Methodist Insurance PLC

Revised Solvency and Financial Condition Report

31 December 2016

Contents

Executive Summary **4**

Directors Statement **6**

Audit Report **7**

A. Business and performance **10**
A.1 Business details and group structure 10
A.2 Performance from underwriting activities 11
A.3 Performance from investment activities 13
A.4 Performance from other activities 14
A.5 Any other information 14

B. System of governance **15**
B.1 General information on the system of governance 15
B.2 Fit and proper requirements 19
B.3 Risk management system including the ORSA 20
B.4 Internal control system 23
B.5 Internal audit function 24
B.6 Actuarial function 25
B.7 Outsourcing 25
B.8 Any other information 26

C. Risk profile **27**
C.1 Underwriting risk 27
C.2 Market risk 28
C.3 Credit risk 30
C.4 Liquidity risk 30
C.5 Operational risk 31
C.6 Other material risks 32
C.7 Any other information 32

D. Valuation for solvency purposes **33**
D.1 Assets 33
D.2 Technical provisions 35
D.3 Other liabilities 43
D.4 Alternative methods for valuation 44
D.5 Any other information 44

E. Capital Management **45**
E.1 Own funds 45
E.2 Solvency Capital Requirement [SCR] & Minimum Capital Requirement [MCR] 49
E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR 51

E.4 Differences between the standard formula and the internal model 52
E.5 Non-compliance with the MCR and non-compliance with the SCR 52
E.6 Any other information 52

Appendix 1 – QRT S.01.02 General Information 53

Appendix 2 – QRT S.02.01.02 Balance Sheet 54

Appendix 3 – QRT S.05.01.02 Non-life premiums, claims and expenses by line of business (unaudited) 56

Appendix 4 – QRT S.05.02.01 Non-life premiums, claims and expenses by country (unaudited) ... 57

Appendix 5 – QRT S.17.01.02 Non-life technical provisions 58

Appendix 6 – QRT S.19.01.21 Non-life insurance claims (unaudited) 59

Appendix 7 – QRT S.23.01.01 Own Funds 60

Appendix 8 – QRT S.25.01.21 Solvency Capital Requirement 61

Appendix 9 – QRT S.28.01.01 Minimum Capital Requirement 62

Appendix 10 – Glossary of abbreviations 63

Executive Summary

Introduction
This revised 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 distributable 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 performance for 2016 has been outstanding for the Company delivering an exceptional operating profit (profit before charitable grants and tax), one of the highest in the Company's history. This outstanding result enabled the Company to pay a significant charitable grant whilst still maintaining its strong capital position.

Despite the uncertain external environment, as a result of both the UK vote to leave the European Union (EU) and the outcome of the US presidential election which were unexpected by many, the investment portfolio performed well generating returns of £1,721k in the year. During the year the Board took the opportunity to put currency hedging in place which reduced exposure to currency risk over the year.

The underwriting result for the year of £2,345k is due to the claims incurred being exceptionally low this year as a result of a relatively benign claims experience, with the exception of the June floods, and releases on prior loss years.

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

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

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

Following the publication of the Company's SFCR on 18 May 2017 an error in the application of the transitional calculation for equity risk was identified. The error resulted in the SCR being understated by £1,566k. The error has been corrected in this revised SFCR which was approved and republished by the Directors on 9 August 2017.

A summary of the Company's revised solvency position at the end of 2016 and the change over the year is shown below:

Summary solvency position	2016	2015	Change
	£'000	£'000	£'000
Own Funds	**18,294**	**18,074**	220
Market risk	5,238	3,591	1,647
Counterparty default risk	1,387	1,553	(166)
Non-life underwriting risk	2,167	2,215	(48)
Diversification	(1,982)	(1,844)	(138)
Operational risk	484	557	(73)
Loss absorbing capacity of deferred tax	(362)	(374)	12
Standard Formula SCR	**6,932**	**5,698**	1,234
Coverage ratio	**264%**	**317%**	(53%)

The Company's regulatory solvency position has remained very strong. Own funds increased by £220k in the year mainly due to an increase in retained earnings. This is explained in more detail in section E.1.

The Company's SCR increased in the year by £1,234k, due mainly to an increase in market risk following changes to the investment portfolio. More detail on the changes in SCR during the year is given in section E.2.

Outlook for 2017

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

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

Directors Statement

Methodist Insurance PLC

Financial year ended 31 December 2016

Statement required by Article 55 of the Solvency II Directive

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

We are satisfied that:

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

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

D.S. Walton
Chairman
Date: 9 August 2017

Audit Report

Report of the external independent auditor to the Directors of Methodist Insurance plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the revised Solvency and Financial Condition Report of Methodist Insurance as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, and S28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the revised Solvency and Financial Condition Report. The revised Solvency and Financial Condition Report replaces the original Solvency and Financial Condition Report approved by the directors on 18 May 2017.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the revised Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01, S19.01.21;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the revised Solvency and Financial Condition Report ('**the Responsibility Statement**').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the revised Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the revised Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the revised Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

The audit of revised financial information includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

Opinion on the Relevant Elements of the revised Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the revised Solvency and Financial Condition Report of Methodist Insurance plc as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphases of Matter

Basis of Accounting

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

Revision of Solvency Capital Requirement

In forming our opinion on the revised Solvency and Financial Condition Report, which is not modified, we have considered the adequacy of the disclosures made in section E.2.1 to the revised Solvency and Financial Condition Report concerning the need to revise the Solvency Capital Requirement. The original Solvency and Financial Condition Report was approved on 18 May 2017 and our previous report was signed on that date.

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Methodist Insurance plc statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company’s directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor’s report has been commissioned by the company’s directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company’s directors those matters we are required to state to them in an auditor’s report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP

KPMG LLP
1 St Peter’s Square
Manchester
M2 3AE

9 August 2017

- The maintenance and integrity of Methodist Insurance plc’s website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the revised Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

Solo standard formula
The Relevant Elements of the revised Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’

A. Business and performance

A.1 Business details and group structure

A.1.1 Name and legal form of the company

Methodist Insurance PLC is a public limited company incorporated and domiciled in the United Kingdom.

The address of the registered office is:

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

A.1.2 Supervisory authority

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

A.1.3 External auditor

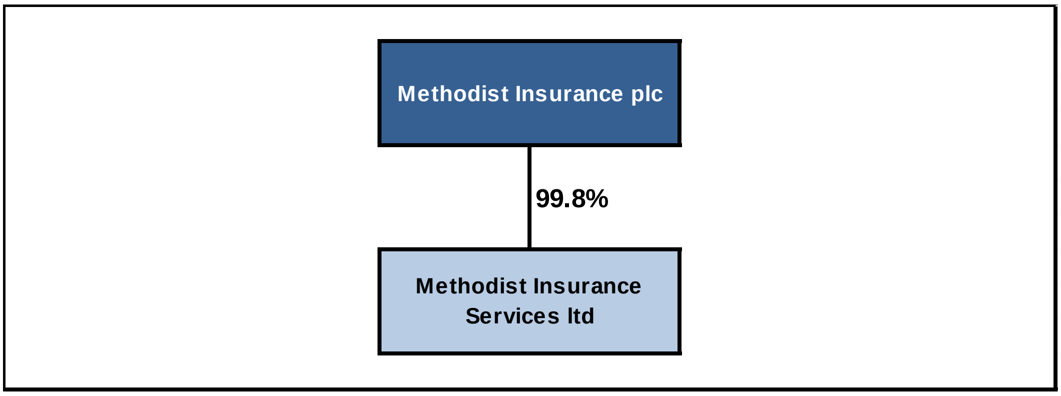
KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

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:



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 directors of the subsidiary, who are also directors of the Company.

A.1.6 **Lines of business**

The company currently operates in the United Kingdom and 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 the year the result of the EU referendum created volatility in investment markets and considerable political and economic uncertainty and this is likely to continue for several years now that article 50 has been triggered and negotiations around the format of the exit begins in earnest. As part of the Company's underwriting business is undertaken in the Republic of Ireland, there is expected to be a modest impact on the operation of the Company as the exit progresses, although the full extent of the impact is currently uncertain. There is also expected to be increased volatility in its investments, approximately 32% of which is denominated in foreign currency.

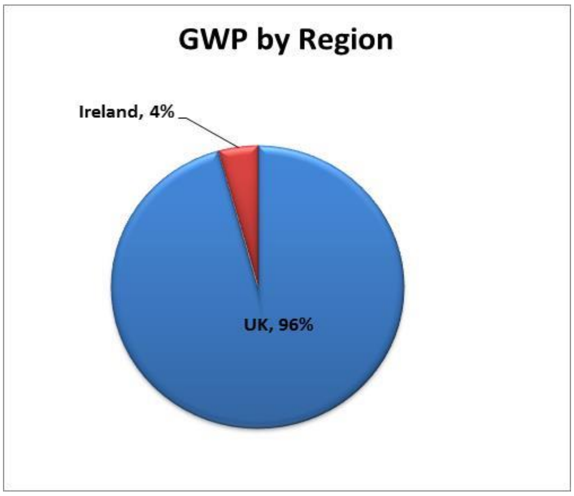
The implementation of SII by the PRA on 1 January 2016 has had a significant impact on the volume of regulatory reporting that the Company is required to undertake each year, increasing administrative costs.

A.2 Performance from underwriting activities

A.2.1 **Overall underwriting performance**

Underwriting Performance at Aggregate Level

Description	**2016**
	£'000
Gross Written Premium	9,603
Gross Earned Premium	9,951
Gross Incurred Claims	(1,291)
Reinsured	*(1,516)*
Run-off	*225*
Commission	(100)
Expenses	(223)
Gross Underwriting result	**8,336**
Reinsurance Earned Premium	(9,951)
Reinsurance Claims	1,516
Reinsurance Commission	2,443
Net Underwriting result	**2,345**



Gross written premium (GWP) was £9,603k, a reduction of £529k on the prior year. The reduction in premium is as a result of continued Church closures along with rate reductions for this segment, although retention of this core account remains high. Premiums are written within the UK and Ireland but as noted within the chart above, Irish premiums make up only 4% of the Company's premium which highlights the small exposure in this region.

The Gross Claims Ratio (Gross Incurred Claims (GIC) divided by Gross Earned Premiums (GEP)) of 13% is exceptionally low this year and has been driven by a benign claims experience with the exception of the June floods and releases in outstanding reserves relating to prior loss years. Additionally there has been a small reduction in new claims registered in 2016 compared to prior year.

The performance of run-off claims (claims that relate to the period prior to the current reinsurance arrangement with the Administrator, which commenced in 1998) has improved from 2015, due to a small reduction in new notified claims for 2016 and the development and closure of several claims resulting in reserve releases.

The Company has incurred corporate expenses of £223k.

The reinsurance treaty performed well and generated income of £2,318k, with the favourable underwriting experience being the main driver. Additionally the Company has received £25k of commission for policies with an engineering insurance and or inspection fee add-on.

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

Underwriting Performance By Material Line Of Business

Description	2016				2015				Variance			
	Property £'000	Liability £'000	Other £'000	Total £'000	Property £'000	Liability £'000	Other £'000	Total £'000	Property £'000	Liability £'000	Other £'000	Total £'000
Gross Written Premium	7,115	1,937	551	9,603	7,817	1,772	542	10,132	(702)	164	9	(529)
Gross Earned Premium	7,445	1,954	551	9,951	8,031	1,670	538	10,238	(586)	284	13	(288)
Gross Incurred Claims	(1,097)	(182)	(13)	(1,291)	(5,785)	(1,459)	(239)	(7,483)	4,688	1,277	226	6,191
Reinsured	*(1,097)*	*(407)*	*(13)*	*(1,516)*	*(5,785)*	*(311)*	*(239)*	*(6,336)*	*4,688*	*(95)*	*226*	*4,819*
Run-off	*-*	*225*	*-*	*225*	*-*	*(1,147)*	*-*	*(1,147)*	*-*	*1,372*	*-*	*1,372*
Commission	(68)	(26)	(6)	(100)	(66)	(23)	(5)	(94)	(2)	(3)	(1)	(6)
Expenses	(165)	(45)	(13)	(223)	(366)	(83)	(25)	(474)	201	38	13	251
Gross Underwriting result	**6,115**	**1,702**	**520**	**8,336**	**1,814**	**106**	**268**	**2,188**	**4,301**	**1,596**	**252**	**6,149**
Reinsurance Earned Premium	(7,445)	(1,954)	(551)	(9,951)	(8,031)	(1,670)	(538)	(10,238)	586	(284)	(13)	288
Reinsurance Claims	1,097	407	13	1,516	5,785	311	239	6,336	(4,688)	95	(226)	(4,819)
Reinsurance Commission	1,799	525	120	2,443	670	596	82	1,347	1,129	(71)	38	1,096
Net Underwriting result	**1,565**	**679**	**101**	**2,345**	**238**	**(657)**	**51**	**(367)**	**1,327**	**1,336**	**50**	**2,713**

GWP has seen an overall decline from prior year with the fall due to a reduction in property premiums. The Company has been actively applying rate reductions within the Faith market which has had a notable impact on GWP.

The Company conducts a 5 year resurvey programme which has resulted in increases to the sums insured and corresponding higher premium although these increases were capped such that the rate reductions generated lower property premium overall.

Following a review of the Company's liability exposure the decision was taken to apply a small increase for liability premium on renewal policies to ensure sufficient cover is provided for this risk, as it was felt this was underprovided for in the past given the claims experience. This has resulted in a year on year increase in liability premium.

GIC has seen an improvement on the reinsured business, predominantly across the property line of business due to a relatively benign claims experience with the exception of the June floods and releases in outstanding reserves relating to prior loss years. This is compared to 2015 which was impacted by several large fire claims and the winter storms at the end of the year. Liability has seen a small deterioration in 2016, where prior year releases continue, but at a reduced level compared to that seen in 2015.

Run-off claims performance has improved from 2015, due to the development and closure of several claims resulting in reserve releases.

Reinsurance commission has also seen an improvement from 2015, with the favourable claims experience in relation to 2016 being the main driver.

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

A.3 Performance from investment activities

A.3.1 Investment performance by asset class

Income & Expenses Arising From Investments By Asset Class							
Description	2016 Income	2016 Fair Value Movement In Holdings *	Overall 2016 Performance	2015 Income	2015 Fair Value Movement In Holdings *	Overall 2015 Performance	Overall Variance
	£'000		£'000			£'000	£'000
Fixed Interest Government Stock Interest	52	46	97	21	(15)	6	92
Index Linked Government Stock Interest	74	237	311	169	(239)	(70)	381
Overseas Government Bonds	7	9	16	-	-	-	16
Corporate/Supra Bonds	26	(20)	7	-	-	-	7
Bond Funds	49	23	72	26	(13)	13	59
Preference Share Dividends	-	2	2	12	3	15	(13)
Equity Dividends	387	1,204	1,591	422	105	527	1,064
Interest (Inc Bank Interest)	29	-	29	51	-	51	(23)
Total Income	**624**	**1,501**	**2,125**	**702**	**(159)**	**543**	**1,582**
Derivatives Realised Gains / (Losses)			(286)			-	(286)
Derivatives Unrealised Gains / (Losses)			(49)			-	(49)
Total Investment Return			**1,790**			**543**	**1,247**
Difference On Exchange Gains / (Losses)			48			(23)	71
Investment Expenses & Charges			(117)			(91)	(26)
Net Return From Investment			**1,721**			**428**	**1,293**

* 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 income to December 2016 was £624k, a 7.8% decrease on the prior year. The main driving factor for this being the Company's decision to review its investment policy which resulted in significant changes in the structure of the investment portfolios held.

The portfolios were diversified by increasing the proportion of overseas holdings, in particular equities, which resulted in lower interest income being received during the year.

Following the significant restructure of the portfolios the Company recognised realised losses of £60k from disposals compared to £31k in 2015 with the remainder of the fair value movement relating to unrealised gains and losses. The 2016 investment performance reflects the rise seen in December on the UK stock markets, which achieved a historic high plus the positive effect of the low pound on the value of overseas investments held. Overall the company recognised £1,501k of fair value gains compared to £159k fair value losses for the prior year.

Following the increased exposure to overseas holdings and the Company's liabilities being mostly Sterling based it was decided to use currency hedging to ensure the exposure to currency variation did not affect its ability to meet current and future liabilities. The losses on the hedging instruments are offset by the corresponding fair value gains on the overseas investments. The policy is for there to be a partial sterling hedge of 37.5% of total overseas equities which is reflected in the Investment Manager's performance benchmark for that asset class.

The company underwrites business in Ireland and the foreign exchange differences that arise from the accounting treatment of this business are included as exchange movement in the table above. For 2016 the Company has gains of £48k in relation to exchange rate movements following the weakening of Sterling over the second half of the year.

The Company incurs management fees for the administration of its investment portfolios. Due to the change in managing agent during the year there was an overlap of fees which has resulted in the £26k adverse performance against 2015.

A.3.2 Gains and losses recognised directly in equity

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

A.3.3 Investments in securitisation

The business does not hold any investments in securitisation instruments.

A.4 Performance from other activities

Other Material Income & Expenses			
Description	**2016**	**2015**	**Var**
	£'000	**£'000**	**£'000**
Charitable Grants	4,000	750	3,250
Tax	(69)	(19)	(50)
	3,931	**731**	**3,200**

Charitable Grants
Following a strong operating performance, the Company provided £4m in charitable grants compared to £750k in the prior year.

Tax
The Company made charitable donations in excess of its taxable profits in both the current and prior year and therefore had a nil taxable profit for both years resulting in a nil current tax charge.

The tax credit in both years reflects a reduction in the average rate at which deferred tax is provided, in line with enacted legislation. The 2016 tax credit also included a release of deferred tax liability of £59k flowing realisation of gains on financial assets, with the corresponding current tax charge not arising due to the tax relief received on donations made referred to above.

A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Tax has been provided at a rate of 20% for the current year and a blended rate of 20.25% for the prior year.

A.5 Any other information

Previously the Company had exposure to a defined benefit pension scheme providing benefits based on final pensionable salary. The assets of the scheme were held separately from those of the company, being invested with an insurance company under a Group Funding policy. The scheme had been closed to new entrants since 1 July 1998, after which point the Company had no staff. On 1 July 2015 the process to wind up the defined benefit scheme commenced. The scheme's defined benefit obligations were fully discharged on 18 December 2015 and the scheme's final accounts prepared to 30 June 2016.

The wind-up of the scheme has been completed and the amount of surplus, net of tax has been finalised. It has been agreed with the sponsoring employer that the Company is entitled to 50% (£144k) of this surplus, and is expected to be settled in the second quarter of 2017.

Actuarial movements in the pension fund and movements in the ceiling of the asset recognised amounted to net income of £92k in the current year (2015: £331k).

There is no other material information regarding the Company and or 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 Chairman and eight other Non-Executive Directors ('NEDs') including one NED who is nominated by the outsourced administrator ('the Administrator nominated NED').

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. In addition, at least two of the Directors should be ordained Ministers or Deacons of the Methodist Church, and not less than two thirds of the Directors should be members of or on the community roll of the Methodist Church. As at 31 December 2016, the Company was compliant with these Article requirements.

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

Key roles and responsibilities

The Board's role is to provide leadership of the Company within a framework of prudent and effective controls, which enables the risk 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 scheduled and 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; and
- financial expectations and performance.

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;
- internal controls; 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, commensurate with their knowledge, experience and skills.

Segregation of Responsibilities
The approach to segregation of responsibilities is set out 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.

Chairman
The Chairman is responsible for:

- the active leadership of the Board, ensuring its effectiveness in all aspects of its role;
- setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues; and
- ensuring that the Directors receive accurate, timely and clear information to enable them to discharge their responsibilities effectively.

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

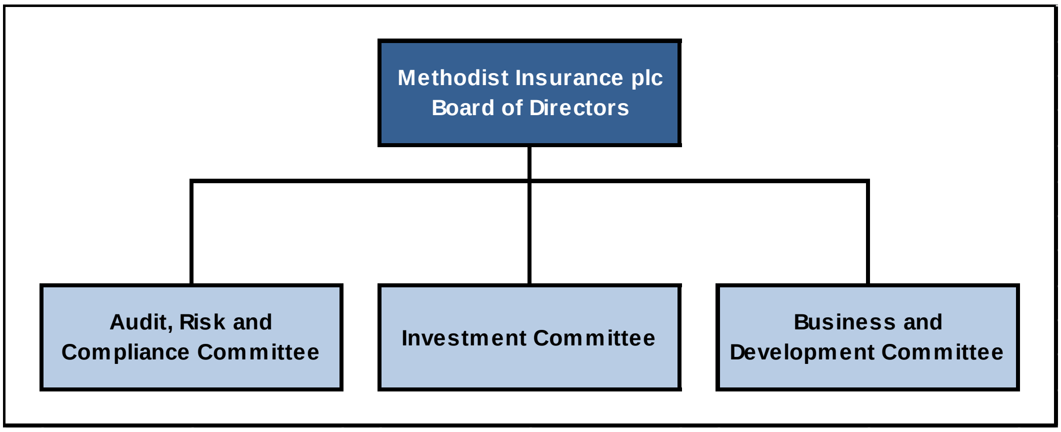
Deputy Chairman
In addition to their other duties as a NED, the Deputy Chairman is responsible for:

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

Non-Executive Directors
NEDs have a responsibility to uphold high standards of integrity and probity. They should constructively challenge and help develop proposals on strategy. 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 three 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 are summarised below:

Audit, Risk and Compliance Committee ('ARC')

Its responsibilities include:

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

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

Investment Committee (IC)

The Investment Committee 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

Its 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.

B.1.3 Roles and responsibilities of key functions

General Manager

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

- the delivery of, and reporting to the Board on, the implementation and execution of the Company's strategy;
- developing and managing the relationship with key stakeholders including regulators, customers and shareholders;
- establishing a framework and ensuring the maintenance of a sound system of internal control and risk management and 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
- maintain effective open communication with senior insurance managers and NEDs.

Chief Financial Officer (CFO)

The Chief Financial Officer is an employee of the Administrator and fulfils the SIMR 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.

Compliance Function

The Compliance function of the Administrator (Compliance) provides assurance to the ARC 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 on the Company.

Internal Audit Function

The Internal Audit function of the Administrator (AIA) derives its authority from the ARC. Internal Audit provides objective assurance to ARC and the Board, that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Company. The Administrator's Director of Internal Audit is accountable to the Chairman of the ARC and regularly reports to the ARC.

Risk Function

The Risk function of the Administrator derives its authority from the ARC and provides oversight of the prudent management of risk including but not limited to conduct risk. The Chief Risk Officer of the Administrator is accountable to the ARC.

Actuarial Function

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

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

Reinsurance Agreement including Joint Administration Agreement

The outsourcing arrangement risk is crucial to the Company due to the reliance on the Administrator for reinsurance arrangements and day to day administration provided through the JAA. The Board undertook project work during 2015 to enhance the JAA to ensure that all evolving regulatory requirements were captured, and to clarify the range of operational, corporate and assurance services provided by the Administrator. The work was concluded, and new agreements were entered into with effect from 1 January 2016.

Governance documentation

The Governance and Committee frameworks agreed by the Board were reviewed in 2016 and was amended to incorporate new regulatory requirements, including SII and SIMR. The Governance Framework, including the Board Charter and the Schedule of Matters Reserved for the Board was reviewed in November 2016. The documents were evolved to incorporate new regulatory requirements, including SIMR and to reflect the agreement of the revised JAA and Reinsurance Agreement.

The Board renamed the Audit, Finance and Compliance Committee to 'Audit, Risk and Compliance Committee' and approved changes to the Terms of Reference, to reflect changes incorporated from the introduction of the SII regime and the UK implementation of the Statutory Audit Directive.

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

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

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

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

The JAA ensures that all operational and management services are provided by the Administrator. 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 Board continually reviews the adequacy and effectiveness of the outsourced arrangement with the Administrator through regular reporting from the Nominated Non-executive Director's monthly reports; its annual Board evaluation and private strategic discussions. The Chairman of the Board meets annually with the Chief Executive Officer of the Administrator.

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

- the ORSA Report;
- 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 are content that the management information produced for it, together with the output of both the internal and external audit functions, and the ORSA report evidence the adequacy of the Systems of Governance used in the management of its business.

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 comparable levels of remuneration.

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 recruitment of Directors is normally undertaken by using an external recruitment consultant with a brief written by the Chair or Committee Chair depending on the position to be filled – a skill balance is sought across the Board with skills from Accounting, Actuarial, Insurance, investment and General Business being the key criteria

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

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

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

In order to determine fitness and propriety of all senior roles including KFHs within the Company persons are subject to a competency based interview following an analysis of their CV. The competency based interview is intended to explore the candidates experience and qualifications and for a key function holder would as appropriate explore:

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

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

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

There is an ongoing assessment of the skills and responsibilities of NED's. This includes the use of a skills set matrix and regular Board training. There has also recently been a review of Directors' roles and responsibilities as part of a re-organisation of the Audit, Finance and Risk subcommittees of the Board.

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

B.3 Risk management system including the ORSA

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

The Board has outsourced the day to day operation of its business to the Administrator under the JAA whereby day to day risk management is carried out within the Administrator’s risk management framework. 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 their 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 and the services to be fulfilled.

Management information is delivered to the Board over the course of a year to keep the Board informed of developments relating to all aspects of the Company’s operations.

The risk management framework is vital to ensure the appropriate identification, management and mitigation of the risks faced in delivering the Company’s objectives and supporting and promoting the successful and responsible performance of the Company.

Investment management is outsourced to an investment management company independent from the Administrator. The invested assets of the Company are managed under the terms of strict guidelines and the execution of this task is monitored and reviewed by a committee of the Board receiving monthly reports, and attending regular meetings with the investment manager. The Company's statutory auditors also review the investment management company's record keeping and its accuracy.

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

The Board has established the ARC which is responsible for reviewing the effectiveness of the risk management framework, ensuring that the material risks faced have been identified and reviewed and recommending the risk appetite to the Board.

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 three Overarching Policies, with additional supporting policies:

- Insurance Risk
- Financial Risk
- Operational Risk

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

In fulfilling this role the ARC receive regular reports from the relevant operational areas and risk function of the Administrator.

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*** - is responsible for assisting the Chief Risk Officer (CRO) and Board to formulate risk appetite, establish minimum standards, appropriate reporting, oversight and challenge of risk profiles and risk management activities: and
- ***3rd Line – Assurance*** - provides independent and objective assurance of the effectiveness of the systems of internal control.

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

The Board is ultimately responsible for the governance and sound and prudent management of the Company. Under current arrangements, the majority of first line activity is outsourced to the Administrator. The Board, in fulfilling its functions and objectives, must therefore ensure that the Administrator, its outsourcing partner, has a robust risk and governance framework which includes policies, systems and controls.

The Second Line of Defence comprises the risk and compliance functions of the Administrator and the ARC. This provides a framework of governance and risk oversight, and monitors and challenges the first line of defence. The Second Line also provides the business with the necessary training, tools and techniques to manage risk and establish internal controls in an effective way.

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

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

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

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

Investment Committee
The Board has delegated authority for oversight on the Company's investments and associated risk to the IC. They are responsible for ensuring that the investment strategy is appropriate to the Company's ethics, risk profile and capital management of the business as defined in its Statement of Investment Principles and as articulated in the Company's Investment Policy. They are responsible for overseeing the performance of the Investment Manager of the Company and monitoring the performance of the investment portfolio.

General Manager
The General Manager and operational areas are responsible for ensuring that there is an ongoing process for the identification, assessment, management and reporting of significant risks during the course of business operations. Escalation of material risks to the Board is the responsibility of the General Manager. The General Manager and operational areas are employees of the Administrator and these responsibilities are assigned under the terms of the JAA.

Group Risk and Compliance functions
These areas facilitate the management and ongoing effectiveness of the risk management framework by providing tools, training and support so stakeholders can effectively discharge their responsibilities. The risk function is outsourced to the Administrator through the JAA. The Administrator's Group Risk function facilitates the Board risk identification and assessment process and provides guidance to the Board when determining the risk appetite.

Internal Audit
Their role is to provide third line independent opinion over the adequacy and effectiveness of the Risk Management Framework. The Internal Audit function is also outsourced to the Administrator under the terms of the JAA.

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

The Board are responsible for conducting the ORSA and are fully involved in the key processes and provide challenge and steer. The Board has delegated the production of the ORSA to the Administrator under the terms of the JAA. This process integrates risk management, business planning and capital management activities. The key steps in the process are as follows:

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

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 will be undertaken throughout the year and changes to the risk profile and business plans will be quantified.

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

The Board and ARC assesses the various risk elements of the business covering credit, operational, underwriting, reserving and investment risk and makes 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 ARC. Insurance risk is covered by the reserving and underwriting assessments carried out on a regular basis by the operational teams.

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

The ARC and Board receive 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 minimum regulatory requirement in accordance with the Board's risk appetite to cover any possible unforeseen events.

B.4 Internal control system

B.4.1 **Internal control system**

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

The Board has established appropriate Board level policies and a risk appetite. As the day to day operation of the business has been outsourced to the Administrator, the business is managed within 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.
- ***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;
- ***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 compliance function under the terms of the JAA. This function sits in the second line of the three lines of defence governance system and is responsible for:

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

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

The Charter also sets out the compliance function's objectives and their key performance measures. It gains its authority from the ARC and the Administrator's Compliance Director is accountable to the Chairman 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 Administrator's Internal Audit (AIA) function under the terms of the JAA. AIA receives its authority from the Administrator's Group Audit Committee (GAC). As such AIA will report first and foremost to the GAC, with the Company's ARC subsequently receiving all relevant information.

Where a conflict of interest occurs for 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 ARC.

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

AIA operate within EIO's three lines of defence model. In order to operate an effective framework AIA maintain 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 Director of Internal Audit has access to the ARC and participates in the audit committee meetings.

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

AIA is functionally independent 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 Director of Internal Audit and staff of AIA are not authorised to perform any operational duties for the Company or the Administrator, or direct the activities of any employee not employed by AIA.

Persons transferred to or temporarily engaged by AIA are not assigned to audit those activities they previously performed 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 AIA to provide an independent overview to the Board on the effectiveness of all risk management and assurance processes in the organisation.

B.6 Actuarial function

B.6.1 **Implementation of actuarial function**

The Actuarial Function is headed by the Administrator's Actuarial Function Director, who is an experienced qualified actuary, holding an Institute of Actuaries Chief Actuary certificate, accountable for the delivery of the Actuarial Function's objectives. The Actuarial Function Director uses other actuarial and appropriately experienced resources to discharge his responsibilities, ensuring an appropriate level of independence between those carrying out activities and those reviewing work.

The Actuarial Function's key areas of responsibility are:

- to provide oversight and co-ordinate the calculation of the technical provisions, ensuring appropriateness of data, assumptions, methodologies and underlying models used
- to give an opinion on the Technical Provisions to the Board, including:
    - Assessing the sufficiency and quality of the data used
    - Informing the Board of the reliability and adequacy of the calculation
    - Comparing Best Estimates to experience
- to give an opinion on the adequacy of pricing and underwriting to the Board
- to give an opinion on the adequacy of reinsurance arrangements to the Board as an efficient means to manage risk
- to contribute to the effective implementation of the risk management system.

B.7 Outsourcing

B.7.1 **Outsourcing policy**

The Company has a Procurement, Purchasing and Outsourcing Policy that has been agreed by the Board and forms part of the Policy Framework. The policy covers all procurement activities and material outsourcing arrangements.

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

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

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

A defined framework and detailed processes are in place for the appointment of new contracting parties which involve the preparation of a detailed specification and risk assessment before inviting tenders, a critical assessment of the capacity and ability of shortlisted suppliers, completion of a business continuity and information security practices questionnaire by all potential providers and an assessment of these against risk appetite.

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

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

There are four 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
- two for specialist service provisions for specific cover provided in some general insurance products.

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

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

B.8 Any other information

There is no other information to disclose regarding the Company's system of governance.

C. Risk profile

C.1 Underwriting risk

C.1.1 **Risk exposure**

Insurance risk comprises 2 main elements:

- Underwriting risk which is the risk of claims and expenses exceeding premium income for exposure during the next accident year; and
- Reserving risk which is the risk that claims reserves deteriorate more than expected

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 ARC 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.

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

C.1.2 **Risk concentration**

A key concentration for the business is the number of churches underwritten. The Company will be severely impacted if they are lost. This is an accepted risk as a niche insurer specifically set up for the insurance of these churches.

By its nature, covering a lot of small churches across the country, the Company does not see significant accumulation of risk outside central London. Within central London the position is reviewed individually and additional reinsurance may be purchased if it is justified.

C.1.3 **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 its written business which is discussed under Credit Risk.

There is some historical reinsurance in place which would be called upon in the event of significant individual claims relating to the period prior to July 1998. In order to provide further protection for this period the Board has purchased an aggregate excess of loss reinsurance from the Administrator that will provide protection for a maximum of £13m reinsurance recoveries in excess of the first £12m which the company is responsible.

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

The ARC 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.

C.1.4 **Risk sensitivity**

A stress test was run which examines a potential deterioration in the company's insurance liabilities, in the event of a sudden adverse development above and beyond existing claims reserves up to the point at which the aggregate excess of loss reinsurance policy with the Administrator on this claims portfolio takes effect. Such a scenario could occur for one or more clusters of claims where there are multiple claimants against the same insured.

The results indicate that the company is well placed to cope with such an adverse event in isolation without prompting any significant concerns around solvency.

C.2 Market risk

C.2.1 **Risk exposure**

The investment assets of the Company are divided into two portfolios, each with distinct investment policies.

The SCR portfolio policy is to carry minimal downside investment risk and the portfolio is 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)
- Currency risk (Euro cash and bonds)

The UC Portfolio 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 UK and overseas equities, collective investments including Open Ended Investment Companies (OEICs), unit trusts and investment trusts, 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)
- Concentration risk (bonds and equities)
- Equity risk (equities)

Both portfolios are measured against benchmarks and monitored by the Investment Committee. The Investment Committee 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 Investment Committee are presented to the Board with, where appropriate, a verbal update.

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 SCR portfolio 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 SCR portfolio is also denominated in Euros.

C.2.3 **Risk concentration**

The Company has a well-diversified investment portfolio with a healthy mixture of overseas equities, UK equities and Sterling bonds. The largest exposure is to the UK Government, with 29% of total investments being in UK gilts. Other than government stock, the largest single investment is a holding in Sarasin sterling bond fund, representing 7% of total investments and contributing to the concentration risk charge within the market risk module of the standard formula solvency capital requirement.

C.2.4 **Risk mitigation**

The SCR portfolio 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 and the Minimum Capital Requirement (MCR). Assets may be switched between the two portfolios to ensure that the value of the SCR portfolio exceeds both the SCR and MCR.

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

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

The UK equities of this portfolio are benchmarked against the FTSE All Share (5% capped) index and the overseas element of equity holdings is benchmarked against the MSCI All Countries World (ex UK) 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, where appropriate, a verbal update.

Most of the Company's underwriting business and prospective liabilities are denominated in Sterling. A small proportion relates to business in the Republic of Ireland and is denominated in Euros, giving rise to a small currency risk. To match this potential 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 UC portfolio, therefore, which is not matching any specific liability, the Investment Manager has been given discretion in his mandate to sterling hedge the overseas equity portfolio.

C.2.5 **Risk sensitivity**

Scenarios were run based on the Company's plans that assumed 10% and 25% falls in the company's equity-based investments, with no gains or losses on interest-bearing securities, to simulate a stock market crash.

Whilst solvency cover falls, this remained comfortably above risk appetite.

C.3 Credit risk

C.3.1 **Risk exposure**

The Company is exposed to premium debtor default risk through the insurance business underwritten and cash at bank default risk however the largest risk arises through reinsurer default. This is due to the high level of reinsurance that the Company utilises on prior reserves and future business written.

The company has reinsured all ongoing business, except for terrorism and flood cover, with the Administrator and therefore retains no net insurance risk. However, this gives rise to a reliance on a single reinsurance counterparty. The Board considers that this is an acceptable risk due to the financial benefits provided by the reinsurance arrangements. There have been no material changes over the reporting period.

C.3.2 **Risk concentration**

The key concentration exists due to the reinsurance arrangement in place with the Administrator. There is also a further adverse development reinsurance arrangement in place with the Administrator which will start to apply should the liabilities that relate to the period prior to the current reinsurance arrangement with the Administrator, which commenced in 1998, exceed £12m.

There are also exposures through premium debtors and cash investment holdings although these are deemed to be much less significant.

There were no material changes over the reporting period.

C.3.3 **Risk mitigation**

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

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

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 **Risk sensitivity**

No stress tests have been carried out on this risk although it is the subject of close monthly monitoring by the Board.

C.4 Liquidity risk

C.4.1 **Risk exposure**

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

This is most likely to arise 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 this risk over the reporting period.

C.4.2 **Risk concentration**

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

C.4.3 **Risk mitigation**

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

There is a facility in place to allow for cash calls to be made against the 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, usually as a result of weather or other natural catastrophe event.

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

The company 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. This provides short term protection in the event of the Administrator failing.

C.4.4 **Risk sensitivity**

No stress tests have been carried out for this risk type as the Board does not deem this to be a material issue for the Company.

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

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

The total amount of the expected profit included in future premiums is £153k.

C.5 Operational risk

C.5.1 **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 services specified in the JAA.

The Board receive a monthly Business Report from the Administrator which provides updates from the key operational areas. In addition, quarterly compliance reports and ad hoc reports on specific items are provided to the ARC where appropriate to enable the Board to assess the level of acceptable risk.

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

C.5.2 **Risk concentration**

The key material concentration arises through the outsourcing agreement for all operational and administrative elements of the business.

C.5.3 **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 carries out ongoing monitoring of the performance of the Administrator against the services and service standards specified within the JAA on a regular basis. 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 is provided with reporting at their quarterly meeting to enable monitoring of the performance of the Administrator.

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 **Risk sensitivity**

No stress tests have been carried out on this risk although the failure to the Administrator is the subject of one of the Company's reverse stress tests.

C.6 Other material risks

C.6.1 **Risk exposure**

Reputational risk is the potential for events to occur which could result in negative impacts upon the Company. Reputational risk can often be related to other risk types, 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 this risk and assess the potential reputational impacts to the business as part of the ongoing strategic discussions. The assessment of a number of the other risk types considers reputational impacts as a key component in determining the materiality.

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

The decision of the UK to exit the EU following the referendum in June 2016 has presented uncertainty for the Company. The Company currently utilises EU passporting to underwrite a small amount of Irish business. The future trading model of the UK is uncertain and therefore if passporting is lost this will have implications for the Company's ability to continue writing this business. The Board will monitor the position as the exit negotiations progress.

C.6.2 **Risk concentration**

There are no material risk concentrations to note.

C.6.3 **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 **Risk sensitivity**

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

C.7 Any other information

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

D. Valuation for solvency purposes

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

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

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

Material assets and Liabilities are defined as assets and liabilities that are valued in excess of £170k (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 2. The table below shows a summary of assets held:

Summary of Assets	Solvency II value
	2016
	£'000
Reinsurance recoverables	11,313
Pension benefit surplus	144
Participations	1
Equities, Bonds, investment funds & other investments	20,682
Derivatives	1
Insurance & intermediaries receivables	1
Receivables (trade, not insurance)	167
Cash and cash equivalents	4,070
Total assets	36,379

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

Pension benefit surplus
As covered in section A.5, the Company is entitled to a share of the residual balance of a pension fund. This balance is in the form of a cash deposit with a bank, and as cash balances are not subject to a significant risk of change in value is considered to be held at fair value.

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.

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

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

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

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

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation movement
	£'000	£'000	£'000	£'000	£'000
Total Assets	41,230	(932)	40,298	36,379	(3,919)
Total liabilities	24,136	(932)	23,204	18,085	(5,119)
Net assets	17,094	-	17,094	18,294	1,200
Breakdown of asset valuation differences					
Technical provisions - Reinsurance recoverables	15,094	134	15,228	11,313	(3,915)
Investments	20,655	29	20,684	20,684	-
Insurance & intermediaries receivables	910	(909)	1	1	-
Reinsurance receivables	157	(157)	-	-	-
Receivables (trade, not insurance)	200	(29)	171	167	(4)
All other assets	4,214	-	4,214	4,214	-
Total assets	41,230	(932)	40,298	36,379	(3,919)

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

Technical provisions – Reinsurance recoverables
The difference in valuation of reinsurers' share of technical provisions is covered in section D.2.

Investments
The fair value of investments in the SII valuation is dirty priced (includes accrued interest) whereas the financial statements includes accrued interest within trade receivables.

Insurance and intermediaries receivables
For SII this only comprises debtor balances that are past due. Balances that are not past due are future cash flows that form part of technical provisions as covered in section D.2

Reinsurance Receivables
For SII this only comprises debtor balances that are past due. Balances that are not past due are future cash flows that form part of reinsurers' share of technical provisions as covered in section D.2.

Receivables (Trade, not insurance)
The valuation of non-insurance receivables for SII excludes £4k of prepayments which have no fair value.

D.2 Technical provisions

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

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

The level of governance applied in setting the TPs is varied depending on the reporting date. The full governance framework is applied as an on-going cycle of activity, particularly driven by external financial reporting dates. Multiple review steps are in place, plus an external audit. This framework is used to sign-off the key reserving assumptions for both the IFRS statutory accounts, and the SII TP's. The reserving framework is structured such that sufficient oversight exists within the reserve setting process through reviews by key stakeholders within management, by the Actuarial Function Director, and ultimately by the Board via Committee. This ensures there is an independent challenge to the process and results, and that future developments within the business are incorporated into the projections where appropriate.

Data grouping

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

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

Modelling methodologies and assumptions

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

Category	Building block	Description	Summary method
Claim provision – future cash flows on earned business	OCR	Outstanding Case Reserves (OCR) for reported claims.	Amounts are booked as recorded in the system data at the period end based on internal claims handlers estimates, plus amounts sourced from external parties where applicable (e.g. where claims handling is outsourced).
	IBNR	Incurred But not Reported reserves to cover late reported claims (after the accident date) and future development in OCR to ultimate settlement. The mean ultimate cost includes Events Not in Data (ENID), which generally would not have been foreseen at the time of writing the policies.	A range of standard actuarial techniques are employed for IBNR 'best estimate' modelling of the average outcome based on relevant available data. The final method selected varies by the nature of the class and availability of reliable input assumptions, as described further below. Scenario analysis conducted with business experts is used to ensure sufficient ENID allowance considering the cover provided by policies and wider industry knowledge over potential emerging risks.
	ULAE	Unallocated Loss Adjustment Expense, being expenses that will be incurred to manage the settlement of all claims relating to obligated business, where not	Where claims related expenses are not directly attributable to individual claims these are not included in the data used to project IBNR. Such costs, including related overheads, are allocated by class of

		already included in the OCR or IBNR projections	business based on activity analysis and used to project the expenses relating to future claim payments.
	Expenses	Predominantly investment expenses payable to the investment manager over the life of managing the portfolio which supports the run-off of the TPs.	The contractual investment management charge is applied to the projected portfolio for each relevant future year.
	Inflation and discount	The economic assumptions used to adjust future cash flows to projected values at the future payment date and to adjust them to reflect their present value.	Future claims and expense inflation is included either implicitly, or explicitly where material, in arriving at the expected cash flows per future year. All future years cash flows are discounted to present value using the prescribed EIOPA risk-free discount curve for the relevant currency interest rate-term structure. No transitional arrangements or adjustments are applied for the non-life TPs relating to matching / volatility adjustment.
	RI	Reinsurance cash flows.	System data for the reinsurer's share of OCR is supplemented by manual adjustments where system reinsurance calculations are incomplete. Expected defaults are calculated by reference to reinsurer credit ratings and the expected term of the recoverable.
Premium provision – **future cash flows on unearned or bound business**	Unearned business	All the above building blocks of future cash flow items, as they apply to the business held as Unearned Premium Reserve (UPR) in the financial accounts, taking account of expected cancellations. This also includes the administration expense relating to servicing the policies for the remainder of the earnings period, and outward reinsurance premiums relating to all contracts expected to cover the unearned business.	Best estimate business planning assumptions are used to derive the inputs to each relevant building block. E.g. OCR and IBNR are replaced by the frequency-severity modelled ultimate claims costs, applied to the appropriate unearned exposure. ENID is allowed for based on the profile of unearned business and is also used to capture adjustments to business planning assumptions if appropriate such as alignment to the capital model mean catastrophe loss assumptions. Reinsurance is allowed for following the correspondence principle, with profit commission from reinsurers projected and allocated to the unearned business.
	Bound policies	Allowance for expected future profits or losses on business that is contractually bound but not yet incepted.	Due to the nature of the Company's reinsurance arrangements, future profit commission provides a source of profit which is recognised up front in the premium reserves.
	Insurance debtors and creditors	Insurance balances in the course of payment.	These balances are identified through the accounting process and reallocated to TP cash flows.

Risk Margin	Cost of capital on projected future SCR's	The theoretical transfer value for TPs in excess of the best estimate liability taking account of the present value cost of capital for a reference undertaking subject to a SCR calculated using the SII standard formula.	The initial standard formula SCR is calculated in relation to the obligated business, excluding avoidable market risk. The projection method of this SCR to future years varies by risk category. The run-off of gross, ceded and net claims TPs is used to inform the run-off of related SCR components where appropriate.

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

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

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

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

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

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

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

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

This class saw favourable development over the year, with a continuation of the recent trend for reduced severity following reduced third party costs, and with latent claims reporting within expected levels.

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

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

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

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

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

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

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

D.2.2 **Level of uncertainty**

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

- whether a claims event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;

- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the potential for periodic payment awards, and uncertainty over the discount rate to be applied when assessing lump sum awards;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- Whether all such reinsurances will remain in force over the long term.

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

Sensitivity analysis

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

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

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

The 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.

Risk	Sensitivity applied	£k
Claims inflation	+ 1.0% each year applied cumulatively	379
Discount rate shift	+ 0.5% to spot rate at all durations	(200)
Reinsurance default	All reinsurer ratings downgraded to B	208

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

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

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.

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

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

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

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

Claims provision

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the Solvency II discount rate is prescribed by EIOPA. Other than this, there are three material areas for which different methods have currently been selected.

TP Claim provision building block	IFRS accounts approach	Solvency II TPs approach
Discount scope	Currently no discounting or allowance for future investment expenses are made in the Company accounts.	All cash flows are discounted
Investment expenses		An explicit management expenses allowance is made in every future year for all categories of TP held, based on the projected fund required to back the average liabilities at that date.
ULAE	Claim expenses for all years exposure are shared between the Company and the reinsurer as part of the overall expense allowance within profit commission calculations, The cost from future profit is not reserved for explicitly.	Claims expense cash flows are projected explicitly and discounted on an arms length basis, assuming the existing management agreement is not in force for the length of the run off beyond the period of earning bound business.
ENID	An allowance for future uncertainty is applied as a stable % loading on total reserves for earned business (Liability classes). The classes of liabilities which have ENID loading applied exclude PSA liabilities, due to the previous emergence of this latent exposure that is separately modelled together with associated uncertainty.	A scenario analysis has been carried out. The resulting loading is applied to best estimate TPs to uplift to a mean outcome.

The SII ENID scenarios are determined on the following basis:

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

The only significant adjustment for undiscounted net best estimate claims reserves for SII is the uplift in expenses, of £320k (including allowance for RI default expense).

Premium liability
The net premium provisions under SII are £743k lower than recorded in the financial statements (Unearned Premium Reserve less: Deferred Acquisition Costs and net insurance debtors) because although additional bound contracts are in scope for SII, profit is recognised at the contractually bound date, including profit commission. The premium provision is negative as a result of this.

Uncertainty margins
The financial accounts uncertainty margin is targeted to meet at least 75% probability of sufficiency to ultimate, with additions made where deemed appropriate by management. This is not directly comparable to the SII risk margin concept, which for the Company is dominated by Counterparty default risk arising from the existing 100% reinsurance arrangement. At total level, including all allowances for risk, uncertainty and discounting, considering valuation differences only rather than presentational changes, the technical reserves held in the statutory accounts are £1,451k higher than the SII TP equivalent.

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

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

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

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

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

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

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

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

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

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

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

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

There have been no significant changes to previously used assumptions for premium or claims provisions.

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

D.3 Other liabilities

D.3.1 Solvency II valuation of other liabilities

A copy of the QRT 'S.02.01.02 – Balance sheet' is included in appendix 2. The table below shows a summary of liabilities held:

Summary of Liabilities	Solvency II value
	2016
	£'000
Technical provisions - non-life	17,253
Deferred tax liabilities	362
Payables (trade, not insurance)	419
Derivatives	50
Any other liabilities, not elsewhere shown	1
Total liabilities	18,085

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

Deferred tax liabilities
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. As this timing difference is not expected to reverse in the foreseeable future, the tax rate used is 17%, being the rate of corporation tax that becomes effective from April 2020.

Payables (trade, not insurance)
Trade payables consists of tax payable, amounts due to suppliers and accrued costs. The balances are all due within one year and are valued at their carrying value of amortised cost.

Derivatives
The valuation of derivatives is covered in the asset valuation section D.1

Any other Liabilities
An intercompany balance with the Company's dormant subsidiary is shown as any other liabilities. In light of its immateriality, the amortised cost is assumed to approximate to fair value.

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

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

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation movement
	£'000	£'000	£'000	£'000	£'000
Total Assets	41,230	(932)	40,298	36,379	(3,919)
Total liabilities	24,136	(932)	23,204	18,085	(5,119)
Net assets	17,094	-	17,094	18,294	1,200
Breakdown of liability valuation differences					
Technical provisions - non-life	23,524	(909)	22,615	17,253	(5,362)
Reinsurance Payables	23	(23)	-	-	-
Deferred tax liabilities	116	-	116	362	246
Payables (trade, not insurance)	422	-	422	419	(3)
All other liabilities	51	-	51	51	-
Total liabilities	24,136	(932)	23,204	18,085	(5,119)

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

Technical provisions – Non-life
The difference in valuation of technical provisions is covered in 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 technical provisions 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 re-calculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities. As this timing difference is not expected to reverse in the foreseeable future, the tax rate used is 17%, being the rate of corporation tax that becomes effective from April 2020.

Payables (Trade, not insurance)
Included within 'Payables (trade, not insurance)' are unpresented cheques and unclaimed capital and dividends which are removed in the SII valuation as they have no 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	2016 £'000
SII Valuation of assets	36,379
SII Valuation of liabilities	(18,085)
Excess of assets over liabilities	18,294
Subordinated debt	-
Foreseeable distributions	-
Basic own funds	18,294

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.

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

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 Investment Committee 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.
- Ensure there is regular monitoring and review of the quality and tiering of capital, in order to assess whether the above targets are 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 'Economic Capital Requirement', 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.
- 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.
- 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. 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.
- 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 ARC.

Capital and revenue planning is undertaken annually, encompassing a three year horizon.

Any breaches to this policy or any incidents must be escalated immediately to the Board Chairman and Chairman of the ARC.

This policy is reviewed on a three year cycle, taking into account any new or changes to legislation, or more frequently should a significant change in the business, market or regulatory environment occur.

E.1.2 Movement in own funds compared to prior period

A copy of the QRT 'S.23.01.01 – Own Funds' is included in Appendix 7. The table below is a summary of own funds, with comparison to the prior year:

Movement in Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2016	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Ordinary share capital	113	113	-	-	-
Reconciliation reserve	18,181	18,181	-	-	-
	18,294	18,294	-	-	-
2015 *(Unaudited)*					
Ordinary share capital	113	113	-	-	-
Reconciliation reserve	17,961	17,961	-	-	-
	18,074	18,074	-	-	-
Movement in own funds *(Unaudited)*					
Ordinary share capital	-	-	-	-	-
Reconciliation reserve	220	220	-	-	-
	220	220	-	-	-

The reconciliation reserve is primarily retained earnings from the financial statements adjusted for differences in valuation between the financial statements and SII, as covered in section D. An analysis of the reconciliation reserve is included in Appendix 7.

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 *(unaudited)*	**17,961**
IFRS Retained earnings for year	229
Movement in SII valuations:	
Gross technical provisions	(702)
Reinsurance recoverables	735
Other	15
Movement in revaluation of deferred tax	(57)
Total movement for year *(unaudited)*	**220**
Current year balance	**18,181**

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

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

Analysis of eligible own funds available to cover solvency capital requirement	2016 £'000
Solvency Capital Requirement (SCR)	**6,932**
Own funds eligible to cover SCR:	
Unrestricted tier 1 capital	18,294
Restricted tier 1 capital	-
Total eligible tier 1 capital	**18,294**
Restricted tier 1 relegated to tier 2	-
Tier 2 capital	-
Total eligible tier 2 capital	**-**
Eligible tier 3 capital	**-**
Total eligible capital	**18,294**
Ineligible capital	**-**
Total own funds	**18,294**

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

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

The remainder is classified as tier 2 own funds.

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

Tier 3 own funds cannot amount to more than 15% of the SCR

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

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

Analysis of eligible own funds available to cover minimum capital requirement	2016 £'000
Minimum Capital Requirement (MCR)	**3,332**
Own funds eligible to cover MCR:	
Unrestricted tier 1 capital	18,294
Restricted tier 1 capital	-
Total eligible tier 1 capital	**18,294**
Restricted tier 1 relegated to tier 2	-
Tier 2 capital	-
Total eligible tier 2 capital	**-**
Total eligible capital	**18,294**
Ineligible capital	**-**
Total own funds	**18,294**

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

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

The remainder can be treated as tier 2 own funds.

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

Tier 3 capital cannot be used to cover the MCR.

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

Reconciliation from IFRS net assets to Solvency II own funds		2016 £'000
Equity as reported in IFRS Financial Statements		**17,094**
Revalue technical provisions:	Gross technical provisions	5,362
	Reinsurance recoverables	(3,915)
Remove prepayments and other inadmissible assets		(4)
Remove other inadmissible liabilities		3
Impact on deferred tax of revaluation		(246)
Solvency II Valuation of own funds		**18,294**

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

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

The difference between the Solvency II value of net assets and the value used for the calculation of tax gives rise to an adjustment to the deferred tax provision. 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 Revised SCR and MCR

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

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

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

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

Following the publication of the Company's SFCR on 18 May 2017 an error in the application of the transitional calculation for equity risk was identified. The error resulted in the SCR being understated by £1,566k. The error has been corrected in this revised SFCR which was approved and republished by the Directors on 9 August 2017.

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

As at 31 December 2016 the SCR for the Company was £6,932k, and the MCR was £3,332k. Both amounts are still subject to supervisory assessment.

E.2.2 SCR by risk module

Solvency Capital Requirement	**2016**
	£'000
Market risk	5,238
Counterparty default risk	1,387
Non-life underwriting risk	2,167
Diversification	(1,982)
Basic solvency capital requirement	6,810
Operational risk	484
Loss absorbing capacity of deferred tax	(362)
Solvency Capital Requirement	**6,932**

E.2.3 Use of simplified calculations

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

E.2.4 Undertaking specific parameters

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

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

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

E.2.6 Impact of using undertaking specific parameters

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

E.2.7 **Inputs used in the calculation of the MCR**

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

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

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

Movement in Capital Requirements	2016	2015	Movement
		(unaudited)	*(unaudited)*
	£'000	£'000	£'000
Market risk	5,238	3,591	1,647
Counterparty default risk	1,387	1,553	(166)
Non-life underwriting risk	2,167	2,215	(48)
Diversification	(1,982)	(1,844)	(138)
Operational risk	484	557	(73)
Loss absorbing capacity of deferred tax	(362)	(374)	12
SCR	**6,932**	**5,698**	**1,234**
MCR	**3,332**	**2,657**	**675**

Market risk has changed due to the Company’s review and subsequent change in investment policy referred to in section A.3.1. The move from UK fixed interest investments to an increased exposure to foreign equities and bonds has reduced interest rate risk but increased exposure to equity and currency risk.

In the prior year the transitional rate of 22% on equity exposures was applied to all type 1 equities held. An EU commission amendment published on 1 April 2016 allowed the transitional rate to be applied to both type 1 and type 2 equities, but this only applies to stocks held prior to 1 January 2016. The error referred to in section E.2.1 arose due to this cut-off date not being applied in the original calculation. Type 1 equities are securities listed on an OECD exchange, whereas type 2 equities are those that are unlisted or listed on a non-OECD exchange. Where insufficient data is available to correctly classify equities (typically due to a lack of look-through data for investment funds) those holdings are prudently assumed to be type 2.

Following the investment review and turnover of holdings, very few of the equities held at the start of the year were still held at the end of 2016 and therefore eligible for the transitional rate. This combined with the increased exposure to equities are the primary causes for the increase in market risk, and the SCR overall.

Counterparty default risk has fallen compared to the prior year due to the reduction in exposures to both bank and reinsurance counterparties. Both non-life underwriting risk and operational risk have fallen slightly due to reduced premium and reserve exposure. Diversification has increased as a consequence of the increase in market risk noted above.

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

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

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

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

E.3.2 Impact on capital requirement

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

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

E.4.1 Use of 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.01.02 General Information

General information

Undertaking name	Methodist Insurance Plc
Undertaking identification code	213800QTY47NM24B3307
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

Appendix 2 – QRT S.02.01.02 Balance Sheet

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	144
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	20,684
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	1
R0100	*Equities*	11,609
R0110	*Equities - listed*	11,609
R0120	*Equities - unlisted*	0
R0130	*Bonds*	6,287
R0140	*Government Bonds*	6,141
R0150	*Corporate Bonds*	146
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	2,786
R0190	*Derivatives*	1
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	11,313
R0280	*Non-life and health similar to non-life*	11,313
R0290	*Non-life excluding health*	11,313
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	1
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	167
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	4,069
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	36,379

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	17,253
R0520	*Technical provisions - non-life (excluding health)*	17,253
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	16,143
R0550	*Risk margin*	1,110
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	362
R0790	Derivatives	50
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	419
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**	18,085
R1000	**Excess of assets over liabilities**	18,294

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

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business							7,115	1,937		88		463					9,603
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							7,115	1,937		88		463					9,603
R0200	Net							0	0		0		0					0
	Premiums earned																	
R0210	Gross - Direct Business							7,550	1,854		87		460					9,951
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							7,550	1,854		87		460					9,951
R0300	Net							0	0		0		0					0
	Claims incurred																	
R0310	Gross - Direct Business							1,097	156		0		13					1,266
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share							1,097	407		0		13					1,516
R0400	Net							0	-251		0		0					-251
	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**							-1,583	-433		2		-104					-2,118
R1200	**Other expenses**																	140
R1300	**Total expenses**																	-1,978

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

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			IE					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	9,214	389					9,603
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	9,214	389					9,603
R0200	Net	0	0	0	0	0	0	0
	Premiums earned							
R0210	Gross - Direct Business	9,553	398					9,951
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	9,553	398					9,951
R0300	Net	0	0	0	0	0	0	0
	Claims incurred							
R0310	Gross - Direct Business	1,073	193					1,266
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	1,323	193					1,516
R0400	Net	-251	0	0	0	0	0	-251
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	-2,118						-2,118
R1200	**Other expenses**							140
R1300	**Total expenses**							-1,978

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

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**							0	0		0		0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross							1,400	363		-13		81					1,830
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							2,923	544		-4		147					3,611
R0150	**Net Best Estimate of Premium Provisions**							-1,524	-181		-9		-66					-1,781
	Claims provisions																	
R0160	Gross							2,762	11,428		0		123					14,313
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							2,703	4,876		0		123					7,702
R0250	**Net Best Estimate of Claims Provisions**							59	6,552		0		0					6,610
R0260	**Total best estimate - gross**							4,162	11,791		-13		204					16,143
R0270	**Total best estimate - net**							-1,465	6,370		-9		-66					4,830
R0280	**Risk margin**							382	708		0		20					1,110
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**							4,544	12,499		-13		223					17,253
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							5,627	5,421		-4		270					11,313
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							-1,083	7,079		-9		-47					5,940

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

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010	Accident year / underwriting year	Accident Year

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

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
		Development year												
R0100	Prior											106	106	106
R0160	N-9	2,689	2,267	377	201	157	80	-5	0	0	0		0	5,766
R0170	N-8	1,865	1,658	736	844	340	267	24	47	26			26	5,807
R0180	N-7	1,595	1,082	227	293	121	41	4	79				79	3,441
R0190	N-6	1,629	2,093	365	-49	411	65	1					1	4,515
R0200	N-5	1,639	885	311	489	57	41						41	3,421
R0210	N-4	1,560	1,131	263	323	101							101	3,379
R0220	N-3	852	932	209	93								93	2,085
R0230	N-2	1,427	1,214	261									261	2,902
R0240	N-1	1,164	2,244										2,244	3,408
R0250	N	1,200											1,200	1,200
R0260												Total	4,153	36,031

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
		Development year											
R0100	Prior											7,690	7,154
R0160	N-9	0	0	0	0	0	0	0	0	0	91		84
R0170	N-8	0	0	0	0	0	0	0	0	325			316
R0180	N-7	0	0	0	0	0	0	0	166				154
R0190	N-6	0	0	0	0	0	0	166					158
R0200	N-5	0	0	0	0	0	265						248
R0210	N-4	0	0	0	0	291							274
R0220	N-3	0	0	0	600								561
R0230	N-2	0	0	608									569
R0240	N-1	0	2,763										2,667
R0250	N	2,217											2,127
R0260												Total	14,313

Appendix 7 – QRT S.23.01.01 Own Funds

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	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	18,181	18,181			
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**	18,294	18,294	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	18,294	18,294	0	0	0
R0510	Total available own funds to meet the MCR	18,294	18,294	0	0	
R0540	Total eligible own funds to meet the SCR	18,294	18,294	0	0	0
R0550	Total eligible own funds to meet the MCR	18,294	18,294	0	0	
R0580	**SCR**	6,932				
R0600	**MCR**	3,332				
R0620	**Ratio of Eligible own funds to SCR**	263.89%				
R0640	**Ratio of Eligible own funds to MCR**	549.06%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	18,294
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**	18,181
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	153
R0790	**Total Expected profits included in future premiums (EPIFP)**	153

Appendix 8 – QRT S.25.01.21 Solvency Capital Requirement

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	5,238		
R0020	Counterparty default risk	1,387		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	2,167		
R0060	Diversification	-1,982		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	6,810		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	484
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-362
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**	6,932
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	6,932
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

Appendix 9 – QRT S.28.01.01 Minimum Capital Requirement

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	656

		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	6,370	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	656
R0310	SCR	6,932
R0320	MCR cap	3,120
R0330	MCR floor	1,733
R0340	Combined MCR	1,733
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,332

Appendix 10 – 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
ARC	Audit, Risk and Compliance Committee
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
F&O	Fire & Other Property Damage
FCA	Financial Conduct Authority
GEP	Gross Earned Premiums
GIC	Gross Incurred Claims
GL	General Liability
GWP	Gross written premium
IAS	International Accounting Standard
IBNR	Incurred but not reported
IC	Investment Committee
IFRS	International financial reporting standards
JAA	Joint Administration Agreement
KFHs	Key Function Holders
MCR	Minimum Capital Requirement
NED	Non-Executive Director
OCR	Outstanding Case Reserves
OEICs	Open Ended Investment Companies
ORSA	Own Risk and Solvency Assessment Report
PSA	Physical and Sexual Abuse
QRT	Quantitative Reporting Template
SII	Solvency II
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SIMR	Senior Insurance Managers Regime
TPs	Technical provisions
UPR	Unearned Premium Reserve