - personal lines	Motor vehicle liability insurance - non-personal lines	Motor vehicle other motor insurance - personal lines	Motor vehicle other motor insurance - non-personal lines	Marine, aviation and transport insurance	Fire and other damage to property insurance - personal lines	Fire and other damage to property insurance - non-personal lines
				Non-life insurance and accepted proportional reinsurance obligations									
		C0010	C0015	C0110	C0120	C0130	C0140	C0141	C0150	C0151	C0160	C0170	C0180
	Income												
	Premiums written												
R0110	Gross written premiums		4,393									158	3,696
R0111	Gross written premiums - insurance (direct)		4,393									158	3,696
R0113	Gross written premiums - accepted reinsurance		0									0	0
R0160	Net written premiums		0									0	0
	Premiums earned and provision for unearned												
R0210	Gross earned premiums		4,335									154	3,681
R0220	Net earned premiums		0									0	0
	Expenditure												
	Claims incurred												
R0610	Gross (undiscounted) claims incurred		3,573									131	3,452
R0611	Gross (undiscounted) direct business		3,573									131	3,452
R0612	Gross (undiscounted) reinsurance accepted		0									0	0
R0690	Net (undiscounted) claims incurred		79									0	0
R0730	Net (discounted) claims incurred	70	70										
	Analysis of expenses incurred												
R0910	Technical expenses incurred net of reinsurance ceded	374											
R0965	Acquisition costs, commissions, claims management costs	1	1									1	6
	Other expenditure												
R1140	Other expenses	0											
R1110	Total expenditure	344											

IR.05.04.01
Non-life income and expenditure : reporting period

		Employers Liability	Public & products Liability	Professional indemnity	Other general liability	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation and transport	Property	Annuities stemming from non-life insurance contracts	Annuities stemming from accepted non-life reinsurance contracts
		General liability insurance								Accepted non-proportional reinsurance					
		Non-life insurance and accepted proportional reinsurance obligations													
		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Income														
	Premiums written														
[illegible]	Gross written premiums	73	147	33	0		36	0	69						
[illegible]	Gross written premiums - insurance (direct)	73	147	33	0		36	0	69						
[illegible]	Gross written premiums - accepted reinsurance	0	0	0	0		0	0	0						
[illegible]	Net written premiums	0	0	0	0		0	0	0						
	Premiums earned and provision for unearned														
[illegible]	Gross earned premiums	71	214	33	0		29	0	68						
[illegible]	Net earned premiums	0	0	0	0		0	0	0						
	Expenditure														
	Claims incurred														
[illegible]	Gross (undiscounted) claims incurred	-3	-53	0	0		0	0	56						
[illegible]	Gross (undiscounted) direct business	-3	-53	0	0		0	0	56						
[illegible]	Gross (undiscounted) reinsurance accepted	0	0	0	0		0	0	0						
[illegible]	Net (undiscounted) claims incurred	0	79	0	0		0	0	0						
[illegible]	Net (discounted) claims incurred														
	Analysis of expenses incurred														
[illegible]	Technical expenses incurred net of reinsurance ceded														
[illegible]	Acquisition costs, commissions, claims management costs	0	[illegible]	0	0		0	0	[illegible]						
	Other expenditure														
[illegible]	Other expenses														
[illegible]	Total expenditure														

Appendix 3 – QRT IR.17.01.02 Non-life technical provisions

IR.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
	Best estimate																	
	Premium provisions																	
R0060	Gross							691	42		-3	0	8					738
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							553	17		-5	0	3					568
R0150	**Net Best Estimate of Premium Provisions**							138	25		2	0	5					170
	Claims provisions																	
R0160	Gross							2,054	1,343		0	0	0					3,397
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							1,958	1,159		0	0	0					3,118
R0250	**Net Best Estimate of Claims Provisions**							96	184		0	0	0					279
R0260	**Total best estimate - gross**							2,745	1,385		-3	0	8					4,135
R0270	**Total best estimate - net**							235	209		2	0	5					450
R0280	**Risk margin**							58	34		0	0	0					92
R0320	**Technical provisions - total**							2,803	1,419		-3	0	8					4,227
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							2,511	1,176		-5	0	3					3,686
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							292	243		2	0	5					541

Appendix 4 – QRT IR.19.01.21 Non-life insurance claims

IR.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											151	151	151
R0160	-9	291	479	124	-1	0	0	0	0	0	0		0	893
R0170	-8	465	236	19	5	40	27	0	1	0			0	814
R0180	-7	461	284	102	50	0	0	0	0				0	897
R0190	-6	818	756	66	39	12	0	0					0	1,691
R0200	-5	256	221	46	16	5	0						0	544
R0210	-4	567	191	67	95	0							0	920
R0220	-3	758	506	87	0								0	1,351
R0230	-2	346	769	0									0	1,116
R0240	-1	336	0										0	336
R0250	0	0											0	0
R0260												Total	151	8,701

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											1,336	1,007
R0160	-9	0	270	46	41	44	43	40	41	39	39		35
R0170	-8	314	210	160	31	65	42	41	38	38			33
R0180	-7	579	236	115	42	41	40	38	38				33
R0190	-6	909	210	101	36	40	39	38					35
R0200	-5	557	145	75	40	50	47						33
R0210	-4	476	133	160	74	54							35
R0220	-3	744	109	50	60								42
R0230	-2	1,078	775	109									89
R0240	-1	1,276	446										411
R0250	0	1,600											1,479
R0260												Total	3,397

IR.19.01.21.22
Gross premium

		C0670 Gross earned premium at reporting reference date	C0680 Estimate of future gross earned premium
R0160	N-9	0	0
R0170	N-8	0	0
R0180	N-7	0	0
R0190	N-6	0	0
R0200	N-5	0	0
R0210	N-4	0	0
R0220	N-3	0	0
R0230	N-2	0	0
R0240	N-1	0	0
R0250	N	0	0

Appendix 5 – QRT IR.23.01.01 Own Funds

IR.23.01.01
Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
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	7,941	7,941			
R0140	Subordinated liabilities	148		148	0	0
R0160	An amount equal to the value of net deferred tax assets	315				315
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				
R0290	**Total basic own funds after deductions**	8,404	7,941	148	0	315
	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	8,404	7,941	148	0	315
R0510	Total available own funds to meet the MCR	8,089	7,941	148	0	
R0540	Total eligible own funds to meet the SCR	8,404	7,941	148	0	315
R0550	Total eligible own funds to meet the MCR	8,089	7,941	148	0	
R0580	**SCR**	3,283				
R0600	**MCR**	3,500				
R0620	**Ratio of Eligible own funds to SCR**	255.94%				
R0640	**Ratio of Eligible own funds to MCR**	231.10%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	8,256
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0725	Deductions for participations in financial and credit institutions	
R0730	Other basic own fund items	315
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	7,941

Appendix 6 – QRT IR.25.04.21 Solvency Capital Requirement

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
	Market risk	
R0070	Interest rate risk	325
R0080	Equity risk	2,129
R0090	Property risk	0
R0100	Spread risk	480
R0110	Concentration risk	4
R0120	Currency risk	795
R0125	Other market risk	
R0130	Diversification within market risk	-870
R0140	**Total Market risk**	2,865
	Counterparty default risk	
R0150	Type 1 exposures	601
R0160	Type 2 exposures	170
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	-34
R0180	**Total Counterparty default risk**	737
	Life underwriting risk	
R0190	Mortality risk	
R0200	Longevity risk	
R0210	Disability-Morbidity risk	
R0220	Life-expense risk	
R0230	Revision risk	
R0240	Lapse risk	
R0250	Life catastrophe risk	
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	
R0270	**Total Life underwriting risk**	0
	Health underwriting risk	
R0280	Health SLT risk	
R0290	Health non SLT risk	
R0300	Health catastrophe risk	
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	
R0320	**Total Health underwriting risk**	0
	Non-life underwriting risk	
R0330	Non-life premium and reserve risk (ex catastrophe risk)	73
R0340	Non-life catastrophe risk	0
R0350	Lapse risk	0
R0355	Other non-life underwriting risk	
R0360	Diversification within non-life underwriting risk	0
R0370	**Non-life underwriting risk**	73
R0400	**Intangible asset risk**	
	Operational and other risks	
R0422	Operational risk	126
R0424	Other risks	
R0430	**Total Operational and other risks**	126
R0432	**Total before all diversification**	4,704
R0434	Total before diversification between risk modules	3,801
R0436	Diversification between risk modules	-517
R0438	**Total after diversification**	3,283
R0440	Loss absorbing capacity of technical provisions	
R0450	Loss absorbing capacity of deferred tax	
R0455	Other adjustments	
R0460	**Solvency capital requirement including undisclosed capital add-on**	3,283
R0472	Disclosed capital add-on - excluding residual model limitation	
R0474	Disclosed capital add-on - residual model limitation	
R0480	**Solvency capital requirement including capital add-on**	3,283
R0490	Biting interest rate scenario	
R0495	Biting life lapse scenario	

Appendix 7 – QRT IR.28.01.01 Minimum Capital Requirement

IR.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	45

		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	235	
R0090	General liability insurance and proportional reinsurance	209	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	2	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	5	
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	45
R0310	SCR	3,283
R0320	MCR cap	1,478
R0330	MCR floor	821
R0340	Combined MCR	821
R0350	Absolute floor of the MCR	3,500
R0400	**Minimum Capital Requirement**	3,500

The Baptist Insurance Company PLC Solvency and Financial Condition Report

31 December 2024
The Baptist Insurance Company Plc

Experts in church and home insurance

03/25