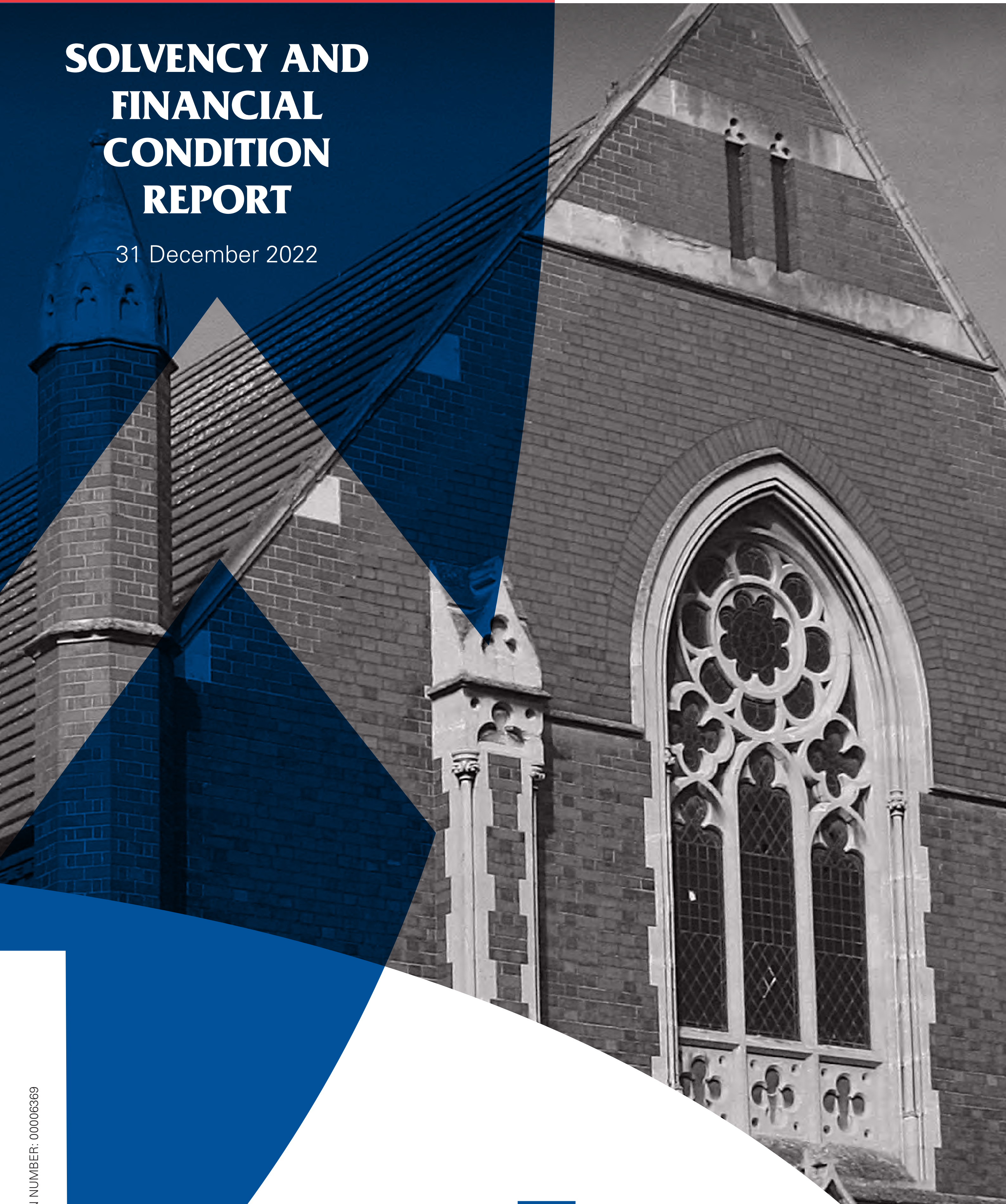
SOLVENCY AND FINANCIAL CONDITION REPORT

31 December 2022



METHODIST INSURANCE

COMPANY REGISTRATION NUMBER: 00006369

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 Methodist Insurance 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 Methodist Ministers, church volunteers and church members.

The mission of the Company is to run an ethical and profitable general insurance company for the benefit of the Methodist Church by underwriting its cost of risk and providing risk management advice, thus helping communities create safe environments for worship, witness and service.

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

Business performance

The operating performance for 2022 was a loss of £734k, driven by investment performance which experienced unrealised and realised losses due to the market volatility seen through the period. This was however offset by underwriting performance which was strong and higher than the prior year. Despite this performance, as illustrated in the Solvency section below, the solvency coverage improved markedly due to a reduction in the Solvency Capital Requirement (SCR) driven by market risk, reflecting turbulent investment conditions.

The underwriting performance for the year was a profit of £1,886k (2021: £1,846k). This was the result of a strong profit commission driven by low claims experience primarily due to lower large claims in the year and reserving releases owing to changes in the discount rate. In relation to run-off claims, there has been a release of £42k (2021: £258k) following decreases on outstanding case claims in the year.

The investment portfolio generated an overall loss of £2,616k (2021: profit of £2,073k), driven by unrealised losses on investments of £1,881k (2021: gains of £1,352k) as well as realised losses of £979k (2021 realised gains: £558k). The weakened performance has been driven by the political and economic volatility throughout the year, including Russia’s invasion of Ukraine, the energy shock and political uncertainty in the UK as well as high inflation rates. The last quarter of the year however, saw an improvement on the investment performance.

As a result of the operating loss, the Company did not pay a charitable grant in the year.

Solvency and financial condition

The Company uses the Standard Formula to calculate its SCR. 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	2021	Change
	£'000	£'000	£'000
Own Funds	**20,094**	**20,079**	15
Market risk	3,837	6,857	(3,020)
Counterparty default risk	1,690	1,335	355
Non-life underwriting risk	1,025	1,374	(349)
Diversification	(1,495)	(1,704)	209
	5,057	7,862	(2,805)
Operational risk	297	355	(58)
Loss absorbing capacity of deferred tax	(508)	(258)	(250)
Standard Formula SCR	**4,846**	**7,959**	**(3,113)**
MCR	**3,445**	**3,126**	**319**
SCR Coverage ratio	**415%**	**252%**	162%
MCR Coverage ratio	**583%**	**642%**	(59%)

The Company's regulatory solvency position has remained strong. Own funds increased minimally in the year. This is explained in more detail in section E.1.

The Company's SCR decreased in the year by £3,113k, primarily due to a decrease in market risk. The exposure to equities has decreased, as markets fell in the year due to the impacts of the war in Ukraine and the knock on impacts of that to inflation and interest rates. The impact of rates on the symmetric adjustment and the subsequent reduction in that rate has also led to a decrease in Equity risk.

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

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 volatility and uncertainty in the current climate.

Directors Statement

Methodist Insurance PLC

Financial year ended 31 December 2022

Statement required by Article 55 of the Solvency II Directive

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

M. G. Angell
Chief Executive Officer
Date: 4 April 2023

A. Business and performance

A.1 Business details and group structure

A.1.1 Name and legal form of the company

The Company is a public limited company incorporated and domiciled in the United Kingdom (UK).

The address of the registered office is:

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

A.1.2 Supervisory authority

The supervisory authority for the Company is:

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

A.1.3 External auditor

The external auditor of the Company is:

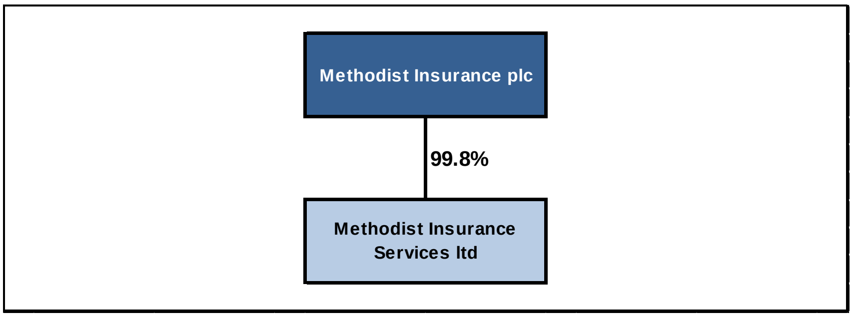
Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

A.1.4 Qualifying holdings

Qualifying holdings are a direct or indirect holding representing 10% or more of the capital or of the voting rights of the Company, or a holding that makes it possible to exercise a significant influence. The Company has no qualifying holdings.

A.1.5 **Group structure**

Below is a representation of the Methodist Insurance group and the position of the Company within that group:



Methodist Insurance Services Ltd (the subsidiary) is incorporated and domiciled in the United Kingdom and is dormant, having not traded since incorporation. The Company holds 998 of the 1,000 ordinary shares of the subsidiary. The remaining shares are held by the former directors of the subsidiary.

A.1.6 **Lines of business**

The company currently operates in the United Kingdom and has a small run-off portfolio in the Republic of Ireland.

The material lines of business are:

- Fire and other damage to property
- General Liability

The Company also writes a small amount of miscellaneous financial loss business and legal expenses insurance.

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 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 political crisis, inflation and economic developments 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 remains extremely strong, the Company continues to monitor the impact of these key and emerging risks. Up to the date of this report being published, there have been no breaches of its MCR or SCR nor have there been any breaches of the Board's risk appetite 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 Company delivered an excellent underwriting result for the year, recording a profit of £1,886k (2021: £1,846k). Performance in both years has been ahead of expectation, driven by favourable claims performance, however the slightly improved performance in 2022 was due to lower large claims in the year as well as a reduction in incurred but not reported (IBNR) reserves held which reflected both positive experience seen and a movement in discount rates at the year end. The account was not impacted by the effect of Covid-19 pandemic during the year, with the IBNR in relation to this reducing to £50k gross (£16k net) as no claims have been seen.

Run-off claims displayed a release of £42k compared to a £258k release seen in 2021, primarily driven by decreases in outstanding case following favourable development on a number of existing claims as well as associated reduction in reserves held.

Gross Written Premium experienced an increase compared to the prior year at £10,427k (2021: £9,604k) due largely to the impact of indexation with indices having an upward trend across the year. New business was lower than prior year owing to the economic environment though lapses performed better than the previous year as the Company completed its main long term agreement (LTA) period.

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

Underwriting Performance By Material Class Of Business

Description	Property		Liability		Other	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Gross Written Premium	7,601	6,944	2,232	2,103	594	557
Gross Earned Premium	7,178	6,882	2,164	2,071	574	548
Gross Incurred Claims	(2,834)	(3,231)	68	(66)	(4)	(36)
Reinsured	*(2,834)*	*(3,231)*	*26*	*(324)*	*(4)*	*(36)*
Run-off	-	-	*42*	*258*	-	-
Commission	(43)	(34)	(17)	(16)	(3)	(3)
Expenses	(253)	(222)	(74)	(67)	(20)	(18)
Gross Underwriting result	**4,047**	**3,395**	**2,141**	**1,922**	**548**	**492**
Reinsurance Earned Premium	(7,178)	(6,882)	(2,164)	(2,071)	(574)	(548)
Reinsurance Claims	2,834	3,231	(26)	324	4	36
Reinsurance Commission	955	1,033	1,157	749	144	167
Net Underwriting result	**658**	**777**	**1,107**	**924**	**121**	**147**

Property

The property account experienced lower claims activity than in the previous year with the main driver being large claim releases which more than compensated for the large claims experience in the year. The large claim movements were a release of £184k gross, £180k net for 2022 compared to £1,164k gross, £322k net cost in 2021. However, reinsurance commission performed adversely to the prior year largely due to higher expenses resulting in an overall net underwriting result lower than 2021. Both 2022 and 2021 performance has been favourable to budget.

Liability

The liability account has also seen an improvement on the prior year, with the reinsurance commission generated significantly higher than the previous year. This has been driven by the low claims experience in the liability account, with only one large claim reported at £85k gross and net (2021: £312k gross and net) as well as reduction in reserves held driven by the discount rate movement. The run-off claims were a release of £42k (£258k release in 2021) driven by reductions in IBNR partly offset by increase in claims outstanding.

A.2.3 Performance by geographical region

The Company has not measured performance by geographical region. The Company has only underwritten business within the UK during the year, following the business relating to Ireland having lapsed from 1 March 2020 at renewal as the introducer rights of this business were transferred in preparation for Brexit.

There are no active policies held in the Republic of Ireland following this and there has been very low claims activity from the policies that are in run-off. Therefore business relating to Ireland is considered immaterial.

A.3 Performance from investment activities

A.3.1 Investment performance by asset class

Income & Expenses Arising From Investments By Asset Class

Description	Investment Income			Fair Value Gains/Losses *			Total Return		
	2022 £'000	2021 £'000	Movement £'000	2022 £'000	2021 £'000	Movement £'000	2022 £'000	2021 £'000	Movement £'000
Fixed Interest Government Stock	83	79	4	(456)	(204)	(252)	(373)	(125)	(247)
Index Linked Government Stock	19	15	4	(119)	113	(232)	(100)	128	(228)
Overseas Government Bonds	7	7	0	(22)	(29)	7	(15)	(22)	7
Bond Funds	57	40	17	(90)	(59)	(31)	(33)	(19)	(14)
Equity Dividends	137	167	(30)	(1,390)	2,029	(3,419)	(1,253)	2,196	(3,449)
Other (Inc Bank Interest)	37	5	33	-	-	-	37	5	33
Difference On Exchange Gains / (Losses)	25	(18)	43	-	-	-	25	(18)	43
Derivatives Realised Gains / (Losses)	-	-	-	(521)	41	(562)	(521)	41	(562)
Derivatives Unrealised Gains / (Losses)	-	-	-	(262)	18	(280)	(262)	18	(280)
Total Income	**366**	**294**	**72**	**(2,860)**	**1,909**	**(4,769)**	**(2,494)**	**2,203**	**(4,698)**

* Fair value movement includes realised gains and losses on disposals and unrealised gains and losses on the movement in the market value of holdings

Total investment income to December 2022 was £366k, a 24% increase on the prior year of £294k. The Government stock and bonds all experienced an increase despite the volatile economic conditions, as well as an increased return on exchange gains compared to last year. These increases were partly offset by the equity dividends which experienced a decline.

Total fair value losses of £2,860k compared to gains of £1,909k in the prior year with the weakened performance attributable to the political and economic volatility throughout the year, including Russia's invasion of Ukraine, the energy shock and political uncertainty in the UK as well as high inflation rates. The last quarter of the year however saw an improvement on the investment performance. The fair value losses were experienced across the entire portfolio but the equity holdings and derivatives saw the greatest impact.

The Company continues to use currency hedging derivatives to reduce its exposure to volatility driven by movements in exchange rates in the value of overseas holdings. Hedging is employed to support its ability to meet current and future liabilities which, except for a small proportion denominated in Euros, are in Sterling. The policy is for there to be a partial sterling hedge of 55% of total overseas equities which is reflected in the Investment Manager's performance benchmark for that asset class. The derivatives transacted in the year generated a negative return overall owing to the volatile market conditions.

Management fees for the year were £122k, a 6.4% decrease on prior year, following the decrease in the value of the portfolios.

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 prior reporting period.

A.3.3 Investments in securitisation

The Company does not hold any investments in securitisation instruments

Other Material Income & Expenses

Description	2022	2021	Var
	£'000	£'000	£'000
Charitable Grants	(5)	(3,502)	3,496
Tax	-	(0)	0
	(5)	(3,502)	3,495

A.4 Performance from other activities

Charitable Grants

Owing to the operating loss experienced and driven by the investment losses, the Company did not pay out an annual charitable grant compared to £3,500k paid out in the prior year. The Company paid out £5k in relation to specific donations during the year compared to £2k paid out in prior year.

The Company aims to substantially distribute its profits back to the Methodist Community through grants whilst continuing to invest in the business and maintaining its capital strength.

Tax

The Company’s total loss was £992k, with no charitable grant paid and compared to a taxable profit (after charitable donations) of £419k in 2021.

The tax charge for the year is nil as a result of the operating losses experienced, and compares to nil for 2021.

Tax has been provided at a rate of 19% for both the current year and prior year.

A.5 Any other information

There is no other material information regarding the Company and its performance as an insurance undertaking to disclose outside of what has been covered 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

The Governing Body of the Company is the Board of Directors (the Board). The Board comprises a Non-Executive Chair and eight other Non-Executive Directors (NEDs) and the Chief Executive Officer (CEO) who is an Executive Director.

The Company believes the size and composition of the Board gives it sufficient independence, balance and wider experience to consider the issues of strategy, performance, resources and standards of conduct. The composition of the Board is set out in the Company's Articles of Association. The articles state that the number of directors cannot exceed twelve, or be less than six in number. As at 31 December 2022, the Company was compliant with this article requirement.

Key roles and responsibilities

The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables the risks which the Company faces to be assessed and managed.

The Board is ultimately responsible for the Company's sound and prudent management, ensuring a strong and effective governance framework is implemented and regulatory requirements are met. Great importance is placed on a well-informed and decisive Board, and Board meetings are held regularly throughout the year.

A reporting Framework outlining the Board's business is reviewed and agreed by the Board annually to ensure that the Board is focused on the right issues at the right time and that sufficient time is allowed for appropriate consideration and debate.

A Board charter has been developed which clearly 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.

The Board charter is reviewed regularly and is subject to revision from time to time.

A formal schedule of matters reserved for the Board is in place. The schedule includes matters that are solely reserved for the Board's decision and includes:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- risk management and internal controls;
- contracts;
- communication; and
- board membership and other appointments.

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

Segregation of Responsibilities

The approach to segregation of responsibilities is defined in the Company's Governance Framework, which sets out the high standards of compliance and corporate governance to be 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 interests 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. Additionally, it ensures that the Board receives objective and accurate information on financial performance, risk and adequacy of systems.

Chair

The Chair is responsible for:

- the active leadership of the Board, ensuring its effectiveness in all aspects of its role;
- creating the conditions for overall Board and individual Director effectiveness;
- ensuring all Directors are aware of their responsibilities and holding meetings with the directors in order to facilitate a full and frank airing of views;
- maintaining an appropriate balance on the Board as regards the number of Directors and their skills, knowledge, experience and diversity; and
- ensuring that the Directors receive accurate, timely and clear information to enable them to discharge their responsibilities effectively.

In addition, the Chair is expected to demonstrate the highest standards of integrity and probity, and set clear expectations concerning the Company's culture, values and behaviours, and the style and tone of Board discussions.

Senior Independent Director (SID)

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

- leading the evaluation of the Chair;

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

Vice Chair

In addition to their other duties as a NED, the Vice Chair is responsible for:

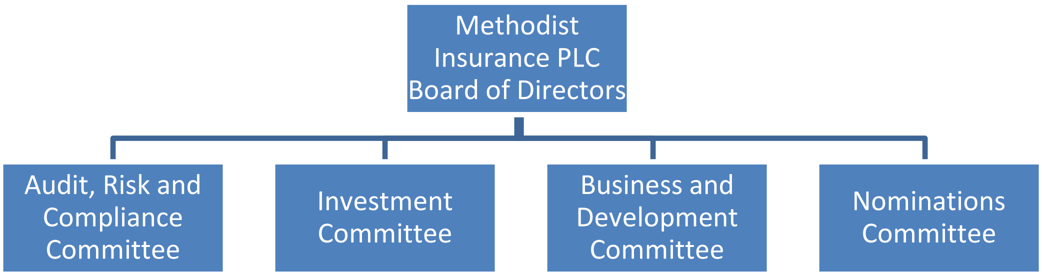
- acting as a sounding board for the Chair; and
- providing support for the Chair in the delivery of their objectives.

Non-Executive Directors

NEDs have a responsibility to uphold high standards of integrity and probity. This includes acting as both internal and external ambassador of the Company. They should constructively challenge and help develop proposals on strategy. They 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.



A high-level overview of each committee's delegated responsibilities is set out below.

Audit, Risk and Compliance Committee (ARCC)

The ARCC's responsibilities include:

- overseeing the Company's financial reporting processes;
- overseeing the Company's climate and non-financial metrics reporting processes;
- reviewing the effectiveness of the outsourced financial, actuarial, risk and regulatory risk functions; and
- managing the relationship with the external auditor.

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

Investment Committee

The Investment Committee (IC) meets regularly with the investment managers to ensure that the management of the Company's investment portfolios are properly governed, controlled and performing as expected.

Business and Development Committee

The Business and Development Committee's main purposes are:

- to consider and recommend a business and development marketing strategy that facilitates the achievement of the Company's objectives as set out in its Own Risk and Solvency Assessment Report (ORSA) and three year business plans; and
- to ensure that management are correctly implementing the Company's strategy.

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

Nominations Committee

The role of the Nominations Committee is to ensure that there is an appropriate balance of skills, knowledge and experience on the Board and its Committees and within the Company's subsidiary. The Committee is responsible for overseeing the following matters:

- composition of the Board and its Committees;
- succession planning;
- appointments to the Board;
- induction and training of Directors; and
- leading the annual Board and Committee Evaluation process.

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

CEO/General Manager

The General Manager fulfils the Senior Managers and Certification Regime (SM&CR) function of Chief Executive and is an employee of the Administrator. Their responsibilities include:

- the delivery of, and reporting to the Board on, the implementation and execution of the Company's strategy (including in relation to climate change);
- 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 (including risks associated with climate change) and reporting regularly 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 insurance managers and NEDs.

Chief Financial Officer (CFO)

The Chief Financial Officer is an employee of the Administrator and fulfils the SM&CR Chief Finance function. Their responsibilities include:

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

Regulatory Risk and Group Risk Functions

The Regulatory Risk function of the Administrator provides assurance to the ARCC 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.

In addition, the Risk function of the Administrator derives its authority from the ARCC and provides oversight of the prudent management of risk including but not limited to conduct risk, climate change risk and operational risk. The Chief Risk and Compliance Officer of the Administrator is accountable to the ARCC.

Internal Audit Function

The Internal Audit function of the Administrator derives its authority from the ARCC. Internal Audit provides objective assurance to the ARCC 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.

Actuarial Function

The Actuarial function of the Administrator is accountable for all aspects of capital modelling, pricing and reserving for the Company including in the context of financial risks associated with climate change. The independent Actuarial function is responsible for providing opinions on the effectiveness of technical provision (TPs) calculations, underwriting and pricing and reinsurance purchase. The Actuarial function reports to the ARRC.

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

In accordance with good governance practice, the Board appointed a SID in June 2022.

The Board also appointed a new Chair of the Board (subject to regulatory approval) in June 2022. In addition, the role of Vice Chair was created in order to assist the Chair with the running of the Board, and replaced that of Deputy Chair. The role of Vice Chair is intended to be transitory whilst the new Chair settles into their role.

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

The Board is ultimately responsible for the system of governance and believes that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, a Governance Framework has been developed to ensure that the Company operates to high ethical values. The governance model adopted by the Company ensures oversight of all risk and governance operations. The Governance Framework ensures that the Board is delivering long-term value for its shareholders whilst discharging its duties effectively, and maintaining a focus on an appropriate culture aimed at delivering the right outcomes for the Methodist community and its customers.

The Governance Framework is formally reviewed and approved at regular intervals. However, as a living document it is continually refined to ensure that it appropriately reflects the maturity of the Company's system of governance and risks inherent in the business.

The Reinsurance Agreement ensures that all risks underwritten by the Company are 100% reinsured by the Administrator with the exception of eligible terrorism risks above a minimum retention, and flood risks, which are reinsured by Pool Re and Flood Re respectively. The Reinsurance Agreement is reviewed periodically to ensure that it remains appropriate for the Company and the Administrator.

The JAA (Joint Administration Agreement) is reviewed periodically to ensure operations and management services provided by the Administrator are operating effectively. The Board continually reviews the adequacy and effectiveness of the outsourced arrangements with the Administrator through regular reporting, its annual Board evaluation and private strategic discussions.

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

- the ORSA report;
- 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; and
- reports from the Administrator's nominated key function holders (KFHs).

The Board requests that the Administrator periodically undertakes a formal self-assessment of the services and reporting outlined in the JAA and supporting schedules. The review process includes discussions with each of the KFHs responsible for the outsourced areas of the JAA. The 2022 review will be considered by the Board in 2023 and any findings will be escalated to the Board where appropriate.

B.1.6 Remuneration policy

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

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

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

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

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

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

No contracts 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 multi-stage interview process, supported by psychometric testing, involving relevant stakeholders. The candidates' knowledge, experience and qualifications in such areas as market knowledge, business strategy, financial analysis, working within regulated frameworks and governance/risk management are fully explored. Due diligence is fulfilled through pre-employment checks and referencing that are carried out upon an offer being accepted.

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.

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

B.3.2 Effectiveness of identifying and managing risks

The ARCC has delegated responsibility from the Board for reviewing the effectiveness of all aspects of the risk management framework including identification and management of risks and receives regular reports from the respective areas of the Administrator to assist in these activities.

The Board receives regular reports from the ARCC 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:

- ***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 Chief Risk Officer (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 ARCC;

- ***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 ARCC.

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 ARCC 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 ARCC.

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

Board of Directors

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 ARCC has been delegated responsibility for risk management and internal control from the board. Responsibilities of the ARCC 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.

Chief Executive Officer 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;
- 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 process includes the entirety of the risk management framework, with particular emphasis on the resultant capital requirements, and has a forward-looking emphasis to ensure that business strategy and plans are formulated with full recognition of the risk profile and future capital needs.

The objective of an ORSA is to demonstrate that a firm has, or can access, the resources to carry out a 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 Board is responsible for conducting the ORSA, is fully involved in the key processes and provides challenge and steer. The Board has delegated the production of the ORSA to the Administrator under the terms of the JAA. The ORSA process integrates risk management, business planning and capital management activities. The 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.

The ORSA process is co-ordinated by the Administrator’s risk function with significant input from all relevant subject matter experts undertaking various functions under the terms of the JAA. The Board will only approve the business plan or make strategic decisions after consideration of the impacts on the risk profile and solvency position of the company.

B.3.5 Frequency of review

The ORSA is an ongoing process that operates on an annual cycle. This results in a report being produced and 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 may also be 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 ARCC assess the various risk elements of the business covering credit, operational, underwriting, reserving, and investment risk and makes an assessment of the capital requirements arising from those risk elements. Guidance and advice is taken from the CFO, CRO, reserving actuaries, capital finance teams as well as the ARCC. Insurance risk is covered by the reserving and underwriting assessments carried out on a regular basis by the operational teams of the Administrator.

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

The ARCC and Board receive management information monthly and the full management accounting package quarterly. The former provides detail on the underwriting performance and profit commission earned. The latter provides a comprehensive pack including Income Statement, Balance Sheet and Solvency Statement.

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 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 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 for the Board and the elements of the business operated by operational elements 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 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 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 Computer Based Training (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; and
- production and performance of thematic reviews.

Group Compliance receives its authority from the Company ARCC 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 Company outsources the provision of internal audit services to the Internal Audit function of the Administrator (AIA) function under the terms of the JAA. The AIA receives its authority from the Administrator's Group Audit Committee.

Where a conflict of interest occurs for the AIA, such as providing assurance over the Company's counterparty risk, the controls will be audited up to the point where a conflict occurs. All conflicts will be declared in the scope of each assignment and reported to the ARCC.

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

The AIA operate within the Administrator's three lines model. In order to operate an effective framework the AIA maintains regular and ongoing dialogue with the first and second lines to maintain a current and timely perspective of business direction and issues.

B.5.2 Independence of the internal audit function

The Administrator's Group Chief Internal Auditor has access to the ARCC. Financial independence, essential to the effectiveness of internal auditing, is provided by the Administrator approving a budget to enable AIA to meet the requirements of its Charter.

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

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

B.6 Actuarial function

B.6.1 Implementation of actuarial function

The Company outsources the provision of actuarial services to the Administrator's actuarial function under the terms of the JAA. Methodist'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 TPs to the Board, including assessing the sufficiency and quality of the data used, informing the Board of the reliability and adequacy of the calculation and comparing best estimates to experience;
- to give an opinion on the adequacy of pricing and underwriting to the Board;
- to give an opinion on the adequacy of reinsurance arrangements to the Board as an efficient means to manage risk; and
- to contribute to the effective implementation of the risk management system.

B.7 Outsourcing

B.7.1 Outsourcing policy

The Company has a procurement and outsourcing policy that has been agreed by the Board and forms part of the policy framework. The policy covers all procurement activities and material outsourcing arrangements. The Company's policy is to operate an effective framework for awarding contracts to achieve a quality provision giving consideration to the expected impact on customers. Elements of the policy implementation are outsourced to the Administrator under the terms of the JAA. The Board remain ultimately responsible for the policy ownership and implementation.

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:

- ensuring compliance with all regulatory obligations and good market practice in the selection, management and termination of suppliers;
- optimising the choice, loyalty and performance of suppliers and business partners to deliver cost effective goods and services and service enhancing solutions across the business;
- ensuring that suppliers uphold the corporate values and high standards of compliance with the Company's corporate policies and regulatory obligations;
- providing for the mitigation of operational and financial risks related to outsourcing and procurement activities; and
- ensuring 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 three contracting parties appointed to deliver critical outsourced services:

- one for the management and administration of insurance activities;
- one 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 information to disclose regarding the Company's system of governance.

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.
- ***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's insurance risk arises through the writing of general insurance business. The Company primarily transacts fire, accident and ancillary liability insurance. It delivers products and services to organisations, businesses and individuals directly and, to a limited extent, via intermediaries. The Company specialises in the insurance of properties belonging to the Methodist Church and its associated organisations, but also writes non-church business.

The Company holds significant reserves in respect of long-tail liabilities and deterioration in the emerging experience could result in these reserves being inadequate to settle such claims. The ARCC assesses the risk through regular reports on the underwriting performance of the business which are provided by the Administrator. This includes details of any developments on pre 1998 business which is not covered through the reinsurance arrangement in place with the Administrator.

C.1.2 Underwriting risk concentration

A key concentration for the business is the number of churches underwritten. There would be a severe impact for the Company if significant numbers are lost. This is an accepted risk as a niche insurer specifically set up for the insurance of these churches.

C.1.3 Underwriting risk mitigation

The business operating model chosen is to mitigate insurance risks through the agreement with the Administrator to reinsure 100% of the insurance liabilities underwritten since July 1998, except for terrorism and flood risks which are reinsured through Pool Re and Flood Re respectively. The retention applicable on the Pool Re contract is also reinsured by the Administrator. However, this gives rise to reliance on a single reinsurance counterparty for the vast majority of the business written which is discussed under section C.3 Credit Risk.

In order to provide sufficient protection against significant individual claims relating to the period prior to July 1998 the Board commuted the original reinsurance arrangements in 2010 and purchased aggregate excess of loss reinsurance that will provide appropriate protection for these risks.

The ARCC receives quarterly updates on the development of any claims relating to this period to allow the committee to consider whether additional provisions need to be made.

The adequacy of the IBNR provisions held is reviewed quarterly by the Administrator's Actuarial Reserving function and an update 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.

The ARCC and Business and Development Board committees also receive internal audit reports prepared by the Administrator in relation to underwriting matters and require regular updates from the Administrator on the progress of actions to rectify issues identified.

C.1.4 **Underwriting risk sensitivity**

Separate stress tests have been carried out to assess the impact of an ongoing rate reduction on existing business and a deterioration in the historic insurance liabilities which is above and beyond the existing claims reserves.

The rate reduction stress test simulates a rate reduction applied annually over the course of the planning period and assumes that the claims and expenses remain at their planned level. The stress test assesses the impact this would have on the Company's profit commission receivable.

The second stress test examines a significant deterioration in the Company's insurance liabilities, in the event of an adverse development above and beyond existing claims reserves over the planning period and up to the point at which the aggregate excess of loss reinsurance held would take effect. The deterioration is experienced each year over the planning period.

The results indicate that the Company is well placed to cope with these events in isolation without prompting any significant concerns around solvency or the ability to meet the Company's own 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 investment assets of the Company are divided into two portfolios, each with distinct investment policies.

The Solvency Capital Requirement Portfolio (SCRP) policy seeks to invest in lower risk assets with the portfolio maintained at a level sufficient to meet the operational and capital requirements of the insurance operations of the Company. The portfolio invests predominantly in cash and sterling denominated British Government Securities, with up to 8% by value in Euro denominated European & Economic Monetary Union (EMU) Government Bonds and Euro cash. This portfolio is therefore exposed to the following types of market risk:

- interest rate risk (Government Bonds);

- counterparty default risk (Cash balances); and
- currency risk (Euro cash and bonds).

The Uncommitted Capital Portfolio (UCP) covers the Company's surplus capital, and its policy is to adopt a higher exposure to market risk to achieve higher returns. It is invested chiefly in readily realisable securities, quoted on either the London Stock Exchange or a recognised overseas investment exchange. The portfolio may include global equities, collective investments including Open Ended Investment Companies (OEICs), unit trusts and investment trusts, exchange traded certificates or funds, UK and overseas bonds and cash. This portfolio is therefore exposed to the following types of market risk:

- interest rate risk (Corporate Bonds);
- spread risk (Corporate Bonds);
- counterparty default risk (Cash balances);
- currency risk (Overseas cash, bonds and equities, derivative currency hedging);
- concentration risk (bonds and equities); and
- equity risk (equities).

Both portfolios are measured against agreed benchmarks and monitored by the IC. The IC meets regularly with the investment managers and receives quarterly reports from them. These include current valuations, the comparison of asset allocation within the set parameters and measures of investment performance. The minutes of the IC are presented to the Board with additional updates provided where appropriate.

The Company does not have off-balance sheet positions nor does it transfer risk to special purpose vehicles.

C.2.2 Compliance with prudent person principle

The two investment portfolios each have their own policy stipulating the type of investments that can be held and the mix of investment types permitted.

The SCRP reflects a conventional low risk approach through holding cash and Government securities, the primary purpose of these assets is to enable the prudent operation of the business, with a readily realisable value sufficient to meet the current operating needs of the Insurance business and to enable the Company to meet its obligations to its customers and regulators.

While most of the Company's prospective liabilities are denominated in Sterling, a small proportion is denominated in Euros. To match this liability exposure to foreign currency, a similar percentage of the SCRP is also denominated in Euros.

C.2.3 Market risk concentration

The Company has a well-diversified investment portfolio with a healthy mixture of equities and Sterling bonds. The largest exposure is to the UK Government, with 31% of the SCR investments being in UK gilts.

C.2.4 Market risk mitigation

The SCRP is deliberately risk averse and the appetite is set such that its value is sufficient to ensure the Company exceeds the higher of the SCR or MCR. Assets may be switched between the two portfolios to ensure that the value of the SCRP is at or above 100% of the SCR.

The portfolio is benchmarked using market indices for cash and fixed income securities maturing within 15 years.

The UCP reduces volatility and concentration risk through diversification, both in terms of type of assets and of individual holdings. The Company's UCP investment policy requires a minimum number of 40 equity stocks to be held, and no individual holding can exceed 5% of the total portfolio.

The Global equities of this portfolio are benchmarked against the MSCI All Countries World index.

As mentioned in C.2.1, The IC meets regularly with the investment managers and receives quarterly reports from them. These include current valuations, the comparison of asset allocation within the set parameters and measures of investment performance. The IC periodically reviews its policies and with the investment manager considers the market outlook. Financial reports covering investments are produced quarterly as part of the management accounts and compared with the reports of the investment manager. These are presented both to the IC and to the main Board. The minutes of the IC are presented to the Board with additional update provided where appropriate.

Most of the Company's underwriting business and prospective liabilities are denominated in Sterling. A small proportion relates to business formerly written in the Republic of Ireland and is denominated in Euros, giving rise to a small potential currency risk. To facilitate matching of this Euro denominated liability, up to 8% of the SCR portfolio's value may be held in Euro denominated bonds and cash.

Currency hedging is also employed to manage the Company's exposure to currency risk. It is recognised that the relative value of one currency to another may vary from time to time and long-term step changes may develop in one direction or the other. With regard to the UCP, therefore, which is not matching any specific liability, the Investment Manager has been given discretion in their mandate to sterling hedge the overseas equity portfolio.

C.2.5 **Market risk sensitivity**

Two stress tests have been carried out to assess the following:

- a sudden fall in equity investments to simulate a stock market crash; and
- a fall in equity investments in each year over the planning period combined with a deterioration in the claims portfolio over the same period.

The first scenario considers a significant fall in the equity investments equivalent to a 1 in 100 fall in equities (39%). This leads to a significant operating loss in the first year and the ECR solvency coverage falling.

The second stress test assumes a fall of 10% in the equity investments with additional claims in each year of the planning period. This demonstrates the impact of a surge in claims over a prolonged period, impacting the profit commission due from the administrator, at the same time a fall in investment. This leads to an operating loss in each year during the planning period and the Enhanced Capital Requirement (EHC) solvency coverage falling.

Although the stress tests impact the solvency coverage, they do not raise any concerns over the Company's solvency coverage or coverage of the Company's risk appetite.

C.3 Credit risk

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

C.3.1 Credit risk exposure

The largest exposure for the Company is from the reinsurance agreement with the Administrator. This results in a potentially large amount of outstanding claim recoveries due to the high level of reinsurance that the Company utilises on prior reserves and future business written. The Company is also exposed, to a lesser extent, to premium debtor default risk through the insurance business underwritten and cash at bank default risk.

The Company has reinsured all ongoing business, except for terrorism and flood cover, with the Administrator and therefore retains no net insurance risk on its ongoing portfolio of business giving rise to a reliance on a single reinsurance counterparty. The Board considers this is an acceptable risk due to the financial benefits provided by the reinsurance arrangements and the chosen business model.

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

C.3.2 Credit risk concentration

The reinsurance arrangement in place with the Administrator results in a key concentration of risk. There is also a further adverse development reinsurance arrangement in place with the Administrator which will respond if the liabilities relating to the period prior to the current reinsurance arrangement with the Administrator, which commenced in 1998, exceed £12m.

There are exposures through premium debtors and cash investment holdings although these are deemed to be much less significant and do not present any specific concentrations.

There have been no material changes over the reporting period.

C.3.3 Credit risk mitigation

The Board regularly monitors the financial performance and position of the Administrator the Group Chief Executive of which attends a board meeting annually to update on its financial performance and strength.

Regular reporting is provided to the ARCC on the pre-1998 liabilities.

The Company's risk appetite includes statements on the institutions to be used for holding cash and limits in respect of exposure to other counterparties. Exposures are monitored regularly as part of the risk appetite review.

There is also a letter of credit in place with the Administrator for £2m in respect of reinsurance amounts recoverable. This provides short term protection in the event of the Administrator failing.

C.3.4 Credit risk sensitivity

The scenario involving a reduction in credit rating of the main reinsurer has been considered. It was assumed that the credit rating would reduce one notch from its current rating. This would impact through an increase in the company's SCR for counterparty default and therefore results in a reduction in solvency coverage.

Although the SCR would increase this scenario does not present any major concerns over the Company's solvency coverage or the Company's internal risk appetite.

C.4 Liquidity risk

Liquidity risk is the risk that the company will not have sufficient financial resources to meet their obligations as they fall due, or will only be able to access these resources at an excessive cost.

C.4.1 Liquidity risk exposure

The Company's exposure is most likely to be realised in the event that there is a significant catastrophe event which results in significant claim payments at short notice. This is assessed through the analysis of the cash flows expected to be needed as a result of the projected claims.

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

C.4.2 Liquidity risk concentration

No material liquidity risk concentrations have been identified, as investments are well diversified with minimal concentration.

C.4.3 Liquidity risk mitigation

The cash flows are analysed by the Administrator on behalf of the Board to assess cash levels required to pay claims arising and other operational costs as they fall due. The Company maintains minimum cash balances which are considered to be adequate to pay claims under normal circumstances.

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

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

The Company also holds a significant proportion of its investments in readily realisable assets.

There is also a letter of credit in place with the Administrator in respect of reinsurance amounts recoverable which provides short term protection in the event of the Administrator failing.

C.4.4 Liquidity risk sensitivity

No stress tests have been carried out for this risk type as the Board does not deem this to be a material risk for the Company, except in the most exceptional conditions. This is regularly reviewed.

C.4.5 Expected profit in future premiums

Expected profit in future premiums 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 £253k.

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 through the JAA outsourcing agreement with the Administrator. The Administrator carries out all operational and administrative elements of the business on behalf of the Company within the parameters set out in the JAA. 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.

A monthly business report is provided by the Administrator to the Board which details performance against the agreed service standards and the business performance including the financials. In addition to this, the Board and ARCC are provided with reporting at their quarterly meetings, including compliance reports and ad-hoc reports on specific items, to enable the Board to assess the risk exposure and whether it is acceptable or whether additional action is required.

There have not been no material changes to the risk exposure over the reporting period. The administrator has continued to administer the business in line with the agreed service standards during the Covid-19 pandemic.

C.5.2 Operational risk concentration

The key material concentration arises through the outsourcing agreement which creates a reliance on the Administrator for all operational and administrative elements of the business.

This is accepted by the Board due to the chosen business model of the Company.

C.5.3 Operational risk mitigation

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

The JAA is the legal outsourcing contract in place and this details the services provided by the Administrator to the Company. The Board monitors the performance of the Administrator against the services and service standards specified within the JAA on a regular basis and a formal annual evaluation of the performance of the Administrator against the requirements of the JAA is also undertaken.

The JAA contains a termination period of 12 months and a defined exit plan in the event that the Company decides the arrangement is no longer acceptable or the Administrator gives notice on the agreement.

C.5.4 Operational risk sensitivity

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

C.6 Other material risks

C.6.1 Other material risk exposure

Reputational risk is the potential for events to occur which could result in negative impacts upon the Company. Reputational risk generally arises from the other specific risks, for example, a lack of liquidity leading to a delay in the payment of a large claim could result in reputational damage in the eyes of stakeholders.

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

There have been no material changes to the risk exposure over the reporting period. As detailed under C.1 Underwriting Risk during 2020 the Company ceased writing business in the Republic of Ireland due to Brexit alternative options were provided for the affected policyholders and withdrawal has been closely monitored by the Board.

C.6.2 Other material risk concentration

There are no material risk concentrations to note.

C.6.3 Other material risk mitigation

Capital is not held against reputational risk. The risk of negative reputational impacts is mitigated to a certain extent through the effective management of the other key risk types and also the speed and quality of response if negative reputational impacts occur.

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

No stress tests have been carried out on this risk type but consideration is given to it as part of the assessment of the other risk types.

C.7 Any other information

This has been assessed by the Board who believe that there is no further material information to note.

D. Valuation for solvency purposes

Following the UK's exit from the European Union (EU), 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 TPs 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'.

TPs 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 UK Adopted International Accounting Standards (IFRS) and audited by external auditors.

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £186k (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 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. The table below summarises the SII valuation, compared with the financial statements prepared in accordance with IFRS and 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	38,798	(2,500)	36,298	(4,784)	31,514
Total liabilities	20,227	(2,500)	17,727	(6,307)	11,420
Net assets	18,571	-	18,571	1,523	20,094
Breakdown of assets					
Technical provisions - Reinsurance recoverables	13,770	(660)	13,110	(4,779)	8,331
Investments	17,005	33	17,038	(1)	17,037
Cash and cash equivalents	6,049	-	6,049	-	6,049
Insurance & intermediaries receivables	1,850	(1,840)	10	-	10
Receivables (trade, not insurance)	124	(33)	91	(4)	87
Other assets	-	-	-	-	-
Total assets	38,798	(2,500)	36,298	(4,784)	31,514

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 TPs and the differences in valuation methodology compared with the financial statements are covered in section D.2.

Investments - Participations

The subsidiary undertaking is dormant, having not traded since incorporation and has been valued at cost. The Directors consider that cost approximates to its 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 investments held by the Company and designated at fair value are classified as level 1 except for derivative financial instruments which are classified as level 2.

The fair value of investments in the SII valuation includes accrued interest whereas the financial statements includes accrued interest within trade receivables.

Insurance & intermediaries 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 that are past due. Debtor balances that are not past due are future cash flows that form part of TPs as covered in section D.2.

Receivables (trade, not insurance)

This comprises trade debtor balances. Due to the short-term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value.

The valuation of non-insurance receivables for SII excludes prepayments which have no fair value.

Cash and cash equivalents

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

D.2 Technical provisions

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

Under SII the TPs are made up of:

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

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

The reserving process captures material factors through engagement and interaction between 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.

Reserving estimates under IFRS and SII bases, and the assumptions and bases underlying these, are subject to thorough review and sign-off. Multiple review steps are in place, and the estimates are subject to external audit.

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	245
Discount rate shift	- 1.0% to spot rate at all durations	227
Reinsurance default	All reinsurer ratings downgraded to B	87

The largest sensitivity considered is the inflationary shock, due to the materiality of net latent claims exposure, the cumulative impact over the full duration of the liabilities and judgemental nature of the assumption when considering the very long term.

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.

Reinsurance default also represents a significant shock due to the critical part that reinsurance strategy plays in the business model of the Company. Counterparty default risk is an important component of the Company SCR therefore the risk margin is also sensitive to this item.

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 definition of contract boundaries, the allowance for future earned profits and the consideration of future premium cash inflows in the premium provision for SII.

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 £774,000 (2021: £587,000), and due to SII best estimate claims reserves being £679,000 lower, driven by discounting (2021: £6,000). Further differences are 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, volatility adjustment, the transitional risk-free interest rate-term structure and use of the Article 308[d] transitional deduction

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

D.2.5 Recoverables from reinsurance contracts and special purpose vehicles

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 covers 100% of the business. The operational management of the portfolio and any retrocession arrangement decisions affecting the profit share are delegated to the Administrator as part of this arrangement.

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

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

There have been no significant changes to previously used assumptions; 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. The table below summarises the SII valuation, compared with the financial statements prepared in accordance with IFRS and includes 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	38,798	(2,500)	36,298	(4,784)	31,514
Total liabilities	20,227	(2,500)	17,727	(6,307)	11,420
Net assets	18,571	-	18,571	1,523	20,094
Breakdown of liabilities					
Technical provisions - non-life	18,852	(1,840)	17,012	(6,815)	10,197
Reinsurance Payables	660	(660)	-	-	-
Deferred tax liabilities	-	-	-	508	508
Payables (trade, not insurance)	589	-	589	-	589
Other liabilities	126	-	126	-	126
Total liabilities	20,227	(2,500)	17,727	(6,307)	11,420

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

Technical provisions – non-life

The valuation of TPs and the differences in valuation methodology compared with the financial statements are covered in section D.2.

Reinsurance Payables

For SII this only comprises creditor balances that are past due. Balances that are not past due are future cash flows that form part of reinsurers’ share of TPs as covered in section D.2

Deferred tax liabilities

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

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

For SII the deferred tax liability has been recalculated 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%.

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 due to their short-term nature their carrying value of amortised cost is deemed an appropriate approximation of fair value.

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 fair value.

Any other Liabilities

An intercompany balance with the Company's dormant subsidiary is included in other liabilities. In light of its immateriality, the amortised cost is assumed to approximate to fair value.

D.4 Alternative methods for valuation

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

D.5 Any other information

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

E. Capital Management

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

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

Basic Own Funds	2022 £'000	2021 £'000
SII Valuation of assets	31,514	33,549
SII Valuation of liabilities	(11,420)	(13,470)
Excess of assets over liabilities	20,094	20,079
Subordinated debt	-	-
Foreseeable distributions	-	-
Basic own funds	20,094	20,079

Foreseeable distributions are future expense items such as dividends that have been approved for payment by the Board. The Company has no subordinated debt and no foreseeable distributions.

E.1 Own funds

E.1.1 Own funds - objectives, policies and processes

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 IC who are involved in managing capital and solvency. It is the Company's policy to provide a robust framework for the management and control of capital that underpins business performance and supports strategic development. The Board, supported through the JAA on a day to day operational level will:

Regulatory and legislative

- Ensure current and future rules are monitored and understood, particularly regarding the definition of capital and various capital requirements;
- Ensure 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;
- Ensure there is sufficient capital held in order to satisfy capital requirements, regulatory or otherwise;
- Ensure that the level of capital available in the Company, regulatory or otherwise, is monitored on a regular basis in accordance with an agreed process; and

- Ensure there is regular monitoring and review of the quality and tiering of capital, in order to assess whether the above targets are being met on an ongoing basis.

Definition and monitoring of our solvency capital requirements

- Ensure all current and future capital requirements, regulatory or otherwise, are understood at all times;
- Ensure the Company has an agreed definition of an ECR, reflecting its own view of risk;
- Ensure 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;
- Ensure the Company has at least enough capital to meet its regulatory requirements at all times;
- Ensure that 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;
- Ensure that relevant stakeholders (i.e. regulators) are informed of any adverse changes to solvency positions in excess of agreed reporting levels; and
- Ensure that future capital requirements and projected solvency positions throughout the period of the business plan are assessed in the ORSA process.

Principles around the distribution and raising of capital

- Ensure there is a clearly defined process for assessing level of dividends and grants prior to any payment being made;
- Ensure there is a clearly defined process for monitoring market conditions and future capital needs in order to assess the requirement and benefit of capital raising or redemptions; and
- Ensure the 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

- Ensure the Company has an agreed return on capital target which is aligned to the expectations of all key stakeholders (i.e. the Board);
- Ensure there is an agreed approach to setting and monitoring the return on capital;
- Ensure that there is a clear process for determining when a strategic decision should take into account a capital perspective; this must cover all decisions that materially change the use of capital or solvency position; and
- Ensure that each such decision making considers the impact on solvency, capital allocation, return on capital and any other principles included in this Policy.

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

Reports detailing performance against this policy or any business critical changes will be reviewed periodically, but at least annually, by the ARCC.

Any breaches of the policy are escalated immediately to the Board Chair and Chair of the ARCC. The policy is reviewed triennially, taking into account any new or changes to legislation, or more frequently should a significant change in the business, market or regulatory environment occur.

Capital planning is undertaken annually as part of the annual planning process, encompassing 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:

Own Funds by Tier	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2022	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Ordinary share capital	113	113	-	-	-
Reconciliation reserve	19,981	19,981	-	-	-
	20,094	20,094	-	-	-
2021					
Ordinary share capital	113	113	-	-	-
Reconciliation reserve	19,966	19,966	-	-	-
	20,079	20,079	-	-	-
Movement in own funds					
Ordinary share capital	-	-	-	-	-
Reconciliation reserve	15	15	-	-	-
	15	15	-	-	-

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

No ancillary own funds have been recognised.

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	**19,966**
IFRS Retained earnings for year	(735)
Movement in SII valuations:	
Gross technical provisions	2,056
Reinsurance recoverables	(1,057)
Other	1
Movement in revaluation of deferred tax	(250)
Total movement for year	**15**
Current year balance	**19,981**

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. Performance from other activities, 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

As all of the own funds are classified as unrestricted tier 1 capital, all are eligible to cover the SCR.

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

As all of the own funds are classified as unrestricted tier 1 capital, all are eligible 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		**18,570**	**19,305**
Revalue technical provisions:	Gross technical provisions	6,815	4,759
	Reinsurance recoverables	(4,780)	(3,723)
Remove prepayments and other assets with no fair value		(4)	(5)
Remove other liabilities with no fair value		1	1
Impact on deferred tax of revaluation		(508)	(258)
Solvency II Valuation of own funds		**20,094**	**20,079**

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

Some assets and liabilities such as prepayments are removed from the SII valuation as they are inadmissible or deemed to have no measurable fair value. This is covered in sections D.1 (assets) and D.3 (liabilities).

The difference between the SII value of net assets and the value used for the calculation of tax gives rise to an adjustment to the deferred tax provision. This is explained in section D.3.

E.1.6 Transitional arrangements

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

E.1.7 Ancillary own funds

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

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 must hold to satisfy the requirements of 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 QRT 'S.25.01 – Solvency Capital Requirement' and 'S.28.01 – Minimum Capital Requirement' are reproduced in appendices 7 and 8 respectively.

As at 31 December 2022 the SCR for the Company was £4,846k, and the MCR was £3,445k. Both amounts are still subject to supervisory assessment.

E.2.2 SCR by risk module

Movement in Capital Requirements	2022	2021	Change
	£'000	£'000	£'000
Market risk	3,837	6,857	(3,020)
Counterparty default risk	1,690	1,335	355
Non-life underwriting risk	1,025	1,374	(349)
Diversification	(1,495)	(1,704)	209
Basic SCR	5,057	7,862	(2,805)
Operational risk	297	355	(58)
Loss absorbing capacity of deferred tax	(508)	(258)	(250)
SCR	**4,846**	**7,959**	**(3,113)**
MCR	**3,445**	**3,126**	**319**

The most significant element of the Company's SCR is market risk. The remaining elements are comprised of smaller balances for counterparty default and non-life underwriting risk, partly offset by a diversification credit, and operational risk. Loss absorbing capacity of deferred tax is applied.

E.2.3 Use of simplified calculations

No simplifications and no 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 Undertaking specific parameters

Undertaking specific parameters are not employed.

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

This option has not been utilised.

E.2.6 Impact of using undertaking specific parameters

Undertaking specific parameters are not employed.

E.2.7 Inputs used in the calculation of the MCR

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

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

The Company's SCR decreased in the year by £3,113k primarily due to an increase in market risk driven by a decrease in equity exposure following the downward market performance in the period.

The MCR coverage ratio has decreased by 59% following an increase in the sterling equivalent of the €4.0m absolute floor MCR following the movement in the euro rate across the period and the increase to €4.0m from €3.7m at 2021 year-end.

The loss absorbing capacity of deferred tax has increased following a larger difference in the valuation of reserves from IFRS to SII.

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 the calculation of 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
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	17,037
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	1
R0100	*Equities*	9,360
R0110	*Equities - listed*	9,360
R0120	*Equities - unlisted*	
R0130	*Bonds*	6,605
R0140	*Government Bonds*	6,496
R0150	*Corporate Bonds*	109
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	1,067
R0190	*Derivatives*	5
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:	8,331
R0280	*Non-life and health similar to non-life*	8,331
R0290	*Non-life excluding health*	8,331
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	10
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	87
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	6,049
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	31,514

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	10,197
R0520	*Technical provisions - non-life (excluding health)*	10,197
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	9,567
R0550	*Risk margin*	630
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	508
R0790	Derivatives	125
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)	589
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1
R0900	**Total liabilities**	11,420
R1000	**Excess of assets over liabilities**	20,094

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							7,601	2,232		81		514					10,428
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							7,601	2,232		81		514					10,428
R0200	Net							0	0		0		0					0
	Premiums earned																	
R0210	Gross - Direct Business							7,178	2,164		85		489					9,916
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							7,178	2,164		85		489					9,916
R0300	Net							0	0		0		0					0
	Claims incurred																	
R0310	Gross - Direct Business							2,874	-56		0		-7					2,811
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share							2,874	8		0		-7					2,874
R0400	Net							0	-64		0		0					-64
	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**							-569	-1,018		7		-122					-1,702
R1200	**Other expenses**																	
R1300	**Total expenses**																	-1,702

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					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							1,207	-76		-16	0	79					1,193
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							2,823	149		-8	0	132					3,095
R0150	**Net Best Estimate of Premium Provisions**							-1,616	-225		-9	0	-53					-1,902
	Claims provisions																	
R0160	Gross							2,587	5,745		0	0	42					8,374
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							2,544	2,650		0	0	42					5,236
R0250	**Net Best Estimate of Claims Provisions**							43	3,095		0	0	0					3,138
R0260	**Total best estimate - gross**							3,793	5,669		-16	0	121					9,567
R0270	**Total best estimate - net**							-1,573	2,870		-9	0	-52					1,236
R0280	**Risk margin**							343	274		0	0	13					630
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole							0	0		0	0	0					0
R0300	Best estimate							0	0		0	0	0					0
R0310	Risk margin							0	0		0	0	0					0
R0320	**Technical provisions - total**							4,137	5,943		-16	0	134					10,197
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							5,366	2,799		-8	0	173					8,331
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							-1,229	3,144		-9	0	-40					1,866

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)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
R0100	Prior											351	351	351
R0160	2013	852	932	211	93	152	207	91	3	0	3		3	2,545
R0170	2014	1,431	1,214	261	45	267	36	0	10	0			0	3,264
R0180	2015	1,164	2,246	458	142	194	9	462	-433				-433	4,241
R0190	2016	1,201	679	176	2	75	-13	-2					-2	2,118
R0200	2017	1,058	1,157	93	374	-5	22						22	2,700
R0210	2018	1,674	1,391	-176	84	156							156	3,128
R0220	2019	1,389	1,280	-49	257								257	2,877
R0230	2020	1,034	811	91									91	1,935
R0240	2021	1,798	1,767										1,767	3,565
R0250	2022	1,150											1,150	1,150
R0260												Total	3,363	27,873

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
R0100	Prior											5,334	3,841
R0160	2013	0	0	0	600	647	290	155	186	179	122		88
R0170	2014	0	0	608	527	206	144	144	125	118			85
R0180	2015	0	2,763	1,711	1,363	923	941	643	399				305
R0190	2016	2,217	966	435	300	180	130	125					91
R0200	2017	2,390	1,308	828	273	188	142						102
R0210	2018	2,810	1,134	464	410	294							220
R0220	2019	2,560	1,100	583	270								205
R0230	2020	1,837	537	296									226
R0240	2021	2,660	647										537
R0250	2022	3,084											2,674
R0260												Total	8,374

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
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	113	113		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	19,981	19,981			
R0140	Subordinated liabilities	0		0	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**	20,094	20,094	0	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	20,094	20,094	0	0	0
R0510	Total available own funds to meet the MCR	20,094	20,094	0	0	
R0540	Total eligible own funds to meet the SCR	20,094	20,094	0	0	0
R0550	Total eligible own funds to meet the MCR	20,094	20,094	0	0	
R0580	**SCR**	4,846				
R0600	**MCR**	3,445				
R0620	**Ratio of Eligible own funds to SCR**	414.66%				
R0640	**Ratio of Eligible own funds to MCR**	583.34%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	20,094
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	113
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	19,981
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	253
R0790	**Total Expected profits included in future premiums (EPIFP)**	253

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	3,837		
R0020	Counterparty default risk	1,690		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	1,025		
R0060	Diversification	-1,495		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	5,056		

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	297
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-508
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**	4,846
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	4,846
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	-508
R0650	LAC DT justified by reversion of deferred tax liabilities	-508
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
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

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
R0010	MCR_{NL} Result	296

		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	2,870	
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	

		C0040
	Linear formula component for life insurance and reinsurance obligations	
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		

		C0070
	Overall MCR calculation	
R0300	Linear MCR	296
R0310	SCR	4,846
R0320	MCR cap	2,181
R0330	MCR floor	1,211
R0340	Combined MCR	1,211
R0350	Absolute floor of the MCR	3,445
R0400	**Minimum Capital Requirement**	3,445

Appendix 8 – Glossary of abbreviations

The Company	Methodist Insurance PLC
The Board	The Board of Directors of the Company
The Administrator	Outsource provider of insurance management and administration
The Directive	Solvency II Directive 2009/138/EC
The Delegated Act	Solvency II Delegated Regulation (EU) 2015/35

AIA	Internal Audit function of the Administrator
ARCC	Audit, Risk and Compliance Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Compliance	Compliance function of the Administrator
CRO	Chief Risk Officer
EIOPA	European Insurance and Occupational Pensions Authority
EMU	European & Economic Monetary Union
ENID	Events Not in Data
EU	European Union
FCA	Financial Conduct Authority
GEP	Gross Earned Premiums
GIC	Gross Incurred Claims
GWP	Gross written premium
IAS	International Accounting Standard
IBNR	Incurred but not reported
IC	Investment Committee
SM&CR	Senior Managers and Certification Regime
IFRS	International financial reporting standards
JAA	Joint Administration Agreement
KFHs	Key Function Holders
MCR	Minimum Capital Requirement
NED	Non-Executive Director
OEICs	Open Ended Investment Companies
ORSA	Own Risk and Solvency Assessment Report
QRT	Quantitative Reporting Template
SII	Solvency II
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
TPs	Technical provisions
UPR	Unearned Premium Reserve