



The Baptist Insurance Company PLC

Solvency and Financial Condition Report

31 December 2020

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Executive Summary

Introduction

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

Our business

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

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

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

Business Performance

Despite the highly challenging environment experienced in 2020 as a result of the Covid-19 pandemic, the Company experienced a favourable performance against budget expectations and another encouraging year with favourable investment returns and a positive underwriting performance.

Despite the FTSE experiencing a 14.3% decline from the prior year-end, the Company reported a profit from investments of £657k including unrealised gains of £203k. This is compared to the prior year gain of £527k when the FTSE experienced an exceptional growth.

The underwriting performance delivered a strong positive result, which has further enhanced the Company's overall performance and capital position, enabling the Company to continue to distribute charitable grants, in excess of the planned level, back to the Baptist Community.

At £324k, the underwriting performance was mainly driven by the positive claims performance, including large claims, despite the extensive storms (Ciara, Dennis and Jorge) earlier in the year.

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

Solvency and Financial Condition

The Company uses the Standard Formula to calculate its Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

A summary of the Company's solvency position at the end of 2020 and the change over the year is shown below:

Summary solvency position	2020	2019	Change
	£'000	£'000	£'000
Own Funds	8,638	8,119	519
Market risk	2,370	2,040	330
Counterparty default risk	537	527	10
Non-life underwriting risk	61	60	1
Diversification	(389)	(374)	(15)
Basic SCR	2,579	2,253	326
Operational risk	109	107	2
Loss absorbing capacity of deferred tax	(229)	(343)	114
Standard Formula SCR	2,459	2,017	442
MCR	3,338	3,187	151
Coverage ratio (SCR)	351%	403%	(51%)
Coverage ratio (MCR)	259%	255%	4%

The Company's regulatory solvency position has remained very strong. Own funds increased by £519k in the year mainly due to an increase in retained earnings. This is explained in more detail in section E.1.

The Company's SCR increased in the year by £442k, as market risk increased following the growth in equity exposure during 2020.

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

Outlook for 2021

In early 2020, the existence of a new coronavirus, Covid-19, was confirmed and was characterised by the World Health Organisation as a pandemic. Its full long-term impact on the global economy, and on how people in the future live and work, is still being determined.

While the announcement of a Covid-19 vaccine and a potential return to normality in 2021 has buoyed the market, there will still be challenges as the economy recovers from the deepest recession in modern history. In the insurance profession, it is expected that this economic background will fuel an already hardening market. The Company considers Covid-19 as a continuing risk which impacts market risk, insurance risk and operational risk. These risks have been and continue to be continually monitored and managed under well-established business continuity plans.

The Company is regularly monitoring solvency levels and no instances of a breach of its MCR, SCR or the Board's risk appetite have occurred up to the date of this report being published. Serving our customers, stakeholders and the health and well-being of Ecclesiastical Insurance Office employees working on behalf of the Company has been and continues to be our priority throughout the duration of the pandemic and associated lockdowns.

Although 2021 is set to be a challenging year, there are plenty of opportunities too. The next year will see the insurance sector adapting the way it operates, following its Covid-19 experience. It is expected that the UK insurance market will continue to evolve, with strong competition and a key customer focus on price. The end of the European Union (EU) transition period could also kick-start regulatory change as the

UK embraces the ability to set its own rules. Solvency II is widely seen as a potential target for overhaul, especially as the government launched a review into the regime in October 2020.

A number of trends have been identified as potentially having a significant impact on the business and operating environment for insurers in 2021 and beyond which include Digital Transformation and Data, Operational Resilience and Workforce Transformation, Financial Resilience and Climate Risk.

The pandemic year of 2020 saw a step change in the complexity and sophistication of cyber-attacks and, therefore, in the nature of cyber risks. This will therefore be a consideration across the industry in the coming year and beyond, as it is imperative to ensure controlled data governance structures and environments with sufficient checks are in place to minimise this threat. It will be of particular importance as technological change continues to shape the industry with online platforms increasingly in use to reach out to existing and potential new customers.

The Company's capital position remains very strong and is well placed to withstand continuing market volatility, currency instability and industry pressures.

Directors' Statement of Responsibilities

The Baptist Insurance Company PLC

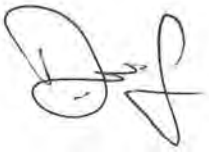
Financial year ended 31 December 2020

Statement required by Article 55 of the Solvency II Directive

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

We are satisfied that:

- a) Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) It is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.



D. Lane
Chief Executive Officer
Date: 6 April 2021

A. Business and performance

A.1 Business details and group structure

A.1.1 Name and legal form of the company

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

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

A.1.2 Supervisory authority

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

A.1.3 External auditor

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

A.1.4 Qualifying holdings

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

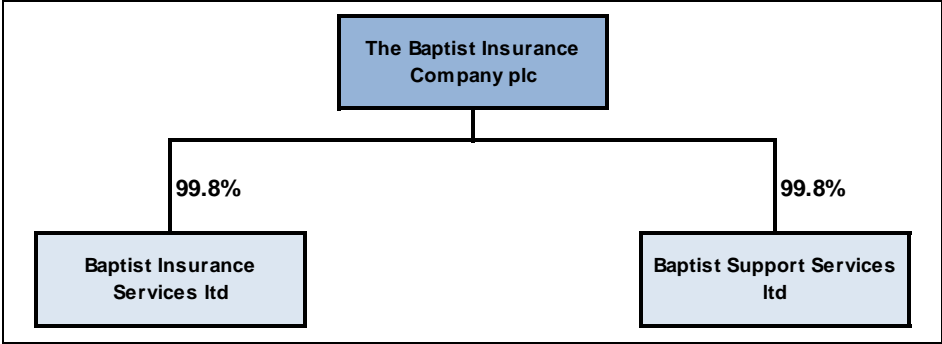
- The Central Baptist Association which holds 3,205 shares equating to 11.331% of the voting rights of the share class.
- Eastern Baptist Association which holds 3,204 shares equating to 11.328% of the voting rights of the share class.

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

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

A.1.5 Group structure

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



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

A.1.6 Lines of business

The principal lines of business of the Company are:

- Fire and other damage to property; and
- General liability.

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

A.1.7 Significant events

The Covid-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. Through the administration agreement, measures have been put in place to protect and maintain operational resilience and to date, the business continuity plans are working effectively with no adverse impact to customers or staff having arisen.

There have been few policy lapses, mainly in relation to the Commercial niche and credit control has been marginally impacted with minimal defaults and requests for direct debit payment holidays. The risks arising from this have been assessed and are being carefully monitored. The potential impact on premiums and claims in 2021 are expected to be minimal, following the experience seen in 2020.

Whilst the Company expects the investment markets to continue to show increased volatility, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic and any further lockdowns.

There is uncertainty regarding the consequences of Brexit and the wider economic impacts that it could have. The Company considers that no impact is expected on the underwriting business due to there being no European exposure on premiums written, however it is noted that there is greater equity price risk with regard to the investment portfolio if Brexit leads to greater market volatility. The Company has

taken appropriate action to mitigate this risk with a global spread of equities and short duration fixed investments held.

The World Economic Forum's Global Risks Report identifies cyber-attacks as a key global risk. As the global dependency on technology continues to increase, cyber security is of paramount importance to businesses. Cyber-attacks have the potential to have far-reaching implications and present significant risks to governments, businesses and individuals. Through the administration agreement, a number of security measures are deployed to ensure protected system access which include security reviews and assessments performed on an ongoing basis as well as ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks.

Climate change presents increasing levels of risk to both the Company and its customers. The greatest impacts of these risks are expected to materialise in the medium to long-term, however, the actions to be taken to mitigate and manage these risks for both the short and longer term are being developed. The potential exposures for the Company include transition risk, primarily related to the investment portfolio, and physical risk affecting the insurance risks that are written.

A.2 Performance from underwriting activities

A.2.1 Overall underwriting performance

The underwriting performance for the year was a profit of £324k (2019: £505k). This follows a strong reinsurance profit commission resulting from a favourable claims performance, despite the large storms at the beginning of the year as well as the challenging economic climate following the Covid-19 pandemic.

During the first half of the year, three storms were experienced in quick succession namely Storms Ciara, Dennis and Jorge leading to the Company experiencing two large claims, which, however, settled favourably later in the year. Despite this weather event, the Company experienced a lower than expected volume of claims, including large claims, as well as a release on a previous year's large claim during the year resulting in a favourable claims experience. The impact of the Covid-19 pandemic was minimal, with 6 registered claims which all closed at nil and a small incurred but not reported (IBNR) provision made to cover potential exposure.

In the year, there were no new pre 1998 run-off claims. The Company run-off IBNR experienced an overall small net decrease of £1k following on from the year-end reserving review, offset by a similar increase on the net position of an existing claim.

Corporate Expenses have experienced an increase from the prior year and this is mainly driven by higher audit fees following recruitment of new auditors, as well as higher professional fees incurred during the year.

Gross Written Premium (GWP) increased by 1.5% compared to the prior year (2019: 1.6% increase). This is despite the lower new business experienced resulting from the pandemic, which had a knock-on impact on planned activities to generate new opportunities. The number of church closures also increased in the year further shrinking the market. Lapses were however favourable to budget and the retention rates remained at over 95%, also higher than budget.

A.2.2 Performance by material class of business

Underwriting Performance By Material Class Of Business				
Description	Property		Liability	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Gross Written Premium	3,285	3,224	285	294
Gross Earned Premium	3,266	3,204	291	293
Gross Incurred Claims	(649)	(796)	(116)	563
Reinsured	(649)	(796)	(149)	486
Run-off	-	-	33	78
Commission	(16)	(13)	(2)	(2)
Expenses	(175)	(160)	(16)	(15)
Gross Underwriting result	2,426	2,235	158	840
Reinsurance Earned Premium	(3,266)	(3,204)	(291)	(293)
Reinsurance Claims	649	796	116	(709)
Reinsurance Commission	523	577	2	254
Net Underwriting result	332	405	(16)	91

*Other business is not considered material and consists of personal accident and pecuniary loss. The net underwriting result was £8k (2019: £9k).

Property

The property account had a strong, favourable experience in spite of the challenging economic environment experienced in 2020, with the gross incurred claims reducing by 18% in comparison to the previous year. Despite the large storms experienced at the onset of the year, the Company has experienced a low level of claims, including fewer large claims, which has resulted in the decrease. In addition, there was a large claim release from a previous year's claim, which has now closed, further contributing to the performance. The net underwriting result is lower than previous year mainly due to a lower reinsurance commission receivable and higher expenses compared to 2019.

Liability

The liability account has seen a decrease compared to the previous year, which was exceptional following the significant large recoveries at the time, and reports a small loss.

The account had a light large claims experience during the year, likely driven by the lockdown, which resulted in a relatively low gross and net incurred claims position in the year. However, the account was impacted by an increase in net IBNR of £102k following on from the year-end review of the physical and sexual abuse (PSA) reserves held, largely due to adverse movement in discount rates. In comparison, 2019 experienced a number of significant large recoveries following settlement of claims from previous underwriting years, which contributed to the positive claims result and considerable favourable result then.

Run-off claims are historic liability claims including PSA claims. The Company run-off IBNR experienced an overall decrease of £33k gross and £1k net following on from the year-end reserving review carried out. No new run-off claims were registered during the year.

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

A.3 Performance from investment activities

A.3.1 Investment performance by asset class

Investment performance	2020 £'000	2019 £'000	Inc/(Dec) £'000
OEIC Income	169	152	17
Bank Interest	2	2	(0)
Total Income	171	154	17
Realised Gains / (Losses) On Investments	254	291	(37)
Unrealised Gains / (Losses) On Investments	203	527	(324)
Total investment return	628	972	(344)
Instalment Handling Fees	34	33	1
Investment Expenses & Charges	(5)	(1)	(4)
Net Investment return	657	1,004	(347)

Total income for the year was £171k, an 11% increase on the prior year and driven by the portfolio restructure back in 2019 that resulted in a change of income periods. This consists of Open Ended Investment Company (OEIC) income received during the year by the Company. Bank interest is at a similar level to the prior year.

The investment performance in 2020 was strong, despite the challenging economic climate that was seen due to the Covid-19 pandemic. Despite the significant FTSE drop to record lows of 24.8% at the onset of the economic crisis in March 2020, by the end of the year, the FTSE had partially recovered with the decline at 14.3%; and the Company experienced strong unrealised gains of £203k. Note that in 2019, the FTSE experienced the biggest jump in the global stocks since 2009 that resulted in the exceptional unrealised gains experienced then. In addition, during 2020, the Company had a portfolio restructure which included the full disposal of one OEIC holding and partial disposal of another OEIC holding resulting in the realised gains experienced of £254k. The restructure also included the purchase of another investment OEIC fund during the last quarter.

Instalment handling fees, which relate to policies that are settled in instalments rather than in full, have remained at a similar level to 2019.

The Company's investment consists wholly of OEICs and the mix of underlying investments were as follows, with the change driven by a new investment purchased during the year:

Investment Mix*	2020 £'000	2019 £'000	Inc/(Dec) £'000
Fixed Interest	3,683	3,848	(165)
UK Equities	1,481	1,681	(200)
Overseas Equities	2,821	1,736	1,085
Cash	146	88	58
Fair Value	8,131	7,354	778

* Based on the fair value at the year end position

A.3.2 Gains and losses recognised directly in equity

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

A.3.3 Investments in securitisation

The Company does not hold any investments in securitisation.

A.4 Performance from other activities

A.4.1 Other Activities

Other Activities	2020	2019	(Inc)/Dec
	£'000	£'000	£'000
Charitable Grants (paid/accrued)	(291)	(314)	24
Financing Costs	(7)	(7)	(0)
Tax	(113)	(231)	118
	<u>(411)</u>	<u>(553)</u>	<u>142</u>

Charitable Grants

Following a continuation of the strong operating performance, despite the challenging environment experienced in the year, the Company allocated £291k in charitable grants in support of the Baptist Community. This was a decrease to the amount allocated in 2019 but in excess of the planned level. The actual monies paid were £364k, which included £70k accrued at the end of last year.

Financing Costs

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

Tax

Due to the strong overall performance for both underwriting and investment activities in the year, the Company had a tax charge of £113k compared to the £231k tax charge for 2019, which experienced an exceptional performance.

A.5 Any other information

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

B. System of governance

B.1 General information on the system of governance

B.1.1 Governing Body – Roles and segregation of responsibilities

Composition

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

The Role of the Administrator – outsourcing arrangements

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

Appointment of Non-executive Directors

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

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

Key roles and responsibilities

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

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

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

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

Segregation of Responsibilities

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

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

Chairman

The Chairman is responsible for:

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

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

Deputy Chairman

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

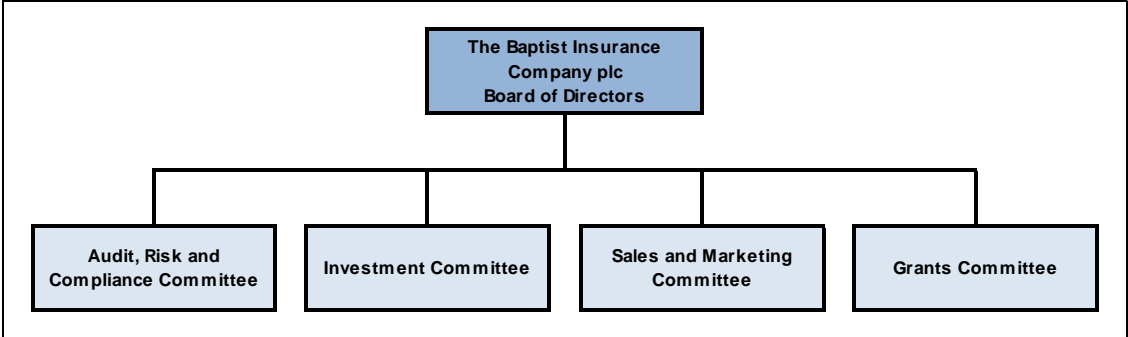
- acting as a sounding board for the Chairman;
- providing support for the Chairman in the delivery of their objectives;
- leading the evaluation of the Chairman;
- acting as an intermediary for the other Directors where necessary; and
- being available to shareholders if they have concerns about the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

Non-Executive Directors

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

B.1.2 Delegation to committees

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



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

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

Audit, Risk and Compliance Committee (AR&CC)

Its responsibilities include:

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

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

Investment Committee (IC)

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

Sales and Marketing Committee

Its main purposes are:

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

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

Grants Committee

Its role is to:

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

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

B.1.3 Roles and responsibilities of key functions

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

CEO/General Manager

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

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

Chief Financial Officer (CFO)

The Chief Financial Officer is an employee of the Administrator and fulfils the SM&CR 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.

Internal Audit Function

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

Risk and Compliance Function

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

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

Actuarial Function

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

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

B.1.4 Material changes in the system of governance

During the year Administrator's Risk and Compliance functions were merged under the leadership of the Chief Risk and Compliance Officer (a newly created role).

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

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

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

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

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

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

B.1.6 Remuneration policy

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

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

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

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

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

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

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

B.2 Fit and proper requirements

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

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

- Honesty, integrity and reputation
- Competence and capability
- Financial soundness

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

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

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

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

B.3 Risk management system including the ORSA

B.3.1 Overview of the risk management system

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, risk 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.

B.3.2 Effectiveness of identifying and managing risks

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

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

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

B.3.3 Implementation of the risk management function

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

- **1st Line (Business management)** is responsible for strategy execution, performance, identification and management of risks and the application of appropriate controls;
- **2nd Line (Reporting, oversight and guidance)** led by the CRO, is responsible for assisting the Company's Board to formulate risk appetite, establish minimum standards, develop appropriate reporting, oversight and challenge of risk profiles and risk management activities. This is subject to oversight and challenge by the AR&CC;
- **3rd Line (Assurance)** provides independent and objective assurance of the effectiveness of the systems of internal control. This activity principally comprises internal audit which is subject to oversight and challenge by AR&CC.

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

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

The second line of defence comprises the risk and compliance functions of the Administrator who provide reporting to the Board's AR&CC as part of the services provided under the JAA. This provides a framework of governance and independent risk oversight, including monitoring and providing challenge to the first line of defence. The second line also provides the operational areas with the necessary training, tools and techniques to manage risk and establish internal controls in an effective way.

The third line of defence is independent and objective assurance of the effectiveness of the Company's systems of internal control. This activity principally comprises the Administrator's internal audit function as part of the services provided under the JAA, and provides regular reporting to the AR&CC.

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

The Company Board

The Board are responsible for:

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

Audit Risk and Compliance Committee

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

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

Investment Committee

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

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

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

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

The risk function bears responsibility for facilitation of:

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

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

The Administrator's Internal Audit function provides an independent opinion over the adequacy and effectiveness of the risk management framework.

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

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

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

B.3.4 Own risk and solvency assessment process

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

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

The Company has delegated the production of the ORSA to the Administrator under the terms of the JAA. The Board is the ultimate owner and fully involved in the key processes, providing challenge and steer. The report is reviewed in detail by the AR&CC before being recommended for approval by the Board. The ORSA process integrates the Company's risk management, business planning and capital management activities. Key steps in the process are:

- establishment and operation of the risk management framework, including policies and the risk appetite;
- assessment of the current risk profile of the business and tolerances and limits to ensure adherence to the risk appetite. This provides a context for business planning;
- a forward looking risk assessment, including identification of emerging risks;
- a business plan for the chosen time horizon that has been derived with reference to the risk appetite, the risk profile of the business and optimal use of capital;
- identification of the impact of the proposed business plan on the risk profile of the business over the plan horizon. This should cover all risks in the business, both short-term and long-term, and include any risks not covered in the Standard Formula;
- a stress testing and scenario analysis framework, including reverse stress testing, with assessment in context of the proposed business plan;
- assessment of the capital required to carry out the business plan, particularly the Own Funds necessary to ensure the continued ability to meet regulatory and assessed capital requirements at all times over the plan period;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;

- consideration of how any shortfall in capital might be addressed and the likelihood of success; and
- assessment of the adequacy and quality of the risk management environment.

B.3.5 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 are quantified.

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

B.3.6 Determination of own solvency needs

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

All aspects of capital management are contained within the Board approved Capital Management Policy. Responsibility for setting objectives and policies relating to own funds rests with the Board. Responsibility for implementing objectives and policies rests with the AR&CC through delegation from the Board. Day to day management 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 AR&CC for detailed review prior to recommendation to the Board for approval.

The AR&CC and Board receive quarterly reporting which includes a Solvency Statement. The Solvency Statement incorporates scenario testing 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 could be implemented as required.

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

B.4 Internal control system

B.4.1 Internal control system

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

The Board has established appropriate Board level policies and a risk appetite to ensure that business objectives are achieved. As the day to day operation of the business has been outsourced to the

Administrator, the business is managed within the Administrator's own internal control system in accordance with the Board's requirements which are detailed within the JAA. The Board monitors the performance of the Administrator and the internal control system on an ongoing basis.

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

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

B.4.2 Group Regulatory Risk function

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

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

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

The charter also sets out the Group Regulatory Risk function's objectives and their key performance measures. Group Regulatory Risk gains its authority from the AR&CC and the Head of Group Regulatory Risk is accountable to the Chair of that committee.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The 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.

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

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

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

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

B.5.2 Independence of the internal audit function

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

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

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

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

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

overview to the Board on the effectiveness of all risk management and assurance processes in the organisation.

B.6 Actuarial function

B.6.1 Implementation of actuarial function

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

The Actuarial Function's key areas of responsibility are:

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

B.7 Outsourcing

B.7.1 Outsourcing policy

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

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

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

- ensure compliance with all regulatory obligations and good market practice in the selection, management and termination of suppliers;
- optimise the choice, loyalty and performance of suppliers and business partners to deliver cost effective goods and services and service enhancing solutions across the business;

- ensure that suppliers uphold the corporate values and high standards of compliance with the Company's corporate policies and regulatory obligations;
- provide for the mitigation of operational and financial risks related to outsourcing and procurement activities; and
- ensure effective identification, authorisation and management of material outsourced contracts as defined and in accordance with regulatory requirements.

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

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

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

B.7.2 Outsourcing of critical or important functions or activities

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

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

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

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

B.8 Any other information

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

C. Risk profile

C.1 Underwriting risk

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

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

C.1.1 Underwriting risk exposure

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

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

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

C.1.2 Underwriting risk concentration

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

There are no significant geographical concentrations.

C.1.3 Underwriting risk mitigation

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

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

The adequacy of the IBNR provisions held is reviewed by the Administrator's Actuarial Reserving team quarterly following which a report is provided to the Board. This provides information relating to the review of reserve adequacy. There is also an Actuarial Function Opinion report produced annually for the Board which provides an opinion on the reserves.

C.1.4 Underwriting risk sensitivity

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

The first stress test considers a rate reduction over the 3 year planning period whilst claims and expenses remain at their planned level. The results indicate an adverse impact on the profit with a small reduction in the solvency coverage over the period.

The second stress test assesses the impact of a sudden adverse development on the Company's historic claims above and beyond existing claims reserves and assumes that no reinsurance recoveries can be made on the claims. This scenario has a significant adverse impact on the profits and results in a fall in the capital coverage although it remains comfortably above the Company's risk appetite

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

C.2 Market risk

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

C.2.1 Market risk exposure

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

The Company has a Statement of Investment Principles (SIP), which is regularly reviewed by the Investment Committee and subsequently approved by the Board, which sets out the principles of governing decisions around the Company's investments. The Governance document outlines principles related to risk including the consideration of the Company's 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.

During 2020 a change was made to the investment portfolio which resulted in the establishment of a surplus fund with the aim of maximising returns within the overall existing approach to stock selection. This has resulted in a revised investment approach of a main portfolio to ensure coverage of the regulatory capital requirement and a surplus fund which is subject to the same asset selection criteria as the main fund but is not subject to the asset allocations stipulated in the SIP.

During the year the Company sold its holdings with one of the Fund Managers and invested with a new Fund Manager. This did not materially change the overall risk exposure.

Market risk is the most significant risk for the Company and this is largely due to the underlying exposure to equities held. The company has a relatively prudent appetite to risk and keeps the asset allocation within the SIP, which is biased towards fixed-interest securities where volatility is considered to be much lower.

C.2.2 Compliance with prudent person principle

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

The IC has an agreed formal Terms of Reference which was reviewed in November 2020 and approved by the Board and is required to review the SIP at least annually.

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

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

C.2.3 Market risk concentration

The Company invests in OEIC's for the specific reason of diversification of credit risk. The Royal London Short Duration Credit Fund for example has investments in 312 companies as at 31 December 2020, with the largest holding accounting for 1.5% of the total OEIC value.

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

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

C.2.4 Market risk mitigation

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

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

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

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

C.2.5 Market risk sensitivity

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

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

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

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

C.3 Credit risk

C.3.1 Credit risk exposure

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

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

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

C.3.2 Credit risk concentration

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

C.3.3 Credit risk mitigation

The key mitigant is the formal reinsurance arrangement in place with the Administrator who holds a high credit rating.

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

The Board also monitors the financial performance of the Administrator and the Group Chief Executive of the Administrator provides an annual update on the financial performance and strength. The Chief Executive Officer of the Company is also employed by the Administrator and provides updates on key developments.

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

C.3.4 Credit risk sensitivity

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

C.4 Liquidity risk

C.4.1 Liquidity risk exposure

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

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

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

C.4.2 Liquidity risk concentration

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

C.4.3 Liquidity risk mitigation

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

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

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

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

C.4.4 Liquidity risk sensitivity

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 £44k.

C.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

C.5.1 Operational risk exposure

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

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

There have not been any material changes to the residual risk exposure over the reporting period. The administrator has continued to administer the business in line with the agreed service standards during the Covid-19 pandemic.

C.5.2 Operational risk concentration

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

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

C.5.3 Operational risk mitigation

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

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

The Board has sought additional assurance from the administrator on their ability to maintain operations during the Covid-19 pandemic.

C.5.4 Operational risk sensitivity

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

C.6 Other material risks

C.6.1 Other material risk exposure

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

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

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

C.6.2 Other material risk concentration

There are no other material risk concentrations to note.

C.6.3 Other material risk mitigation

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

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

C.6.4 Other material risk sensitivity

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

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

C.7 Any other information

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

D. Valuation for solvency purposes

Following the UK's exit from the EU, the PRA rulebook continues to refer to the EU SII articles in force at 31 December 2020. Reference to EU directives therefore remain valid.

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 £80k (Equivalent to 1% of IFRS net assets).

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

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

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

All other financial assets and liabilities are held at amortised cost using the effective interest method, except for short-term receivables and payables where the recognition of interest would be immaterial. The Directors consider that the carrying value of those financial assets and liabilities not carried at fair value approximates to their fair value.

D.1 Assets

D.1.1 Solvency II valuation of assets

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

Solvency II Valuation	2020 As reported IFRS Basis	Reclassify to aid comparison	2020 Reclassified IFRS valuation	Net valuation movement	2020 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	13,993	(480)	13,513	(1,710)	11,803
Total liabilities	5,997	(480)	5,517	(2,204)	3,313
Net assets	7,996	-	7,996	494	8,490
Breakdown of asset valuation					
Technical provisions - Reinsurance recoverables	4,562	(153)	4,409	(1,707)	2,702
Investments	8,133	-	8,133	-	8,133
Cash and cash equivalents	968	-	968	-	968
Insurance & intermediaries receivables	318	(318)	-	-	-
Reinsurance receivables	9	(9)	-	-	-
Receivables (trade, not insurance)	3	-	3	(3)	-
Total assets	13,993	(480)	13,513	(1,710)	11,803

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

Technical provisions - Reinsurance Recoverables

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

Investments – Participations

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

Investments other than participations

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

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

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

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

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

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

Cash and cash equivalents

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

Insurance & intermediaries receivables and reinsurance receivables

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

Receivables (Trade, not insurance)

The valuation of non-insurance receivables is nil as SII excludes £3k of prepayments which have no economic value.

D.2 Technical provisions

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

Under SII the technical provisions are made up of:

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

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

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

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

The reserving framework is structured such that sufficient oversight exists within the reserve setting process through reviews by key stakeholders within management, by the Actuarial Function Director, and

ultimately by the Board via Committee. This ensures there is an independent challenge to the process and results, and that future developments within the business are incorporated into the projections where appropriate.

Modelling methodologies and assumptions

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

The following methods are used accordingly:

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

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

Valuation

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

Risk margin

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

D.2.2 Level of uncertainty

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

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

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

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

Sensitivity analysis

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

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

SII net best estimate sensitivities to future scenarios		
Risk	Sensitivity applied	£k
Claims inflation	+ 1.0% each year applied cumulatively	28
Discount rate shift	+ 0.5% to spot rate at all durations	-11
Reinsurance default	All reinsurer ratings downgraded to B	32

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

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

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

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

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

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

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

Net technical provisions	2020 £'000	2019 £'000
IFRS Technical Provisions net of debtors and creditors	676	312
Adjustment for risk margin	(551)	(548)
Adjustment for discounting	(10)	(22)
Other adjustments	(46)	(83)
SII Net technical provisions	70	(341)

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

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

D.2.5 Recoverables from reinsurance contracts and special purpose vehicles

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

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

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

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

D.3 Other liabilities

D.3.1 Solvency II valuation of other liabilities

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

Solvency II Valuation	2020	Reclassify to aid comparison	2020	Net valuation movement	2020
	As reported IFRS Basis		Reclassified IFRS valuation		Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	13,993	(480)	13,513	(1,710)	11,803
Total liabilities	5,997	(480)	5,517	(2,204)	3,313
Net assets	7,996	-	7,996	494	8,490
Breakdown of liability valuation					
Technical provisions - non-life	5,323	(238)	5,085	(2,312)	2,773
Payables (trade, not insurance)	282	-	282	(8)	274
Deferred tax liabilities	-	-	-	116	116
Other liabilities	2	-	2	-	2
Insurance payables	80	(80)	-	-	-
Reinsurance payables	162	(162)	-	-	-
Subordinated liabilities	148	-	148	-	148
Total liabilities	5,997	(480)	5,517	(2,204)	3,313

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

Technical provisions – non-life

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

Payables (trade, not insurance)

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

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

Deferred tax liabilities

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

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

For SII the deferred tax liability has been calculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities. The tax rate used is 19%.

Any other Liabilities

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

Reinsurance payables

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

Subordinated Liabilities

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

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

D.4 Alternative methods for valuation

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

D.5 Any other information

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

E. Capital Management

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

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

Basic Own Funds	2020 £'000	2019 £'000
SII Valuation of assets	11,803	11,600
SII Valuation of liabilities	(3,313)	(3,629)
Excess of assets over liabilities	8,490	7,971
Qualifying subordinated debt	148	148
Foreseeable distributions	-	-
Basic own funds	8,638	8,119

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

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

E.1 Own funds

E.1.1 Own funds - objectives, policies and processes

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

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

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

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

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

Regulatory and legislative

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

Definition and monitoring of capital available

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

Definition and monitoring of capital requirements (Solvency)

- all current and future capital requirements (regulatory or otherwise) are understood at all times. The Company has an agreed definition of an ‘Economic Capital Requirement’, reflecting its own view of risk.
- the Company has an agreed risk appetite to ensure a satisfactory level of capital coverage on all relevant bases – including a statement of coverage for its economic and regulatory capital.
- the Company has at least enough capital to meet its regulatory requirements at all times.
- all capital requirements covered by the risk appetite are calculated and the relevant solvency position reviewed on a regular basis – in accordance with an agreed process.
- relevant stakeholders (i.e. regulators) are informed of any adverse changes to solvency positions in excess of agreed reporting levels.
- 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 AR&CC. Any breaches to this Policy or any incidents must be escalated immediately to the Chairman and Chairman of the AR&CC.

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

Business planning is conducted annually over a three year horizon.

E.1.2 Movement in own funds compared to prior period

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

Analysis of Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2020	£'000	£'000	£'000	£'000	£'000
Preference share capital	148	-	148	-	-
Reconciliation reserve	8,490	8,490	-	-	-
	<u>8,638</u>	<u>8,490</u>	<u>148</u>	<u>-</u>	<u>-</u>
2019					
Preference share capital	148	-	148	-	-
Reconciliation reserve	7,971	7,971	-	-	-
	<u>8,119</u>	<u>7,971</u>	<u>148</u>	<u>-</u>	<u>-</u>
Movement in own funds					
Preference share capital	-	-	-	-	-
Reconciliation reserve	519	519	-	-	-
	<u>519</u>	<u>519</u>	<u>-</u>	<u>-</u>	<u>-</u>

The £148k of preference share capital is recognised as a liability in the Company's IFRS financial statements. It has been determined that both classes of preference shares do not meet all the criteria required for inclusion in own funds as SII compliant capital.

As permitted under Article 308b of the SII Directive they have been classified as tier 1 capital on a transitional basis. The transitional arrangement expires in 2026, after which the preference shares will no longer be recognised as SII own funds. As they are not material to the solvency cover of the Company there is currently no intention to redeem or replace these instruments. No ancillary own funds have been recognised.

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

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

Movement in reconciliation reserve		£'000
Prior year balance		7,971
IFRS Retained earnings for year		570
Movement in SII revaluations:		
Net technical provisions		(48)
Other		(3)
Total movement for year		519
Current year balance		8,490

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

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

Analysis of eligible own funds available to cover the SCR		2020	2019
		£'000	£'000
Tier 1		8,490	7,971
Restricted tier 1		148	148
Eligible tier 1 own funds		8,638	8,119
Eligible tier 2 own funds		-	-
Eligible tier 3 own funds		-	-
Total eligible own funds		8,638	8,119
Ineligible own funds		-	-
Total own funds		8,638	8,119

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

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

Analysis of eligible own funds available to cover the MCR		2020	2019
		£'000	£'000
Tier 1		8,490	7,971
Restricted tier 1		148	148
Eligible tier 1 own funds		8,638	8,119
Eligible tier 2 own funds		-	-
Total eligible own funds		8,638	8,119
Ineligible own funds		-	-
Total own funds		8,638	8,119

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

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

Reconciliation from IFRS net assets to Solvency II own funds	2020	2019
	£'000	£'000
Equity as reported in IFRS Financial Statements	7,996	7,426
Recognise subordinated debt (preference share capital) as equity	148	148
Revalue technical provisions: Gross technical provisions	(1,707)	(1,793)
Reinsurers' share	2,312	2,446
Adjust for assets and liabilities with no SII fair value	5	4
Impact of revaluation on deferred tax	(116)	(112)
Solvency II Valuation of own funds	8,638	8,119

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

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

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

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

E.1.6 Transitional arrangements

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

E.1.7 Ancillary own funds

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

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

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

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

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

E.2.1 SCR and MCR

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

The MCR is the higher of the absolute floor (£3,338k) and the combined MCR.

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

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

As at 31 December 2020 the SCR for the Company was £2,459k, and the MCR was £3,338k. Both amounts are still subject to supervisory assessment.

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

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

Capital Requirements	2020	2019	Change
	£'000	£'000	£'000
Market risk	2,370	2,040	330
Counterparty default risk	537	527	10
Non-life underwriting risk	61	60	1
Diversification	(389)	(374)	(15)
Basic SCR	<u>2,579</u>	<u>2,253</u>	<u>326</u>
Operational risk	109	107	2
Loss absorbing capacity of deferred tax	(229)	(343)	114
SCR	<u>2,459</u>	<u>2,017</u>	<u>442</u>
MCR	<u>3,338</u>	<u>3,187</u>	<u>151</u>

Market risk has grown following a rise in equity exposure resulting from an increased investment trust holding, whose portfolio is heavily weighted towards listed equities, a large portion of which are overseas. This has increased both equity and currency risk exposure.

All other risk modules have remained stable.

The loss absorbing capacity of deferred tax has decreased due to a reduction in current year taxable profits, and therefore a reduction in losses which can be absorbed through carry back.

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

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

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

E.2.4 Inputs used in the calculation of the MCR

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

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

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

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

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

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

E.5.1 MCR non-compliance

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

E.5.2 SCR non-compliance

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

E.6 Any other information

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

Appendix 1 – QRT S.02.01.02 Balance Sheet

S.02.01.02		Solvency II
Balance sheet		value
		C0010
Assets		
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)	8,133
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	2
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	8,131
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	2,702
R0280	<i>Non-life and health similar to non-life</i>	2,702
R0290	<i>Non-life excluding health</i>	2,702
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	968
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	11,803

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		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	2,772
R0520	<i>Technical provisions - non-life (excluding health)</i>	2,772
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	2,636
R0550	<i>Risk margin</i>	136
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	116
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	275
R0850	Subordinated liabilities	148
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	148
R0880	Any other liabilities, not elsewhere shown	2
R0900	Total liabilities	3,313
R1000	Excess of assets over liabilities	8,490

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

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

Non-life

	Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											Line of business for: accepted non-proportional reinsurance				Total	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150		C0160
Premiums written																	
R0110 Gross - Direct Business							3,285			285			23				43
R0120 Gross - Proportional reinsurance accepted																	
R0130 Gross - Non-proportional reinsurance accepted							3,285			285			23				43
R0140 Reinsurer's share							0			0			0				0
R0200 Net							0			0			0				0
Premiums earned																	
R0210 Gross - Direct Business							3,266			291			21				44
R0220 Gross - Proportional reinsurance accepted																	
R0230 Gross - Non-proportional reinsurance accepted							3,266			291			21				44
R0240 Reinsurer's share							0			0			0				0
R0300 Net							0			0			0				0
Claims incurred																	
R0310 Gross - Direct Business							649			116			0				765
R0320 Gross - Proportional reinsurance accepted																	0
R0330 Gross - Non-proportional reinsurance accepted							649			116			0				765
R0340 Reinsurer's share							0			0			0				0
R0400 Net							0			0			0				0
Changes in other technical provisions																	
R0410 Gross - Direct Business																	0
R0420 Gross - Proportional reinsurance accepted																	0
R0430 Gross - Non-proportional reinsurance accepted																	0
R0440 Reinsurer's share							0			0			0				0
R0500 Net							0			0			0				0
Expenses incurred																	
R0550							328			16			1				-9
Other expenses																	
R1200																	
R1300 Total expenses																	-319

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

		S.05.02.01						
		Premiums, claims and expenses by country						
		Non-life						
		C0010	C0020	C0030	C0040	C0050	C0070	
		Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
		Home Country						
R0010	Premiums written							
R0110	Gross - Direct Business	3,636						3,636
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	3,636						3,636
R0200	Net	0						0
	Premiums earned							
R0210	Gross - Direct Business	3,622						3,622
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	3,622						3,622
R0300	Net	0						0
	Claims incurred							
R0310	Gross - Direct Business	765						765
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	765						765
R0400	Net	0						0
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0						0
R0550	Expenses incurred	-319						-319
R1200	Other expenses							
R1300	Total expenses							-319

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

S.19.01.21

Non-Life Insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
Year	Development year										In Current Year	Sum of years (cumulative)	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100			C0110
Prior	0	1	2	3	4	5	6	7	8	9	10 & +	0	
R01000													
R0160	467	351	41	-1	-1	74	0	0	19	3		3	952
R0170	474	274	37	10	18	0	7	0	0			0	820
R0180	416	318	65	5	0	0	1	0				0	804
R0190	847	359	47	6	-3	0	0	0				0	1,256
R0200	291	479	124	-1	0	0						0	893
R0210	465	256	19	5	40							40	786
R0220	461	284	102	50								50	897
R0230	818	736	85									85	1,640
R0240	256	221										221	477
R0250												567	567
R0260	567											966	9,093
Total													

Gross Undiscounted Best Estimate Claims Provisions												
(absolute amount)												
Year	Development year										Year end (discounted data)	
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290		C0300
Prior	0	1	2	3	4	5	6	7	8	9	10 & +	1,053
R01000												
R0160	0	0	0	0	0	42	44	48	38	46		44
R0170	0	0	0	0	40	49	45	37	51			49
R0180	0	0	0	42	37	40	35	43				41
R0190	0	0	49	43	44	37	41					39
R0200	0	305	160	79	63	43						41
R0210	832	268	32	37	68							65
R0220	489	117	138	42								40
R0230	876	220	101									98
R0240	555	145										140
R0250												469
R0260	476											2,077
Total												

Appendix 6 – QRT S.23.01.01 Own Funds

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/235

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0020	C0030	C0040	C0050
R0010 Ordinary share capital (gross of own shares)	0	0	0	0	0
R0030 Share premium account related to ordinary share capital	0	0	0	0	0
R0040 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0	0	0	0
R0050 Subordinated mutual member accounts	0	0	0	0	0
R0070 Surplus funds	0	0	0	0	0
R0090 Preference shares	0	0	0	0	0
R0110 Share premium account related to preference shares	0	0	0	0	0
R0130 Reconciliation reserve	8,490	8,490	0	0	0
R0140 Subordinated liabilities	148	0	148	0	0
R0160 An amount equal to the value of net deferred tax assets	0	0	0	0	0
R0180 Other own fund items approved by the supervisor 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	0	0	0	0
R0230 Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290 Total basic own funds after deductions	8,638	8,490	148	0	0
Ancillary own funds					
R0300 Unpaid and uncalled ordinary share capital callable on demand	0	0	0	0	0
R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	0	0	0	0	0
R0320 Unpaid and uncalled preference shares callable on demand	0	0	0	0	0
R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0	0	0	0	0
R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0	0	0	0	0
R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0	0	0	0	0
R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	0	0	0	0
R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	0	0	0	0
R0390 Other ancillary own funds	0	0	0	0	0
R0400 Total ancillary own funds	0	0	0	0	0
Available and eligible own funds					
R0500 Total available own funds to meet the SCR	8,638	8,490	148	0	0
R0510 Total available own funds to meet the MCR	8,638	8,490	148	0	0
R0540 Total eligible own funds to meet the SCR	8,638	8,490	148	0	0
R0550 Total eligible own funds to meet the MCR	8,638	8,490	148	0	0
R0580 SCR	2,459				
R0600 MCR	3,338				
R0640 Ratio of Eligible own funds to SCR	351,35%				
R0640 Ratio of Eligible own funds to MCR	258,81%				
Reconciliation reserve					
R0700 Excess of assets over liabilities	8,490				
R0710 Own shares (held directly and indirectly)	0				
R0720 Foreseeable dividends, distributions and charges	0				
R0730 Other basic own fund items	0				
R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	0				
R0760 Reconciliation reserve	8,490				
Expected profits					
R0770 Expected profits included in future premiums (EFPF) - Life business	44				
R0780 Expected profits included in future premiums (EFPF) - Non-Life business	44				
R0790 Total Expected profits included in future premiums (EFPF)	44				

Appendix 7 – QRT S.25.01.21 Solvency Capital Requirement

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	2,371		
R0020 Counterparty default risk	537		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	62		
R0060 Diversification	-389		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	2,579		
Calculation of Solvency Capital Requirement	C0100		
R0130 Operational risk	109		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes	-229		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	2,459		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	2,459		
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		
Approach to tax rate	C0109		
R0590 Approach based on average tax rate	Yes		
Calculation of loss absorbing capacity of deferred taxes	LAC DT		
	C0130		
R0640 LAC DT	-229		
R0650 LAC DT justified by reversion of deferred tax liabilities	-116		
R0660 LAC DT justified by reference to probable future taxable economic profit	0		
R0670 LAC DT justified by carry back, current year	-113		
R0680 LAC DT justified by carry back, future years	0		
R0690 Maximum LAC DT	0		

Appendix 8 – QRT S.28.01.01 Minimum Capital Requirement

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations		C0010																																												
R0010	MCR _{NL} Result		19																																											
				<table border="1"> <thead> <tr> <th>Net (of reinsurance/SPV) best estimate and TP calculated as a whole</th> <th>Net (of reinsurance) written premiums in the last 12 months</th> </tr> <tr> <th>C0020</th> <th>C0030</th> </tr> </thead> <tbody> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>182</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> <tr><td></td><td>0</td></tr> </tbody> </table>	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	C0020	C0030		0		0		0		0		0		0		0		0		0		182		0		0		0		0		0		0		0		0		0
Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months																																													
C0020	C0030																																													
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R0020	Medical expense insurance and proportional reinsurance																																													
R0030	Income protection insurance and proportional reinsurance																																													
R0040	Workers' compensation insurance and proportional reinsurance																																													
R0050	Motor vehicle liability insurance and proportional reinsurance																																													
R0060	Other motor insurance and proportional reinsurance																																													
R0070	Marine, aviation and transport insurance and proportional reinsurance																																													
R0080	Fire and other damage to property insurance and proportional reinsurance																																													
R0090	General liability insurance and proportional reinsurance																																													
R0100	Credit and suretyship insurance and proportional reinsurance																																													
R0110	Legal expenses insurance and proportional reinsurance																																													
R0120	Assistance and proportional reinsurance																																													
R0130	Miscellaneous financial loss insurance and proportional reinsurance																																													
R0140	Non-proportional health reinsurance																																													
R0150	Non-proportional casualty reinsurance																																													
R0160	Non-proportional marine, aviation and transport reinsurance																																													
R0170	Non-proportional property reinsurance																																													
				<table border="1"> <thead> <tr> <th>Net (of reinsurance/SPV) best estimate and TP calculated as a whole</th> <th>Net (of reinsurance/SPV) total capital at risk</th> </tr> <tr> <th>C0050</th> <th>C0060</th> </tr> </thead> <tbody> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> </tbody> </table>	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	C0050	C0060																																						
Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk																																													
C0050	C0060																																													
Linear formula component for life insurance and reinsurance obligations		C0040																																												
R0200	MCR _L Result		0																																											
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		19																																											
R0310	SCR		2,459																																											
R0320	MCR cap		1,106																																											
R0330	MCR floor		615																																											
R0340	Combined MCR		615																																											
R0350	Absolute floor of the MCR		3,338																																											
R0400	Minimum Capital Requirement		3,338																																											

Appendix 9 – Glossary of abbreviations

The Company	The Baptist Insurance Company PLC
The Administrator	The provider of outsourced management and administration services.
The Delegated Act	Solvency II Delegated Regulation (EU) 2015/35
The Directive	Solvency II Directive 2009/138/EC
AIA	The Administrator's Internal Audit Function
AR&CC	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
GAC	The Administrator's Group Audit Committee
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
MCR	Minimum Capital Requirement
NED(s)	Non-executive Director(s)
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
SM&CR	Senior Managers & Certification Regime
TPs	Technical provisions