The Baptist Insurance Company PLC
Solvency and Financial Condition Report

31 December 2016

Contents

Executive Summary

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

Our business
The Company is an independent, specialist financial services company that provides insurance and risk management advice for churches, as well as offering home insurance for Baptist Ministers, church volunteers and church members. The vision of the Company is to be the first choice insurer within the Baptist family. The mission is to run a successful business with the highest standards of integrity and helping 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 performance for 2016 has been outstanding for the Company, delivering the highest level operating profit (profit before charitable grants, finance costs and tax) in the last three years. This outstanding result enabled the Company to pay the highest level of charitable grants for the last eight years to the Baptist Community whilst still maintaining its strong capital position.

Despite the uncertain external environment, as a result of both the UK vote to leave the European Union and the outcome of the US presidential election which were unexpected by many, the investment portfolio performed well generating returns £489k in the year.

The underwriting result for the year of £96k reduced from the prior year due to the deterioration of historic liability claims. When these are excluded the underwriting performance was better than the previous year due to a benign claims experience with the exception of the June floods.

The governance of the Company was also stable. During the year the Company renewed and refreshed the Joint Administration Agreement (JAA), an outsourcing agreement with the Administrator, to ensure there was complete clarity on the services that were being provided.

Solvency and Financial Condition
On 1 January 2016, the Company transitioned into the SII regime following many years of preparatory work to be ready for the significant level of change in measuring and monitoring capital requirements for insurance companies.

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 2016 and the change over the year is shown below:

Summary solvency position	2016	2015 *(unaudited)*	Movement *(unaudited)*
	£'000	£'000	£'000
Own Funds	**6,358**	**5,886**	472
Market risk	1,030	1,162	(132)
Counterparty default risk	486	467	19
Non-life underwriting risk	90	53	37
Diversification	(323)	(304)	(19)
Operational risk	106	109	(3)
Loss absorbing capacity of deferred tax	(110)	-	(110)
Standard Formula SCR	**1,279**	**1,487**	(208)
MCR	**3,332**	**2,657**	675
Coverage ratio (SCR)	**497%**	**396%**	101%
Coverage ratio (MCR)	**191%**	**222%**	(31%)

The Company's regulatory solvency position has remained very strong. Own funds increased by £472k in the year mainly due to an increase in retained earnings and a reduction in technical provisions. This is explained in more detail in section E.1.

The company's SCR decreased in the year by £208k due mainly to reductions in market risk following the move to holding shorter duration investment holdings. More detail on the changes in SCR during the year is given in section E.2.

The MCR for the Company has increased due to exchange rate movement. Detail of how the MCR is calculated is also covered in section E.2.

Outlook for 2017

Global insurance markets continue to be competitive and price focused. The economic environment is characterised by positive as well as negative factors. Fundamental macro-economic data is solid with mostly positive data being reported in all major regions. However, uncertainty prevails as a result of political events, in particular the UK's Brexit negotiations and the outcome of elections in the US and Europe.

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

Directors' Statement of Responsibilities

The Baptist Insurance Company PLC

Financial year ended 31 December 2016

Statement required by Article 55 of the Solvency II Directive

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

We are satisfied that:

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

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

M.N. Hayes
Chairman
Date: 16th May 2017

M.R. Buttrick
Deputy Chairman
Date: 16th May 2017

Audit Report

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF THE BAPTIST INSURANCE COMPANY PLC ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

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

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21 and S28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:
- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), and ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the APB's Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required to report in respect of the following matters where:
- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the SFCR, which describe the basis of accounting. The SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the SFCR does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities The same responsibilities apply to the audit of the SFCR.

This report is made solely to the Directors of The Baptist Insurance Company plc in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Baptist Insurance Company plc's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Elanor Gill FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

16 May 2017

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

Solo standard formula
The relevant elements of the SFCR that are not subject to audit comprise:

- *The following elements of template S.17.01.02*
    - *Rows R0290 to R0310 – Amount of transitional measure on technical provisions*
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and performance

A.1 Business details and group structure

A.1.1 Name and legal form of the company

The Baptist Insurance Company PLC is a public limited company incorporated and domiciled in the United Kingdom.

The address of the registered office is:

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

A.1.2 Supervisory authority

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

A.1.3 External auditor

Deloitte LLP
Hill House
1 Little New St
London
EC4A 3TR

A.1.4 Qualifying holdings

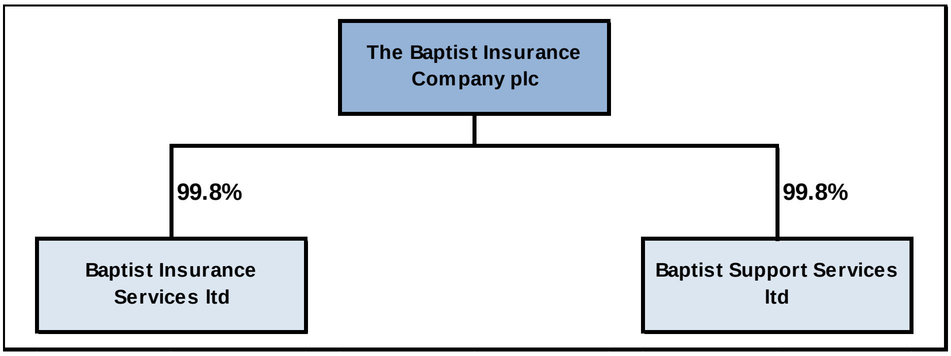
The Company has issued 28,284 five percent cumulative ordinary shares of £5 each. These are held by a number of Baptist related organisations and private individuals. Qualifying holdings are as follows:

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

In addition, 1,286 four percent cumulative preference shares of £5 each have been issued. There are no qualifying holdings within this share class.

A.1.5 **Group structure**

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



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

A.1.6 **Lines of business**

The principal lines of business of the Company are:

- Fire and other damage to property
- General liability

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

A.1.7 **Significant events**

During the year the result of the European Union (EU) referendum created volatility in investment markets and considerable political and economic uncertainty and this is likely to continue for several years now that article 50 has been triggered and negotiations around the format of the exit begins in earnest.

As the whole of the Company's underwriting business is undertaken within the United Kingdom, the impact of 'Brexit' on the operation of the Company is expected to be limited to increased volatility in its investments, all of which are investment funds denominated in sterling, but around 20% of the underlying equity holdings are overseas companies exposed to foreign exchange movement.

The implementation of SII by the PRA on 1 January 2016 has had a significant impact on the volume of regulatory reporting that the Company is required to undertake each year, increasing administrative costs.

A.2 Performance from underwriting activities

A.2.1 Overall underwriting performance

Underwriting Performance	2016
	£'000
Gross Written Premium	3,557
Gross Earned Premium	3,537
Gross Incurred Claims	(1,356)
Reinsured	*(1,040)*
Run-off	*(316)*
Commission	(13)
Expense	(94)
Gross Underwriting result	2,074
Reinsurance Premium	(3,537)
Reinsurance Claims	1,059
Reinsurance Commission	500
Net Underwriting result	96

Gross written premium (GWP) has increased £54k compared to the prior year. Retention remains high across the portfolio with the majority of the increase being generated through indexation.

The Gross Claims Ratio (Gross Incurred Claims (GIC) divided by Gross Earned Premiums (GEP)) of 38.3% has been driven by a relatively benign claims experience with the exception of the June floods. Additionally there has been a decrease in new claims registered in 2016 compared to the prior year.

Following the annual review of run-off claims exposure, it was decided to strengthen the provision for this by £296k, in addition to a £20k gross movement on open claims.

Within reinsurance commission the profit share performed well and generated income of £480k, with the favourable underwriting experience being the main driver.

Commission consists of commission paid and a small commission received for policies with an engineering insurance and inspection fee add-on, while the Company's corporate expenses are £94k.

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

Analysis of underwriting performance	2016				2015				Variance			
	Property £'000	Liability £'000	Other £'000	**Total £'000**	Property £'000	Liability £'000	Other £'000	**Total £'000**	Property £'000	Liability £'000	Other £'000	Total £'000
Gross Written Premium	3,184	289	84	**3,557**	3,154	276	73	**3,503**	30	13	11	54
Gross Earned Premium	3,172	282	83	**3,537**	3,167	277	73	**3,517**	5	6	10	20
Gross Incurred Claims	(583)	(769)	(4)	**(1,356)**	(840)	(635)	(12)	**(1,487)**	257	(134)	8	131
Reinsured	*(583)*	*(453)*	*(4)*	***(1,040)***	*(840)*	*(481)*	*(12)*	***(1,333)***	*257*	*28*	*8*	*293*
Run-off	-	*(316)*	-	***(316)***	-	*(154)*	-	***(154)***	-	*(162)*	-	*(162)*
Commission	(11)	(2)	-	**(13)**	(12)	(2)	-	**(14)**	1	-	-	1
Expenses	(84)	(8)	(2)	**(94)**	(117)	(10)	(3)	**(130)**	33	3	1	36
Gross Underwriting result	2,494	(496)	77	**2,074**	2,198	(370)	58	**1,886**	296	(126)	19	189
Reinsurance Premium	(3,172)	(282)	(83)	**(3,537)**	(3,167)	(277)	(73)	**(3,517)**	(5)	(6)	(9)	(20)
Reinsurance Claims	899	163	(3)	**1,059**	1,280	197	9	**1,486**	(381)	(34)	(12)	(427)
Reinsurance Commission	486	2	12	**500**	366	2	11	**379**	120	-	1	121
Net Underwriting result	707	(614)	3	**96**	677	(448)	5	**234**	30	(166)	(2)	(138)

GWP has seen growth in all lines of business but most notably in property compared to the prior year. The positive movement in GWP from 2015 to 2016 is largely as a result of indexation with new business partially offsetting any lapsed business.

GIC has seen an improvement across all areas for reinsured business, especially in Property due to the prior year being impacted by the winter storms seen at the end of 2015.

In contrast, the run-off claim performance has deteriorated. This is due to the continued uncertainty in relation to historic liability claims and has led to a strengthening of provisions. The impact of the Ogden review is immaterial for the Company and is well within the margins that are currently held.

The reduction in net expenses is mainly due to 2015 containing one-off corporate expense.

A.3 Performance from investment activities

A.3.1 Investment performance by asset class

Investment performance	2016	2015	Var
	£'000	£'000	£'000
OEIC Interest	183	147	36
Corporate Bond Interest	-	11	(11)
Bank Interest	2	2	-
Total Income	185	160	25
Realised Gains / (Losses) On Investments	284	84	200
Unrealised Gains / (Losses) On Investments	20	(162)	182
Total investment return	489	82	407
Instalment Handling Fees	31	29	2
Investment Expenses & Charges	(1)	(1)	-
Net Investment return	519	110	409

Total income for the year was £185k, a 16% increase on the prior year. This reflects Open Ended Investment Company (OEIC) interest of £183k received during the year which has seen an increase as the Company has invested in higher interest yielding funds. Corporate Bond Interest received is nil following the sale of holdings in 2015. Interest received, which includes bank interest, remains static year on year.

During 2016, there has been movement between OEIC holdings resulting in realised gains of £284k compared to £84k in 2015 which included the disposal of Corporate Bonds.

Investment returns, which fell sharply after the EU referendum result but rebounded strongly in the second half of 2016 saw modest unrealised gains compared to the £162k loss seen in 2015, resulting in an overall £182k favourable movement from prior year. The investment performance in 2016 has benefitted from the closing position of the UK stock markets which ended on a historic high plus the positive effect of the weakened pound on the value of overseas investments held indirectly through the OEICs.

Instalment handling fees, which relates to polices that are settled in instalments rather than in full, have remained at a similar level to 2015.

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 previous reporting period.

A.3.3 Investments in securitisation

The Company does not hold any investments in securitisation and so does not exercise any risk management procedures in respect of such securities or instruments.

A.4 Performance from other activities

A.4.1 Other Activities

Other Activities	2016	2015	Var
	£'000	£'000	£'000
Charitable Grants	(216)	(100)	(116)
Financing Costs	(7)	(7)	-
Tax	(78)	(12)	(66)
	(301)	(119)	(182)

Charitable Grants
Following a strong operating performance, the Company provided £216k in charity grants in support of the Baptist Community compared to £100k in the prior year.

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

Tax
The Company had a tax charge of £78k following a profitable year compared to a £12k charge for 2015. A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Tax has been provided at a rate of 20% for the current year and a blended rate of 20.25% for the prior year.

A.5 Any other information

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

B. System of governance

B.1 General information on the system of governance

B.1.1 Governing Body – Roles and segregation of responsibilities

Composition and Independence
The Company is governed by a Board of Directors comprising a Non-executive Chairman and seven Non-executive directors (NEDs) including 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 for the sound management of the Company's day to day business.

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

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

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

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

A Board Charter has been developed which establishes a framework for the conduct of the Board and its committees with clear guidelines as to its responsibilities, the expected standard of behaviour, and best practice in fulfilling its obligations to the Company. The Board is responsible for: culture and values; strategy and direction; leadership and organisation; governance; risk management and controls; and financial expectations and performance.

In addition, a formal schedule of matters reserved for the Board is in place and includes strategy and management; structure and capital; financial reporting and controls, risk management; internal controls; contracts; communication; board membership and other appointments; remuneration; delegation of authority and corporate governance and policies.

All Directors are expected to take decisions objectively in the interests of the Company, consistent with their legal and statutory duties, commensurate with their knowledge, experience and skills.

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

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

Chairman
The Chairman is responsible for:

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

The Chairman is expected to demonstrate the highest standards of integrity and probity, and set clear expectations concerning the company's culture, values and behaviours, and the style and tone of board discussions. This includes acting as both internal and external ambassador of the Company.

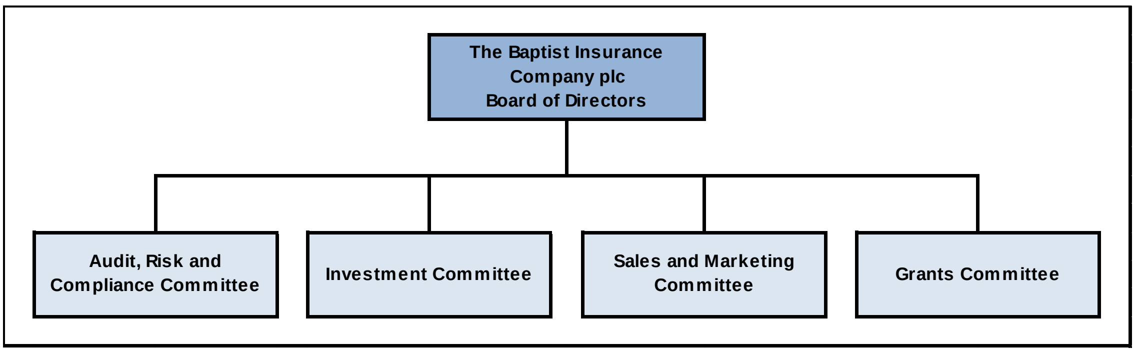
Deputy Chairman
In addition to their other duties as a NED, the Deputy Chairman is responsible for:

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

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

B.1.2 Delegation to committees

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



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

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

Audit, Risk and Compliance Committee (ARC)
Its responsibilities include:

- overseeing the Company's financial reporting processes;
- reviewing the effectiveness of the outsourced internal audit, financial, risk and compliance functions; and
- managing the relationship with the external auditor.

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

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

Sales and Marketing Committee
Its main purposes are:

- to consider and recommend a sales and marketing strategy;
- consider distribution strategies other than direct sales;
- review the overall church market;
- review monthly business reports; and
- review claims and underwriting performance that facilitate the achievement of the Company's objectives as set out in the Company's Own Risk and Solvency Assessment Report (ORSA) and the three year business plan, and to ensure that the strategy is being correctly implemented by management.

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

Grants Committee
Its role is to:

- solicit and assess grant applications for suitability of grant support;
- recommend grant distributions to the Board in conjunction with the grant budget proposed by the Audit, Risk and Compliance Committee and subsequently agreed by the Board; and
- monitor the effectiveness of grants made.

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

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

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

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

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

- maintain effective open communication with senior insurance managers and NEDs.

Chief Financial Officer (CFO)
The Chief Financial Officer is an employee of the Administrator and fulfils the SIMR function of Chief Financial Officer and their responsibilities include;

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

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

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

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

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

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

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

The outsourcing arrangement risk is crucial to the Company due to the reliance on the Administrator for reinsurance arrangements and day to day administration provided through the JAA and Reinsurance Agreement. A review project was undertaken by the Company and the Administrator to assess and review the long-standing agreements for fitness for purpose under the new regulatory landscape. This work was concluded in 2016 and enhanced the JAA and Reinsurance Agreement to ensure that all evolving regulatory requirements were captured, and to clarify the range of operational, corporate and assurance services provided by the Administrator.

In addition, the Governance Framework, including the Board Charter, and the Schedule of Matters Reserved for the Board was reviewed in October 2016. The documents were revised to incorporate new regulatory requirements, including SIMR and to reflect the agreement of the revised JAA and Reinsurance Agreement. Furthermore, the terms of reference of the ARC were updated to reflect changes incorporated from the introduction of the SII regime and the UK implementation of the Statutory Audit Directive.

To finalise the implementation of the SII reporting regime, the Board embedded the Company's Governance Map; Overarching Policy Framework and ORSA Standards document in March 2016. These documents form part of the Company's system of governance.

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, a governance framework has been developed to ensure that the Company operates to high ethical values. The governance model adopted by the Company ensures oversight of all risk and governance operations. The governance framework ensures that the Board is delivering long term value for its shareholder whilst discharging its duties effectively, and maintaining a focus on an appropriate culture aimed at delivering the right outcomes for the Baptist Community and its customers.

The governance framework is formally reviewed and approved by the Board every two years and was last approved in October 2016. Key changes included updating the document to reflect the agreement of the revised JAA and Reinsurance Agreement and the introduction of SIMR. However, as a living document it is continually refined to ensure that it appropriately reflects the maturity of the Company's system of governance and risks inherent in the business.

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 through its annual Board Evaluation and private strategic discussions. The Chairman of the Board meets annually with the Chief Executive Officer of the Administrator.

The Board, through the ARC, 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 ORSA Report;
- 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 direct employees and the only remuneration payments made are to the NEDs who are remunerated by fixed fees with no element of their remuneration linked to financial performance of the Company.

Fees are set in relation to the skills, experience and capabilities needed to provide a balanced professionally qualified Board in all the required technical disciplines, currently covering financial, actuarial, insurance and general management. All Directors have very senior level experience in a range of professional backgrounds suited to the requirements of the Board's balance of skills.

Fees are relatively low for a Company of this complexity and size as it was established to serve the insurance needs of the Baptist community and there is a balance between payment for the professional services provided by the Directors and a willingness to serve the needs of the Baptist Community as part of their giving to the Christian denomination.

Fees are benchmarked against similar organisations on a 3 to 5 year basis with small inflationary increases in between. Each time a recruitment exercise is undertaken for new Directors the recruitment consultancy appointed is also tasked to provide market feedback on fee levels.

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

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

Fitness to fulfil the role is assessed through the process and also through post appointment peer review and annual Board effectiveness reviews.

B.2.2 Ensuring ongoing fitness and propriety

In order to determine fitness and propriety of all senior roles including key function holders within the Company persons are subject to a competency based interview following an analysis of their CV.

The competency based interview is intended to explore the candidates experience and qualifications and for a key function holder would as appropriate explore:

- Market knowledge
- Business strategy
- Financial analysis
- Governance
- Oversight and controls
- Regulatory framework

Criminal record checks (DBS) and sanctions checks are carried out for each person in qualifying honesty, integrity and reputation along with a credit check to assist in verifying financial soundness. The Company will also check the Financial Conduct Authority register where persons have previously been a key function holder to check that no disciplinary actions have occurred against them. References are also taken from previous employers. For very senior positions two further interviews may be conducted, one through the Administrator’s HR department and another by a subject matter expert.

For specialist key functions the Company’s minimum requirement would be that all successful applicants are educated to graduate level or equivalent and a professional qualification relevant to a particular discipline.

Continued professional development is undertaken by all directors and the Board undertakes an independent peer review of competency and skill which is facilitated by the legal and secretarial department of the Administrator on an annual basis.

Individual contribution to Committee and Board meetings is monitored by the Chair with appropriate action taken in the event of poor performance.

The fitness and propriety process for assessing Key Function Holders (KFH's) mirrors the above approach to SIMF and control function (CF) Functions. The one exception to the process for KFH's is that regulatory pre-approval is not required but a suitable notification is forwarded to the regulator for review.

B.3 Risk management system including the ORSA

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

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

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

B.3.2 **Effectiveness of identifying and managing risks**

The ARC 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 respective areas of the Administrator.

The Board receives regular reports from the ARC to ensure that all aspects of the risk management system are robust. Furthermore, as part of their review of the ORSA process and approval of the ORSA document the Board satisfies itself of the effectiveness of identifying and managing all risks faced by the company.

Each year the ARC provides a report to the Board on the effectiveness of the overall governance arrangements and in particular the outsourcing agreement together with recommendations for improvement should this be necessary.

B.3.3 **Implementation of the risk management function**

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

- **1st Line (Business management)** is responsible for strategy execution, performance identification and management of risks and the application of appropriate controls;
- **2nd Line (Reporting, oversight and guidance)** is responsible for assisting the CRO and the Company's Board to formulate risk appetite, establish minimum standards, appropriate reporting, oversight and challenge of risk profiles and risk management activities within each of business units. and the
- **3rd Line (Assurance)** provides independent and objective assurance of the effectiveness of the systems of internal control.

The first line of defence consists of the day to day management and operation of the business and requires that those responsible for this are also responsible for ensuring that a risk and control environment is established as part of 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, must therefore ensure that the Administrator, its outsourcing partner, has 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 and the Board's ARC. This provides a framework of governance and risk oversight, and monitors and challenges the first line of defence. The second line also provides the business with the necessary training, tools and techniques to manage risk and establish internal controls in an effective way.

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

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

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

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

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

General Manager and the Administrator's operational areas (1st Line of Defence)
These areas are responsible for ensuring that there is an ongoing process for the identification, assessment, management and reporting of the significant risks during the course of business operations.

The Administrator's risk function (2nd line of defence)
The risk function facilitates the management and ongoing effectiveness of the risk management framework by providing tools, training and support so stakeholders can effectively discharge their responsibilities. The risk function facilitates the Board risk identification and assessment process and provides guidance to the Board when determining the risk appetite.

The Administrator's internal audit function (3rd line of defence)
AIA provides a third line 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 four overarching policies, each with more detailed policies below.

This policy framework is communicated to those 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 and support adherence to the Company's risk appetite and risk management principles. The policy framework contains specific policies that provide high level guidance around the company's risk-accepting expectations with respect to:

- Insurance Risk
- Financial Risks
- Operational Risks
- Strategic Risks

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

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

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

- Review of the risks on the risk register
- Identify any new and emerging risks
- Quantify the risks identified
- Calculate the capital requirements
- Undertake stress and scenario tests
- Compare to the risk appetite
- Project the capital and solvency requirements
- Prepare the ORSA report
- Obtain an independent review of the process and findings
- Submit the findings for Board review

B.3.5 **Frequency of review**

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

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

The Board and ARC assesses 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 ARC where detailed analysis is undertaken utilising those technical and professional feeds. Insurance risk is covered by the reserving and underwriting assessments carried out on a regular basis by the operational teams.

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

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

The ARC and Board receive the underwriting accounts monthly and the full management accounting package quarterly. The former provides detail on the underwriting performance and profit commission earned. The latter provides a comprehensive pack including Income Statement, Balance Sheet and Solvency Statement. The Solvency Statement incorporates scenario testing for significant falls in the UK equity share index (FTSE) and for the £/Euro exchange rate falling to parity. Should a significant market trigger event occur then additional, more frequent reporting would be implemented.

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

B.4 Internal control system

B.4.1 **Internal control system**

Internal control is defined as the system, implemented by the Board and General Manager, to ensure that the Company is managed efficiently and effectively.

The Board has established appropriate Board level policies and a risk appetite. As the day to day operation of the business has been outsourced to the Administrator the business is managed within its 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;
- **Control Standards**: a policy framework that establishes the Board's minimum standards for the mitigation of risk within the stated appetite;
- **Control Activities**: business processes that include control activities designed to mitigate risks to the level required to meet the control objectives;
- **Monitoring Activities**: regular monitoring of controls according to their materiality;
- **Training and Communication**: effective communication of required control standards and adequate training to ensure those operating or monitoring controls can do so effectively;
- **Recording**: clear documentation of controls to enable the ongoing operation; and
- **Reporting**: reporting of material control effectiveness to allow relevant management or the Board to determine whether objectives are being met or whether action is required to strengthen the control environment.

B.4.2 **Compliance function**

The Company outsources the provision of compliance to the Administrator's Compliance function under the terms of the JAA. This function sits in the second line of the firms three lines of defence governance system and is responsible for:

- Identifying, assessing, monitoring and reporting on the Company's compliance risk exposures;
- Assessing possible impact of legal and regulatory change and monitoring the appropriateness of compliance procedures; and
- Assisting, supporting and advising the Company in fulfilling its responsibilities to manage compliance risks.

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

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

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

AIA is authorised by the Administrator's Group Audit Committee (GAC) to evaluate and report on the adequacy and effectiveness of all controls, including financial, operating, compliance, and risk management. To avoid any conflicts of interest AIA reports its findings first and foremost to the Administrator's GAC and thereafter to the ARC, reporting on all relevant information pertaining to the Company.

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

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

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

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

B.5.2 Independence of the internal audit function

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

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 organisation covered by the JAA.

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

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

B.6 Actuarial function

B.6.1 **Implementation of actuarial function**

The Actuarial Function is headed 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 their responsibilities, ensuring an appropriate level of independence between those carrying out activities and those reviewing work.

The Actuarial Function's key areas of responsibility are:

- To provide oversight and co-ordinate the calculation of the technical provisions, ensuring appropriateness of data, assumptions, methodologies and underlying models used
- To give an opinion on the Technical Provisions to the Board, including:
  - Assessing the sufficiency and quality of the data used
  - Informing the Board of the reliability and adequacy of the calculation
  - 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
- 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. The Board remain ultimately responsible for the policy ownership and implementation.

The Board is responsible for making all strategic decisions regarding outsourcing in the context of their key objectives and the company's policy on outsourcing includes the following:

- 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 Company's corporate values and high standards of compliance.
- Provide for the mitigation of operational and financial risks related to outsourcing and procurement activities.
- Ensure effective identification, authorisation and management of material outsourced contracts as defined and in accordance with regulatory requirements.
- Not to delegate responsibility and oversight to the supplier where outsourcing arrangements are put in place through clear non-executive ownership and regular reporting on contract performance to ensure visible and demonstrable management ownership of key risks.

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

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

Comprehensive written contracts are entered into with accountability for managing the delivery against the contract being clearly assigned. Exit and contingency plans are documented as part of the selection and appointment process.

The Board only enters into outsourcing arrangements after conducting detailed financial, operational and professional due diligence into the outsourcing body in line with the outsourcing policy. Outsourcing is only undertaken where the range of skills available in the outsourcing partner is complementary to those of the Company and more cost effective to be provided from external sources.

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

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

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

The most significant outsourcing agreement is the JAA covering the administration of the Insurance business.

Monitoring of all the outsourcing arrangements is by regular Board review and benchmarking of the service providers against competitive tender.

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 it are in line with its company policy.

B.8 Any other information

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

C. Risk profile

C.1 Underwriting risk

C.1.1 **Risk exposure**

The insurance risk exposure comprises 2 main areas:

- Reserving Risk – the risk that claims reserves deteriorate worse than expected.
- Underwriting Risk – the risk of claims and expenses exceeding premium income for exposure during the next accident year.

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 ARC receives regular reports on the financial performance of the business including details of adverse developments.

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

C.1.2 **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.

C.1.3 **Risk mitigation**

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

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

The adequacy of the incurred but not reported (IBNR) provisions held is reviewed by the Administrator's Actuarial Reserving team quarterly following which a report is provided to the Board which provides information relating to the review of reserve adequacy.

C.1.4 **Risk sensitivity**

A stress test was carried out to assess the impact of a potential deterioration in insurance liabilities, in the event of a sudden adverse development above and beyond existing claims reserves.

The results indicate that whilst there is an impact on the profits and capital strength, the company is well placed to withstand such adverse events in isolation and it did not raise material concerns over solvency.

C.2 Market risk

C.2.1 **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 and ethical requirements and then directs the Investment Managers to invest in specific funds or cash securities.

The Company has a Statement of Investment Principles (SIP) reviewed in November 2016, which sets out the principles of governing decisions around the Company's investments. The Governance document outlines principles related to risk including the consideration of the Company's MCR, volatility of Asset classes, Credit Ratings, Duration, Asset Allocation, Liquidity and the nature and term of the investments. The Principles are designed to limit the concentration of risk and mitigate overall investment risk.

Market risk is the most significant risk for the Company and this is largely due to the underlying exposure to equities held. Recent movements in the yield curve this year has also resulted in an exceptional change in the fixed income valuations during the year. The SIP provides a policy benchmark for each asset class designed to limit market risk.

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

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

The IC has an agreed formal Terms of Reference and is required to review the SIP at least annually.

The IC has delegated powers to monitor and challenge the Investment Manager or invest in individual funds subject to the agreed SIP. The company has an Investment mandate in place and also invests directly in OEIC funds that are structured to invest in other companies with the ability to adjust constantly its investment criteria and fund size.

The OEIC's are chosen for the collective characteristics of the assets in the fund and their geographical diversification. The IC regularly reviews the makeup and concentration of companies in the funds under investment. Where an Investment Mandate exists individual Investment valuations are received monthly and a detailed report sent quarterly.

C.2.3 **Risk concentration**

The Company invests in OEIC's for the specific reason of diversification of credit risk. The Royal London Short Duration Fund for example has investments in 230 companies with the largest holding accounting for 1.8% of the total OEIC value .The Investment Manager regularly reviews and reports quarterly on the creditworthiness of each sector in the Credit funds and individual company performance in the collective funds.

The IC adheres to the asset allocation benchmarks as agreed in the SIPP. Historically the most volatile asset class has been equity and the SIPP limits investment in this asset class to 40% with a 5% tolerance.

C.2.4 **Risk mitigation**

Investments are either held by a custodian bank or listed on the Stock market thus the Company has full title to the Assets. Where Investments are made in cash deposits the bank's credit ratings are viewed by the committee and diversification is considered at all times. The IC regularly considers changes in the macro and political environment and implements risk reduction programs when appropriate.

No mitigation against equity, currency or interest rate risk is undertaken.

C.2.5 **Risk sensitivity**

A stress test was carried out which assumed a 20% fall in the equity-based investments with no gains or losses on the interest-bearing securities to simulate a stock market crash. The scenario was determined in view of the key risks to the Company and the level of equity holdings. The scenario aims to simulate a stock market crash.

It was established that the scenario would result in the coverage of the capital requirement dropping although not to the extent that there is a risk to regulatory capital requirements being breached.

C.3 Credit risk

C.3.1 **Risk exposure**

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

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

C.3.2 **Risk concentration**

The key concentration exists due to the 100% reinsurance arrangement in place with the Administrator. There is also a further reinsurance arrangement in place with a single reinsurer that relates to the pre 1998 liabilities. There is also risk due to the potential for premium debtor default.

C.3.3 **Risk mitigation**

The key mitigant is the formal reinsurance arrangement in place with the Administrator. The Company is named on the reinsurance treaties that the Administrator has in place with its reinsurers. However, no formal strikethrough clause exists which means that if the Administrator entered administration the Company would still need to approach the Administrator to make recoveries under the 100% quota share arrangement. In this scenario funds could be limited such that the Company may receive less than 100% of the recoveries due on the claims paid. The Board is aware of this situation.

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

Regular reporting is provided to the ARC on the pre 1998 liabilities and the reinsurer’s response to the claims notified.

C.3.4 **Risk sensitivity**

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

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

C.4 Liquidity risk

C.4.1 **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 **Risk concentration**

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

C.4.3 **Risk mitigation**

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

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

The ARC 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 **Risk sensitivity**

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

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

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

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

The total amount of the expected profit included in future premiums is £45k.

C.5 Operational risk

C.5.1 **Risk exposure**

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

The ARC receives a monthly Business Report and quarterly Operational Risk Dashboard from the Administrator which provide details of the key operational areas. In addition, ad hoc reports on specific items are provided to the ARC where appropriate to enable the Board to assess the level of acceptable risk.

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

C.5.2 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.

C.5.3 Risk mitigation

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

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

C.5.4 Risk sensitivity

The Company considers the risks to the business and stress and scenario testing carried out on the most material risks identified on an 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.6 Other material risks

C.6.1 Risk exposure

The Company regards reputational risk as a key risk type. This is the potential for events to occur which could result in negative impacts upon the Company. It can often result due to the operation 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.

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

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

C.6.2 Risk concentration

There are no other material risk concentrations to note.

C.6.3 Risk mitigation

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

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

C.6.4 **Risk sensitivity**

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

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

C.7 Any other information

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

D. Valuation for solvency purposes

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

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

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

Material assets and Liabilities are defined as assets and liabilities that are valued in excess of £60k (Equivalent to 1% of IFRS net assets).

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

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

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

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

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

D.1 Assets

D.1.1 Solvency II valuation of assets

A copy of the Quantitative Reporting Template (QRT) 'S.02.01.02 – Balance sheet' is included in Appendix 2 which is a list of assets by class. The table below shows a summary of assets held:

Summary of Assets	Solvency II value
	2016
	£'000
Reinsurance recoverables - Reinsurers share of technical provisions	3,540
Investments: Equities, Bonds, investment funds & other investments	5,513
Participations	2
Insurance & intermediaries receivables	3
Cash and cash equivalents	1,135
Total assets	10,193

Reinsurance Recoverables
The valuation of reinsurers' share of technical provisions is covered in section D.2.

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.

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

Insurance & intermediaries receivables
This comprises debtor balances past due. Due to the short term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. Debtor balances that are not past due are future cash flows that form part of technical provisions as covered in sections D.2 and D.3 below.

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.

D.1.2 Comparison of solvency II assets with valuation in annual financial statements

The table below summarises the difference between the financial statements prepared in accordance with IFRS and the SII valuation, with a breakdown of the differences in the valuation of assets:

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation movement
	£'000	£'000	£'000	£'000	£'000
Total Assets	12,612	(357)	12,255	10,193	(2,062)
Total liabilities	6,558	(357)	6,201	3,983	(2,218)
Net assets	6,054	-	6,054	6,210	156
Breakdown of asset valuation differences					
Technical provisions - Reinsurance recoverables	5,604	(4)	5,600	3,540	(2,060)
Insurance & intermediaries receivables	225	(222)	3	3	-
Reinsurance receivables	131	(131)	-	-	-
Receivables (trade, not insurance)	2	-	2	-	(2)
All other assets - no valuation differences	6,650	-	6,650	6,650	-
Total assets	12,612	(357)	12,255	10,193	(2,062)

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

Technical provisions – Reinsurance recoverables
The difference in valuation of reinsurance recoverables is covered in detail in section D.2.

Reinsurance Receivables
Debtor balances that are not past due are future cash flows that form part of reinsurers' share of technical provisions as covered in sections D.2 and included in the *Technical provisions – Reinsurance recoverables* table above. As no balances are past due, this balance is nil for SII.

Receivables (Trade, not insurance)
The valuation of non-insurance receivables is nil as SII excludes £2k of prepayments which have no economic value.

D.2 Technical provisions

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

The non-life technical provisions (TPs) are calculated as a sum of best estimate and risk margin using a three-stage process of grouping data for homogeneous risks, selecting methodologies and setting assumptions which take into account the economic, underwriting and reserving cycles. The reserving process captures material factors via engagement and interaction across relevant business areas, particularly the claims and underwriting functions. These factors may not be inherent in the historical data, for example a change introduced to the claims management philosophy may impact the incurred development pattern going forward.

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

Data grouping
The TPs are modelled at a risk class and accident year level, and subsequently aggregated to the SII reporting class of business grouping. This is mainly as a result of the following:

- In certain cases the SII classes of business may be heterogeneous for statistical modelling purposes, as some risks within the same SII class may behave differently, for example, 'Employers Liability' and 'Public Liability', including latent claims. All are aggregated within 'General Liability' but modelling and monitoring is separated where appropriate due to these classes having different risk drivers of claims experience.
- Lower level risk class categorisations based on claim type and/or size may arise from time to time that are effective for business performance management purposes or improve the homogeneity of risks in projection models, e.g. due to emerging trends such as theft of metal or related to specific weather events.

Modelling methodologies and assumptions
An overview of the building blocks and methods of the TPs calculation is as follows:

Category	Building block	Description	Summary method
Claim provision **future cash flows on earned business**	OCR	Outstanding Case Reserves (OCR) for reported claims.	Amounts are booked as recorded in the system data at the period end based on internal claims handlers estimates, plus amounts sourced from external parties where applicable (e.g. where claims handling is outsourced).

	IBNR	Incurred But not Reported reserves to cover late reported claims (after the accident date) and future development in OCR to ultimate settlement. The mean ultimate cost includes Events Not in Data (ENID), which generally would not have been foreseen at the time of writing the policies.	A range of standard actuarial techniques are employed for IBNR 'best estimate' modelling of the average outcome based on relevant available data. The final method selected varies by the nature of the class and availability of reliable input assumptions, as described further below. Scenario analysis conducted with business experts is used to ensure sufficient ENID allowance considering the cover provided by policies and wider industry knowledge over potential emerging risks.
	ULAE	Unallocated Loss Adjustment Expense, being expenses that will be incurred to manage the settlement of all claims relating to obligated business, where not already included in the OCR or IBNR projections	Where claims related expenses are not directly attributable to individual claims these are not included in the data used to project IBNR. Such costs, including related overheads, are allocated by class of business based on activity analysis and used to project the expenses relating to future claim payments.
	Expenses	Predominantly investment expenses payable to the investment manager over the life of managing the portfolio which supports the run-off of the TPs.	The contractual investment management charge is applied to the projected portfolio for each relevant future year.
	Inflation and discount	The economic assumptions used to adjust future cash flows to projected values at the future payment date and to adjust them to reflect their present value.	Future claims and expense inflation is included either implicitly, or explicitly where material, in arriving at the expected cash flows per future year. All future years cash flows are discounted to present value using the prescribed EIOPA risk-free discount curve for the relevant currency interest rate-term structure. No transitional arrangements or adjustments are applied for the non-life TPs relating to matching / volatility adjustment.
	RI	Reinsurance cash flows.	System data for the reinsurer's share of OCR is supplemented by manual adjustments where system reinsurance calculations are incomplete. Expected defaults are calculated by reference to reinsurer credit ratings and the expected term of the recoverable.
Premium	Unearned	All the above	Best estimate business planning

provision – **future cash flows on unearned or bound business**	business	building blocks of future cash flow items, as they apply to the business held as Unearned Premium Reserve (UPR) in the financial accounts, taking account of expected cancellations. This also includes the administration expense relating to servicing the policies for the remainder of the earnings period, and outward reinsurance premiums relating to all contracts expected to cover the unearned business.	assumptions are used to derive the inputs to each relevant building block. E.g. OCR and IBNR are replaced by the frequency-severity modelled ultimate claims costs, applied to the appropriate unearned exposure. ENID is allowed for based on the profile of unearned business and is also used to capture adjustments to business planning assumptions if appropriate such as alignment to the capital model mean catastrophe loss assumptions. Reinsurance is allowed for following the correspondence principle, with profit commission from reinsurers projected and allocated to the unearned business.
	Bound policies	Allowance for expected future profits or losses on business that is contractually bound but not yet incepted.	Due to the nature of the Company's reinsurance arrangements, future profit commission provides a source of profit which is recognised up front in the premium reserves.
	Insurance debtors and creditors	Insurance balances in the course of payment.	These balances are identified through the accounting process and reallocated to TP cash flows.
Risk Margin	Cost of capital on projected future SCR's	The theoretical transfer value for TPs in excess of the best estimate liability taking account of the present value cost of capital for a reference undertaking subject to a SCR calculated using the SII standard formula.	The initial standard formula SCR is calculated in relation to the obligated business, excluding avoidable market risk. The projection method of this SCR to future years varies by risk category. The run-off of gross, ceded and net claims TPs is used to inform the run-off of related SCR components where appropriate.

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 table below is a high-level summary of the reserving models used for the claim provision, and the internal classification of risk, for the material Solvency II classes of business.

Methodology	Internal Classification	SII Class of Business
Incurred Development Factor Method (DFM)	Short-tail	Fire & Other Property Damage
		Miscellaneous financial loss
Bornhuetter Ferguson Method (BF)	Liability	General Liability
Simplified methods	Physical and Sexual Abuse (scaled from benchmark model using exposure metrics)	General Liability

Specialist reserving software is generally used to model the claim provision IBNR, with the exception of the physical & sexual abuse (PSA) reserve models, which are based on a frequency-severity approach using Igloo (Towers Watson capital modelling software) and scenario analysis.

Valuation
Claims provisions, premium provisions and risk margin by class are reported on QRT S.17.01.02 – Non-life technical provisions which is included in Appendix 5.

The distribution of reserves by class of business reflects differences in risk and claim behavioural experiences, which are commented on individually below.

Fire & Other Property Damage (F&O)
The structural nature of the reinsurance program results in a very low net claims provision for F&O and a negative premium provision as allocated profit commission is expected to be received on unearned business.

General Liability (GL)
The TPs for this class are heavily weighted towards the claim provision due to the longer-tail nature of these risks, which may be complex and take many years to settle, and with potential for late reported or latent claims to emerge.

Overall this class saw adverse development over the year, despite savings at gross level on previously booked non-latent reserves. Latent PSA claims reported experience was in line with expected level, while reserves were strengthened to reflect that there is currently heightened risk for groups of related claims to emerge, particularly in respect of historic loss years.

Latent classes are particularly sensitive to changes in the discount rate. The EIOPA prescribed UK risk free rate decreased over the year which resulted in an increase in the discounted latent provisions.

Miscellaneous Financial Loss and Legal Expenses
The miscellaneous class is comprised of Business Interruption insurance. This is a small proportion of overall written business. The legal expenses class provisions consist of future premiums passed to a third party. For internal reporting purposes these immaterial classes are grouped with the F&O results.

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.

The judgements made in excluding items from the risk margin SCR are:

- Market Risk: It is generally the case for non-life businesses that there is no 'unavoidable market risk' as long as there are suitable and available risk-free assets to replicate best estimate cash flows. For longer durations, such as for PSA, there is a need to consider reinvestment risk or credit risk if investments are only available on other than a risk-free basis. In the markets operated in it is considered this residual 'unavoidable' risk is not material.
- A reduction in the Underwriting risk (relating to premium and catastrophe risks) has been processed such that the volume measures reflect only the unearned and bound business, rather than including business written over the next year.
- Reduction of Counterparty Risk: due primarily to the reduction in the projected catastrophe exposure being limited to the unearned and bound premiums on obligated business, there is a corresponding reduction in reinsurance recoverable to feed this calculation. In addition counterparty risk related to premium debtors is not expected to apply after the first year due to the short-term nature of credit agreements with intermediaries.
- No adjustment has been made to Operational risk.

Changing these inputs to the SCR for the risk margin also changes the diversification benefit, reducing it disproportionately as can be expected because at total level a key driver of diversification is that arising between Underwriting and Market risk.

The risk margin is calculated at a total level then allocated to the classes of business based on risk characteristics of the best estimate TP's.

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 sensitivity analysis of TPs is a useful risk management tool that helps the business identify which internal factors are key drivers of the total provision. The ability to identify the key risk drivers of the TPs allows management to identify lead indicators to monitor these drivers, so as to better predict their effect and manage the risks associated with uncertainty.

The effectiveness of a sensitivity testing process depends on being able to identify and isolate the full effects attributable to each material input factor affecting the final TPs. Following the 'impact-value chain' creates more realistic and accurate sensitivity scenarios.

The sensitivity tests have been selected to provide coverage of a broad range of risks, which it is foreseeable could materialise within the next 12 months. The largest sensitivity considered is the reinsurance default shock due to the critical part that reinsurance strategy plays in the business model of the Company. Counterparty default risk is an important component of the Company SCR therefore the risk margin is also sensitive to this item.

The inflationary adjustment includes the cumulative impact over the full duration of the liabilities but is largely mitigated at the net level due to the reinsurance arrangements in place.

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

The inflation and discount rate sensitivities are individually broadly symmetric in that an equivalent decrease in the respective inputs will decrease/increase the TPs by a similar order as the above. The company is relatively more sensitive to discount rates than claims inflation, because expense reserves are discounted in addition to net claims reserves, and are of similar order in size.

On 27 February 2017 the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75%, based on a three year average of real returns on index linked gilts. A government review of the framework under which the future rate is set will also be undertaken. Courts must consider the Ogden rate when awarding compensation for future financial losses in the form of a lump sum in personal injury cases.

The Company has limited exposure to the level of the rate due to low frequency of catastrophic injury cases on its employer's liability and public liability business. Having taken into consideration existing open claims and the level of current reserves held there is no gross or net change to the reserves resulting from the announcement.

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.

Claims provision
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 EIOPA. Other than this, there are three material areas for which different methods have currently been selected.

TP Claim provision building block	IFRS accounts approach	Solvency II TPs approach
Discount scope	Currently no discounting or allowance for future investment expenses are made in the Company accounts.	All cash flows are discounted
Investment expenses		An explicit management expenses allowance is made in every future year for all categories of TP held, based on the projected fund required to back the average liabilities remaining at that date.
ULAE	Claim expenses for all years exposure are shared between the Company and the reinsurer as part of the overall expense allowance within profit commission calculations, The cost from future profit is not reserved for explicitly.	Claims expense cash flows are projected explicitly and discounted on an arms length basis, assuming the existing management agreement is not in force for the length of the run off beyond the period of earning bound business.
ENID	An allowance for future	A scenario analysis has been carried

	uncertainty is applied as a stable % loading on total reserves for earned business (Liability classes). The classes of liabilities which have ENID loading applied exclude PSA liabilities, due to the previous emergence of this latent exposure that is separately modelled together with associated uncertainty.	out. The resulting loading is applied to best estimate TPs to uplift to a mean outcome.

The SII ENID scenarios are determined on the following basis:

- Identify events/threats which the business is potentially exposed to (on all business written to date or in the pipeline).
- This involves looking at both ‘known-unknowns’ and a brainstorming session internally to generate ‘unknown unknowns’ (e.g. new category of latent claims).
- Once the events are identified, the exposure on an event or loss year basis is estimated and the range of outcomes generated.
- A consideration of the likelihood and impact of each of the outcomes enables a high-level expected value to be derived.
- This is then used as the mean claims reserve for ENID, after also considering payment patterns, applicable reinsurance arrangements and size of earned and unearned exposure to determine the effect on the claim and premium provisions.

The only significant adjustment for undiscounted best estimate claims reserves for SII is the uplift in expenses of £149k (including allowance for RI default expense).

Premium liability
The net premium provision under SII is £207k lower than recorded in the financial statements (Unearned Premium Reserve less: Deferred Acquisition Costs and net insurance debtors) because although additional bound contracts are in scope for SII, profit is recognised at the contractually bound date, including profit commission. The premium provision is negative as a result of this.

Uncertainty margins
The financial accounts uncertainty margin is targeted to meet at least 75% probability of sufficiency to ultimate, with additions made where deemed appropriate by management. This is not directly comparable to the SII risk margin concept, which for the Company is dominated by Counterparty default risk arising from the existing 100% reinsurance arrangement. At total level, including all allowances for risk, uncertainty and discounting, considering valuation differences only rather than presentational changes, the net technical reserves held in the statutory accounts are £184k higher than the SII TP equivalent.

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

D.2.7 **Use of the Article 308[d] transitional deduction**

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 historic losses, 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 technical provisions compared to the previous reporting period

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

For the claims provision the assumed frequency of latent liability claims for has increased over the year.

For the risk margin calculation, the standard formula SCR run off pattern has been closely replicated by recalculating the t1 SCR and then applying the proportional method, and extending the run off period to fully reflect the impact of low discount rates in the current market.

D.3 Other liabilities

D.3.1 Solvency II valuation of other liabilities

A copy of the QRT ‘S.02.01.02 – Balance sheet’ is included in appendix 2 and includes a list of liabilities by class. The table below shows a summary of liabilities held:

Summary of Liabilities	Solvency II value
	2016
	£'000
Technical provisions - non-life	3,517
Payables (trade, not insurance)	284
Subordinated liabilities - included in basic own funds	148
Deferred tax liabilities	32
Any other liabilities, not elsewhere shown	2
Total liabilities	3,983

Technical provisions – non-life
The valuation of technical provisions 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.

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

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

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

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

D.3.2 Comparison of solvency II other liabilities with valuation in annual financial statements

The table below summarises the difference between the financial statements prepared in accordance with IFRS and the SII valuation, with a breakdown of the differences in the valuation of liabilities:

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation movement
	£'000	£'000	£'000	£'000	£'000
Total Assets	12,612	(357)	12,255	10,193	(2,062)
Total liabilities	6,558	(357)	6,201	3,983	(2,218)
Net assets	6,054	-	6,054	6,210	156
Breakdown of liability valuation differences					
Technical provisions - non-life	5,983	(222)	5,761	3,517	(2,244)
Deferred tax liabilities	-	-	-	32	32
Reinsurance payables	135	(135)	-	-	-
Payables (trade, not insurance)	290	-	290	284	(6)
All other liabilities - no material valuation differences	150	-	150	150	-
Total liabilities	6,558	(357)	6,201	3,983	(2,218)

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

Technical provisions – Non-life
The difference in valuation of technical provisions is covered in detail in section D.2.

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 a deferred tax liability arises due to the valuation differences between the financial statements and the SII valuation of assets and liabilities.

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

Payables (Trade, not insurance)
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.

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	2016 £'000
SII Valuation of assets	10,193
SII Valuation of liabilities	(3,983)
Excess of assets over liabilities	6,210
Qualifying subordinated debt	148
Foreseeable distributions	-
Basic own funds	6,358

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

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

E.1 Own funds

E.1.1 Own funds - objectives, policies and processes

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

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

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

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

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

Regulatory and Legislative

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

Definition and monitoring of Capital Available

- Capital is maintained at a sufficient quality in order to meet current and future projected requirements over the business plan period, ensure the Company has a defined risk appetite regarding the quality and tiering of capital required to meet its own internal appetite for solvency.

- Sufficient capital is held in order to satisfy capital requirements, regulatory or otherwise.
- The level of capital available in the Company is monitored on a regular basis in accordance with an agreed process.
- There is regular monitoring and review of the quality and tiering of capital, in order to assess whether the targets are met (on an ongoing basis).

Definition and monitoring of our Capital Requirements (Solvency)

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

Principles around the Distribution and Raising of Capital

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

Principles around the Allocation and Use of Capital

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

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

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

This Policy must be reviewed at least annually taking into account any new or changes to legislation, or more frequently should a 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 ‘S.23.01.01 – Own Funds’ is included in appendix 7. The table below is a summary of own funds, by tier, with comparison to the prior year:

Analysis of Own Funds	Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
2016	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Preference share capital	148	-	-	148	-
Reconciliation reserve	6,210	6,210	-	-	-
	6,358	6,210	-	148	-
2015 *(unaudited)*					
Preference share capital	148	-	-	-	148
Reconciliation reserve	5,738	5,738	-	-	-
	5,886	5,738	-	-	148
Movement in own funds *(unaudited)*					
Preference share capital	-	-	-	148	(148)
Reconciliation reserve	472	472	-	-	-
	472	472	-	148	(148)

No ancillary own funds have been recognised.

The £148k of preference share capital is recognised as a liability in the Company’s IFRS financial statements. Previously, this had been classified for solvency purposes as tier 3 capital, but following a reassessment of the regulatory requirements has now been classified as tier 2 capital as it meets the relevant requirements of Article 73 of the Delegated Act.

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 7.

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 *(unaudited)*	**5,738**
IFRS Retained earnings for year	314
Movement in SII revaluations:	
Gross technical provisions	(3,936)
Reinsurers' share	4,139
Other assets and liabilities	(13)
Movement in deferred tax due to revaluation	(32)
Total movement for year *(unaudited)*	**472**
Current year balance	**6,210**

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

The table below summarises the own funds eligible to cover the SCR:

Analysis of eligible own funds available to cover the Solvency Capital Requirement	2016 £'000
Solvency Capital Requirement (SCR)	**1,279**
Own funds eligible to cover SCR:	
Unrestricted tier 1 capital	6,210
Restricted tier 1 capital	-
Total eligible tier 1 capital	**6,210**
Restricted tier 1 relegated to tier 2	-
Tier 2 capital	148
Total eligible tier 2 capital	**148**
Eligible tier 3 capital	**-**
Total eligible capital	**6,358**
Ineligible capital	**-**
Total own funds	**6,358**

The restricted tier 1 own funds cannot amount to more than 20% of total tier 1 own funds used to cover the SCR. Therefore, the maximum restricted tier 1 capital that can be deemed eligible tier 1 own funds is the lower of:

- 25% of unrestricted tier 1
- 20% of the SCR
- 100% of restricted tier 1

The remainder is classified as tier 2 own funds.

Tier 2 own funds cannot amount to more than 50% of the SCR

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

The table below summarises the own funds eligible to cover the MCR:

Analysis of eligible own funds available to cover the Minimum Capital Requirement	2016 £'000
Minimum Capital Requirement (MCR)	**3,332**
Own funds eligible to cover MCR:	
Unrestricted tier 1 capital	6,210
Restricted tier 1 capital	-
Total eligible tier 1 capital	**6,210**
Restricted tier 1 relegated to tier 2	-
Tier 2 capital	148
Total eligible tier 2 capital	**148**
Total eligible capital	**6,358**
Ineligible capital	**-**
Total own funds	**6,358**

The restricted tier 1 own funds cannot amount to more than 20% of total tier 1 own funds used to cover the MCR. Therefore, the maximum restricted tier 1 capital that can be deemed eligible as tier 1 own funds is the lower of:

- 25% of unrestricted tier 1
- 20% of the MCR
- 100% of restricted tier 1

The remainder can be treated as tier 2 own funds.

Tier 2 capital cannot amount to more than 20% of the MCR

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		2016 £'000
Equity as reported in IFRS Financial Statements		**6,054**
Recognise subordinated debt (preference share capital) as equity		148
Revalue technical provisions:	Gross technical provisions	(2,060)
	Reinsurers' share	2,244
Adjust for assets and liabilities with no SII fair value		4
Impact on deferred tax of revaluation		(32)
Solvency II Valuation of own funds		**6,358**

Both classes of preference capital of the Company, which are included within liabilities in the IFRS financial statements, can be recognised as tier 2 capital for solvency purposes.

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

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

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

E.1.6 Transitional arrangements

There are no own fund items that are subject to transitional arrangements.

E.1.7 Ancillary own funds

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

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

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

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

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

E.2.1 **SCR and MCR**

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

The MCR is determined by comparing the linear MCR with the SCR and absolute floor (£3.3m). It is the higher of the absolute floor and the combined MCR.

The combined MCR is calculated using three elements, the MCR cap (45% of the SCR), the MCR floor (25% of the SCR) and the linear MCR. The linear MCR is a simplistic calculation based on factors applied to net written premiums and net best estimate of technical provisions, analysed by class of business.

If the linear MCR is above the cap, the combined MCR is the MCR cap. If the linear MCR is below the floor, the combined MCR is the MCR floor. If the linear MCR is between the cap and the floor, the combined MCR is the linear MCR.

A copy of the QRTs 'S.25.01 – Solvency Capital Requirement' and 'S.28.01 – Minimum Capital Requirement' are reproduced in appendices 8 and 9 respectively.

As at 31 December 2016 the SCR for the Company was £1,279k, and the MCR was £3,332k. 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:

Solvency Capital Requirement	**2016** **£'000**
Market risk	1,030
Counterparty default risk	486
Non-life underwriting risk	90
Diversification	(323)
Basic Solvency Capital Requirement (BSCR)	1,283
Operational risk	106
Loss absorbing capacity of deferred tax	(110)
Solvency Capital Requirement	**1,279**

E.2.3 **Use of simplified calculations**

No simplifications have been used in calculating the standard formula SCR.

E.2.4 **Undertaking specific parameters**

No undertaking specific parameters have been used to calculate the standard formula SCR.

E.2.5 **Use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC**

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

E.2.6 Impact of using undertaking specific parameters

No undertaking specific parameters have been used to calculate the standard formula SCR and no capital add-on has been applied. It is therefore not necessary to disclose the impact of any undertaking-specific parameters used in accordance with Article 110 of that directive and the amount of any capital add-on applied to the SCR.

E.2.7 Inputs used in the calculation of the MCR

A copy of the QRT 'S.28.01.01 - Minimum Capital Requirement' showing the inputs used for the calculation of the MCR is included in Appendix 9.

E.2.8 Changes to the SCR and MCR compared to the prior period

The table below summarises the movement in the SCR and MCR between the current and prior year:

Movement in Capital Requirement	2016	2015	Movement
		(unaudited)	*(unaudited)*
	£'000	£'000	£'000
Market risk	1,030	1,162	(132)
Counterparty default risk	486	467	19
Non-life underwriting risk	90	53	37
Diversification	(323)	(304)	(19)
Operational risk	106	109	(3)
Loss absorbing capacity of deferred tax	(110)	-	(110)
SCR	**1,279**	**1,487**	**(208)**
MCR	**3,332**	**2,657**	**675**

Market risk has fallen due to the move to investment funds holding shorter duration investments during the year.

A loss absorbing capacity of deferred tax amount has arisen in the current year due to a taxable profit and the generation of a SII deferred tax liability.

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

E.3.1 Use of the duration-based equity risk sub-module

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

E.3.2 Impact on capital requirement

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

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

E.4.1 Use of an internal model

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

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

E.5.1 **MCR non-compliance**

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

E.5.2 **SCR non-compliance**

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

E.6 Any other information

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

Appendix 1 – QRT S.01.02 General Information *(unaudited)*

General information

Undertaking name	The Baptist Insurance Company Plc
Undertaking identification code	2138004DLLYWQJK84X12
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

Appendix 2 – QRT S.02.01.02 Balance Sheet

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,515
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	2
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	5,513
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	3,540
R0280	*Non-life and health similar to non-life*	3,540
R0290	*Non-life excluding health*	3,540
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,135
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	10,193

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,517
R0520	*Technical provisions - non-life (excluding health)*	3,517
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	3,393
R0550	*Risk margin*	124
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	32
R0790	Derivatives	0
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	284
R0850	Subordinated liabilities	148
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	148
R0880	Any other liabilities, not elsewhere shown	2
R0900	**Total liabilities**	3,983
R1000	**Excess of assets over liabilities**	6,210

Appendix 3 – QRT S.05.01.02 Non-life premiums, claims and expenses by line of business *(unaudited)*

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business							3,184	289		26		58					3,557
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							3,184	289		26		58					3,557
R0200	Net							0	0		0		0					0
	Premiums earned																	
R0210	Gross - Direct Business							3,172	282		24		59					3,537
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							3,172	282		24		59					3,537
R0300	Net							0	0		0		0					0
	Claims incurred																	
R0310	Gross - Direct Business							1,164	188		0		3					1,356
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share							899	163		-2		-1					1,059
R0400	Net							265	26		2		5					297
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net							0	0		0		0					0
R0550	**Expenses incurred**							-391	8		1		-10					-393
R1200	**Other expenses**																	
R1300	**Total expenses**																	-393

Appendix 4 – QRT S.05.02.01 Non-life premiums, claims and expenses by country *(unaudited)*

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	**Top 5 countries (by amount of gross premiums written) - non-life obligations**			**Top 5 countries (by amount of gross premiums written) - non-life obligations**		**Total Top 5 and home country**
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	3,557						3,557
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	3,557						3,557
R0200	Net	0	0	0	0	0	0	0
	Premiums earned							
R0210	Gross - Direct Business	3,537						3,537
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	3,537						3,537
R0300	Net	0	0	0	0	0	0	0
	Claims incurred							
R0310	Gross - Direct Business	1,356						1,356
R0320	Gross - Proportional reinsurance accepted	0						0
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	1,059						1,059
R0400	Net	297	0	0	0	0	0	297
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	-393						-393
R1200	**Other expenses**							
R1300	**Total expenses**							-393

Appendix 5 – QRT S.17.01.02 Non-life technical provisions

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**							0	0		0		0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross							546	65		-5		2					608
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							951	79		-3		5					1,031
R0150	**Net Best Estimate of Premium Provisions**							-405	-14		-2		-3					-424
	Claims provisions																	
R0160	Gross							439	2,335		0		12					2,786
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							431	2,065		0		12					2,508
R0250	**Net Best Estimate of Claims Provisions**							7	270		0		0					277
R0260	**Total best estimate - gross**							984	2,400		-5		14					3,393
R0270	**Total best estimate - net**							-398	257		-2		-3					-147
R0280	**Risk margin**							47	77		0		1					124
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**							1,031	2,477		-5		14					3,517
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							1,383	2,143		-3		17					3,540
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							-352	333		-2		-3					-23

Appendix 6 – QRT S.19.01.21 Non-life insurance claims *(unaudited)*

S.19.01.21

Non-Life insurance claims

Total Non-life business

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

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											42	42	42
R0160	N-9	608	575	131	21	43	0	0	0	0	0		0	1,378
R0170	N-8	623	1,568	113	92	-421	0	2	0	0			0	1,977
R0180	N-7	463	246	479	718	668	70	246	90				90	2,979
R0190	N-6	575	1,201	88	31	13	6	112					112	2,024
R0200	N-5	467	351	41	-1	-1	74						74	931
R0210	N-4	474	274	37	10	18							18	812
R0220	N-3	416	318	65	5								5	805
R0230	N-2	847	359	47									47	1,253
R0240	N-1	291	479										479	770
R0250	N	465											465	465
R0260												**Total**	1,331	13,437

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year					**Development year**							**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											1,467	1,335
R0160	N-9	0	0	0	0	0	0	0	0	0	41		38
R0170	N-8	0	0	0	0	0	0	0	0	41			38
R0180	N-7	0	0	0	0	0	0	0	48				44
R0190	N-6	0	0	0	0	0	0	94					89
R0200	N-5	0	0	0	0	0	67						61
R0210	N-4	0	0	0	0	54							49
R0220	N-3	0	0	0	61								55
R0230	N-2	0	0	365									332
R0240	N-1	0	270										255
R0250	N	514											490
R0260												**Total**	2,786

Appendix 7 – QRT S.23.01.01 Own Funds

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	6,210	6,210			
R0140	Subordinated liabilities	148		0	148	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	6,358	6,210	0	148	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	6,358	6,210	0	148	0
R0510	Total available own funds to meet the MCR	6,358	6,210	0	148	
R0540	Total eligible own funds to meet the SCR	6,358	6,210	0	148	0
R0550	Total eligible own funds to meet the MCR	6,358	6,210	0	148	
R0580	**SCR**	1,279				
R0600	**MCR**	3,332				
R0620	**Ratio of Eligible own funds to SCR**	497.00%				
R0640	**Ratio of Eligible own funds to MCR**	190.82%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	6,210
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	6,210
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	45
R0790	**Total Expected profits included in future premiums (EPIFP)**	45

Appendix 8 – QRT S.25.01.21 Solvency Capital Requirement

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	1,030		
R0020	Counterparty default risk	487		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	90		
R0060	Diversification	-323		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,283		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	106
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-110
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,279
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,279
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

Appendix 9 – QRT S.28.01.01 Minimum Capital Requirement

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	26

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	257	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	26
R0310	SCR	1,279
R0320	MCR cap	576
R0330	MCR floor	320
R0340	Combined MCR	320
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,332

Appendix 10 – Glossary of abbreviations

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