BaptistInsurance

Experts in church and home insurance

Solvency and Financial Condition Report

31 December 2022

Contents

Executive Summary

Introduction

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

Our business

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

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

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

Business performance

The operating performance for 2022 was a loss of £819k, driven by the investment performance which experienced significant unrealised losses during the market volatility seen through the period. This was however slightly offset by the underwriting performance which was strong and higher than both budget and the prior year. Despite this loss, as illustrated in the Solvency section below, the solvency coverage remained very strong.

The investment income reported a net loss of £1,119k driven by unrealised losses of £1,307k (2021: gains of £817k). The negative performance saw all Funds held by the Company deliver unrealised losses reflecting performance of the global stock markets following economic and political volatility.

The underwriting performance delivered a strong positive result, which combined with the strong solvency coverage enabled the Company to continue to distribute charitable grants, in line with the planned level, back to the Baptist Community. At £301k, the underwriting performance was mainly driven by a strong reinsurance profit commission which was £395k ahead of plan, resulting from a favourable claims performance, particularly on the liability account.

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 2022 and the change over the year is shown below:

Summary solvency position	2022 £'000	2021 £'000	Change £'000
Own Funds	**8,262**	**9,231**	(969)
Market risk	2,260	3,107	(847)
Counterparty default risk	606	531	75
Non-life underwriting risk	75	64	11
Diversification	(432)	(401)	(31)
Basic SCR	2,509	3,301	(792)
Operational risk	116	110	6
Loss absorbing capacity of deferred tax	(260)	(303)	43
Standard Formula SCR	**2,365**	**3,108**	(743)
MCR	**3,445**	**3,126**	319
Coverage ratio (SCR)	**349%**	**297%**	52%
Coverage ratio (MCR)	**240%**	**295%**	(55%)

The Company's regulatory solvency position has remained strong. Own funds decreased by £969k in the year primarily due to the reduction in Investment Assets, with both Equity and Bond markets down in the period. Despite this, the Company's regulatory solvency position remains strong resulting in a coverage of 240%. This is explained in more detail in section E.1.

The Company's SCR decreased in the year by £743k following the reduction in Equity risk, reflecting the reduction in Equity markets in the period. This still lies below the MCR of £3,445k and hence MCR is the Capital requirement.

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

Outlook for 2023

The ongoing impact of high inflation and the increases in interest rates by the Bank of England are expected to continue in to 2023. Interest rates have continued to rise in the early part of 2023, with the rate now sitting at 4.25% following the latest rise in March 2023. The Company is alert to these risks and will continue to monitor and manage these and other risks as they emerge.

The recent market events within the banking sector are a reminder of the inherent risks faced by the banks. The Company has no direct exposure to those banks affected and only a very limited exposure to Additional Tier 1 debt instruments across the banking sector. The impact on the Company's investment portfolio is not expected to have any significant impact on the Company's solvency position.

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

Challenging economic conditions and rising geopolitical tensions have forced businesses to react to decisions made by central banks around the world. The insurance market has gone from low inflation, low interest rates and integrated global markets to rising inflation, higher interest rates and increased protectionism, alongside managing of the difficulties during the pandemic which we now see becoming part of everyday life. The impact of these challenging economic conditions to the business continue to be monitored. Cyber security will continue to be a focus as remote and hybrid working has become normalised. Climate change and sustainability continue to be a key area of focus for insurers as is ongoing political volatility, especially in light of the extreme natural disasters that have recently occurred, as well as the rising political tensions.

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

Directors' Statement of Responsibilities

The Baptist Insurance Company PLC

Financial year ended 31 December 2022

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 (SII) 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 SII 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: 5 April 2023

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

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

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

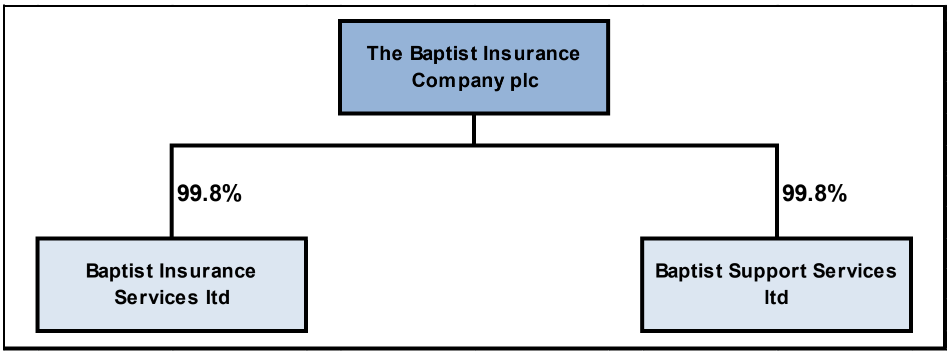
In addition, 1,286 four percent cumulative preference shares of £5 each have been issued. Qualifying holdings are as follows:

- London Baptist Property Board Limited which holds 130 Shares equating to 10.109% of the Share class.

- Gordon Harvey Price holds 238 Shares equating to 18.507% of the Share class.

A.1.5 **Group structure**

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



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

A.1.6 **Lines of business**

The principal lines of business of the Company are:

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

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

A.1.7 **Significant events**

During 2022 as the economy emerged from the impact of Covid-19, UK and global markets were impacted by increased energy costs and the war in Ukraine. These factors have contributed to the risks faced by the Company and on its investments. With rates of inflation substantially above Bank of England targets and a series of increases in interest rates, it is expected that high inflation and interest rates will persist in to 2023.

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

The Company has a robust and regular solvency monitoring process in place together with a strong risk management framework. Whilst 2022 solvency surplus is extremely strong, the Company and the wider group continues to monitor the impact of key risks. Up to the date of this report being published no instances of a breach of its MCR, SCR or the Board's risk appetite have been identified.

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

A.2 Performance from underwriting activities

A.2.1 **Overall underwriting performance**

The underwriting performance for the year was a profit of £301k (2021: loss of £19k), with the post-1998 account delivering a profit of £341k. This follows a strong reinsurance profit commission resulting from a favourable claims performance, particularly on the liability account. While the property account was also favourable, the account saw a number of large claims, notably due to impact from storms, escape of water/water ingress resulting from burst pipes and pipe leaks, some impact from floods and a fire claim. The pre-1998 run-off account saw a small loss of £40k due to movements on a number of open cases, and associated Incurred but not reported (IBNR) increases.

In the year, there was a new pre 1998 run-off claim registered. In addition to this, there have also been movements experienced in relation to existing claims. The overall impact of this was an increase of £251k gross (£3k net). The Company run-off IBNR experienced an increase of £319k gross (£37k net) as a result of this experience and to include an increased reserve for future potential claims.

Corporate Expenses have experienced an increase from the prior year, primarily driven by higher than expected audit fees following increased scope including ISA315 and IFRS17, as well as a higher rate of inflation.

Gross Written Premium (GWP) increased by 8.4% compared to the prior year (2021: 2.2% increase). Indexation and mid-term adjustments were key contributors to the GWP growth. New business was slightly adverse to budget whilst retention rates remained strong at 98%, favourable to budget.

The impact of the Covid-19 pandemic continued to be minimal, with no new claims registered in the year, with the remaining small IBNR provision held to cover potential exposure being released in Q4.

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

Underwriting Performance By Material Class Of Business

Description	Property 2022 £'000	Property 2021 £'000	Liability 2022 £'000	Liability 2021 £'000
Gross Written Premium	3,666	3,358	294	288
Gross Earned Premium	3,499	3,299	293	288
Gross Incurred Claims	(1,464)	(1,266)	(543)	(557)
Reinsured	*(1,464)*	*(1,266)*	*27*	*(77)*
Run-off	-	-	*(570)*	*(480)*
Commission	(15)	(15)	(1)	(2)
Expenses	(258)	(225)	(22)	(20)
Gross Underwriting result	**1,762**	**1,793**	**(273)**	**(291)**
Reinsurance Earned Premium	(3,499)	(3,299)	(293)	(288)
Reinsurance Claims	1,464	1,266	503	394
Reinsurance Commission	335	303	294	99
Net Underwriting result	**62**	**63**	**232**	**(86)**

Other business is not considered material and consists of personal accident and pecuniary loss. The net underwriting result was £7k (2021: £4k).

Property

The property account reported an underwriting profit of £62k, in line with the previous year's profit of £63k. During the year, a number of large claims were registered, predominantly due to storms, escape of water and property damage. Further to this, weather experience was high during the year as a result of the February storms and December freeze event, but this was more than mitigated by an improved experience on attritional claims. Subsequently the Reinsurance Commission remained strong and higher than the previous year. Higher expenses however adversely impacted the result.

Liability

The liability account reported a profit of £232k, a significant improvement on the previous year. This was attributable to the Reinsurance Commission on post-1998 liability claims experience which has been light, as well as the reduction in post-1998 IBNR owing to favourable movement in the discount factor.

Mitigating the favourable experience slightly has been the run-off experience. Run-off claims are historic liability claims including physical and sexual abuse (PSA) claims. One new pre-1998 run-off claim was registered in the year, as well as movements experienced in relation to existing claims. These amounted to £251k gross but only £3k net as retention levels had been reached in previous years. In addition to this, the Company run-off IBNR experienced an increase of £319k gross and £37k net following the experience and to include an increased reserve for future potential claims. As at the end of the year, the resulting run-off claims and IBNR movements stood at £570k gross and £40k net.

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

A.3 Performance from investment activities

A.3.1 **Investment performance by asset class**

Investment performance	2022	2021	Inc/(Dec)
	£'000	£'000	£'000
OEIC Income	150	138	12
Bank Interest	2	0	2
Total Income	153	138	15
Realised Gains / (Losses) On Investments	-	-	-
Unrealised Gains / (Losses) On Investments	(1,307)	817	(2,123)
Total investment return	(1,154)	955	(2,109)
Instalment Handling Fees	39	35	4
Investment Expenses & Charges	(4)	(5)	0
Net Investment return	(1,119)	985	(2,104)

Total income consisted primarily of Open Ended Investment Company (OEIC) income received during the year by the Company. For the year, this amounted to £150k, a 9% increase on the prior year. Bank interest was a small amount of £2k in the year, an increase on the prior year.

The total investment loss to December 2022 was £1,154k compared to a prior year investment profit of £955k. The negative performance was seen across all the Funds held by the Company which all delivered unrealised losses reflecting performance of the global stock markets following economic and political volatility. During the year, the Company did not purchase or dispose of any investments other than dividends being reinvested back into the account up until Q2 2022, with these being received as cash payments since this date.

Instalment handling fees, which relate to policies that are settled in instalments rather than in full, have remained at a similar level to 2021.

The Company's investment consists wholly of OEICs and the mix of underlying investments were as follows, with the change driven by the unrealised losses in the year:

Investment Mix*	2022	2021	Inc/(Dec)
	£'000	£'000	£'000
Fixed Interest	3,408	3,804	(395)
UK Equities	1,461	1,598	(136)
Overseas Equities	2,813	3,554	(740)
Cash	178	130	48
Fair Value	7,860	9,086	(1,224)

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	2022	2021	(Inc)/Dec
	£'000	£'000	£'000
Charitable Grants (paid/accrued)	(297)	(299)	2
Financing Costs	(7)	(7)	-
Tax	175	(130)	305
	(129)	(436)	307

Charitable Grants

The Company distributed £297k in charitable grants in support of the Baptist Community. This was in line with the amount allocated in 2021 of £299k and in line with the budget of £300k.

Financing Costs

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

Tax

The Company's tax credit for the year was £175k made up of a corporation tax credit of £128k and a deferred tax credit of £47k, largely driven by the adverse investment loss seen in the year (2021: tax charge of £130k).

A.5 Any other information

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

B. System of governance

B.1 General information on the system of governance

B.1.1 **Governing Body – Roles and segregation of responsibilities**

Composition

The Company is governed by a Board of Directors (the Board) comprising a Non-Executive Chair, eight 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 JAA. In accordance with the Company's Articles of Association, an Administrator Director, who is an employee of the Administrator, has been appointed to the Board. Authority is delegated by the Board to the Administrator for the sound management of the Company's day to day business.

Appointment of Non-executive Directors

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

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

Key roles and responsibilities

The Board retains ultimate responsibility for the governance and sound prudent management of the Company and is responsible for ensuring compliance of the outsourcing services and reinsurance agreement and all of its regulatory requirements and obligations.

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

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

- culture and values;
- strategy and direction;
- leadership and organisation;
- governance;

- risk management and controls;
- financial expectations and performance; and
- communication.

Segregation of Responsibilities

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

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

Chair

The Chair is responsible for:

- the active leadership of the Board, ensuring its effectiveness in all aspects of its role;
- maintaining an appropriate balance on the Board regarding skills, knowledge, experience and diversity;
- ensuring that all relevant issues are on the Board agenda, that directors receive all appropriate documentation in a timely manner, are enabled and encouraged to play their full part in relevant discussions and debate, and that the management team are both supported and challenged;
- demonstrating the highest standard of integrity and probity, setting clear expectations concerning the Company's culture, values and behaviours, and the style and tone of Board discussions;
- through Board committees, seeking assurance that the management team is adequately resourced and that there are succession plans in place for all directors;
- ensuring that the Chief Executive Officer (CEO)/General Manager is working to clear objectives and that their performance and the Board's performance is effectively monitored; and
- appraising the performance of individual directors in conjunction with the Senior Independent Director (SID).

Senior Independent Director

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

- acting as a sounding board for the Chair;
- leading the evaluation of the Chair and working with the Chair to appraise the performance of individual Directors;
- acting as an intermediary for the other Directors where necessary;

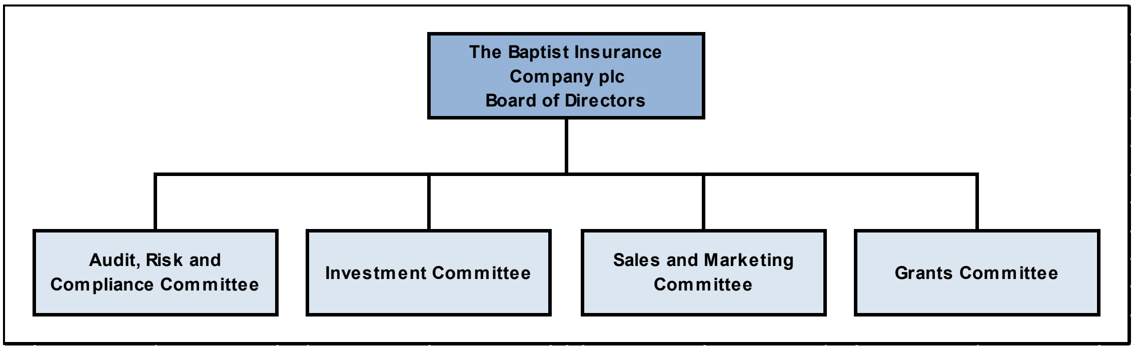
- meeting with the other Directors without the Chair present if required; and
- being available to the shareholders if they have any concerns about the running of the Company that have not been resolved.

Non-Executive Directors

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

B.1.2 **Delegation to committees**

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



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

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

Audit, Risk and Compliance Committee (AR&CC)

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

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

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

Investment Committee (IC)

The overall management of the Company's investments is delegated to the IC. On recommendation from the 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.

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

Sales and Marketing Committee

The role of the Sales and Marketing Committee is to assist the Board in fulfilling independent oversight responsibilities by reviewing and monitoring the development of the Sales and Marketing strategy, activities and operations.

Grants Committee

The role of the committee is to:

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

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

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

CEO/General Manager

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

- the delivery of, and reporting to the Board on, the implementation and execution of the Company's strategy;

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

Chief Financial Officer (CFO)

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

Internal Audit Function

The Administrator’s internal audit function (AIA) provides objective assurance to the AR&CC and the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Company. The AIA provides regular reports to the AR&CC.

Risk and Compliance Function

The Administrator’s risk function facilitates the prudent management of risk including, conduct risk and climate change risk for the Company. The Administrator’s Chief Risk and Compliance Officer (CRO) is accountable to the AR&CC
The Administrator’s Compliance function provides assurance to the AR&CC and Board that the Company remains compliant with its obligations under the regulatory system and for countering the risk that the Company might be used to further financial crime. It ensures that appropriate mechanisms exist to identify, assess and act upon new and emerging regulatory obligations and compliance risks that may impact the Company.

Actuarial Function

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

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

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

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

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

The Board is ultimately responsible for the system of governance and believes that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, the Board maintains a governance framework which it formally reviews and approves. The governance framework has been developed to ensure that the Company operates to high ethical values. The framework adopted by the Company ensures that the Board maintains oversight of all risk and governance operations and upholds its responsibility for delivering long-term value for the Company's shareholders. The framework enables the Board to maintain its focus on setting an appropriate culture, aimed at delivering the right outcomes for its customers, whilst discharging its duties effectively.

The Governance Framework is formally reviewed and approved by the Board following recommendation from the AR&CC. It was last approved in December 2021.

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

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

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

B.1.6 **Remuneration policy**

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

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

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

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

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

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

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

B.2 Fit and proper requirements

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

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

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

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

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

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

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

- competence and performance in carrying out the documented responsibilities of the role
- Continuous Professional Development (CPD) and training to maintain knowledge and skills
- completion of regular mandatory company training
- disclosure and barring criminal records and credit checks
- 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 is responsible for:

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

Audit Risk and Compliance Committee

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

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

Investment Committee

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

CEO and the Administrator's Operational Areas (1st Line of Defence)

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

The Administrator's Risk Function (2nd line of defence)

The Risk Function bears responsibility for facilitation of:

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

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

The 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 covering risks that the company is exposed to, for example significant falls in the UK equity share index (FTSE). Should a significant market trigger event occur then additional, more frequent reporting would be implemented as required.

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

B.4 Internal control system

B.4.1 **Internal control system**

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

The Board has established appropriate Board level policies and a risk appetite to ensure that business objectives are achieved. As 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 **Compliance function**

The Company outsources the provision of compliance services to the Administrator's Group Compliance function under the terms of the JAA, whilst recognising that responsibility for managing compliance risks remains with the Company.

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

- Identifying and assessing the in-scope compliance risks associated with the Company's current and proposed future business activities, including new products, business relationships and working with the business to advise on the design, implementation and enhancement of controls to manage those risks;
- Identifying and maintaining an understanding of all in-scope relevant key regulation applicable to the Company from a compliance perspective;
- Advising on in-scope regulations, rules and standards, informing on development in these areas;
- Establishing written guidelines to staff on the appropriate implementation of in-scope laws, regulations, rules and standards, via policies and procedures;
- Assessing and monitoring compliance with in-scope regulation, rules, standards and internal policies and procedures as well as the adequacy and effectiveness of controls in place to mitigate risks to compliance, and, where appropriate, making recommendations for improvement;
- Educating staff by way of CBT, training courses and ad-hoc guidance on key in-scope regulations, rules and standards; and
- Liaising with relevant external bodies and regulators.

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

The framework sets out key deliverables. These include, but are not limited to:

- production and performance of an annual compliance monitoring plan;
- production of a quarterly compliance report;
- production and review of compliance-related policies and standards;

- delivery of compliance training, completion of compliance themed e-learning modules, and thematic training for all levels of staff including the Board;
- identifying emerging regulatory obligations and keeping up to date the in-scope areas of the legal & regulatory library;
- production and performance of thematic reviews.

Group Compliance receives its authority from the Company's AR&CC and the Group Head of Compliance 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 model which has been adopted by the Company. In order to operate an effective framework, AIA maintain regular and ongoing dialogue with the first and second line to maintain a current and timely perspective of business direction and issues.

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

B.5.2 **Independence of the internal audit function**

To provide for the independence of AIA, the Administrator's Group Chief Internal Auditor 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.

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 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 (EIO). The Board remain ultimately responsible for the policy ownership and implementation.

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

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

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

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

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

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

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

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

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

Included within the insurance management and investment outsourcing contracts are provisions for the regular review of the performance of these contracts.

B.8 Any other information

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

C. Risk profile

C.1 Underwriting risk

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

- ***Reserving Risk*** – the risk of adverse change in the value of insurance liabilities relating to outstanding claims from prior accident years, arising from differences in the timing and amount of claims settlements and related expenses from those assumed in the best estimate reserves; and

- ***Premium Risk*** – the risk that premiums relating to future accident years will be insufficient to cover all liabilities arising from that business including net of reinsurance non-catastrophe claims and expenses as a result of fluctuations in frequency and severity of claims, timing of claim settlements or adverse levels of expenses.

C.1.1 **Underwriting risk exposure**

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

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

C.1.2 **Underwriting risk concentration**

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

There are no significant geographical concentrations.

C.1.3 **Underwriting risk mitigation**

The key mitigation to underwriting risk is the use of reinsurance. Since 1998 the business has been 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 considered 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 assessed the impact of a sudden adverse development on the Company's historic claims above and beyond existing claims reserves and assumed that no reinsurance recoveries could be made on the claims. This scenario had a significant adverse impact on the profits and results in a fall in the capital coverage although it remained 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 requirements and then considers whether to invest in specific funds or cash securities.

The Company has a Statement of Investment Principles (SIP), which is regularly reviewed by the IC and subsequently approved by the Board, which sets out the principles of governing decisions around the Company's investments. The Governance document outlines principles related to risk including the consideration of the Company's regulatory capital requirement, volatility of asset classes, credit ratings, duration, asset allocation, liquidity and the nature of the investments. The Principles are designed to limit the concentration of risk and mitigate overall investment risk.

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

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

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

The IC is made up of six suitably qualified Directors and is accountable to the Board. The Committee monitors the performance and risk of the investments on a quarterly basis and meets formally at least four times a year to conduct a rolling review of all Investment and Treasury funds. The IC formally reports to the Board and provides recommendations where appropriate.

The IC has an agreed formal Terms of Reference, which was last reviewed in November 2022 and subsequently approved by the Board. It also reviews the SIP at least annually, this last being performed in November 2022, with subsequent Board approval.

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

The OEICs are chosen for the collective characteristics of the assets in the fund and their geographical diversification. The IC regularly reviews the makeup and concentration of companies in the funds under investment and receives regular investment valuations, with a detailed report sent annually.

C.2.3 **Market risk concentration**

The Company invests in OEICs for the specific reason of diversification of market risk allowing access to a wider range of underlying assets than would be practical with direct investment. The Royal London Short Duration Credit Fund for example has investments in over 300 securities as at 30 November 2022, with the largest holding accounting for 1.3% of the total OEIC value.

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

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

C.2.4 **Market risk mitigation**

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

The IC monitors movements in each of the asset classes and looks for sustainable trends in financial markets and the environment as part the risk mitigation strategy.

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

C.2.5 **Market risk sensitivity**

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

The first stress test assumed 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. This is roughly equivalent to the magnitude of the equity falls during March 2020 at the height of the market crash at the onset of the Covid-19 pandemic.

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

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

C.3 Credit risk

C.3.1 **Credit risk exposure**

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% of all ongoing business since 1998 and therefore retains no net insurance risk on business incepted after this date. This gives rise to a reliance on a single reinsurance counterparty. The Board considers that this is an acceptable risk due to the financial benefits provided by the reinsurance arrangements. 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 CEO of the Company is also employed by the Administrator and provides updates on key developments.

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

C.3.4 **Credit risk sensitivity**

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

C.4 Liquidity risk

C.4.1 **Liquidity risk exposure**

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

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

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

C.4.2 **Liquidity risk concentration**

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

C.4.3 **Liquidity risk mitigation**

The cash flows are analysed by the Administrator on behalf of the Board to assess the bank balances required to be maintained to pay the claims arising. The Company maintains minimum cash balances which are considered to be adequate to pay claims under normal circumstances. Further to this, should it be required, the Company has the option of liquidating investments held to generate cash.

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

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

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

C.4.4 **Liquidity risk sensitivity**

Two stress and scenario tests are carried out on Liquidity Risk. Stress test one assumes cash flows are 10% higher than expected for the next six months. Stress test two is more extreme and looks at the liquidity strain driven by a weather catastrophe event. For both stress tests an overdraft facility would be arranged to cover the temporary cash shortfalls.

C.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 £38k.

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.

C.5.2 **Operational risk concentration**

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

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

C.5.3 **Operational risk mitigation**

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

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

C.5.4 **Operational risk sensitivity**

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

C.6 Other material risks

C.6.1 **Other material risk exposure**

The Company regards reputational risk as a key risk. 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 (European Union), the PRA rulebook continues to refer to the EU SII articles in force at 31 December 2022. 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 £76k (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	2022 As reported IFRS Basis	Reclassify to aid comparison	2022 Reclassified IFRS	Net valuation movement	2022 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	15,415	(529)	14,886	(2,943)	11,943
Total Liabilities	7,838	(529)	7,309	(3,480)	3,829
Net assets	7,577	-	7,577	537	8,114
Breakdown of asset valuation					
Technical provisions - Reinsurance recoverables	6,295	36	6,331	(2,892)	3,439
Investments	7,862	-	7,862	-	7,862
Cash and cash equivalents	513	-	513	-	513
Deferred tax assets	47	-	47	(47)	-
Insurance & intermediaries receivables	435	(435)	-	-	-
Reinsurance receivables	130	(130)	-	-	-
Receivables (trade, not insurance)	133	-	133	(4)	129
Total assets	15,415	(529)	14,886	(2,943)	11,943

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 including scaling based on exposure measures and Events Not in Data (ENID).

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

Valuation

Claims provisions, premium provisions and risk margin by class are reported on 'QRT 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	27
Discount rate shift	- 1.0% to spot rate at all durations	24
Reinsurance default	All reinsurer ratings downgraded to B	40

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 was increased over the year given increased volatility experienced in the interest rate environment.

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

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

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

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the 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	**2022 £'000**	**2021 £'000**
IFRS Technical Provisions net of debtors and creditors	551	900
Adjustment for unearned profit	(127)	(119)
Adjustment for claims reserve	83	105
Other differences including measurement of risk	(667)	(707)
SII Net technical provisions	(160)	179

A key SII basis difference for the Company continues to be the allowance for future assumed profit commission income, giving reduced premium provision impact of £127,000 (2021: £119,000). The impact is partly offset due to SII best estimate claims reserves being £83,000 higher, driven by allowance for expenses (2021: £105,000). The remaining valuation difference is driven by the SII risk margin being lower than is used for the appetite for sufficiency held in the accounts.

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

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

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

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

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

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

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

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

D.2.8 **Recoverables from reinsurance contracts and special purpose vehicles**

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

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

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

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

D.3 Other liabilities

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

A copy of the QRT '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	**2022 As reported IFRS Basis**	Reclassify to aid comparison	**2022 Reclassified IFRS**	Net valuation movement	**2022 Solvency II Valuation**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total Assets	**15,415**	(529)	**14,886**	(2,943)	**11,943**
Total Liabilities	**7,838**	(529)	**7,309**	(3,480)	**3,829**
Net assets	**7,577**	-	**7,577**	537	**8,114**
Breakdown of liability valuation					
Technical provisions - non-life	**7,242**	(360)	**6,882**	(3,604)	**3,278**
Payables (trade, not insurance)	**277**	-	**277**	(8)	**269**
Deferred tax liabilities	-	-	-	132	**132**
Other liabilities	**2**	-	**2**	-	**2**
Insurance payables	**75**	(75)			-
Reinsurance payables	**94**	(94)	-	-	-
Subordinated liabilities	**148**	-	**148**	-	**148**
Total liabilities	**7,838**	(529)	**7,309**	(3,480)	**3,829**

The table includes reclassification of certain IFRS assets and liabilities to aid comparability, as explained in section D.1.1 *Solvency II Valuation of assets.*

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

Payables (trade, not insurance)

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

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

Deferred tax liabilities

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

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

For SII the deferred tax liability has been calculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities. The tax rate used is 25%.

Any other Liabilities

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

Reinsurance payable

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	2022 £'000	2021 £'000
SII Valuation of assets	11,943	12,934
SII Valuation of liabilities	(3,829)	(3,851)
Excess of assets over liabilities	8,114	9,083
Qualifying subordinated debt	148	148
Foreseeable distributions	-	-
Basic own funds	8,262	9,231

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.
- all decision-making considers the impact on solvency, capital allocation, return on capital and any other principles included in this policy.

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

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

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

Business planning is conducted annually over a three year horizon.

E.1.2 **Movement in own funds compared to prior period**

A copy of the QRT '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		
2022	£'000	£'000	£'000	£'000	£'000
Preference share capital	148	-	148	-	-
Reconciliation reserve	8,114	8,114	-	-	-
	8,262	8,114	148	-	-
2021					
Preference share capital	148	-	148	-	-
Reconciliation reserve	9,083	9,083	-	-	-
	9,231	9,083	148	-	-
Movement in own funds					
Preference share capital	-	-	-	-	-
Reconciliation reserve	(969)	(969)	-	-	-
	(969)	(969)	-	-	-

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	**9,083**
IFRS Retained earnings for year	(948)
Movement in SII revaluations:	
Net technical provisions	(17)
Other	(4)
Total movement for year	**(969)**
Current year balance	**8,114**

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	2022 £'000	2021 £'000
Tier 1	8,114	9,083
Restricted tier 1	148	148
Eligible tier 1 own funds	8,262	9,231
Eligible tier 2 own funds	-	-
Eligible tier 3 own funds	-	-
Total eligible own funds	**8,262**	**9,231**
Ineligible own funds	**-**	**-**
Total own funds	**8,262**	**9,231**

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	2022 £'000	2021 £'000
Tier 1	8,114	9,083
Restricted tier 1	148	148
Eligible tier 1 own funds	8,262	9,231
Eligible tier 2 own funds	-	-
Total eligible own funds	8,262	9,231
Ineligible own funds	-	-
Total own funds	**8,262**	**9,231**

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		2022 £'000	2021 £'000
Equity as reported in IFRS Financial Statements		**7,577**	**8,525**
Recognise subordinated debt (preference share capital) as equity		148	148
Revalue technical provisions:	Gross technical provisions	(2,892)	(2,021)
	Reinsurers' share	3,604	2,750
Adjust for assets and liabilities with no SII fair value		4	4
Impact of revaluation on deferred tax		(179)	(175)
Solvency II Valuation of own funds		**8,262**	**9,231**

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 (£3,445k) 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 6 and 7 respectively.

As at 31 December 2022 the SCR for the Company was £2,365k, and the MCR was £3,445k. Both amounts are still subject to supervisory assessment.

E.2.2 **SCR by risk module**

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

Capital Requirements	2022	2021	Change
	£'000	£'000	£'000
Market risk	2,260	3,107	(847)
Counterparty default risk	606	531	75
Non-life underwriting risk	75	64	11
Diversification	(432)	(401)	(31)
Basic SCR	2,509	3,301	(792)
Operational risk	116	110	6
Loss absorbing capacity of deferred tax	(260)	(303)	43
SCR	**2,365**	**3,108**	**(743)**
MCR	**3,445**	**3,126**	**319**

Market risk has reduced following the fall of the equity and bond markets in 2022. In particular investment trust holding, whose portfolio is heavily weighted towards listed equities, saw a decrease in value of 13% year-on year.

All other risk modules have remained stable.

The loss absorbing capacity of deferred tax has decreased as a deferred tax asset of £47k has been recognised under IFRS and netted off against the deferred tax liability.

The MCR is equivalent to the absolute floor for both the current and prior year. The absolute floor is quoted in Euros and not the reporting currency of sterling, therefore an exchange rate will be applied at year end rates, which will have an impact on the value. The Euro floor value has increased in 2022, which is the primary driver in the increase seen above.

E.2.3 **Use of simplified calculations**

No simplifications or undertaking-specific parameters have been used in calculating the standard formula SCR. As no capital add-on has been applied, and no undertaking-specific parameters have been utilised, no illustration of their impact is necessary and use of the option provided for in the 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 7.

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

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

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

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

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

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

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

E.5.1 **MCR non-compliance**

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

E.5.2 **SCR non-compliance**

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

E.6 Any other information

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

Appendix 1 – QRT S.02.01.02 Balance Sheet

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	7,862
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	2
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	7,860
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	3,439
R0280	*Non-life and health similar to non-life*	3,439
R0290	*Non-life excluding health*	3,439
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	129
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	513
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	11,943

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,278
R0520	*Technical provisions - non-life (excluding health)*	3,278
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	3,171
R0550	*Risk margin*	107
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	132
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	269
R0850	Subordinated liabilities	148
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	148
R0880	Any other liabilities, not elsewhere shown	2
R0900	**Total liabilities**	3,829
R1000	**Excess of assets over liabilities**	8,114

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

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business							3,666	294		25		46					4,031
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							3,666	294		25		46					4,031
R0200	Net							0	0		0		0					0
	Premiums earned																	
R0210	Gross - Direct Business							3,499	293		28		42					3,861
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							3,499	293		28		42					3,861
R0300	Net							0	0		0		0					0
	Claims incurred																	
R0310	Gross - Direct Business							1,464	543		0		-10					1,997
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share							1,464	503		0		-10					1,957
R0400	Net							0	40		0		0					40
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net							0	0		0		0					0
R0550	**Expenses incurred**							-58	-271		2		-9					-336
R1200	**Other expenses**																	0
R1300	**Total expenses**																	-336

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

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	Technical provisions calculated as a whole							0	0		0		0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross							463	19		-4		-1					478
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							939	44		-1		3					985
R0150	Net Best Estimate of Premium Provisions							-476	-24		-2		-4					-507
	Claims provisions																	
R0160	Gross							1,087	1,604		0		3					2,693
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							1,071	1,380		0		3					2,454
R0250	Net Best Estimate of Claims Provisions							16	224		0		0					240
R0260	Total best estimate - gross							1,550	1,623		-4		2					3,171
R0270	Total best estimate - net							-460	199		-2		-4					-267
R0280	Risk margin							61	46		0		0					107
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	Technical provisions - total							1,612	1,669		-4		2					3,278
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total							2,010	1,424		-1		6					3,439
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total							-399	245		-2		-4					-160

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

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

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

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											219	219	219
R0160	2013	416	318	65	5	0	0	1	0	0	0		0	806
R0170	2014	847	359	47	6	-3	0	0	0	0			0	1,256
R0180	2015	291	479	124	-1	0	0	0	0				0	893
R0190	2016	465	256	19	5	40	27	0					0	813
R0200	2017	461	284	102	50	0	0						0	897
R0210	2018	818	736	85	39	12							12	1,691
R0220	2019	256	221	45	16								16	539
R0230	2020	567	191	67									67	825
R0240	2021	758	506										506	1,264
R0250	2022	346											346	346
R0260												Total	1,166	9,548

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											1,755	1,225
R0160	2013	0	0	0	61	39	41	44	43	44	41		28
R0170	2014	0	0	365	45	37	40	41	42	41			28
R0180	2015	0	270	46	41	44	43	40	41				28
R0190	2016	514	210	160	81	68	42	41					29
R0200	2017	879	286	115	42	41	40						28
R0210	2018	909	218	101	86	40							28
R0220	2019	557	145	78	40								28
R0230	2020	476	133	160									135
R0240	2021	744	189										166
R0250	2022	1,078											971
R0260												Total	2,693

Appendix 5 – QRT S.23.01.01 Own Funds

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	8,114	8,114			
R0140	Subordinated liabilities	148		148	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	8,262	8,114	148	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	8,262	8,114	148	0	0
R0510	Total available own funds to meet the MCR	8,262	8,114	148	0	
R0540	Total eligible own funds to meet the SCR	8,262	8,114	148	0	0
R0550	Total eligible own funds to meet the MCR	8,262	8,114	148	0	
R0580	**SCR**	2,366				
R0600	**MCR**	3,445				
R0620	**Ratio of Eligible own funds to SCR**	349.27%				
R0640	**Ratio of Eligible own funds to MCR**	239.85%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	8,114
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	8,114
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	38
R0790	**Total Expected profits included in future premiums (EPIFP)**	38

Appendix 6 – 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	2,260		
R0020	Counterparty default risk	606		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	75		
R0060	Diversification	-432		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	2,509		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	116
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-260
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**	2,366
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	2,366
	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

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	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	-260
R0650	LAC DT justified by reversion of deferred tax liabilities	-132
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	-128
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

Appendix 7 – 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	21

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	199	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	21
R0310	SCR	2,366
R0320	MCR cap	1,064
R0330	MCR floor	591
R0340	Combined MCR	591
R0350	Absolute floor of the MCR	3,445
R0400	**Minimum Capital Requirement**	3,445

Appendix 8 – 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

Solvency and Financial Condition Report

31 December 2022
The Baptist Insurance Company Plc

Experts in church and home insurance

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