GPI

A Kinnell Group Company

SOLVENCY & FINANCIAL CONDITION REPORT 2016

Summary

Guarantee Protection Insurance Ltd (hereafter referred to as GPI) is regulated under the Solvency II (SII) Directive that came into force on 1st January 2016, and accordingly is required to provide a number of qualitative and quantitative reports. The purpose of this report - titled the Solvency & Financial Condition Report (SFCR) - is to satisfy the public disclosure requirements under the SII Directive. The elements of required disclosure relate to business performance, governance, risk profile, solvency and capital management. During the reporting period there have been no material changes to the system of governance, risk profile, business and performance and ongoing valuation of solvency and capital management. The business appointed a new Independent Non-Executive Director (NED) to the Board during the reporting period.

A. Business and Performance

A.1 Business

GPI is a UK based solo insurance entity, regulated and authorised by the PRA via its small insurer Category 5 team and regulated by the FCA. Information can be obtained from the Financial Services Register under firm reference number 207658. The company is registered in England under Company Number 03326800 with a registered address of 14 Castle Street, Liverpool, Merseyside, L2 0NE. GPI is wholly owned by Kinnell Holdings Limited (hereafter referred as KHL). KHL is a non-trading privately owned holding company registered in Scotland under company number (SC295513). The Group comprises six companies, each performing different but complementary roles within the same sector. In addition to GPI, two more of these Group companies undertake regulated financial activities: Warranty Services Limited (WSL) and Kinnell Corporate Limited (KCL), and both are authorised and regulated by the FCA.

GPI holds licenses to effect contracts of insurance in the following material lines of business;

- Fire and Natural Forces (8)
- Damage to Property (9)
- Miscellaneous Financial Loss (16)

GPI conducts its insurance activities within the UK & Ireland with only a small limited amount of business currently in run off in the EEA.

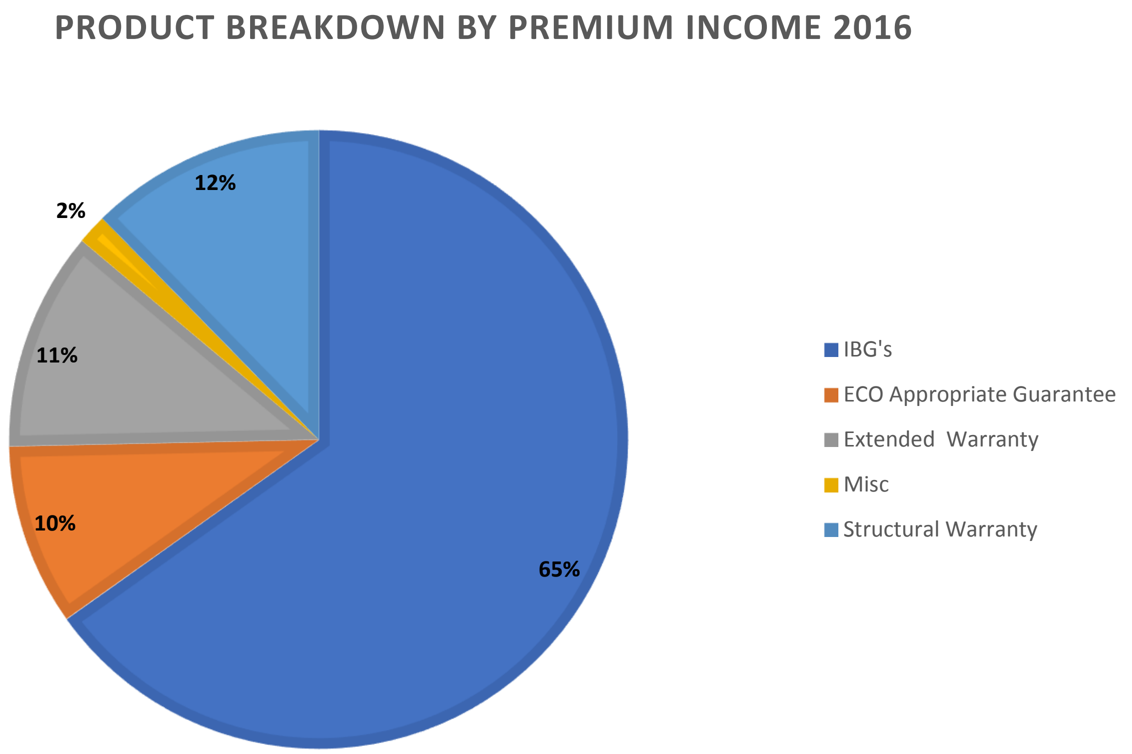
The external independent auditor for the annual report for the year ending 31st December 2016 was:

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

As a specialist underwriter GPI retains experience and expertise in the provision of long term Insurance Backed Guarantees (IBGs) for construction and related work, with a historic niche in timber treatment, damp proofing, roofing and double glazing. During 2016 GPI continued to focus principally on these core markets and products. The company wholly owns Warranty Services Ltd (WSL) which is an insurance intermediary with significant operational capability and experience in the administration and distribution of long term IBGs to home improvement contractors, such as those who are members of Competent Person Schemes. In the last few years GPI, via WSL, has also been heavily involved in the provision of IBG based products to contractors in respect of the Energy Company Obligation (ECO), the Green Deal and also to firms who have joined the Renewable Energy Consumer Code (RECC) scheme, all of which have been sponsored by Government.

Overall, business introduced to GPI by WSL contributed approximately 53% of the premium income written by GPI in 2016. GPI also provides an underwriting solution for a small number of insurance intermediaries and an appointed representative in respect of niche insurance products in the miscellaneous financial loss class of business.

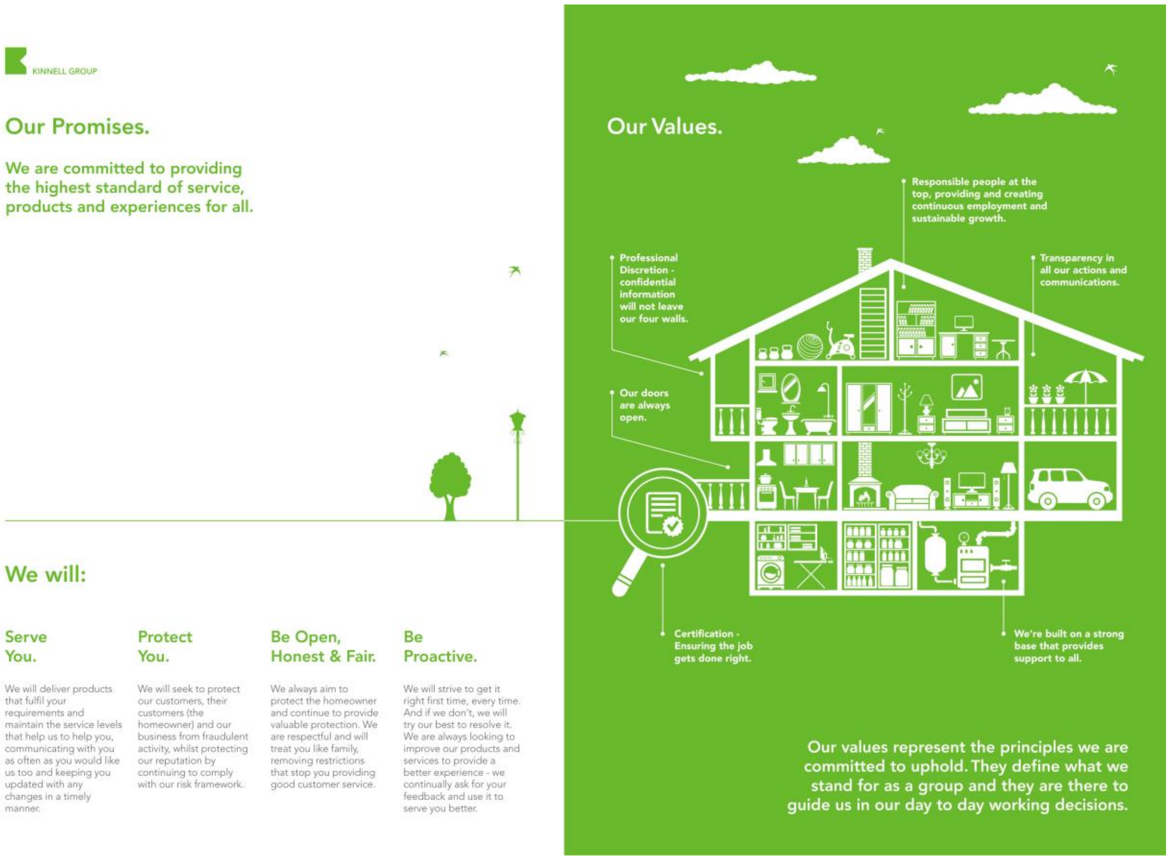
The mix of products underwritten by GPI for the 2016 financial year is demonstrated in the chart below:



The company's risk appetite is aligned to provide focus around driving consolidation and concentration on the core business activities as described above.

The business continues to embed appropriate and proportionate strategic values and culture to support corporate governance and prudent risk management. Further information on these are contained later in the report.

<u>Our promises and values</u>



A.2 Underwriting Performance

Gross Written Premium (GWP)

With the business consolidating its focus on its core markets and products resulting in the removal of non-core schemes the GWP (2015-2016) reduced in line with management's expectation from £5.13m to £4.03m. All premium was written within the UK under class 16 Miscellaneous Financial Loss.

Unearned Premium Reserve (UPR)

GPI earns premium on a straight-line basis over the term of the insurance policy and this remains the Board approved policy until any claims or actuarial information would suggest this should be altered based on the incident of risk. The balance is held as an UPR on the balance sheet and unwound over the term of the policy.

Operating Expenses and Claims Paid and Incurred

During 2016 claims and operating expenses were in line with management's expectations.

Underwriting Performance

Material Class of Business	100% Miscellaneous Financial Loss	
Geographical Split of Business	100% UK & Ireland	
	2015	**2016**
	£m	**£m**
Gross Written Premium	5.13	4.03
Unearned Premium Reserve	20.18	20.40
Net Earned Premium	(0.56)	(0.45)
Claims Paid and Incurred	2.38	1.76
Operating Expenses	1.43	1.33
Expenses as a % of Premium	28%	33%

Re-insurance

GPI currently underwrites 100% of the risks that it takes on and sets its appetite accordingly. From time to time though there may be reasons to seek reinsurance on individual business opportunities or lines of business in order to protect the potential impact on the capital, and the Board has a set Risk Appetite for considering such options.

A.3 Investment Performance

GPI's Board approved investment strategy is to follow a defensive approach to protect capital, aiming for low volatility, and returns in excess of agreed benchmarks, taking into account both the cost of capital under SII and the actual capital risk in order to achieve a balanced efficient return. GPI utilises the services of appropriate external investment managers to manage its investments, who are currently LGT Vestra. The company had no investments or equities in securitisations during the period. The table on the following page summarises the investment performance during 2015 & 2016.

Investment Performance 2016

	Net Investment Income 2016	Net Investment Expense 2016	Net Realised gains and losses 2016	Changes in fair value 2016	Impairment 2016	Net Investment Result 2016
Managed Funds	£	£	£	£	£	£
Government Bonds	7,777		(975)	2,331		9,134
Corporate Bonds	37,278		0	(21,631)		15,647
Equity	32,562		4,057	28,105		64,724
Collective Investment Undertakings	96,815		374,775	170,930		642,520
Cash and Deposits	1,039					1,039
Loans and Receivables	23,624					23,624
Investment in Subsidiary	750,000					750,000
Cash and Cash Equivalents	32,627	(6,107)				26,520
Other Investment Income	32,298				13,545	45,843
	1,014,020	(6,107)	377,856	179,735	13,545	1,579,050

Investment Performance 2015

	Net Investment Income 2015	Net Investment Expense 2015	Net Realised gains and losses 2015	Changes in fair value 2015	Impairment 2015	Net Investment Result 2015
Managed Funds	£	£	£	£	£	£
Government Bonds						
Corporate Bonds						
Equity						
Collective Investment Undertakings	117,152		246,162	62,311		425,625
Cash and Deposits						
Loans and Receivables	25,832					25,832
Investment in Subsidiary	1,500,000				(58,111)	1,441,889
Cash and Cash Equivalents	32,943	(5,770)				27,173
Other Investment Income	29,224					29,224
	1,705,151	(5,770)	246,162	62,311	(58,111)	1,949,743

A.4 Any other information

The business continually looks to develop additional products, offerings & services through appropriate affinity partnerships which complement the market that our existing customers (contractors) operate within, such as van insurance, home improvement finance, breakdown cover, broadband, mobile phone provision & similar affinity based products. There are presently no other material operating or financial lease agreements.

B. System of Governance

GPI's Board approved corporate governance framework is designed to deliver an appropriate culture to promote prudent management; improve accountability and transparency; and promote good conduct and corporate values throughout the business. All companies within the Group aim to uphold sound principles of good governance in all their business affairs proportionate to the size, nature, and scale of the business. GPI as the insurer has specific obligations under the Solvency II Directive, the PRA Senior Insurance Managers Regime, and the FCA's regulatory framework to ensure this is delivered. To ensure a consistent approach to governance a holistic and integrated Group-wide governance framework is utilised, to ensure that the specific regulatory requirements of GPI are met as a standard, and where appropriate adopted across the other companies within the Group as best practice. This is overseen by a Group-wide Board and Committee structure.

Specifically, the framework sets out:

- the general organisational structures within the Group;
- the role of the Board;
- the role of Board/Executive level committees;
- arrangements for management oversight (including the Senior Insurance Managers Regime);
- governance of risk and activities that the Group considers necessary to support a robust risk management framework, and;
- the policy management framework.

The Board ensures an annual assessment of the adequacy, design, and effectiveness of the system of governance through a Board Effectiveness Review which is undertaken by the Chairman, who is an independent non-executive director. Consideration is given to the appropriateness and proportionality of the system of governance reflecting on the past, present and future business risk profile. This review is also designed to identify individual training needs and to ensure that the Board retains a balance of skills, knowledge, diversity, independence, and experience as required by the business.

This assessment is supported by our internal audit function who undertake a review of the systems of governance on a bi-annual basis. In addition, the internal annual risk and control self-assessment process that is undertaken across all areas of the business provides a continuous assessment of the operational systems & controls to ensure effective corporate governance.

Governance refers to the way the Group directs, controls and manages its business affairs. By implementing a robust governance framework, the Group aims to prevent the following risks:

- ✓ The risk of ineffective corporate governance;
- ✓ The risk of internal delegation authority levels being breached;
- ✓ The risk of regulatory breaches;
- ✓ The risk that the firm is used for money laundering;
- ✓ The risk of internal fraud.

B.1 General information on the system of governance

The chart below illustrates the Group structure of companies:

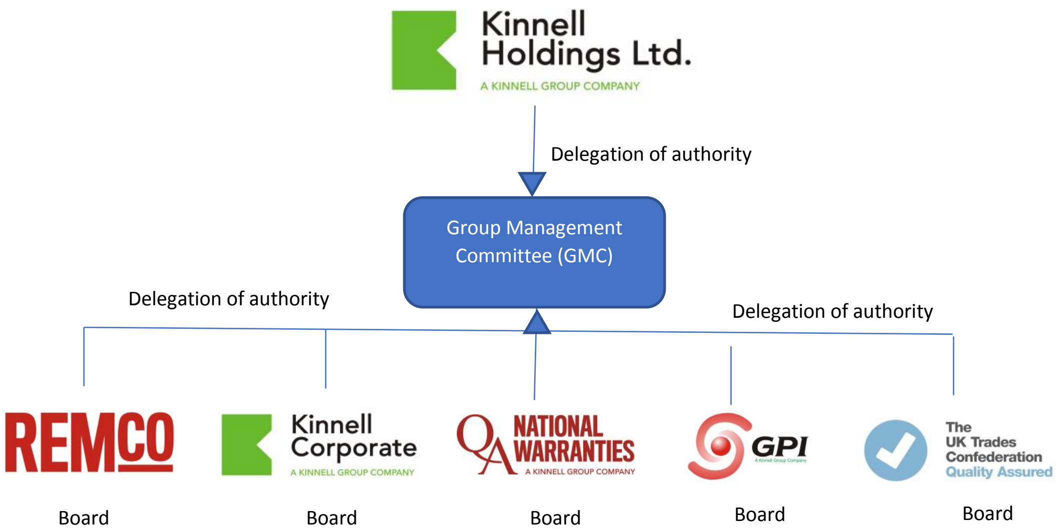
Number	Name	Description
1	Kinnell Holdings Ltd	Non-trading holding company
2	The Remedial Company Ltd	Repair company
3	Guarantee Protection Insurance Ltd	Insurance Company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register. Firm Reference Number 207658
4	Warranty Services Ltd trading as QA National Warranties	Insurance Broker authorised and regulated by the Financial Conduct Authority. Firm Reference Number 309580 trading as QA National Warranties
5	Confederation Holdings Ltd trading as UK Trades Confederation	Trade Association
6	Kinnell Corporate Ltd	Insurance Broker authorised and regulated by the Financial Conduct Authority. Firm Reference Number 314946

Within each business the role of the Board is to:

- set the strategic direction of the business;
- provide leadership and to oversee the management of the business;
- set the values and tone of the business with regards to conduct, and;
- report to shareholders on an annual basis in accordance with the UK Corporate Governance Code 2016.

Whilst each company within the Group has an individually constituted Board of directors (each of which has overall responsibility for governance within the respective company) due to the size, scale, and complementary nature of the businesses the Group has adopted a holistic, integrated approach to the implementation of its governance, risk, and compliance frameworks. To achieve this the Group has established a unitary operating board structure- the Group Management Committee (GMC). The GMC has full delegated authority from each of the individual entity boards, including the ultimate holding company KHL, except in relation to 'matters reserved for the Board'. Reserved matters are those that require specific authority from the respective individual entity Board. This structure ensures that Directors approved under SIMR with relevant control functions effectively have authority over the whole Group. The scope of authority of the GMC is set out in full within the Terms of Reference. Any reference to 'the Board' within this document is a reference to the GMC, unless otherwise stated.

The diagram below illustrates the delegation for authority to the GMC:



The model adopted ensures ongoing compliance with regulatory obligations to maintain a clear and appropriate apportionment of significant responsibilities among its directors and senior managers in such a way that:

- it is clear who has which of those responsibilities; and
- the business and affairs of the firms as a Group can be adequately monitored and controlled by the directors, relevant senior managers, and governing body of the firm (FCA Handbook, SYSC 2)

The GMC comprises two independent Non-Executive Directors (one in the capacity of Chairman) and three Executive Directors, including the CEO, the COO, and the CFO of GPI.

GMC members can serve for a period of 3 years prior to re-election currently with no maximum term.

Below is the current composition of the GMC:

Alastair Wilson
CEO

Jeremy Brettell
Non-Exec Chairman

Paul Wakefield
Non-Exec Director

Lyndsay Wilson
CFO

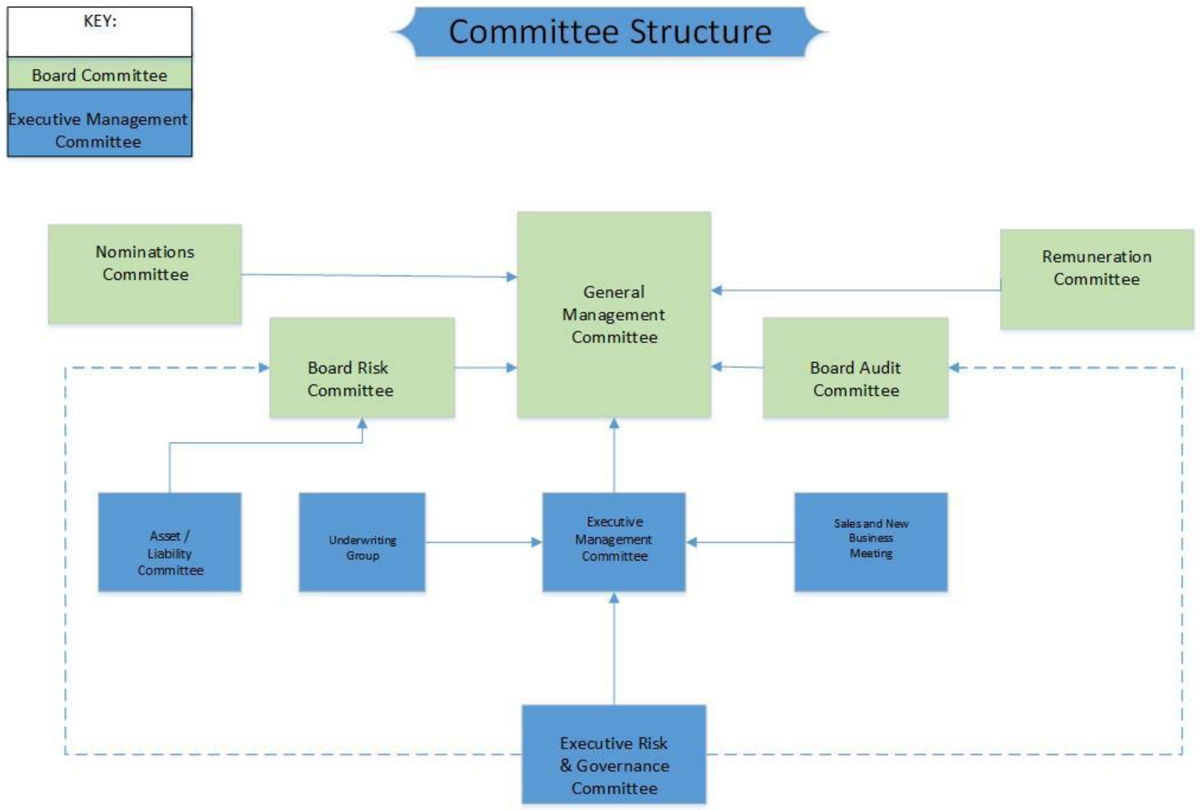
Keith Crossan
COO

The corporate governance structure has been designed to include at least two Non-Executive Directors as members of the GMC, and membership of each of the board level committees is made up exclusively of the Non-Executive Directors. This is to ensure effective, independent challenge, and to prevent any one individual director having unfettered powers of decision. The Chairman of the GMC is responsible for overseeing corporate governance throughout the Group, and to evaluate at least annually the role and effectiveness of the GMC. During the reporting period Paul Wakefield was appointed to the GMC as an Independent Non-Executive Director to replace Ian Moffatt.

The GMC is supported by a number of sub-committees (see following diagram) that have been established to:

- support the strategic objectives of the Group;
- provide challenge and oversight;
- ensure sound and prudent management of the business, and;
- ensure sound and prudent internal controls and the business retains an effective and appropriate internal and external audit function;
- oversee the implementation of a robust risk management framework.

The corporate governance framework has been structured in such a way as to ensure ongoing compliance with regulatory requirements, specifically to: establish, implement, and maintain decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities (as outlined in FCA Handbook, SYSC 4).



The Nomination and Remuneration Committees are responsible for:

- Undertaking activity in respect of nomination and remuneration by way of a jointly held Nomination and Remuneration Committee;
- Nominating and appointing Executive and Non-Executive Directors with a balance of skills, knowledge, experience, and diversity, and;
- Overseeing the implementation of remuneration policies and practices that ensure sound and prudent management of the business, prevents excessive risk- taking, and promotes the long-term success of the Group.

The Risk Committee is responsible for:

- Oversight of all risk and control activity;
- Setting the Board level risk appetites and risk strategy;
- Ensuring ongoing regulatory and Solvency II compliance.

The Audit Committee is responsible for:

- Oversight of the effectiveness of systems and internal controls;
- Oversight of internal and external audit activities;
- Monitoring of any significant pending legal actions;
- Review and challenge of the Group’s financial statements.

In addition to the board committees, there are several executive committees within the corporate governance structure:

- The Executive Committee: the GMC delegates the operational management, implementation of risk management framework, and operational oversight of the business to the Executive Committee.

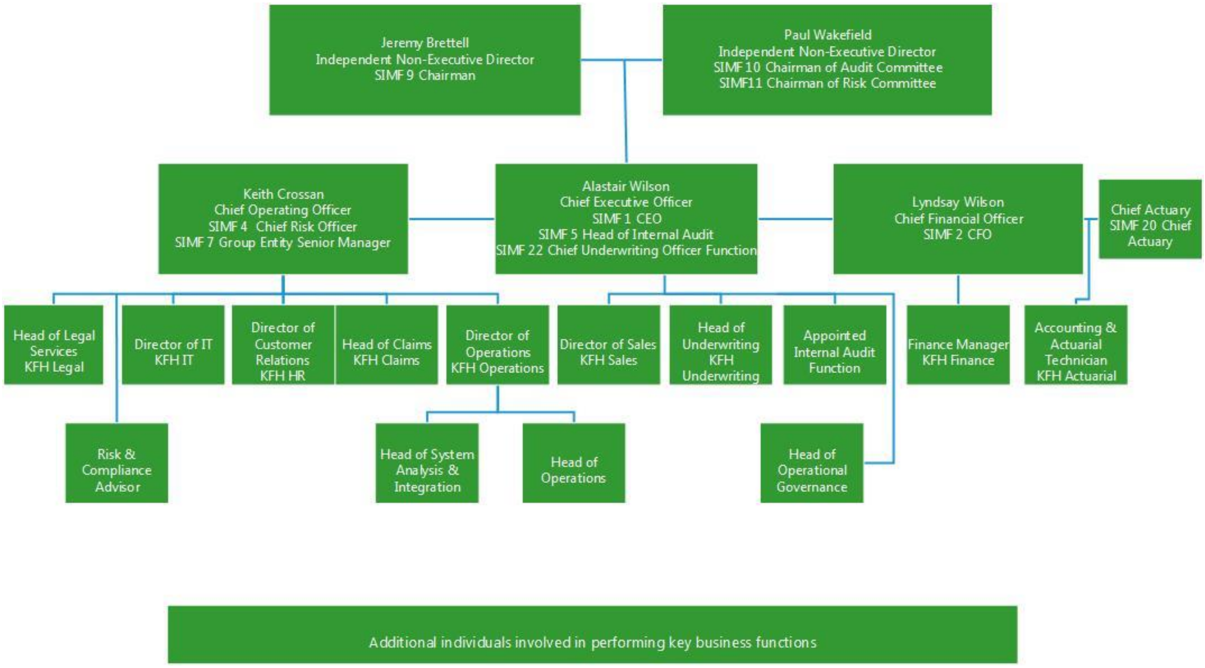
- The Sales and New Business Committee: provides a forum for discussion of new business opportunities, risk management, and developing the contractor retention strategy. This committee is not a decision-making authority and formally reports into to the Executive Committee.

- The Asset and Liability Committee: is responsible for monitoring and reviewing the assets of the business to ensure that assets are invested consistently with the time horizon of the future liabilities of the business, and to ensure that the GMC is furnished with appropriate recommendations in respect of these matters. Actuarial input and oversight is provided by way of membership of the Chief Actuary (SIMF 20).

- The Executive Risk and Governance Committee (ERGC) provides a forum for the first and second lines of defence in which risk is identified, monitored, mitigated and managed, and control activity is reviewed and challenged. Any issues of significance or concern are escalated by the Chairman to the Risk Committee either directly or via the Executive Committee.

- The Underwriting group provides a forum for operational-level discussion regarding any matters related to underwriting within the business. This group is not a decision-making authority and formally reports into the Executive Committee with any material issues escalated to the Risk Committee.

The Senior Insurance Managers Regime (hereafter referred to as SIMR) came into force on 7th March 2016. The regime reflects the regulators' intention to align regulation of insurance with new banking supervision rules (SMR and CR), with its primary purpose to strengthen accountability and ensure that Senior Insurance Mangers conduct themselves with honesty, integrity, and skill. GPI has in place a governance map that reflects the SIMR and the allocation of responsibilities within the business. The diagram over the page summarises the key reporting lines captured on the SIMR poster detailing GPI's Senior Managers and their designated Senior Insurance Management Functions (SIMFs).



As part of the wider regime, firms are also required to allocate prescribed responsibilities to Senior Insurance Managers to ensure that their duties are clearly defined, further enhancing the overall management of the business and corporate governance framework. The current allocations for GPI's prescribed responsibilities for Senior Insurance Management Functions (SIMFs) are detailed below.

	Prescribed Responsibilities											
Senior Manager	**WBC**	**R1**	**R2**	**R3**	**R4**	**R5**	**R6**	**R7**	**R8**	**R9**	**R10**	**R11**
Alastair Wilson				✓			✓	✓				
Lyndsay Wilson					✓	✓						
Keith Crossan		✓								✓		
Jeremy Brettall (NED)	✓		✓						✓		✓	✓
Paul Wakefield (NED)												

WBC = Whistleblowers' Champion

R1 = responsibility for ensuring that the firm has complied with its obligation in Insurance - Fitness and Propriety to ensure that every person who performs a key function (including those in respect of whom an application under section 59 of FSMA is made) is a fit and proper person;

R2 = responsibility for leading the development of the firm's culture by the governing body as a whole;

R3 = responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm;

R4 = responsibility for the production and integrity of the firm's financial information and its regulatory reporting;

R5 = responsibility for management of the allocation and maintenance of the firm's; (a) capital; and (b) liquidity;

R6 = responsibility for the development and maintenance of the firm's business model by the governing body;

R7 = responsibility for performance of the firm's ORSA;

R8 = responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body;

R9 = responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all of the firm's key function holders (other than members of the firm's governing body);

R10 = [NED(s) only] responsibility for the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment; and

R11 = [NED(s) only] responsibility for developing and overseeing the firm's remuneration policies and practices.

The company believes this allocation ensures proportionality as the structure of responsibilities mirrors the internal operational framework by retaining Senior Manager prescribed responsibilities within the appointed Executive Directors and Non-Executive Directors, while also broadening the SIMR responsibilities across staff at key function level to reflect operational delegations. The SIMR governance map is formally reviewed on a quarterly basis to allow any changes to responsibilities or reporting lines to be appropriately reflected.

Policy Management

Policy management and governance is an essential part of GPI's corporate governance framework and is intrinsically linked to effective risk management as it:

- provides a standardised approach to policy design and development;
- establishes and communicates minimum operating standards across the business;
- provides structure to the approach to risk management;
- provides clarity for all staff regarding roles and responsibilities, reporting lines, and risk and control activities, and;
- ensures that all staff are compliant with regulatory and legal requirements.

One of the underlying risk frameworks established is the Policy Management Framework. This is essentially a register of all policies and ensures that all key company policies are drafted in a standardised format; have an assigned policy owner, and; are subject to frequent formal review. In line with the overall approach to governance, policies are implemented across all entities within the Group unless specifically stated within the version control page that the policy is applicable or not applicable to a particular entity within the Group.

Remuneration Principles

Fixed remuneration (i.e. salary) is determined on the basis of the role and position of each individual employee, and is based on a number of factors including professional experience, education, responsibility, technical job requirements, seniority, and local market conditions. Review of all staff remuneration is undertaken on an annual basis, and involves input from the Finance department, the Human Resources department, and the Executive management team as well as external independent benchmarking where this is deemed necessary. Any outputs from this process are then presented to the Remuneration Committee, who are responsible to then make relevant recommendations to the GMC for formal approval.

All remuneration decisions balance general performance, business and risk management objectives, individual objectives, and the interests of the Group's stakeholders (including customers, shareholders, management, and employees). This being the case, metrics of performance have both a financial and non-financial component. Remuneration decisions shall therefore be made with a view to incentivising prudent risk management and appropriate controls, the sustainability of the Group as a business, and regard for the Group's customers.

In formulating remuneration decisions the Remuneration Committee may consult directly with any members of the GMC, appropriate executives and members of risk, compliance and legal, and appropriate external expertise as the committee may deem appropriate.

The Group is a living wage employer adhering to the voluntary living wage set by the Living Wage Foundation which is considered when making any remuneration decisions.

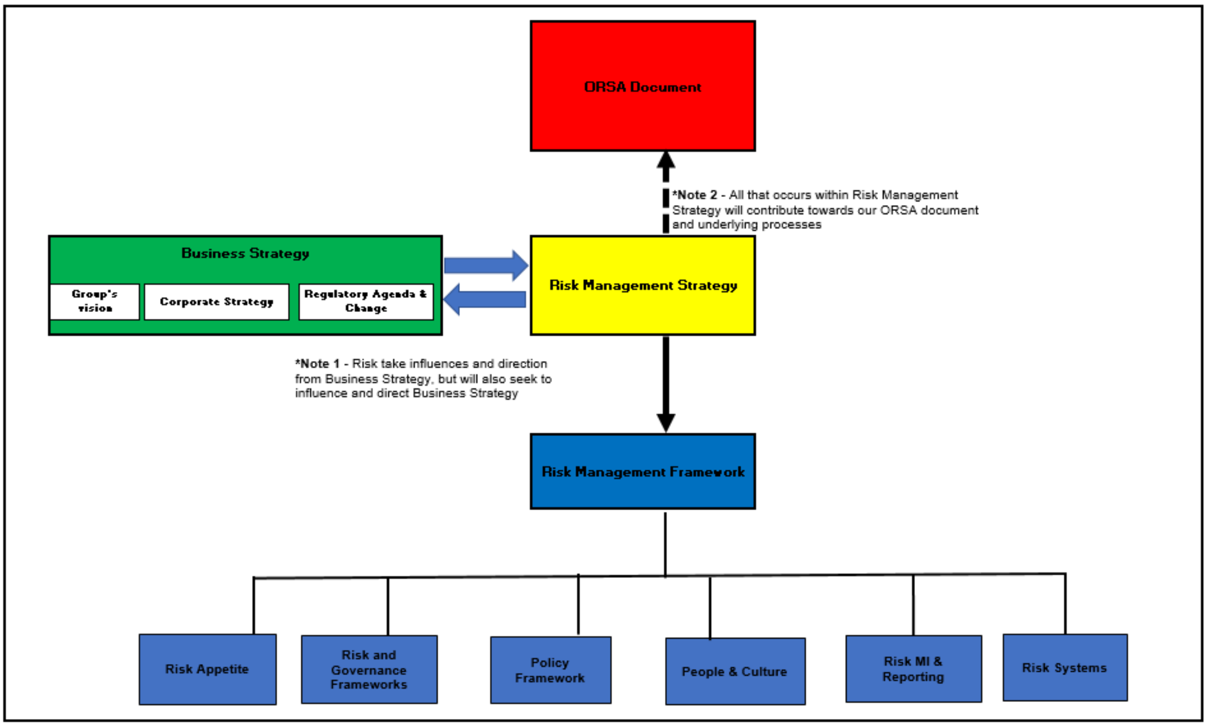
The Group operates a bonus (non-fixed remuneration) scheme, which is set out in a yearly bonus proposal document and is reviewed and approved by the GMC following consideration and recommendation by the Remuneration Committee after consultation with the major shareholder(s). Each bonus proposal provides a series of controls (weighting, caps, and deductions for breaches as appropriate), the purpose of which is to weight bonus payments in favour of factors such as a clean customer risk record; a clean regulatory/compliance record; a clean individual appraisal; and that performance generally is achieved with due consideration to the short and longer term risks involved. Bonus proposals are calculated in such a manner as to encourage the sustainability of the Group as a business, prudent conduct & risk management, and actively discourage short-termism and excessive risk taking. In addition to this the proposal includes provisions for downward adjustment where appropriate, or other provisions the Remuneration Committee deem appropriate. The Group does not presently operate any share based incentive schemes, and participates in an automatic-enrolment workplace pension scheme. Any non-fixed remuneration element is generally limited to a maximum of 25% of salary.

B.2 Fit and proper requirements

The Company has a fit and proper review process with all new applicants to the company subject to complete vetting in accordance with the recruitment and vetting policy. On a yearly basis, all existing employees are required to complete a declaration confirming that their personal circumstances have not changed in a material way which would affect their fitness and propriety. The Company sample checks no less than 10% of these declarations on an annual basis to validate these declarations. Such sample checking includes the procurement of a criminal record disclosure and a credit check.

B.3 Risk management system including the own risk and solvency assessment (ORSA)

GPI's business risk management strategy sets the strategic objectives, principles and high-level plans for the Risk and Compliance (R&C) team that support the Group's business activities and corporate strategies. This includes a vision statement for R&C that provides context in respect of the approach the function seeks to apply. The risk management strategy includes definition of the Risk Management Framework (RMF), which is governed by a series of underlying risk frameworks and policies that are subject to GMC approval. GMC approval is a fundamental step within the Group's corporate governance framework to ensure that the RMF remains aligned with the GMC's approved strategy and risk appetite statements. The RMF incorporates established points of review by, and, escalation to, the GMC. All parts of the RMF are subject to third line assurance oversight.



The adopted approach to risk management includes the following key stages:

Identification:

All first line personnel are required to identify and understand the risks associated within their respective business area. Additionally, the GMC members are responsible for overseeing the operational risks identified by the business, as well as identifying all strategic risks to the business and the Group as a whole.

Risks are identified by a number of methods including through the forum of the Executive Risk and Governance Committee (ERGC); the formal annual Risk and Control Self-Assessment process; risk event/near miss reporting; horizon scanning exercises; compliance monitoring; and by reviews of business as usual activities. Once risks are identified they are recorded onto an ERGC risk form and presented to the Committee for review and measurement, and then escalated to the board Risk Committee as required.

Measurement:

Once a risk has been identified, the materiality of the risk in relation to the threat significance to the Group is assessed by understanding the likelihood of it occurring and the impact if it did. The materiality of the risk is recorded on an ERGC risk form and submitted into the ERGC for review and challenge.

The impact and likelihood of identified risks are measured using a traditional 5x5 risk matrix. Utilising the adopted 5 x 5 risk matrix risks are assessed and measured using an impact scale ranging from negligible to significant, with a significant threshold being set at a very low financial value of £2,000. In addition to financial measures, impact is also assessed in terms of potential/actual customer detriment, reputational damage, regulatory action, and impact on operating capabilities of people, processes, and systems. This is to ensure that all risks are captured, measured, monitored, and escalated via the governance structure to ensure effective and transparent risk reporting and to ensure that at all times the GMC are satisfied that objectives are being met within the defined risk appetite, and within the sufficiency of the operational risk sub module.

Managing:

Once the materiality of the risk has been defined, it is then the responsibility of the first line of defence (with oversight, challenge, and assurance from the second line of defence) to identify and implement any controls or mitigating actions in relation to the risk, and report any changes to the risk and control environment.

Once the identified risks and controls have been reviewed through the ERGC and then approved by the Board Risk Committee, they are logged onto the central risk register and monitored and reported by the Risk and Compliance function.

Monitoring:

The effectiveness of the established RMF in delivering the GMC approved strategy and risk appetite is measured and monitored through a set of Key Risk Indicators (KRIs). The structure of the KRI dashboard provides an expandable view of risk from the high-level risk appetites set by the GMC down to the granular metrics that are managed at an operational level, and aggregated upwards into the GMC metrics.

All KRIs and related risk tolerances have been proposed initially by Executive Management prior to review, challenge, and approval by the GMC via the Risk Committee. The KRI dashboard also incorporates Operational risk events and near misses and is reviewed by the Board Risk Committee via the ERGC and the Executive Committee, to ensure that the business frequently assesses the Group's actual risk profile against the GMC-approved risk appetite statements. This assists the second line of defence in providing robust challenge and effective reporting of its assessment of the Group's risk profile to the GMC.

The challenge and review process provides for the potential that risk metrics can be added or removed, risk tolerances can be amended, and emerging risks can be incorporated prior to GMC reporting and approval. The KRI dashboard is supported by a central risk register that captures all risks from each operational business unit in order that risk transparency and materiality can be continually assessed. The central risk register supports the ongoing identification, assessment, monitoring, and review process that is incorporated within the Risk and Compliance team's second-line oversight activity.

Reporting:

The Risk and Compliance function are responsible for regular reporting of the risk management framework to all levels of the business including: operational (via the ERGC), executive (via the EXCO) and Board (via the Board Audit and Risk committees and GMC).

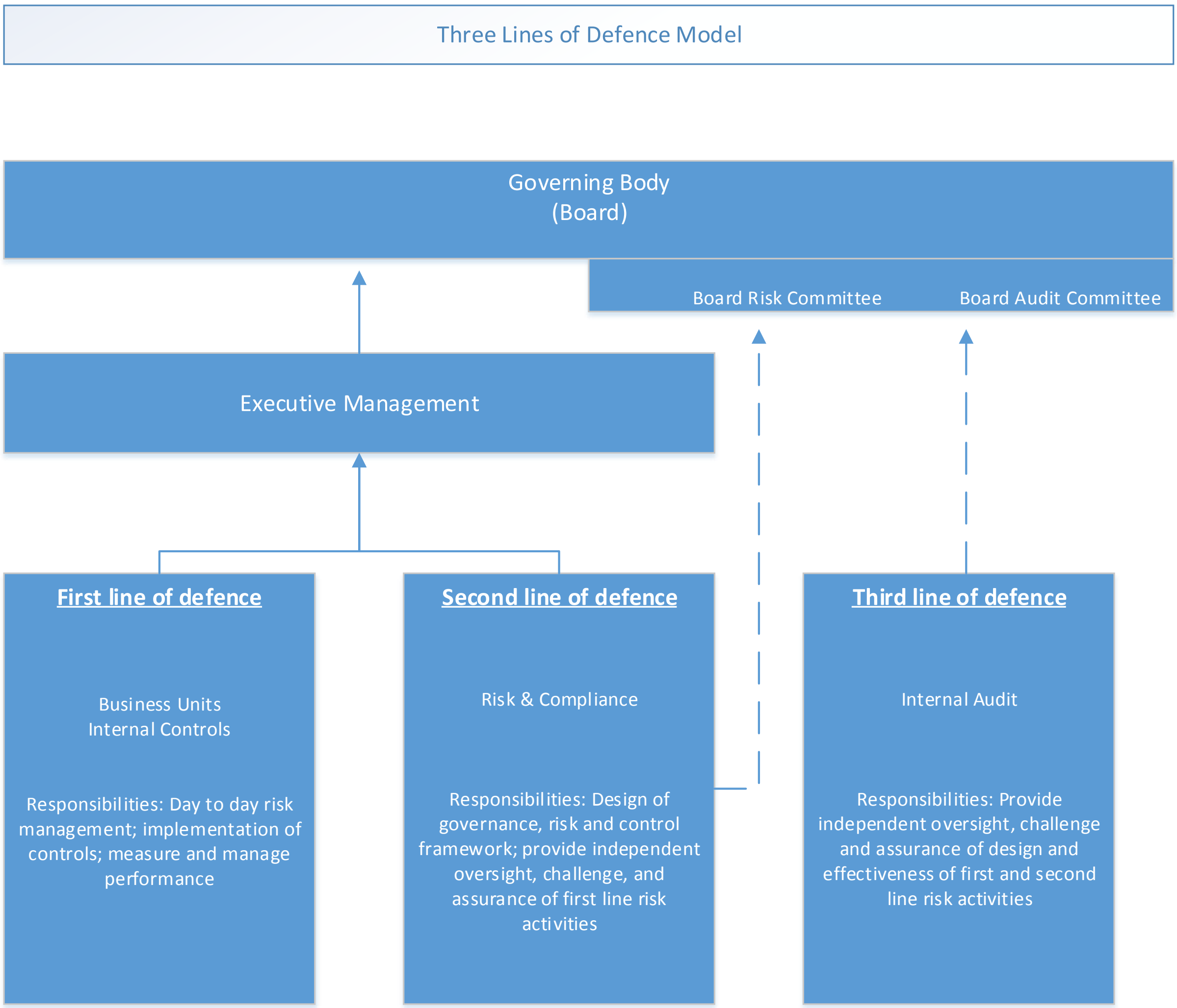
Reporting includes (but not limited to) the following elements:

- the central risk register;
- the control framework and an assessment of the effectiveness of controls;
- KRI dashboard;
- risk events/near misses;
- emerging risks;
- regulatory horizon scanning;
- a summary of the top risks to the business;
- any findings from monitoring and testing activity.

Reporting formats and contents based on the above elements are tailored according to the committee level.

Risk Governance

To ensure effective governance of the approach to risk management the Group implements a traditional `three lines of defence` model as illustrated in the diagram below.



The first line of defence includes all personnel across the business units who are responsible for:

- identifying, mitigating, and managing risk on a day to day basis,
- implementing the internal control framework;
- implementing a set of control policies and procedures;
- reporting on risk and control activity to the Executive management team via the Executive Risk and Governance Committee (ERGC).

The second line of defence consists of the Risk & Compliance, and Legal functions, who are responsible for:

- the design of the governance, risk, and control frameworks;
- providing independent oversight, challenge, and assurance of first line risk activities;

- reporting on the effectiveness of the implementation of the governance, risk, and control frameworks to the Executive management team via the ERGC, EXCO, and to the GMC via the Audit and Risk Committees.

The third line of defence consists of the Internal Audit function (currently outsourced to Grant Thornton LLP) who are responsible for:

- providing independent oversight, challenge and assurance of the design and effectiveness of first and second line risk activities
- reporting on the effectiveness of risk activities to the GMC via the Audit Committee.

The provision of the External Audit is by PricewaterhouseCoopers LLP.

Own Risk & Solvency Assessment

Governance is central to the prudential regulatory requirements contained within the Solvency II Directive (2009/138/EC). The primary objective being to drive effective risk management through a risk based capital requirement. The regulation requires that insurers captured by the directive establish and maintain an Own Risk and Solvency Assessment (ORSA). An ORSA is effectively a risk management process that seeks to document, consider and equate an insurer's established systems and controls to its balance sheet strength. It therefore forms an important and integral part of a firm's risk management framework.

The Own Risk and Solvency Assessment (ORSA) process constitutes the continuous identification and management of financial and non-financial risk within the Group. The ORSA report is a fundamental document that supports and informs the GMC and the Executive Management team in pursuit of its strategy and to understand the risks faced by the Group, its appetite to endure and accept those risks and to provide a clear and unambiguous process to manage capital in a prudent and stable manner.

The ORSA is integrated into the business and strategic planning processes. It is recognised that the ORSA is an on-going process that reflects the Group's risk profile and capital requirements at any given time, relative to the strategy being pursued. At each Executive Committee meeting, there is due consideration given to the Group's risk profile, and the Committee would, if any significant financial issue or potential risk crystallisation be identified, escalate the matter immediately to the GMC. This would be done to facilitate a decision as to whether to re-run the models to reflect the impact, and consider any necessary actions in mitigation. The subsequently updated ORSA would then be formally reviewed by the Board Risk Committee prior to GMC approval. In the absence of any escalation, the GMC formally reviews the document twice yearly. Similarly, it is expected that future iterations of the ORSA report will continue to be refined and developed in accordance with the Group's risk management enhancements and feedback sought from significant stakeholders. The development of the report will assist the Group in meeting its strategic objectives as it responds to an evolving market place. The Group will continue to invest in sustainable and integrated processes, including the ORSA process, to seek to ensure that it maintains sufficient capital resources aligned to the risks driven from established business activities, this will also maintain capital resources in excess of regulatory requirements post Transition (refer section E – Capital Management).

The GMC has approved the use of the Standard Formula (SF) as the most appropriate calculation of GPI's Solvency Capital Requirement. This decision has been independently confirmed by our retained external actuarial consultants (OAC).

B.4 Internal control system

GPI uses its internal controls to support the risk management framework which helps the business successfully achieve its objectives by:

- Providing management and the GMC with oversight of assets, risks, and resources;
- Helping to ensure that the business is profitable, solvent, and compliant;
- Enhancing the effectiveness of business operations;
- Ensuring reliability of financial processes and reporting;
- Ensuring compliance with relevant laws and regulations;
- Helping to minimise the overall risk exposure of the business consistent with approved risk appetites.

An internal control is not a specific procedure that is undertaken once, but rather part of a framework of continually operating processes and activities undertaken by all levels of personnel within the Group to ensure that the business successfully achieves its objectives. The business is cognisant of its regulatory obligations, and its internal control systems will ensure compliance with the relevant regulatory requirements.

GPI's internal control framework operates and works through a range of 'business as usual' policies, procedures, and activities that are undertaken by all levels of personnel within the company and aims to mitigate risk within the business. The internal control framework is made up of a number of diverse mechanisms for mitigating and managing risks that might impact the ability of the business in achieving its objectives, such as policies, authority levels, segregation of duties, reconciliation processes, management reviews, or IT systems flags.

Regular monitoring and assessment of controls can help to minimise risk exposure by identifying gaps in the internal control framework; identifying issues with control effectiveness or implementation; and by providing an opportunity for control enhancement where necessary.

GPI has designed its internal controls to be robust, reliable, cost-effective, comprehensive and proportionate to the size, nature, and scale of the business. In addition to the business as usual reviews of the internal control framework, a Group wide high-level annual Risk and Control Self-Assessment (RCSA) review process is undertaken by all Heads of Departments and the Executive Management team, with the assistance of the second line assurance function. GPI ensures its compliance activity is implemented through continuous monitoring and testing of the internal control framework, externally outsourced functions, Appointed Representatives, and compliance with wider external obligations that arise. The Compliance function undertakes regular horizon scanning activity to ensure that all key compliance controls and activities are fit for purpose and aligned to the current regulatory landscape.

B.5 Internal audit function

GPI is committed to ensuring that internal audit provides assurance to the GMC that major business risks are being managed, and that the framework for risk management and internal control is operating effectively. Reflecting the scale of the business, the GMC considers that this can most effectively be achieved by outsourcing the IA function to an appropriately skilled and resourced partner selected via a tender process set by the Audit Committee. The current Internal Audit Appointment is Grant Thornton LLP. By utilising an outsourced Internal Audit provider the business is able to retain independence & objectivity between internal audit and other key functions of the business.

GPI operates a three lines of defence governance model. The Internal Audit function constitutes the 'third line' of defence by providing independent review, challenge, assurance, and validation of the effectiveness of the internal controls. The Internal Audit function is not responsible for establishing or maintaining internal controls, as this is the responsibility of the 'first line', however the effectiveness of the internal systems of control can be enhanced by the recommendations from Internal Audit reviews.

The Internal Audit function provides assurance, evaluation, and verification of the extent to which management controls ensure that:

- the company's assets are safeguarded from significant losses, including those caused by fraud, waste, inefficiency, and commercially unsound practices;
- relevant laws, rules and regulations are complied with;
- business units, employees and advisors are complying with the relevant internal policies and procedures;
- operations are conducted effectively, efficiently, and economically in accordance with company policies and procedures;
- management information systems are reliable and secure;
- systems under development are monitored, that appropriate internal controls are built in, are consistent with business needs, and are proportionate and benchmarked to industry best practice;
- significant business risks are identified and effectively managed, and;
- where relevant major business projects achieve their objectives.

The Internal Audit function provides this assurance, evaluation, and verification by setting an annual plan aligned to the risk based approach adopted by the business. This includes resource planning and a defined set of internal audit projects undertaken on an annual basis completed and reported to the Audit Committees spread throughout the year. The plan is set annually but is subject to amendment driven by any material change effecting the business. This is shown in the diagram below:

B.6 Actuarial function

Reflecting the current scale of the business, the GMC believes that GPI is better served by utilising the services of an external actuarial firm making use of a high calibre expertise rather than having an in-house resource. As a result, these skills continue to be obtained from an external supplier; the actuarial firm OAC have been our chosen supplier of actuarial and modelling services for the past four years. Specific OAC staff are allocated to GPI, reflected within our Senior Insurance Managers Regime structure and the SIMF 20.

B.7 Outsourcing

As part of GPI's business, certain functions are outsourced to third parties. GPI does not contract out of its regulatory obligations and remains responsible for complying with these obligations. The GMC is responsible for determining which business functions are to be outsourced; for setting the risk appetite in respect of outsourcing; and for delegating to suitable owners and relationship managers, the management and control of those outsourced functions. The GMC is responsible for satisfying itself that the provisions of the outsourcing policy have been met in respect of each outsourced function. Prior to contemplating the shortlisting or engagement of prospective providers, GMC shall instruct a Needs Assessment. The Needs Assessment shall:

- identify the key stakeholders who must be engaged in respect of the proposed outsourcing arrangement and shall identify at what stage those stakeholders are to be engaged; at a minimum, the stakeholders shall include the finance department for the purposes of examining the financial strength of proposed providers; the members of the GMC for evaluating the merits of the commercial and consumer case for outsourcing; the legal department for contractual concerns; the risk & compliance department for conduct risk matters; and the IT Director for any data and security concerns;
- set out the objectives and scope of the outsourcing project (what is to be achieved, by when, by whom and to what standard);
- set out the parameters of any RFP document that is to be issued to prospective providers.

Where prospective providers have been shortlisted, they shall be bound to Non-Disclosure Agreements if they are to have access to any information prior to the commencement of a formal agreement. Where the prospective provider does not have access to information prior to entering into the outsourcing agreement; the outsourcing agreement itself shall have a Non-Disclosure Agreement included within the final Service Level Agreement.

Each service provider shall be visited at least yearly by the Chief Operating Officer, or the relationship manager for the outsourced function. The activities undertaken during the visit shall depend on the types of activities undertaken by the service provider and may include training audits; information security audits; governance audits; Service Level Agreement compliance audits; and audits of any other activity undertaken by the provider on our behalf.

The purpose of the site visit is to identify any issues and potential areas of action and enhancement. The results of the visit are presented at the ERGC for consideration under the terms of reference of that committee. Where applicable, these results shall be escalated to EXCO. Each provider shall be subject to a credit check at least yearly. If ongoing supervision uncovers undesirable outcomes such as improper performance of the outsourced function, or ultra vires actions, or consumer or commercial detriment, GMC shall consult with both the relationship manager responsible for the outsourced function; and with the Group's legal department. Particular cognisance is given to the provisions of the Service Level Agreement and to the termination provisions of the arrangement. GMC shall contemplate appropriate measures such as termination of the contract; switching providers; or increased supervision and shall decide upon the appropriate response.

The table below depicts the main areas of external and intra-Group outsourcing arrangements.

Area of outsourcing	**Outsource Provider**	**Location of provider**
Claims handling	Warranty Services	UK
Policy Administration & Operations	Warranty Services	UK
Human Resources	Kinnell Holdings	UK
IT Services	Warranty Services	UK
Actuarial Function	OAC	UK
Internal Audit	Grant Thornton	UK

C. Risk Profile

Appetite and Sensitivity

The Risk appetite set by the GMC defines how much risk GPI is willing and comfortable to take in the pursuit of its strategic objectives. The Risk Appetite Statements have been approved by the GMC and include several significant risks faced in its normal course of business. The Risk Appetite Statements are documented in the ORSA and in the wider Risk Management Framework and are reviewed by the GMC to seek to ensure that their defined appetite for risk is appropriately reflected and can therefore be relied upon to direct business operations.

The stress testing performed provides increased understanding of the potential significant changes to the Group's risk profile when key underlying components are shocked. While this is heavily assumptive, the outputs assist the Group in developing appropriate management actions aimed at effectively managing the potential impacts. More importantly though, the stress testing outputs are used to confirm the appropriateness of the Group's capital resources. It is the GMC's view at this stage that applying further stress and scenario tests at this point in transition will be an academic exercise. Current application of the Standard Formula as applied to GPI contains inherent stress calculations and risk correlations to calculate an SCR sufficient for a 1 in 200 year event over a 1 year horizon at a 99.5% limit. As the current available capital does not cover the required capital requirement, adding additional theoretical stresses will not give a sensible view of the possible exposure to substantial shocks to the available capital or the future capital requirements over a three-year period. Limited stress and scenario testing has been modelled, and additional scenarios and reverse stress testing are scheduled to be undertaken and completed as the business enters the final stages of transition during 2017.

The following statements provide a summary of the Risk Appetite Statements:

C.1 Underwriting risk

Underwriting and Core Products.

GPI ensures that a proportionate, robust underwriting function exists to demonstrate to the GMC that major business risks associated with ongoing and new insurance risks that are being underwritten are managed, and that the framework for onboarding and assessment of risks is aligned to the risk appetites set by the GMC, the risk management framework, and internal control framework. The risk management and mitigation tools used monitor loss or adverse changes in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

The current appetite statements are set by the GMC and drive the business core strategy as follows:

- There is no appetite for undertaking activities that are not aligned with the GMC approved core strategy, and/or undertaking activities for which the Group does not currently hold the necessary skills and capabilities;

- GPI will only underwrite products within its core area of expertise; being insurance backed guarantees, related extended warranty products, structural warranties and ECO funded projects;

- GMC approval must be sought for any new risks with a contract value in excess of £250,000;

- GPI seeks to limit its term exposure to 10 years for new business with the exception of ECO or Government led business, which has a regulatory requirement of 25 years. GMC approval must be sought for any new risks outside of this tolerance;

- GPI will not write any (new) business outside the UK/Ireland without GMC approval;

- Any new reinsurance will require GMC approval and any reinsurance placed must be with an 'A' rated reinsurer (rating assessed using rating agencies S&P and AM Best; the higher of which will be applied).

C.2 Market risk

Market risk is the risk of loss resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates, foreign exchange rates and stock prices and the risk of loss resulting from changes in earnings generated from assets and liabilities.

Foreign currency risk

GPI undertakes certain transactions denominated in foreign currencies for its smaller schemes that are in run off as a result exposures, albeit small, to exchange rate fluctuations arise. Claims costs are offset against held currency (within the UPR) allowing for a self-hedge. Should the schemes terminate and become adverse then the currency risk appetite would be reassessed.

Interest rate risk

Interest rate management is important as the interest rate is a vital input to the calculation for future liabilities. GPI cannot manage the interest rate, but can look to manage the impact of any rate change. This is completed through a complex matching exercise calculated by the Chief Actuary, where discounted liabilities (based on the issued risk free rate) are mapped by maturity to assets of the same characteristics. This matching, allows the detriment of interest rate change to be mitigated. GPI will review the portfolio, rebalancing it at approximately 6 monthly intervals.

Pricing change risk

GPI is exposed to price risk arising from fluctuations in the value of financial instruments because of changes in the market prices and the risks inherent in all investments. Pricing risk is material to GPI as the company has a high ratio of investment funds in relation to annual premium, driven in the main because the business written has a long tail. GPI manages the risk by ensuring it maintains balanced portfolios and utilises the resources of high calibre investment managers. The investments managers are provided with the appropriate mandate detailing GPI's risk appetite and corresponding risk thresholds. The investment mandate is set to capital protection on a low risk strategy. For the small amount of property owned an external tri-annual valuation carried out by a RICS surveyor is obtained.

Investment Risk

GPI has appointed professional investment managers LGT Vestra to manage funds on a discretionary basis in line with its investment policy. Invested assets are held directly by GPI and not in nominee. Performance of medium and long term investments are measured against inflation and agreed market indices aiming for an appropriate return. The return of the short-term reserves is monitored against benchmark cash rates and the credit rating of the holding institutions. The level of capital volatility is monitored by the Asset and Liability Committee (ALC) to ensure the risk profile remains appropriate for GPI. The ALC have delegated authority from the GMC to implement strategy, select investment managers, and monitor the investment assets and seeks to ensure that the assets are matched to the time horizon of the technical provision liability tail. The shape of the liability tail is used to co-ordinate the asset classes, term, and liquidity to ensure appropriateness and the shape is set by the actuary. GPI manages its own cash deposits matched to the actuarially assessed short term cash flow schedule. GPI manages its own investment properties, inter-company loans, and any other investments not covered above.

C.3 Credit risk

Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

GPI manages it credit risk through the following actions:

- ✓ GPI receives most of its income through direct debit, which minimises credit risk of customers. Payment sources of residual lines of income are diverse and don't form any material concentration areas. Therefore, credit and counterparty risk is centred upon the recoverability of current assets, and management of concentration risk of investments in line with good risk management and impact to capital requirement of SII SCR calculation.

- ✓ Ceasing all new loans and effectively managing the repayment plan for loans in situ, some of which are inter-company arrangements.

- ✓ Employee loans in exceptional circumstances are permitted under the discretionary agreement of the Executives, although the gross loan must be capped at the expected net pay amount of the individuals notice period, to negate credit risk.

- ✓ In addition to cash, the investment mandate provided to the investment managers permits only investment grade securities. The information is supplied by independent rating agencies where available and if not available GPI uses other publicly available financial information and its own trading records to provide a form of rating

- ✓ All future investment decisions are considered under the Solvency II framework and the prudent person principle.

- ✓ Investments are time horizon matched in low volatility, appropriately liquid assets to match the expected liabilities both in value and time. The investment managers ensure the portfolio is spread across funds to minimise concentration risk adhering to the prudent person principle.

C.4 Liquidity risk

Liquidity risk is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due. GPI has short/medium and long term cash requirements and balances the liquidity in its portfolio to match this. It manages liquidity risk through the following actions:

- ✓ GPI does not require a regular drawdown from investments, and accumulated income is reinvested.

- ✓ GPI monitors all planned spends beyond the cash flow needs of business as usual and operates a robust 3-year budgeting process to identify future spends and liquidity requirements.

- ✓ GPI is unlikely to need access to capital held within investments, as it's business as usual requirements are serviced via business as usual cash flow.

- ✓ In the event of GPI moving to a wind down situation then the liquidity of short term assets and access to these would be required to be reviewed as the cash cycle from trading as a going concern would not be operating but this would form part of a run off plan

- ✓ GPI holds liquidity to service requirements for a period no less than 12months in ready access cash.

Cash Management:
All cash accounts in GPI and the Group are maintained at a suitable level of credit. In addition to the above the firm has no appetite for the balance in the current account to dip below a determined amount for three consecutive days.

- ✓ The firm has no appetite for the monthly projected Liquidity Coverage Ratio to dip below 150% during the next 12 months. The assets of the business are managed by the ALC to maintain this statement.

- ✓ All connected counterparty exposures to be less than 20% of total 'Bank' cash deposits.

- ✓ All expenses payments shall be paid within payment terms to ensure efficient use of cash resources.

- ✓ Currency accounts shall be converted to Sterling within one week of deposit to self-hedge. A residual set equivalent is permitted to be held in currency accounts.

- ✓ A cash and dividend policy is in operation for all regulated firms.

- ✓ All cash deposits are held as instant access funds which should be deposited with institutions with a minimum short term rating A- or B+++ (based on the higher of Standard & Poors and Fitch rating agencies). This includes overnight deposits within the investment portfolio cash management accounts.

Time Horizon assessment
GPI has divided its technical reserves into those expected to be held for immediate, short, medium, and long term. This is decided in line with the claims tail expectation forecast and investments and is managed to meet the investment objective and ensure this mix of terms.

Immediate 0-1 year

Short term 1 – 2 years

Medium term 3 – 5 years

Long term 5 – 20 years

The duration of the liabilities is matched to the investments. The long tail of GPI's technical reserves requires this matching process to be evaluated for appropriateness and this occurs on an annual basis.

C.5 Operational risk

GPI has a low appetite for operational risk. The company acknowledges that some level of operational risk is inherent in any business operation however, the business keeps operational risk at the lowest degree possible through application of the governance, risk, and control frameworks, and associated resources.

Due to the nature and size of the Group, and considering the proportionality principle, Operational Risk is relatively low in relation to our business activity. Exposure to people, systems and control failures, external fraud, conduct risk, and, IT security / cyber risks are considered within the risk management framework to ensure that appropriate focus is maintained that will identify any significant issues that suggest fundamental control failures.

C.6 Other material risks

The following section outlines some other material risk appetite statements that exist within the business.

Customer & Conduct Risk Appetite Statement:

GPI has zero appetite for conduct risk and/or customer detriment. By monitoring appropriate measures for fair treatment to customers including complaints data, customer feedback and claims management information we seek to avoid customer detriment and reduce the exposure to conduct risk. Utilisation of tailored internal training models on customer service, fair treatment and ethical conduct further reduces the business's exposure to this risk.

Reserve Risk

GPI will maintain the UPR value no lower than 110% of the lower range calculated annually by its independent actuarial analysis, to maintain sufficiency of the UPR value. Presently GPI holds sufficiency well in excess of this ratio and therefore has minimal exposure. This is monitored on an ongoing basis.

With the long tail nature of its business GPI is exposed to claims arising in a pattern different to that assumed in the technical provisions. This risk is mitigated by:

- ✓ Setting a clear reserving policy for our business based on what is now a significant history of claims i.e. over the last 15 years;
- ✓ Setting reserves on a prudent basis including an element of margin for uncertainty.

Capital Adequacy

GPI is currently progressing to its target SCR coverage within the prescribed transition period, target SCR coverage being set at 110% of SCR. This is a lower % tolerance than under Solvency I appetite, but is a much higher £ tolerance, and reflects the wide and robust calculation of quantifiable risks within the SCR calculation. As GPI is currently working through transition the company is exposed to this risk but has an agreed and documented plan to transition through.

GPI is exposed to a number of factors that affect its capital adequacy. The collection of all of these factors have the ability to detrimentally effect profit and subsequently reduce the amount of own funds available for capital resources.

GPI is in a PRA approved transition in order that it may achieve its Solvency II capital requirement within a two-year horizon. The current deficit at YE 2016 after reallocation of assets is approx £1.372m. GPI has exceeded the forecast capital plan agreed with the regulator.

Reinsurance Exposure

Any new reinsurance will require GMC approval and any reinsurance placed must be with an 'A-' rated reinsurer (rating assessed through the use of rating agencies Standard & Poors and AM Best; the higher of each will be applied). GPI currently has limited exposure to any reinsurance agreements therefore resulting in a negligible exposure.

Claims risk

For GPI, claims incidences have been largely predictable but generally show some overlap with market risk in that an economic downturn can result in higher contractor failure rates which would therefore bring more installations into eligibility for cover should any installation prove to be defective. Despite the significant economic crisis experienced during 2008/9 this did not result in an exponential rise in claims. We have identified higher contractor failure rates and associated claims but at a more modest level. A more likely point of volatility is the cost of claims. Reserves have been established assuming current levels of claims remediation costs with an implicit assumption that investment returns will mitigate general claims inflation if the business is exposed to a more significant "spike" in claims remediation costs. This risk is heavily mitigated through the establishment of an in-house remediation company (The Remedial Company) that undertakes the bulk of the repairs for the 10 year IBG book. This claims cost is monitored on a monthly basis through the operational risk dashboard. GPI could also be exposed to a spike in high value claims, in particular in structural warranties that can have significantly high contract values. This risk is mitigated on a go-forward basis through reducing underwriting risk appetite to a cap of £250k in any one-loss event, but older policies do exist with higher exposures. While any single large loss is possible in any year, the likelihood of an amalgamation of large losses is extremely remote.

Regulatory Risk

As the Group operates in a highly-regulated environment, we are cognisant of the exposure to potential regulatory action that may be punitive for the business, financially or reputational. This risk is mitigated through establishing systems and controls that monitor our adherence to regulatory obligations and in particular to our treatment of customers. This is also validated with our open and proactive dialogue with both the FCA & the PRA, which includes several meetings throughout the year.

Strategic Risks

A key strategy of GPI is to be a market leader in the insurance of ECO / Green Deal obligations introduced by the Government. Whilst this has created a significant opportunity we are exposed to changes in political appetite in the carbon emissions arena & Government generally.

Group Risk

Group SCR is calculated on a standard formula basis (SF). In order for the SF to be considered for appropriateness, the risks that are in addition to the solo firms require to be considered at group level, with a subsequent assessment of whether the risk profile of the Group is materially different to that of the solo.

The SII insurance undertaking (GPI) dominates the Group significantly and is the predominant business at all levels of the Group. The materiality of any further risks noted at Group level are heavily diluted by the scale of the Insurance undertaking relative to other Group entities. The consideration of appropriateness is not static, and is an on-going process developed to ensure assessments are kept live and maintained to reflect changes to the businesses and the overarching risk profile. Whilst it is noted that the materiality of additional Group risks is minor, it is recognised that there are other risks, not solo specific that bite only at Group level, and must be deliberated. The non-exhaustive list that have been reviewed to date are:

Transaction risks: all the risks involved in intra-Group transactions, which may not be transparent, may result in inappropriate transfers, especially between regulated and unregulated entities and may affect the soundness of regulated entities.

There are no intercompany transfers of this nature that occur beyond the trading interaction that occurs between the solo firm and is captured in its SCR.

Moral hazard risks: When an entity of a Group engages in excessive risk-taking under the assumption that the Group as a whole, or another Group entity, will assist it in the event of problems occurring.

Whilst all other Group companies are operated under a high level of corporate governance that would not lend itself to this type of conduct, the materiality of other companies' size on the Group is minor.

Double-gearing risk: the risk that funds will be committed several times, that is, for both the parent company and the subsidiaries.

Parent company does not, and the respective Boards understand that no cross-party guarantees are appropriate in order to include unencumbered capital. As described earlier the SII insurance entity is the overall dominating entity and does not rely on parent capital to satisfy its capital requirement.

Contagion Risk: The risk that financial problems, especially insolvency, of a member of the Group will bring about deterioration in condition of other members.

The other members are not of a size to influence the main SII insurance entity.

D. Valuation for Solvency Purposes

D.1 Assets

The table below sets out the valuation of each asset class. All valuations are based on the Companies year end valuation of 31st December 2016.

The valuation method for SII purposes for the different asset types are described below. Where the valuation is different to the GAAP financial statements the difference in method is provided. Further information on the valuation of assets for GAAP financial statements can be found within the Company's financial accounts.

	Other Assets	
Asset Type	Assets per Solvency II	Assets per GAAP
Property UK	450,000	450,000
Investment securities	14,496,990	14,492,289
Cash and Cash Equivalents	5,762,436	5,762,436
Investments in Subsidiary Undertakings	1,712,929	1,966,889
Subsidiary Receivables	1,481,589	1,468,989
Insurance and Intermediary Receivables	257,180	257,180
Deferred Tax	433,281	440,046
Reinsurance receivable	15,079	5,138
Loans and mortgages	200,000	200,000
Any other Assets not shown elsewhere	357,899	357,899
	25,167,383	25,400,866

Land and buildings

Land and buildings are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. Full valuations are made by an independent, RICS qualified valuer every three years. The most recent valuation was carried out in 2016, with the next valuation due to take place in the 2019 reporting year.

Investment with investment managers

Our investments are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP.

As at 31st December 2016 the total value of our financial investments was £14.49m, analysed as follows:

	£
Government Bonds	3,458,097
Corporate Bonds	6,195,491
Listed Equities	1,806,675
Collective investment undertakings	3,032,026
	14,492,289

The investment portfolio is managed by LGT Vestra LLP. The investment mandate held by them is categorised as Low Risk, and aims for capital protection alongside a modest yield. The benchmark return is 2-3% after fees, and the portfolio is currently meeting this output.

A rebalance commenced in the 2016 year to a mix of assets easily reported under SII reporting lines with the necessary look through and into assets with a low SII capital charge. This rebalance is not yet complete, and will continue in 2017.

Cash and cash equivalents

The Company holds £5,686,378 in cash deposits in addition to the £76k of cash held within the investment portfolio, which are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. The cash is held to meet any short-term liabilities and spread appropriately to limit counter-party and concentration risks.

Investment in subsidiary undertakings, including participations

The Company holds investments in subsidiaries for strategic purposes. The Solvency II value lower than the UK GAAP value as intangible assets held by the subsidiary are deducted from the Solvency II valuation.

Subsidiary Receivables

The Company holds a loan due from its subsidiary. The Solvency II value of this is discounted using the EIOPA yield curve over the term of loan, which creates a difference to the GAAP valuation.

Insurance and intermediary Receivables

These balances relate to balances due from intermediaries relating to direct insurance operations. These are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP.

Deferred Tax

The Company holds a deferred tax asset in relation to overpayment of tax in prior years. The asset can only be utilised through application to future profits. The value for Solvency II purposes is the discounted value over the period that the asset is expected to be utilised in. The financial projections of the company show this to be utilised over the years 2017 and 2018.

Reinsurance receivable

Reinsurance receivables primarily relate to the amount owed to us from our reinsurers arising from claims payments made. In addition to the GAAP financial statement value, and additional value is placed on the portion of the Technical provisions covered by reinsurance. This creates a small difference in valuation between SII valuation and GAAP financial statements of approx. £10k

Other assets

The remaining assets are valued on the same basis between Solvency II and the GAAP balance sheet.

D.2 Technical provisions

Components of Technical provisions

Technical provisions represent the current cost of insurance liabilities at the balance sheet date. They are calculated on a discounted cash flow basis and include the following high level components to be calculated separately:

- Best estimate of claims provisions being claims expected to be incurred at the balance sheet date
- Best estimate of premium provision being claims expected to be incurred after the balance sheet date on contracts incepted prior to that date
- Risk Margin representing the amount a third party would require in addition to the best estimate to assume liability, calculated on a cost of capital basis.

No significant simplifications of the calculation of Technical provisions are used, and sources of uncertainty, magnitude and likelihood are explained under the different components.

Set out in the table below is a summary of the Solvency II and GAAP valuations of technical provisions split between best estimate and risk margin. The reconciling items between GAAP and Solvency II are included in the table on page 40.

	Technical Provisions	
Description	Liabilities per Solvency II	Liabilities per GAAP
	£	£
Technical Provisions	10,993,549	20,403,833
Risk Margin	2,935,576	
Total	13,929,125	20,403,833

The only material line of business that the Company writes is Miscellaneous Financial Loss and as such the table above covers this class in its entirety.

Gross claims cash flows and reinsurance recoveries

Our best estimate calculations have been completed on a deterministic basis as per the Directive. GPI has a very small reinsurance portfolio, with only 0.001% of the Technical provisions covered. The reinsurance contract is on a 50% quota share basis and is placed with an A- rated insurer.

Claims reserve

The current claims provisions have been developed over time to separate best and prudent elements. The claims provisions on a GAAP basis have been used as a starting point for the expected nominal value of the Solvency II future cash flow. We have excluded elements within our GAAP provisions which we consider to represent prudence. We have also only included expenses which relate to the cost of handling existing business.

Projected cash flows are estimated by applying payment patterns to the estimate of gross claims and recoveries. These payment patterns have been calculated based on historic trends for each Solvency II line. However, given the relative short term nature of the payment cycle of outstanding claims, the impact of discounting on our technical provisions is limited. In addition the short tail nature of the actual claims cost results in low levels of uncertainty. This also applies to the magnitude and likelihood of this Technical provision component not being accurate, as the period open to variable change is short.

Premium reserve

Premium reserve replaces unearned premium reserve (UPR). Premium reserves are split between future claims element and future expense element. To determine the nominal amount of future claims we take the amount of the UPR for each cohort of business within the GAAP accounts and multiply it by the planned loss ratio for the current year. We have included in the amount for expenses which represent our estimate of the cost of handling the remaining element of this business. Sources of uncertainty within this calculation are driven from use of historic trending. Assumptions are used that the past experience will be replicated in the future. However, uncertainty is created if events of the past do not then occur in the future, and conversely, events not in past data, manifest in the future. This is countered by an additional calculation to recognise this. Events Not In Data ('ENID') is used to reduce uncertainty driven by using past data. In addition to the ENID calculation, loss ratios are recalibrated every year, to ensure the most appropriate relevant data is used. The loss ratio data becomes more stable, as more years of data is added to the experience analysis. The recalibration every year reduces the magnitude of any uncertainty as well as the likelihood.

Discounting

Claims, premium and expense cash flows have been discounted using the EIOPA yield curve.

Risk Margin

To calculate the risk margin we have estimated the SCR using the Standard Formula. We have then projected future SCRs using run off patterns for different elements of the SCR. We have discounted and summed the projected SCR's and multiplied this by the cost of capital.

Data adjustments and recommendations

Overall, we consider that the technical provisions are prepared on a suitable basis, in line with the new approach laid down in the legislation and sources of interpretation we have referred to. It is expected that our approach will continue to develop from evolution of industry practice including guidance by the Regulator and our ongoing internal reviews.

D.3. Other liabilities

Set out in the table below are our other liabilities under Solvency II and GAAP. With the exception of other liabilities, we have adopted the figure that appears in our GAAP financial statement.

	Other Liabilities	
Description	Liabilities per Solvency II	Liabilities per GAAP
	£	£
Creditors arising out of direct insurance operations	275,120	275,120
Other creditors including taxation and social welfare	537,773	537,773
Accruals and deferred income	407,535	407,535
Total	1,220,428	1,220,428

D.4 Alternative methods for valuation

No alternative valuation methods are used by the Company.

E. Capital Management

E.1 Own funds

GPI has own funds of £10.022M at 31st December 2016. These are split between Tier 1 and Tier 3.

Tier 1 are arising from retained profits arising from past underwriting and investment surpluses. As such there are no restrictions on the availability of them to support the MCR and the progress made to the SCR.

Tier 3 funds are in relation to a deferred tax asset. This has arisen from overpayment of tax in prior years and can only be used against future profits. It is forecast to be extinguished during 2017 and 2018.

A summary of own funds at the end of current year reporting period is shown below:

Description	Own Funds 31st Dec 2016
Own funds - Tier 1	9,589,593
Own funds - Tier 3	433,282
	10,022,874

The improvement in the year relates to the refinement of interpretation of the regulation, continued improvement in the profitability of core underwriting, and strong investment performance. The identification of a tax error in prior years also generated additional own funds.

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes:

Reconciliation of Basic Own Funds to Equity in the financial statements as at 31st December 2016	£m
Total Equity in financial statements	**3.777**
Deduct items not recognised in financial statements	
Risk Margin	(2.936)
Difference between BEL and Technical Provisions	9.410
Movement in valuation of subsidiary relating to intangible asset	(0.254)
Movement in valuation of loans relating to discounting	0.023
Introduction of reinsurance proportion of TP	0.002
Solvency II - Basic Own Funds	**10.022**

The differences in relation to the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes relates to the following five adjustments:

1. The risk margin calculation is a SII calculation and is not recognised within the GAPP financial statements.
2. The difference between the Best Estimate of Liabilities and the GAPP financial statements relates to timing differences on revenue recognition. This difference is more pronounced in GPI's comparison as the timing differences can be spread up to 25 years. The straight line earning pattern in the financial statements does not match to the ultimate expected liability of the Solvency II valuation.
3. The Solvency II valuation of the Investment in subsidiary requires the deduction of any intangible assets held by the subsidiary from the GAAP financial Statement value.
4. The Solvency II valuation of loans receivables includes a discounting adjustment in line with the EIOPA risk free rates and term of the asset. Discounting is not applied in GAAP financial statements.
5. The Solvency II valuation of Technical provisions requires an adjustment to recognise the portion of Technical provisions covered by reinsurance.

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability. The Tier 3 own funds based on deferred tax is not transferable as the asset is tied to profits made by the Company.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

GPI's SCR is calculated by applying the Standard Formula method without use of any undertaking specific parameters (USP's). The Board and its external advisors have confirmed its appropriateness.

The calculation of the SCR under SF and the extensive interaction with external consultants to prepare and understand the drivers within the capital modelling process has highlighted two key drivers of the model kernel for GPI, being Non-Life Underwriting Risk and Market Risk. A summary of the breakdown of the SCR at 31st December 2016 is shown below.

SCR - By Risk Category	31-Dec-16
	£
Non-Life Underwriting risk	9,089,195
Market risk	3,578,424
Counterparty default risk	911,873
Diversification benefit	(2,514,578)
Basic Solvency Capital Requirement	**11,064,915**
Operational risk	329,806
Solvency Capital Requirement	**11,394,722**

The minimum capital requirement (MCR) is calculated as a linear function of a set or sub-set of the following variables: GPI's technical provisions, written premiums, capital at risk, deferred tax and administrative expenses. The variables are measured net of reinsurance.

The overall MCR calculation outputs are shown below.

Overall MCR calculation	
Linear MCR	2,535,218.46
SCR	11,394,714.33
MCR cap	5,127,621.45
MCR floor	2,848,678.58
Combined MCR	2,848,678.58
Absolute floor of the MCR	2,251,250.00
Minimum Capital Requirement	**2,848,678.58**

The SCR at 31st December 2016 is calculated to be £11,394,721.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company has not opted to use the duration-based equity risk sub-module, of the Solvency II regulations.

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

GPI does not use nor has any short-term intention of using an internal model therefore no differences exist.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During the reporting period GPI was fully compliant with its MCR and is currently progressing towards SCR compliance within the prescribed transition period within the Solvency II regulations. The maximum deficit during the reporting period was £3m in accordance with GPI's transition plan. When the SCR is achieved, GPI will then progress to Target SCR coverage which is set at 110% of SCR. This is a lower tolerance than under Solvency I appetite, but reflects the wide and robust calculation of quantifiable risks within the SCR calculation. As at 31st December 2016 GPI held own funds of £10.02m against an SCR of £11.4m. Within this SCR calculation we have identified that a strategic move of assets into lower weightings, e.g. divesting from equities into fixed interest products, and the sale of investment properties, will reduce the Market Risk capital charge component, and work continues into potential efficiencies in relation to concentration risk within the asset mix and value that can be gained through diversification. The initial view from our external actuarial consultant is that this would reduce our SCR by approximately £750K therefore reducing the transition deficit to £612K at the 31st December 2016.

E.6 Any other information

We have set out to fully comply with the Standard Formula calculation of MCR and SCR and are not aware of any non-compliance. As with any new requirements & regulations there is a risk within areas of interpretation as to the methodologies and procedures in arriving at these numbers. The Board utilises the expertise of its internal & external advisors to ensure that industry benchmarking, shared knowledge, procedures and learnings help to mitigate this. To date we have not identified any area where these uncertainties are likely to lead to a material misstatement of our capital requirements.

Appendix i: **Directors' statement in respect of the SFCR**

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the 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.

On behalf of the Board

Lyndsay Wilson
CFO
Date : 19th May 2017.

Appendix ii: **Report of the external independent auditors to the Directors of Guarantee Protection Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms**

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016:

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

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**'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 Solvency and Financial Condition Report'**.

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 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02 and S.05.02.01 and S.19.01.21

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

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at [*date*] 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

The maintenance and integrity of the Guarantee Protection Insurance Limited 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 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the 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 Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

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

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report 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. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Glasgow

19 May 2017

S.01.02.01

Basic information - General

	General information	C0010
R0010	Undertaking name	Guarantee Protection Insurance Limited
R0020	Undertaking identification code	213800X5UHKV2UWAE715
R0030	Type of code of undertaking	LEI
R0040	Type of undertaking	Non-life undertakings
R0050	Country of authorisation	GB
R0070	Language of reporting	en
R0080	Reporting submission date	2017-05-19
R0090	Reporting reference date	2016-12-31
R0100	Regular/Ad-hoc submission	Regular reporting
R0110	Currency used for reporting	GBP
R0120	Accounting standards	The undertaking is using local GAAP (other than IFRS)
R0130	Method of Calculation of the SCR	Standard formula
R0140	Use of undertaking specific parameters	Don’t use undertaking specific parameters
R0150	Ring-fenced funds	Not reporting activity by RFF
R0170	Matching adjustment	No use of matching adjustment
R0180	Volatility adjustment	No use of volatility adjustment
R0190	Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
R0200	Transitional measure on technical provisions	No use of transitional measure on technical provisions
R0210	Initial submission or re-submission	Initial submission

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	0.00
R0040	Deferred tax assets	433,281.71
R0050	Pension benefit surplus	0.00
R0060	Property, plant & equipment held for own use	8,553.72
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	17,139,662.05
R0080	*Property (other than for own use)*	450,000.00
R0090	*Holdings in related undertakings, including participations*	1,712,929.12
R0100	*Equities*	1,811,374.60
R0110	*Equities - listed*	1,811,374.60
R0120	*Equities - unlisted*	0.00
R0130	*Bonds*	9,653,588.82
R0140	*Government Bonds*	3,458,097.62
R0150	*Corporate Bonds*	6,195,491.20
R0160	*Structured notes*	0.00
R0170	*Collateralised securities*	0.00
R0180	*Collective Investments Undertakings*	3,032,026.69
R0190	*Derivatives*	0.00
R0200	*Deposits other than cash equivalents*	479,742.83
R0210	*Other investments*	0.00
R0220	Assets held for index-linked and unit-linked contracts	0.00
R0230	Loans and mortgages	1,481,589.59
R0240	*Loans on policies*	1,481,589.59
R0250	*Loans and mortgages to individuals*	0.00
R0260	*Other loans and mortgages*	0.00
R0270	Reinsurance recoverables from:	9,940.53
R0280	*Non-life and health similar to non-life*	9,940.53
R0290	*Non-life excluding health*	9,940.53
R0300	*Health similar to non-life*	0.00
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0.00
R0320	*Health similar to life*	0.00
R0330	*Life excluding health and index-linked and unit-linked*	0.00
R0340	*Life index-linked and unit-linked*	0.00
R0350	Deposits to cedants	0.00
R0360	Insurance and intermediaries receivables	257,179.78
R0370	Reinsurance receivables	5,138.99
R0380	Receivables (trade, not insurance)	69,602.84
R0390	Own shares (held directly)	0.00
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00
R0410	Cash and cash equivalents	5,762,436.44
R0420	Any other assets, not elsewhere shown	0.00
R0500	**Total assets**	25,167,385.65

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	13,929,124.86
R0520	*Technical provisions - non-life (excluding health)*	13,929,124.86
R0530	*TP calculated as a whole*	0.00
R0540	*Best Estimate*	10,993,548.83
R0550	*Risk margin*	2,935,576.03
R0560	*Technical provisions - health (similar to non-life)*	0.00
R0570	*TP calculated as a whole*	0.00
R0580	*Best Estimate*	0.00
R0590	*Risk margin*	0.00
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0.00
R0610	*Technical provisions - health (similar to life)*	0.00
R0620	*TP calculated as a whole*	0.00
R0630	*Best Estimate*	0.00
R0640	*Risk margin*	0.00
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0.00
R0660	*TP calculated as a whole*	0.00
R0670	*Best Estimate*	0.00
R0680	*Risk margin*	0.00
R0690	Technical provisions - index-linked and unit-linked	0.00
R0700	*TP calculated as a whole*	0.00
R0710	*Best Estimate*	0.00
R0720	*Risk margin*	0.00
R0730	Other technical provisions	
R0740	Contingent liabilities	0.00
R0750	Provisions other than technical provisions	0.00
R0760	Pension benefit obligations	0.00
R0770	Deposits from reinsurers	0.00
R0780	Deferred tax liabilities	0.00
R0790	Derivatives	0.00
R0800	Debts owed to credit institutions	0.00
R0810	Financial liabilities other than debts owed to credit institutions	0.00
R0820	Insurance & intermediaries payables	275,120.00
R0830	Reinsurance payables	0.00
R0840	Payables (trade, not insurance)	945,308.71
R0850	Subordinated liabilities	0.00
R0860	*Subordinated liabilities not in BOF*	0.00
R0870	*Subordinated liabilities in BOF*	0.00
R0880	Any other liabilities, not elsewhere shown	0.00
R0900	**Total liabilities**	15,149,553.57
R1000	**Excess of assets over liabilities**	10,017,832.08

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 Miscellaneous financial loss	Total
		C0120	C0200
	Premiums written		
R0110	*Gross - Direct Business*	4,034,978.00	4,034,978.00
R0120	*Gross - Proportional reinsurance accepted*	0.00	0.00
R0130	*Gross - Non-proportional reinsurance accepted*		0.00
R0140	*Reinsurers' share*	0.00	0.00
R0200	*Net*	4,034,978.00	4,034,978.00
	Premiums earned		
R0210	*Gross - Direct Business*	3,582,225.00	3,582,225.00
R0220	*Gross - Proportional reinsurance accepted*	0.00	0.00
R0230	*Gross - Non-proportional reinsurance accepted*		0.00
R0240	*Reinsurers' share*	0.00	0.00
R0300	*Net*	3,582,225.00	3,582,225.00
	Claims incurred		
R0310	*Gross - Direct Business*	1,569,436.00	1,569,436.00
R0320	*Gross - Proportional reinsurance accepted*	22,874.00	22,874.00
R0330	*Gross - Non-proportional reinsurance accepted*		0.00
R0340	*Reinsurers' share*	11,437.00	11,437.00
R0400	*Net*	1,580,873.00	1,580,873.00
	Changes in other technical provisions		
R0410	*Gross - Direct Business*	452,754.00	452,754.00
R0420	*Gross - Proportional reinsurance accepted*	0.00	0.00
R0430	*Gross - Non-proportional reinsurance accepted*		0.00
R0440	*Reinsurers' share*	0.00	0.00
R0500	*Net*	452,754.00	452,754.00
R0550	**Expenses incurred**	1,492,715.06	1,492,715.06
R1200	**Other expenses**		
R1300	**Total expenses**		1,492,715.06

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance — Miscellaneous financial loss	Total Non-Life obligation
		C0130	C0180
R0010	**Technical provisions calculated as a whole**	0.00	0.00
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		0.00
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	**Gross - Total**	10,110,345.14	10,110,345.14
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	9,940.53	9,940.53
R0150	**Net Best Estimate of Premium Provisions**	10,100,404.61	10,100,404.61
	Claims provisions		
R0160	**Gross - Total**	883,203.69	883,203.69
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0.00
R0250	**Net Best Estimate of Claims Provisions**	883,203.69	883,203.69
R0260	**Total best estimate - gross**	10,993,548.83	10,993,548.83
R0270	**Total best estimate - net**	10,983,608.30	10,983,608.30
R0280	**Risk margin**	2,935,576.03	2,935,576.03
	Amount of the transitional on Technical Provisions		
R0290	TP as a whole		0.00
R0300	Best estimate		0.00
R0310	Risk margin		0.00
R0320	**Technical provisions - total**	13,929,124.86	13,929,124.86
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	9,940.53	9,940.53
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	13,919,184.33	13,919,184.33

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											0.00		0.00	0.00
R0160	N-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00	0.00
R0170	N-8	0.00	0.00	0.00	0.00	0.00	486.35	975.00	0.00	0.00				0.00	1,461.35
R0180	N-7	0.00	0.00	0.00	0.00	0.00	-97.00	0.00	0.00					0.00	-97.00
R0190	N-6	0.00	0.00	0.00	54,875.98	10,038.24	125.00	0.00						0.00	65,039.22
R0200	N-5	0.00	0.00	53,558.68	2,570.71	0.00	3,420.00							3,420.00	59,549.39
R0210	N-4	0.00	607,489.22	51,803.11	32,276.60	0.00								0.00	691,568.93
R0220	N-3	1,475,907.11	683,229.40	31,512.32	16,329.19									16,329.19	2,206,978.02
R0230	N-2	2,111,420.85	810,007.59	58,874.16										58,874.16	2,980,302.59
R0240	N-1	1,669,783.99	554,141.88											554,141.88	2,223,925.87
R0250	N	1,181,329.89												1,181,329.89	1,181,329.89
R0260													**Total**	1,814,095.12	9,410,058.26

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												
Prior											0.00		0.00
N-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00
N-8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				0.00
N-7	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					0.00
N-6	0.00	0.00	0.00	0.00	0.00	0.00	0.00						0.00
N-5	0.00	0.00	0.00	0.00	0.00	0.00							0.00
N-4	0.00	0.00	0.00	0.00	0.00								0.00
N-3	0.00	0.00	0.00	0.00									0.00
N-2	0.00	0.00	0.00										0.00
N-1	0.00	0.00											0.00
N	0.00												0.00
												Total	0.00

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,602,100.00	1,602,100.00		0.00	
R0030	Share premium account related to ordinary share capital	0.00	0.00		0.00	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0.00	0.00		0.00	
R0050	Subordinated mutual member accounts	0.00		0.00	0.00	0.00
R0070	Surplus funds	7,982,160.54	7,982,160.54			
R0090	Preference shares	0.00		0.00	0.00	0.00
R0110	Share premium account related to preference shares	0.00		0.00	0.00	0.00
R0130	Reconciliation reserve	289.83	289.83			
R0140	Subordinated liabilities	0.00		0.00	0.00	0.00
R0160	An amount equal to the value of net deferred tax assets	433,281.71				433,281.71
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0.00	0.00	0.00	0.00	0.00

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

		C0010	
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	0.00	< Note: this deduction now included in R0290/C0020

Deductions

		C0010	C0020	C0030	C0040	C0050
R0230	Deductions for participations in financial and credit institutions	0.00	0.00	0.00	0.00	
R0290	**Total basic own funds after deductions**	10,017,832.08	9,584,550.37	0.00	0.00	433,281.71

Ancillary own funds

		C0010	C0020	C0030	C0040	C0050
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00				
R0320	Unpaid and uncalled preference shares callable on demand	0.00				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0.00				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0390	Other ancillary own funds	0.00				
R0400	**Total ancillary own funds**	0.00			0.00	0.00

Available and eligible own funds

		C0010	C0020	C0030	C0040	C0050
R0500	Total available own funds to meet the SCR	10,017,832.08	9,584,550.37	0.00	0.00	433,281.71
R0510	Total available own funds to meet the MCR	9,584,550.37	9,584,550.37	0.00	0.00	
R0540	Total eligible own funds to meet the SCR	10,017,832.08	9,584,550.37	0.00	0.00	433,281.71
R0550	Total eligible own funds to meet the MCR	9,584,550.37	9,584,550.37	0.00	0.00	

		C0010
R0580	**SCR**	11,394,714.33
R0600	**MCR**	2,848,678.58
R0620	**Ratio of Eligible own funds to SCR**	87.92%
R0640	**Ratio of Eligible own funds to MCR**	336.46%

Reconcilliation reserve

		C0060
R0700	Excess of assets over liabilities	10,017,832.08
R0710	Own shares (held directly and indirectly)	0.00
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	10,017,542.25
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0.00
R0760	**Reconciliation reserve**	289.83

Expected profits

		C0060
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0.00

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	3,578,424.28		
R0020	Counterparty default risk	911,861.59		
R0030	Life underwriting risk			
R0040	Health underwriting risk			
R0050	Non-life underwriting risk	9,089,195.42		
R0060	Diversification	-2,514,573.42		
R0070	Intangible asset risk	0.00		
R0100	**Basic Solvency Capital Requirement**	11,064,907.86		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	329,806.46
R0140	Loss-absorbing capacity of technical provisions	0.00
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	11,394,714.33
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	11,394,714.33
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

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	2,535,218.46

		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	0.00	
R0030	Income protection insurance and proportional reinsurance	0.00	
R0040	Workers' compensation insurance and proportional reinsurance	0.00	
R0050	Motor vehicle liability insurance and proportional reinsurance	0.00	
R0060	Other motor insurance and proportional reinsurance	0.00	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0.00	
R0080	Fire and other damage to property insurance and proportional reinsurance	0.00	
R0090	General liability insurance and proportional reinsurance	0.00	
R0100	Credit and suretyship insurance and proportional reinsurance	0.00	
R0110	Legal expenses insurance and proportional reinsurance	0.00	
R0120	Assistance and proportional reinsurance	0.00	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	10,983,608.30	4,034,978.00
R0140	Non-proportional health reinsurance	0.00	
R0150	Non-proportional casualty reinsurance	0.00	
R0160	Non-proportional marine, aviation and transport reinsurance	0.00	
R0170	Non-proportional property reinsurance	0.00	

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	0.00

		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	2,535,218.46
R0310	SCR	11,394,714.33
R0320	MCR cap	5,127,621.45
R0330	MCR floor	2,848,678.58
R0340	Combined MCR	2,848,678.58
R0350	Absolute floor of the MCR	2,251,250.00
R0400	**Minimum Capital Requirement**	2,848,678.58