SOLVENCY & FINANCIAL CONDITION REPORT 2017

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Version Control

VERSION	SUBMITTED TO PRA?	RATIONALE	SUMMARY OF CHANGES
V1	Yes	First SFCR document submitted to PRA for review and published on GPI website	n/a – new document.
V2	Yes	Annual reporting requirements under Solvency II Directive Article 51	Updates to all financial data in line with annual document update requirements (Sections A; C, D and E); Summary section redrafted; Governance section B1 updated to reflect changes in personnel during reporting period, establishment of Reserving Committee, and transition of SIMR to SMCR; additional text regarding integration of ORSA into BAU activities in section B3; Section B6 amended to reflect appointment of internal actuary; Section C Risk Profile amended to reflect ADC/LPT cover; Section; Risk sensitivity information updated; C6 Other material risks amended to reflect ADC/LPT cover and completion of transition.

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 several key developments in the following areas:

- **System of governance changes**
  During the reporting period Keith Crossan ceased to act as Chief Operating Officer, and SIMF4- Chief Risk Officer and SIMF7- Group Entity Senior Manager for GPI and Warranty Services Ltd in July 2017. GPI communicated this change in personnel with the Prudential Regulation Authority, and on the advice of the regulator, removed the SIMF roles previously held by the Chief Operating Officer. The related prescribed responsibilities were reallocated within the business and details can be found in the SIMF diagram in section B.1.

- **Managed Investment Portfolio asset reallocation**
  During the reporting period GPI reevaluated its investment portfolio. A more efficient capital allocation could be made by rebalancing the portfolio to only Government and Corporate Bonds matched to the expected cash outflows over the policy term. As the bonds have a lower associated capital charge than the previous mix of equities, this reduced the Market risk component of the capital requirement. More information can be found in section E2.

- **Purchase of material reinsurance contract**
  GPI entered into a combined Loss Portfolio Transfer (LPT)/Adverse Development Cover (ADC) reinsurance contract with Third Point Re in December 2017. The reinsurance contract covers claims notified after the 1st January 2018 onwards in relation to policies bound up to and including 31st December 2017.

  This materially reduced the Non-Life Underwriting risk module of the Solvency Capital Requirement (SCR) and further detail of this can be found in section E2.

- **Successful transition to full solvency compliance**
  GPI successfully transitioned through the year to full SCR compliance in quarter 2 of 2017, and now holds 140% solvency coverage against the Solvency Capital Requirement.

Beyond the developments listed above there have been no material changes to GPI's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management, and an executive summary of the document is detailed below;

Key Elements and drivers of the business

GPI is a specialist underwriter which 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.

GPI'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.

Underwriting Performance

Material Class of Business	100% Miscellaneous Financial Loss	
Geographical Split of Business	100% UK & Ireland	100% UK & Ireland
	2016	2017
	£m	£m
Gross Written Premium	4.03	3.10
Unearned Premium Reserve	20.40	19.85
Net Earned Premium	(0.45)	0.51
Claims Paid and Incurred	1.76	1.51
Operating Expenses	1.33	1.49
Expenses as a % of Premium	33%	48%

Investment Performance 2017

	Net Investment Income 2017	Net Investment Expense 2017	Net Realised gains and losses 2017	Changes in fair value 2017	Impairment 2017	Net Investment Result 2017
Managed Funds						
Government Bonds	108,425		(5,332)	(105,128)		(2,035)
Corporate Bonds	194,709		(157)	9,756		204,308
Equity	51,689		161,238	(54,081)		158,846
Collective Investment Undertakings	22,027		593,436	(289,352)		326,111
Cash and Deposits	0					0
Loans and Receivables	21,724					21,724
Investment in Subsidiary	450,000				(10,140)	439,860
Cash and Cash Equivalents	9,345	(6,673)				2,672
Investment Property			10,000			10,000
Other Investment Income	41,158					41,158
	899,077	(6,673)	759,185	(438,805)	(10,140)	1,202,644

Key Elements of the Governance System

GPI is subject to the Senior Insurance Managers Regime which is a regulatory framework that came into force on 7th March 2016. The regime reflects the regulators' intention to align regulation of insurance with new banking supervision rules (Senior Managers and Certification Regime), with its primary purpose to strengthen accountability and governance, and ensure that Senior Insurance Managers conduct themselves with honesty, integrity, and skill.

GPI is part of the Kinnell Group of six companies, and due to the size, scale, and complementary nature of the businesses the Kinnell 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 delegated authority from each of the individual entity boards within the Kinnell Group, except in relation to 'matters reserved for the Board'. The current governance structure ensures that Directors approved under the Senior Insurance Managers Regime with relevant control functions effectively have authority over the whole Group.

The GMC is made up of 5 Directors:

- Non-Executive Chairman- Jeremy Brettell
- Non-Executive Director- Paul Wakefield
- Chief Executive Officer- Alastair Wilson
- Chief Financial Officer- Lyndsay Wilson
- Finance Director- Fiona Ross

The corporate governance structure has been designed to include at least two Non-Executive Directors as members of the GMC, and this is to ensure effective, independent oversight and challenge, and to prevent any one individual director having unfettered powers of decision.

The GMC is supported by a number of sub-committees at both board and executive management level, namely:

- The Nomination and Remuneration Committees
- The Risk Committee
- The Audit Committee
- The Executive Committee
- The Sales and New Business Committee
- The Asset and Liability Committee
- Reserving Committee
- The Executive Risk and Governance Committee
- The Underwriting group

This corporate governance framework has been established to ensure that all entities within the Kinnell Group comply with their relevant regulatory obligations; the GMC has adequate oversight of business activities; and that the Group has defined, transparent and consistent lines of responsibility, and effective processes to identify, manage, monitor and report risks the Group is exposed to.

Key risk areas

Some risk areas are significantly more material in terms of their potential impact to the Group, and some further details on each of these have been included below:

Market Risk

The investment portfolio has shown volatility during 2017 due to continued uncertainty regarding the UK leaving the European Union, although overall returns are within appetite. Nevertheless, the Profit and Loss Account remains volatile to the monthly unpredictability of the markets.

This risk is mitigated today through using appropriately skilled investment managers and reducing volatility in the portfolio by investing in asset classes such as corporate bonds and gilts that are less susceptible to volatility.

Reserve Risk

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

Robust monthly management information tracking loss ratio changes, key risks and early warning indicators, in order to monitor key assumptions used within the technical provisions;

Obtaining an external actuarial validation (experience analysis) of the reserves.

Regulatory Risk

As we operate 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 the regulator.

Strategic Risk

A key strategy of Guarantee Protection Insurance Limited is to be a market leader in the insurance of ECO / Green Deal obligations introduced by the government. While this has created a significant opportunity, we are exposed to changes in political appetite in the carbon emissions arena.

The Brexit process has also created uncertainty. GPI no longer has any active schemes in Europe, however our main competitors operate in the UK via passporting arrangements. Uncertainty around freedom of services is likely to structure future strategic decisions and has the potential to fundamentally change our market place.

Operational Risk

GPI Ltd 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.

The structure of the Key Risk Indicator ("KRI") dashboard provides an expandable view of risk from the high-level risk appetites set by the Board down to the granular metrics that are managed at an operational level, and aggregated upwards into the Board metrics.

The KRI dashboard also incorporates operational risk events and near misses and is reviewed by each monthly Executive Committee and bi-monthly Board Risk Committee, to ensure that the business frequently assesses the Company's actual risk profile against the Board-approved risk appetite settings. This allows the second line of defence to provide robust challenge and effective reporting of its assessment of the Company's risk profile to the Board. This 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 Board reporting and approval. Due to the nature and size of the Company, 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.

Solvency II

The Solvency II ('SII') regime has been effective since 1 January 2016 and establishes a new set of EU wide capital requirements, risk management and disclosure standards. The Company is required to meet a Minimum Capital Requirement ("MCR") and a Solvency Capital

Requirement ("SCR"), which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12-month time frame.

The Company calculates its SCR in accordance with the standard formula prescribed in the SII regulations.

The Group has met the key deliverable requirements of the PRA. The Own Risk and Solvency Assessment ("ORSA") was submitted in June 2017. Quantitative Reporting Templates ("QRTs") have been submitted to the PRA for all quarters in 2017. All submissions were made in line with the PRA reporting schedule.

The Company is compliant with PRA and Solvency II requirements.

Solvency Ratio

At the 31st December 2017 GPI had total own funds of £10.95M. These are split between Tier 1 and Tier 3.

The own funds supported the Solvency Capital Requirement of £7.81M resulting in a ratio of eligible funds to meet the SCR of 140% and a surplus of £3.14M. The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall was £2.34M, resulting in a ratio of eligible funds to meet the MCR of 468%.

Own Funds

Description	Own Funds 31st Dec 2017
Own funds - Tier 1	10,509,875
Own funds - Tier 3	439,608
	10,949,483

Information on any non-compliance with the Minimum Capital Requirement (MCR) or SCR

During the full reporting period GPI was compliant with its MCR.

GPI successfully transitioned through the year to full SCR compliance in quarter 2 of 2017, and now holds 140% solvency coverage.

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)

All 2017 premium was written within the UK under class 16 Miscellaneous Financial Loss.

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 2017 was:

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

GPI is authorised by the Prudential Regulation Authority (PRA) and is regulated by the Financial Conduct Authority (FCA) and the PRA.

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Financial Conduct Authority
25 The North Colonnade
London
E14 5HS

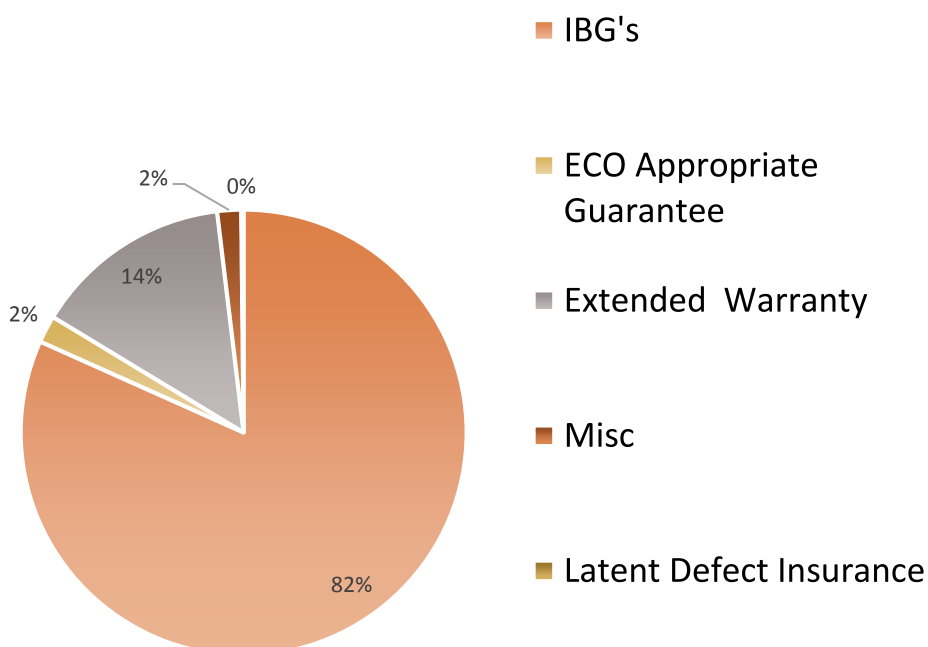
As a specialist underwriter GPI retains experience and expertise in the provision of long term Insurance Backed Guarantees (IBGs) for construction and related work, with a historic niche in timber treatment, damp proofing, roofing, and double glazing. During 2017 GPI continued to focus principally on 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 63% of the premium income written by GPI in 2017. 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.

GPI entered into a combined Loss Portfolio Transfer (LPT)/Adverse Development Cover (ADC) reinsurance contract with Third Point Re in December 2017. The reinsurance contract covers claims notified after the 1st January 2018 onwards in relation to policies bound up to and including 31st December 2017.

The mix of products underwritten by GPI for the 2017 financial year is demonstrated in the chart below:

Product breakdown by Premium Income 2017



Within the Structural Warranty cohort, there was a material cancellation and pro rata refund of premium, which has not been included as it distorted the above chart, as it resulted in negative income figure being reported in the year.

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.

Our promises and values

Our Promises.

We are committed to providing the highest standard of service, products and experiences for all.

We will:

Serve You.

We will deliver products that fulfil your requirements and maintain the service levels that help us to help you, communicating with you as often as you would like us too and keeping you updated with any changes in a timely manner.

Protect You.

We will seek to protect our customers, their customers (the homeowner) and our business from fraudulent activity, whilst protecting our reputation by continuing to comply with our risk framework.

Be Open, Honest & Fair.

We always aim to protect the homeowner and continue to provide valuable protection. We are respectful and will treat you like family, removing restrictions that stop you providing good customer service.

Be Proactive.

We will strive to get it right first time, every time. And if we don't, we will try our best to resolve it. We are always looking to improve our products and services to provide a better experience - we continually ask for your feedback and use it to serve you better.

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 (2016-2017) further reduced in line with management's expectation from £4.03m to £3.1m. 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 Unearned Premium Reserve on the balance sheet and unwound over the term of the policy.

Operating Expenses and Claims Paid and Incurred

During 2017 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	
	2016 £m	2017 £m
Gross Written Premium	4.03	3.10
Unearned Premium Reserve	20.40	19.85
Net Earned Premium	(0.45)	0.51
Claims Paid and Incurred	1.76	1.51
Operating Expenses	1.33	1.49
Expenses as a % of Premium	33%	48%

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.

GPI entered into a combined Loss Portfolio Transfer (LPT)/Adverse Development Cover (ADC) reinsurance contract with Third Point Re in December 2017. The reinsurance contract covers claims notified after the 1st January 2018 onwards in relation to policies bound up to and including 31st December 2017.

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.

During the reporting period GPI reevaluated its investment portfolio. A more efficient capital allocation could be made by rebalancing the portfolio to only Government and Corporate Bonds matched to the expected cash outflows over the policy term. As the bonds have a lower associated capital charge than the previous mix of equities, this reduced the Market risk component of the capital requirement. More information can be found in section E2.

The company had no investments or equities in securitisations during the period. The table on the following page summarises the investment performance during 2017 & 2016.

Investment Performance 2017

	Net Investment Income 2017	Net Investment Expense 2017	Net Realised gains and losses 2017	Changes in fair value 2017	Impairment 2017	Net Investment Result 2017
Managed Funds						
Government Bonds	108,425		(5,332)	(105,128)		(2,035)
Corporate Bonds	194,709		(157)	9,756		204,308
Equity	51,689		161,238	(54,081)		158,846
Collective Investment Undertakings	22,027		593,436	(289,352)		326,111
Cash and Deposits	0					0
Loans and Receivables	21,724					21,724
Investment in Subsidiary	450,000				(10,140)	439,860
Cash and Cash Equivalents	9,345	(6,673)				2,672
Investment Property			10,000			10,000
Other Investment Income	41,158					41,158
	899,077	(6,673)	759,185	(438,805)	(10,140)	1,202,644

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
Investment Property				13,545		13,545
Other Investment Income	32,298					32,298
	1,014,020	(6,107)	377,856	193,280	0	1,579,050

A.4 Performance of other activities

The Group 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.

A.5 Any other information

No further information to be reported

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. In December 2018 the Senior Insurance Managers Regime will transition to the Senior Managers and Certification Regime (SMCR). This regime already applies to Banks, and shall be extended to all regulated firms, with Solvency II insurers being subject to the full SMCR. More information relating to SMCR can be found in section B.1. 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 and 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. Firm Reference Number 207658
4	Warranty Services Ltd	Insurance Broker authorised and regulated by the Financial Conduct Authority. Firm Reference Number 309580 trading as QA National Warranties
5	Confederation Holdings Ltd	Trade Association trading as UK Trades Confederation
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.

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, 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 the Senior Insurance Managers Regime 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.

The diagram below illustrates the delegation of authority to the GMC (except in relation to matters reserved for the individual entity Board):

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 and the CFO of GPI, and the Financial Director of Warranty Services Ltd. 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-Executive Chairman

Fiona Ross
Financial Director (WSL)

Paul Wakefield
Non-Executive Director

Lyndsay Wilson
CFO

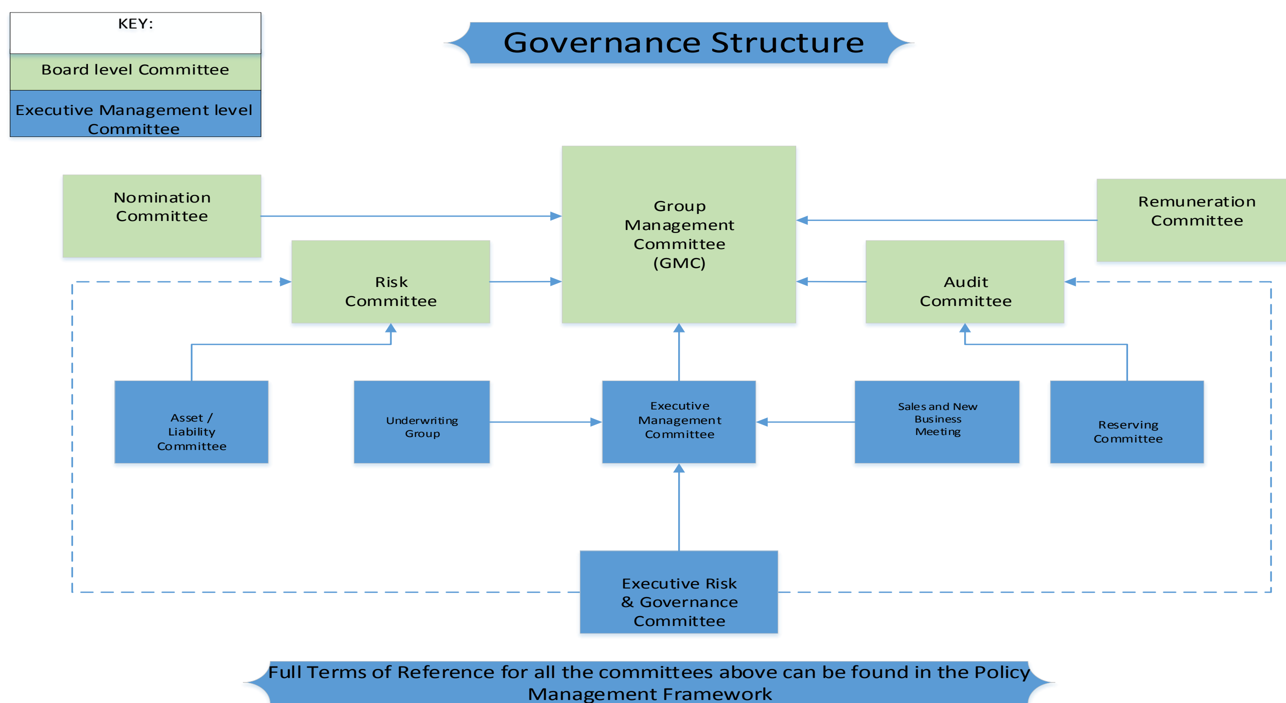
The corporate governance structure has been designed to include at least two Non-Executive Directors as members of the GMC, and membership of each of the board level committees includes both the Non-Executive Directors. This is to ensure effective, independent challenge, and to prevent any one individual 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 Keith Crossan ceased to act as Chief Operating Officer, and SIMF4- Chief Risk Officer and SIMF7- Group Entity Senior Manager for GPI and Warranty Services Ltd in July 2017. GPI communicated this change in personnel with the Prudential Regulation Authority, and on the advice of the regulator, removed the SIMF roles previously held by the Chief Operating Officer. The related prescribed responsibilities were reallocated within the business and details can be found in the Senior Insurance Managers Regime Governance map and the Prescribed Responsibilities table below.

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, and PRA Rulebook for Solvency II firms- Conditions Governing Business Section 2: General Governance Requirements).



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).

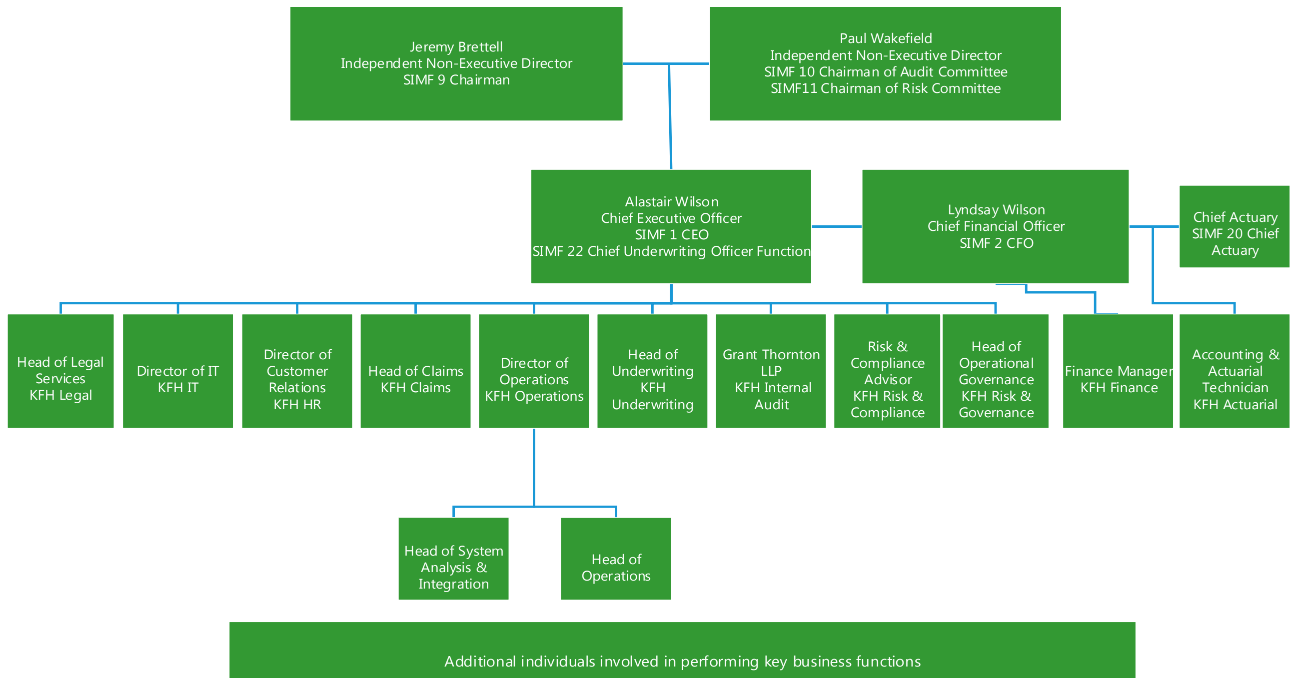
- Reserving Committee: The Reserving Committee was established in the last reporting period and is a subcommittee of the Audit Committee. The committee considers matters in relation to key reserving judgements and assumptions; oversees quarterly calculations of Best Estimate of Liabilities; considers long-term claims forecasts; trends in loss ratios over time; prior period development and its drivers; and oversees sensitivity analysis performed to assess the variability of reserves under changes to the various model assumptions. This committee is not a decision-making authority and formally reports into the Audit Committee.

- 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 Chairperson 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).

Senior Insurance Managers Regime Governance Map



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					✓	✓						
Jeremy Brettell (INED)	✓		✓						✓		✓	✓
Paul Wakefield (INED)												

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;

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

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;	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.

In December 2018 the Senior Insurance Managers Regime will transition to the Senior Managers and Certification Regime (SMCR). This regime already applies to Banks, and shall be extended to all regulated firms, with Solvency II insurers being subject to the full SMCR.

For GPI as a Solvency II insurer SMCR will require the implementation of 2 distinct regimes within the same framework:

- A Senior Managers Regime which is largely familiar to insurers and builds upon the existing SIMR framework, and;
- A Certification Regime which is new to insurers and shall apply to individuals who are not Senior Managers, but who nevertheless carry out functions which have a large impact on the regulated firm; its customers; or the market.

GPI has scheduled SMCR transition activity and review in Q3 and Q4 of 2018 in preparation for the full implementation of SMCR for Solvency II insurers in December. Details of the allocation of responsibilities under the SMCR will be included in the Solvency and Financial Condition Report in the next reporting period.

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 review and 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 and 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.

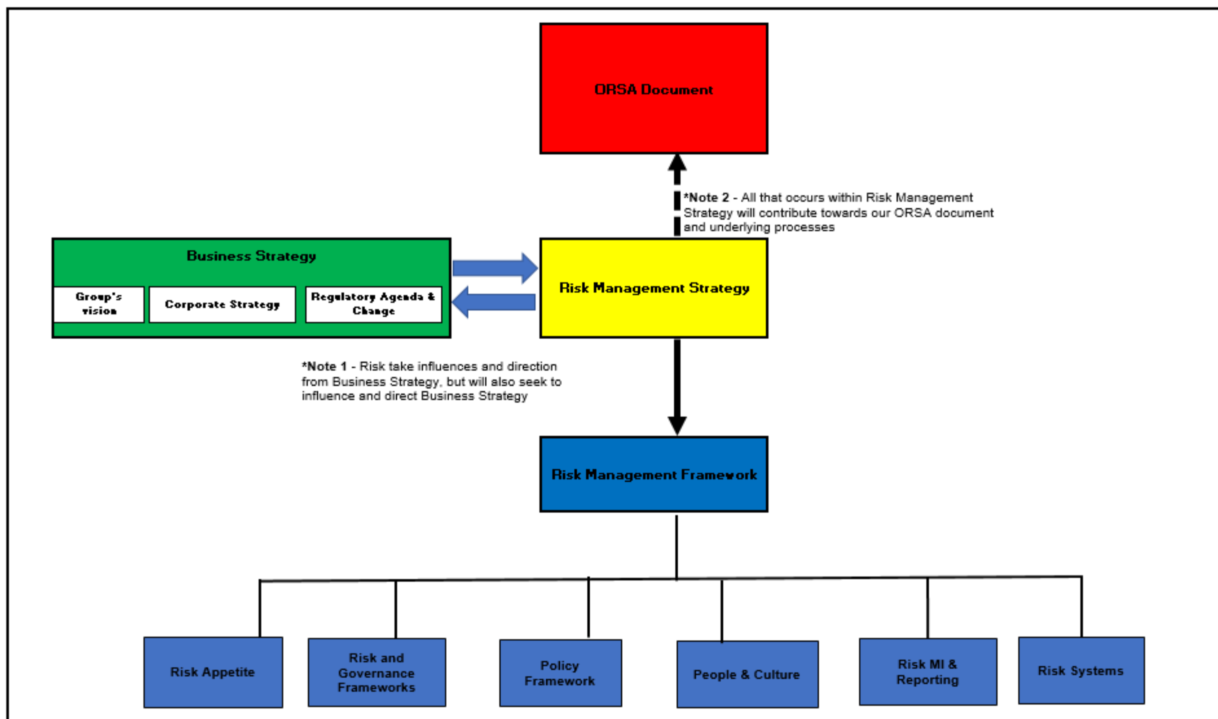
B.2 Fit and proper requirements

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 Key Function Holder for Human Resources 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. Where an employee -being subject to a sample check- has already been subject to a 'Standard' level criminal background check, 'Basic' level criminal background check shall be sufficient for all further checks.

On an annual basis, the Risk and Compliance function carry out second line oversight and assurance spot-checks on 10% of employees subject to the additional annual checks (as detailed above), and perform spot checks on an additional 10% of the employee fitness and propriety annual declarations.

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 function that support the Group's business activities and corporate strategies. This includes a vision statement for Risk and Compliance 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 5x5 risk matrix, risks are assessed and measured using an impact scale ranging from negligible to severe, with a severe 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 ensures that all risks are

captured, measured, monitored, and escalated via the governance structure to enable effective and transparent risk reporting and to ensure that the GMC are satisfied that objectives are being met at all times 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 in 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 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 function'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-level (via the Board Audit and Risk committees and the GMC).

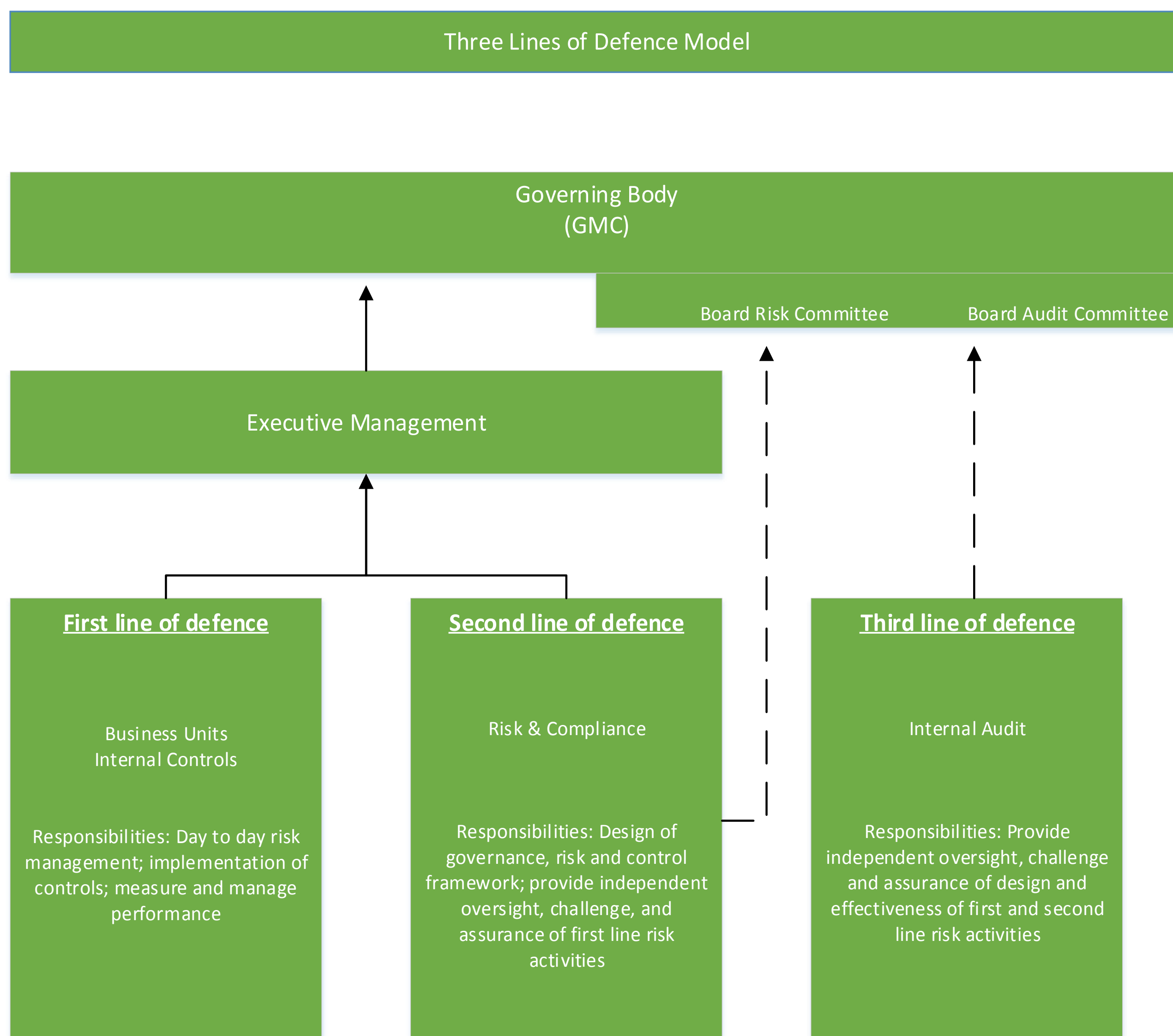
Reporting includes (but not limited to) the following elements:

- the central risk register;
- the control framework and an assessment of the effectiveness of controls;
- the 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 and 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.

GPI is captured by the Solvency II Directive and therefore is required to establish and maintain an ORSA. GPI is part of a group from a regulatory perspective, and the ORSA therefore

provides reflection of the risks faced by GPI as a solo entity, as well as taking into consideration the risk exposures of the Group.

Regulatory waivers for the remaining regulated entities within the Group (namely Warranty Services Ltd and Kinnell Corporate Ltd) were applied for and approved by the PRA which removes the requirement to produce an individual ORSA for these entities within the Group.

The ORSA is conducted annually, and principally is based on financial year end results. The timeline included below provides the formal timing that will typically be applied each year in order that relevant and appropriate re-fresh reviews are undertaken for all aspects of the ORSA and ORSA Policy. This will include the pro-active engagement of the Risk Committee and the GMC at various points during the process in order that their effective challenge forms an embedded part of the timeline:

1. **January**

The Chief Finance Officer (CFO) will initiate the formal annual re-fresh review process of the ORSA and ORSA Policy.

The year-end financial information will not be available at this stage and therefore the review will initially focus on identifying qualitative areas of potential change within both documents.

The CFO will be assisted during the review by the Chief Actuary and the Head of Risk & Compliance.

2. **February through to April**

Following step 1, the CFO will manage the progression of any proposed qualitative changes to either document through the Corporate Governance Committee structure; from the Executive Committee into the Risk Committee and then into the GMC to obtain full formal approval of the non-financial content at this stage.

3. **April through to May**

The CFO will, in conjunction with the Chief Actuary, progress and establish the required quantitative capital modelling outputs for inclusion in the ORSA (based on the updated financial year-end information).

4. **May through to June**

Following step 4, and the availability of the year-end financial information, and, quantitative capital modelling outputs, the CFO will manage the progression of the completely reviewed and refreshed ORSA through the Corporate Governance Committee structure; from the

Executive Committee into the Risk Committee and then into the GMC to obtain full formal approval of the completely refreshed document.

The ORSA Policy will also be presented for full formal approval at this stage, albeit that there should not be any material changes following the review undertaken at the start of the process.

5. **July through to December**

The CFO will direct only relevant and appropriate financial updates to the ORSA driven from any significant changes to the quantitative capital modelling performed for the purposes of formal quarterly regulatory reporting submissions.

GPI has in place an ORSA policy that sets out the key established processes, procedures and controls that support the establishment, maintenance, and embedment of an ORSA within the Group.

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. There is a standing agenda point at each Executive Risk and Governance Committee for any discussions on any items raised that would have any impact on the ORSA.

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 Risk Committee prior to GMC approval. In the absence of any escalation, the GMC formally reviews the document twice yearly.

In addition, the Executive Committee, Risk Committee, or GMC consider that if any one of the following events occurred then the need for an out-of-cycle ORSA may have been / will have been triggered (formal GMC approval will always be sought in these circumstances):

- an intended acquisition or divesture;
- establishing a new line of business;
- a major amendment to the established risk appetite settings;
- a major amendment to the established reinsurance arrangements;
- a portfolio transfer or major changes to the mix of assets;
- a significant change in any related regulation (that would potentially impact our balance sheet strength);

- a new or re-assessed threat to solvency identified by Stress and Scenario testing or any other method;
- a request from the PRA to undertake an out of cycle ORSA.

The Stress and Scenario tests employed will be approved by the Risk Committee and performed at least annually, or more frequently as determined by the Risk Committee, or potentially the PRA.

In order for an out-of-cycle ORSA to be undertaken, all underlying processes will be prepared for the possibility of doing so at any point in time.

The availability and quality of data used within the ORSA process will be continually assessed to seek to ensure that it retains the highest standards in terms of completeness and appropriateness.

An out-of-cycle ORSA shall be undertaken within 4 weeks from the identification of a trigger event.

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 (refer to 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 Plc).

B.4 Internal control system

GPI implements internal controls to support the risk management framework. This helps the business to 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, and;
- 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 Group 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 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 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 Risk and Compliance function. GPI ensures 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 Risk and Compliance function undertakes regular horizon scanning activities 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

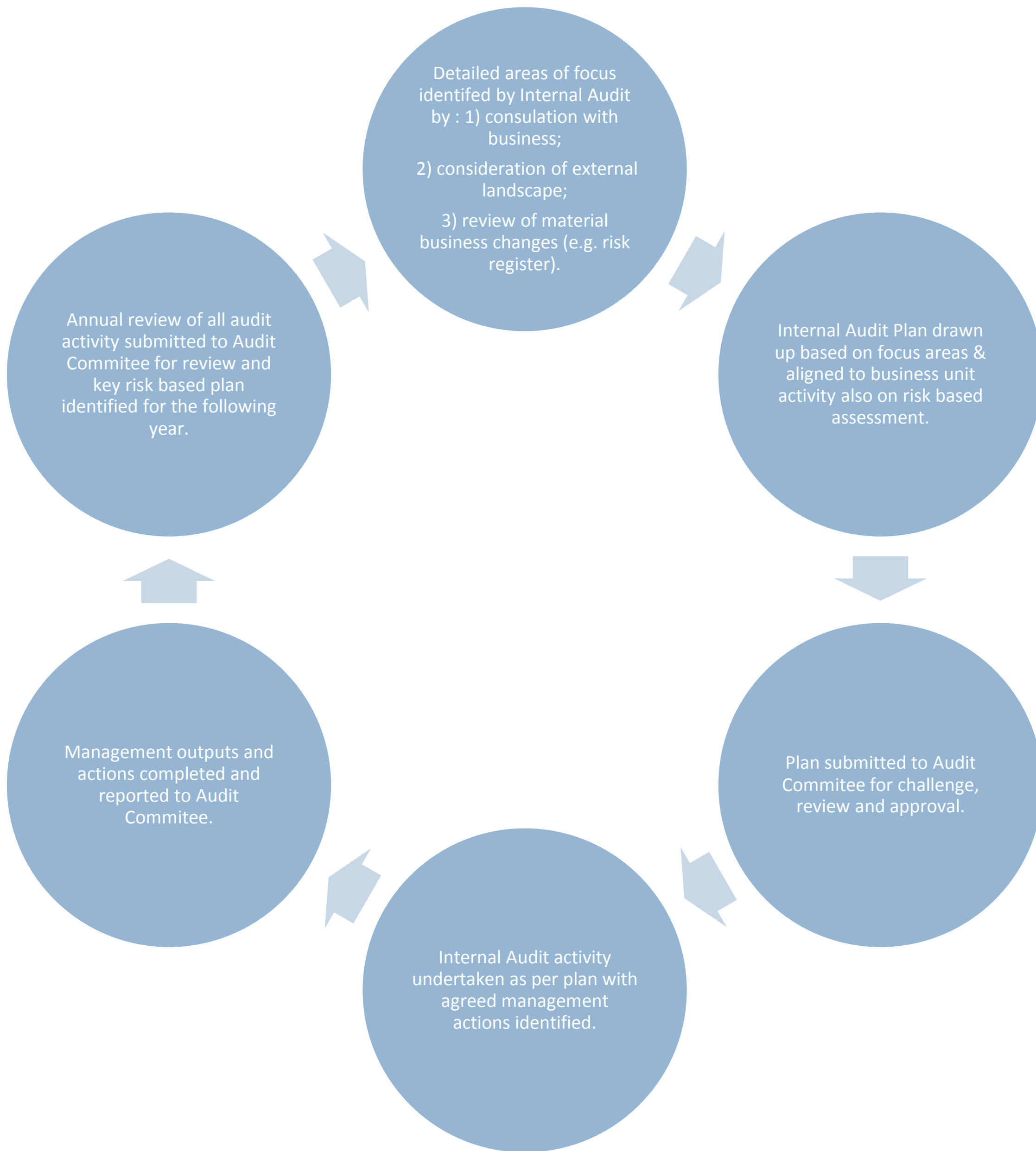
GPI is committed to ensuring that internal audit provides assurance to the GMC that major business risks are being managed, and that the framework for risk management and internal control is operating effectively. Reflecting the scale of the business, the GMC considers that this can most effectively 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:


Detailed areas of focus identifed by Internal Audit by : 1) consulation with business;
2) consideration of external landscape;
3) review of material business changes (e.g. risk register).
Internal Audit Plan drawn up based on focus areas & aligned to business unit activity also on risk based assessment.
Plan submitted to Audit Commitee for challenge, review and approval.
Internal Audit activity undertaken as per plan with agreed management actions identified.
Management outputs and actions completed and reported to Audit Commitee.
Annual review of all audit activity submitted to Audit Commitee for review and key risk based plan identified for the following year.

B.6 Actuarial function

Reflecting the current scale of the business, the GMC decided that GPI is best served by utilising the services of both an external actuarial firm as well as a new in-house actuarial resource. This aids decision making and quality of management information as the skill set is embedded into the business. The Chief Actuary role is still fulfilled by an OAC senior actuary, as 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 any 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, the 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 function 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 function for contractual concerns; the risk & compliance function for conduct risk matters; the IT Director for any data security concerns, and the Data Protection Officer for any privacy and data protection matters;
- 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 request for proposal 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 reviewed at least once yearly in accordance with the Compliance Monitoring Plan by the CEO, the relationship manager or Risk and Compliance for the outsourced function. The activities undertaken during the review 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 review is to identify any issues and potential areas of action and enhancement. The results of the review are presented at the Executive Risk and Governance Committee for consideration under the terms of reference of that committee. Where applicable, these results shall be escalated to Executive Committee. 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, the GMC shall consult with both the relationship manager responsible for the outsourced function, and with the Group's legal function. Particular cognisance is given to the provisions of the service level agreement and to the termination provisions of the arrangement. The 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 Ltd	UK
Policy Administration & Operations	Warranty Services Ltd	UK
Human Resources	Kinnell Holdings Ltd	UK
IT Services	Warranty Services Ltd	UK
Actuarial Function	OAC PLC	UK
Internal Audit	Grant Thornton UK LLP	UK

B.8 Any other information

As GPI has now successfully achieved its SII capital requirement via the transitional measures it is reflecting on its management structure and personnel at Executive and Board level. The details of which will be formalised during the second and third quarters of 2018 as it sets out and agrees its forward looking strategy and business plan.

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. This is in addition to the SCR capture of a 1 in 200-year event over a 1-year horizon at a 99.5% limit.

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. Indeed, it was stress test output that identified that an area of further development to mitigate risk highlighted that further protection via ADC/LPT reinsurance could transfer a large proportion of this risk, and should be pursued by the Group.

A range of plausible and feasible stress tests have been considered and derived from the business strategy and key risks identified from the Group risk management framework and ORSA process. Stress and scenario testing has been modelled, and additional scenarios and reverse stress testing undertaken.

The tests are chosen by assessing the risks that could have the most material financial impact to GPI. They are selected using the 5x5 matrix of measurement of risk, based on likelihood and impact as detailed in the firms Risk Management Strategy and Risk Management Framework. This allows quantification of highest inherent risk scores prior to the implementation of controls or mitigating actions, which form the basis of the tests.

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).

GPI carries out a number of stress tests on its reserves, the stress tests carried out provide understanding and output of significant analytical changes due to changes in the key deliverables. As this is heavily assumption based dependent on historical data, or estimations of stressed parameters, further scenario testing is carried out. These strategic scenarios allow a greater level of understanding of the risks surrounding potential alternative futures and how the company will manage these risks.

Sensitivity Analysis

Some high-level sensitivity tests are set out below to demonstrate the impact on the Technical profit and loss account and Profit reserves in the event of a 10% increase on Net operating expenses and claims costs.

	Increase/(decrease) in own funds (capital)
	2017
	£'000
10% increase in incurred claims costs	(128.54)
10% increase in net operating expenses	(167.85)

A 10% decrease in both these cost lines creates a reverse effect of the above and increases the own funds capital.

The non-underwriting risk allocation within the standard formula capital requirement pre-diversification is £6,412K.

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.

The market risk allocation within the standard formula capital requirement pre-diversification is £2,198K.

Foreign currency risk

GPI undertakes certain claims transactions denominated in Euros for its smaller schemes that are in run off. As a result of this small exposure to exchange rate fluctuations arise. Key Risk Indicators are set to highlight any deterioration of GPI's exposure to this risk and should developments become adverse then the currency risk appetite would be reassessed, with possible action such as foreign currency hedging reviewed, although this isn't currently required given the immateriality of the transactions involved.

The following table details the Company's sensitivity to a 10% increase and decrease in the Euro against the GBP on the Euro balance at year end. This demonstrates the low level of risk exposure associated with currency fluctuations.

	Increase/(decrease) in own funds (capital)
	2017
	£'000
10% increase to € rate on held balance at year end	(0.2)
10% increase to € rate on held balance at year end	0.2

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.

During the reporting period GPI revaluated its investment portfolio. A more efficient capital allocation could be made by rebalancing the portfolio to only Government and Corporate Bonds matched to the expected cash outflows over the policy term. As the Bonds have a lower associated capital charge than the previous mix of equities, this reduced the Market risk component of the capital requirement. More information can be found in section E2.

The sensitivity analyses on the profit for the financial year below have been determined based on the exposure to interest rates movement of 0.5% increase or decrease. These parameters are set by management's assessments of the reasonably possible change in interest rates within an annual horizon.

The interest rate change impact on Bonds is calculated using the modified duration of bonds, being the market value cashflows timed to maturity. The fixed interest debtors are not affected by a change in interest rates.

0.5% increase to interest rate on interest bearing assets

	Increase/(decrease) in own funds (capital)
	2017
	£'000
Bonds	(361)
Cash and cash equivalents	12

A 0.5% decrease to interest rates creates a reverse effect of the above to the own funds.

The Company's method for sensitivity to interest rate fluctuations has not changed significantly over the financial year.

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 a time-matched concentrated portfolio and utilises the resources of high calibre investment managers. The investment 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 bi-annual valuation carried out by a RICS surveyor is obtained, with management assessing the valuation for property in the intervening periods.

The Company's sensitivity to a 0.5% increase on market prices is as follows:

	Increase/(decrease) in own funds (capital)
	2017
	£'000
Movement in fair value of debt securities	862

A 0.5% decrease to market prices creates a reverse effect of the above to the own funds.

The Company's method for sensitivity to pricing risk management has not changed significantly over the financial year.

Investment Risk

GPI has appointed professional investment managers LGT Vestra LLP 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 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. 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 Chief Actuary (SIMF 20). 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 risks are 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.

The Company does not have any significant credit risk exposure beyond its subsidiary Warranty Services Limited to any single counterparty. The credit risk on liquid funds and financial instruments is limited through the high credit ratings assigned by international credit-rating agencies to the bank counterparties.

All bonds and gilts are at a minimum BBB+ credit rating.

Reinsurance assets are reinsurers' share of claims paid. All reinsurers are minimum A- rating.

Loans and insurance receivables, and investment in subsidiaries generally do not have a credit rating.

The carrying value of assets are neither past due nor impaired.

The counterparty default risk allocation within the standard formula capital requirement pre-diversification is £400K.

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 12 months 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.

- ✓ GPI 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 – 25 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.

The operational risk allocation within the standard formula capital requirement pre-diversification is £316K.

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 successfully transitioned through the year to full SCR compliance in quarter 2 of 2017, and now holds 140% solvency coverage, which was within the prescribed transitional arrangements specified by the PRA.

The fluctuations of this ratio are monitored monthly via Key Risk Indicators.

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.

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 exposure to counterparty risk through its ADC/LPT reinsurance agreement although this is limited to only the ADC proportion as the LPT element is made on a funds withheld basis.

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 lists that have been reviewed and their assessment 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.

  - **Review assessment:**

    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.

  - **Review assessment:**

    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.

  - **Review assessment:**

    Parent company and the respective subsidiary 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.

  - **Review assessment:**

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

C.7 Any other information

No further information to report.

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 2017.

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	220,000	220,000
Investment securities	17,251,712	17,251,712
Cash and Cash Equivalents	2,587,893	2,587,893
Investments in Subsidiary Undertakings	1,829,769	1,956,749
Subsidiary Receivables	1,277,773	1,277,773
Insurance and Intermediary Receivables	265,044	265,044
Deferred Tax	439,608	439,608
Reinsurance receivable	34,769	34,769
Reinsurance recoverable	215,608	0
Loans and mortgages	200,000	200,000
Any other Assets not shown elsewhere	259,848	1,290,041
	24,582,025	25,523,589

Property UK

Land and buildings are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. The property held at the balance sheet date was last valued independently in 2016 by Humphreys and Dancer, Chartered Surveyors and Valuers, and no independent professional valuation was carried out in 2017. The Directors conclude that the valuation of the property has not materially changed during the year by carrying out the following analysis; recognising that rent yields remain unchanged despite tenant change; a review of market rates of similar properties in the area; an analysis of Land Registry to confirm recent sale prices from an independent source.

Investment securities

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

As at 31st December 2017 the total value of our financial investments was £17.25m, analysed as follows:

	£
Government Bonds	11,051,220
Corporate Bonds	6,200,492
	17,251,712

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 1-2% after fees, and the portfolio is currently meeting this output.

A rebalance of the managed portfolios was undertaken in 2017 to only Government and Corporate Bonds. The portfolio previously had been a mix of equities and bonds. The rebalance was to ensure efficient capital use by matching the cashflow outputs of the portfolio to the timed inputs of claims payments over the time horizon.

Cash and cash equivalents

The Company holds £2,576,197 in cash deposits in addition to the £11,696 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 which represents fair value. 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 is lower than the UK GAAP carrying 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. There is not a material 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 Directors anticipated in 2016 that a material proportion of the deferred tax provision would be utilised in 2017, however this was not the case. Additional unbudgeted costs in relation an exceptional item of £546,939 reduced the taxable profit available to be utilised against the provision for deferred tax and it did not unwind as expected. The exceptional item is not expected to reoccur in the future, and the financial projections of the company show this to be utilised over the years 2018 and 2019.

This is valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP.

Reinsurance receivables

Reinsurance receivables relate to the amount owed to us from our reinsurers arising from claims payments made. These are valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP.

Reinsurance recoverables

Reinsurance recoverables relate to the simulated risk transfer recoveries from the ADC/LPT Insurance contract. The average value of the ADC recoveries across 20,000 simulations using the Monte Carlo simulation method generates the best estimate value of the reinsurance

contract for SII valuation purposes. The asset is not recognised under UK GAAP which creates the difference between the two valuation methods.

Loans and mortgages

The Company holds a loan due from a third party. It is valued on the same basis between Solvency II and the GAAP balance sheet, as it will be repaid in 2018.

Other assets

The remaining assets are valued on the same basis between Solvency II and the GAAP balance sheet apart from the large prepayment of reinsurance premium relating to the ADC/LPT reinsurance contract. Prepayments are not recognised for SII valuation purposes which creates the difference between the two valuation methods.

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	10,550,377	19,847,287
Risk Margin	2,082,474	
Total	12,632,851	19,847,287

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.

The combined ADC/LPT reinsurance contract transfers the risk of the insurance contracts it covers, and the benefit of the contract is recognised through the premium reserve component of the non-life underwriting module of the SCR. It does not affect the Technical Provisions.

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.

As a key input of the risk margin calculation is the SCR using the standard formula, the ADC/LPT reinsurance contract is relevant here. The reduction through the premium reserve component of the non-life underwriting module of the SCR generates a lower risk margin output.

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	308,618	308,618
Other creditors including taxation and social welfare	399,268	399,268
Accruals and deferred income	291,804	291,804
Total	999,690	999,690

D.4 Alternative methods for valuation

No alternative valuation methods are used by the Company, apart from the valuation of Investment in subsidiary undertakings, including participations, where the Company holds investments in subsidiaries for strategic purposes. The Solvency II value is lower than the UK GAAP carrying value as intangible assets held by the subsidiary are deducted from the Solvency II valuation.

D.5 Any other information

No further information to report.

E. Capital Management

E.1 Own funds

GPI is exclusively funded through retained earnings and maintains an efficient capital structure, consistent with the Company's risk profile and the regulatory requirements of its business. The Company does not hold any other capital such as subordinated debt, preference shares or borrowings.

GPI's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders and regulators;
- to retain financial flexibility by maintaining strong liquidity;
- to allocate capital efficiently to support growth; and
- to comply with quantitative requirements of Pillar 1 of the Solvency II Directive.

Capital Management is embedded within the Risk Management Framework as detailed in Section B3.

The Chief Financial Officer is responsible for the day to day monitoring of GPI's capital position and monthly updates are provided to the Executive Risk Committee, Board Risk Committee and the Board.

In addition, the ORSA, Medium Term Capital Management Plan (MTCMP) and detailed projections consider capital management over the planning period with no identified short comings. A range of stress and scenario testing has been undertaken and has not highlighted any deficiencies not already captured within the SCR(SF).

At the 31st December 2017 GPI had total own funds of £10.95M. These are split between Tier 1 and Tier 3.

The own funds supported the Solvency Capital Requirement of £7.81M resulting in a ratio of eligible funds to meet the SCR of 140% and a surplus of £3.14M. The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall was £2.34M, resulting in a ratio of eligible funds to meet the MCR of 468%.

Tier 1 are arising from retained profits arising from past underwriting and investment surpluses. They are available to fully absorb losses on a going-concern basis, as well as in the case of winding-up, meeting all criteria of Article 94 of Directive 2009/138/EC to be classified as Tier 1 own funds. All GPI's Tier 1 funds are unrestricted.

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 2018 and 2019.

Description	Own Funds 31st Dec 2017
Own funds - Tier 1	10,509,875
Own funds - Tier 3	439,608
	10,949,483

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

The increase in Own Funds in the year relates to the continued improvement in the profitability of core underwriting schemes, new profitable business written in the year 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 2017	£m
Total Equity in financial statements	**4.677**
Deduct items not recognised in financial statements	
1. Risk Margin	(2.082)
2. Difference between BEL and Technical Provisions	9.297
3. Movement in valuation of subsidiary	(0.127)
4. Difference between Tangible Assets	(0.005)
5. Difference between Prepayments	(1.027)
6. Introduction of reinsurance recoverable	0.216
Solvency II - Basic Own Funds	**10.949**

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 six 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. Tangible assets are not recognised in the Solvency II valuation.
5. The Solvency II valuation of prepayments is to recognise cost at onset, however, GAAP financial reporting requires the cost to be incurred straight line over the term of the prepayment.
6. The Solvency II valuation of Reinsurance recoverables is the simulated risk transfer recoveries and is not recognised within the GAAP financial statements.

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 (USPs). 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 2017 is shown below:

SCR - By Risk Category	31-Dec-17
	£
Non-Life Underwriting risk	6,412,779
Market risk	2,198,142
Counterparty default risk	400,860
Diversification benefit	(1,516,746)
Basic Solvency Capital Requirement	**7,495,035**
Operational risk	316,511
Solvency Capital Requirement	**7,811,546**

The prior year breakdown is shown below. The material impact of the ADC/LPT insurance contract can be seen on the Non-Life Underwriting risk module. In addition, the rebalance of assets into a more efficient matched structure of Government and Corporate Bonds materially reduces the associated Market risk calculation of the portfolio.

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 for current and prior years are shown below.

Overall MCR calculation 2017	
Linear MCR	2,340,243.25
SCR	7,811,546.02
MCR cap	3,515,195.71
MCR floor	1,952,886.50
Combined MCR	2,340,243.25
Absolute floor of the MCR	2,196,325.00
Minimum Capital Requirement	**2,340,243.25**

Overall MCR calculation 2016	
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 reduction in the SCR relating to the application of the ADC/LPT reinsurance contract affecting the Non-Life underwriting risk module and investment portfolio rebalance affecting Market risk, in turn drives a reduction in the MCR, as its output is driven as a percentage of the SCR.

The SCR at 31st December 2017 is calculated to be £7,811,546.

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

GPI 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 full reporting period GPI was compliant with its MCR.

GPI successfully transitioned through the year to full SCR compliance in quarter 2 of 2017, and now holds 140% solvency coverage.

The maximum deficit during the reporting period was £1,371,847 which was the opening deficit position at the start of the reporting period, which was reversed to a position of compliance by quarter 2 of 2017, which was within the prescribed transitional arrangements specified by the PRA.

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. There is a risk within areas of interpretation as to the methodologies and procedures in arriving at these outputs. The GMC 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 : 3rd May 2018.

Appendix ii: External independent auditors opinion

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 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017; ('**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, 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**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 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) (ISAs (UK)) including ISA (UK) 800 and ISA (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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. 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.

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 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 financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' 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 also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit 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

Chartered Accountants

141 Bothwell Street

Glasgow

G2 7EQ

03 May 2018

Appendix iii: Quantitative Reporting Templates

Guarantee Protection Insurance Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	Guarantee Protection Insurance Limited
Undertaking identification code	213800X5UHKV2UWAE715
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	440
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	19,760
R0080	*Property (other than for own use)*	220
R0090	*Holdings in related undertakings, including participations*	1,830
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	17,252
R0140	*Government Bonds*	11,051
R0150	*Corporate Bonds*	6,200
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	459
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	1,278
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	1,278
R0270	Reinsurance recoverables from:	217
R0280	*Non-life and health similar to non-life*	217
R0290	*Non-life excluding health*	217
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	265
R0370	Reinsurance receivables	35
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	2,588
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	24,582

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	12,633
R0520	*Technical provisions - non-life (excluding health)*	12,633
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	10,550
R0550	*Risk margin*	2,082
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	309
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	691
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	13,633
R1000	**Excess of assets over liabilities**	10,949

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business												3,097					3,097
R0120	Gross - Proportional reinsurance accepted												0					0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share												0					0
R0200	Net												3,097					3,097
	Premiums earned																	
R0210	Gross - Direct Business												3,610					3,610
R0220	Gross - Proportional reinsurance accepted												0					0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share												0					0
R0300	Net												3,610					3,610
	Claims incurred																	
R0310	Gross - Direct Business												1,251					1,251
R0320	Gross - Proportional reinsurance accepted												70					70
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share												35					35
R0400	Net												1,285					1,285
	Changes in other technical provisions																	
R0410	Gross - Direct Business												-513					-513
R0420	Gross - Proportional reinsurance accepted												0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share												0					0
R0500	Net												-513					-513
R0550	**Expenses incurred**												1,799					1,799
R1200	**Other expenses**																	
R1300	**Total expenses**																	1,799

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	3,097						3,097
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	0						0
R0200	Net	3,097	0	0	0	0	0	3,097
	Premiums earned							
R0210	Gross - Direct Business	3,610						3,610
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	0						0
R0300	Net	3,610	0	0	0	0	0	3,610
	Claims incurred							
R0310	Gross - Direct Business	1,251						1,251
R0320	Gross - Proportional reinsurance accepted	70						70
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	35						35
R0400	Net	1,285	0	0	0	0	0	1,285
	Changes in other technical provisions							
R0410	Gross - Direct Business	-513						-513
R0420	Gross - Proportional reinsurance accepted	0						0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share	0						0
R0500	Net	-513	0	0	0	0	0	-513
R0550	**Expenses incurred**	1,799						1,799
R1200	**Other expenses**							
R1300	**Total expenses**							1,799

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**												0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross												9,722					9,722
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default												217					217
R0150	**Net Best Estimate of Premium Provisions**												9,505					9,505
	Claims provisions																	
R0160	Gross												828					828
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0250	**Net Best Estimate of Claims Provisions**												828					828
R0260	**Total best estimate - gross**												10,550					10,550
R0270	**Total best estimate - net**												10,334					10,334
R0280	**Risk margin**												2,082					2,082
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**												12,633					12,633
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**												217					217
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**												12,416					12,416

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2008	0	0	0	0	0	0	1	0	0	0		0	1
R0170	2009	0	0	0	0	0	0	0	0	0			0	0
R0180	2010	0	0	0	55	10	0	0	0				0	65
R0190	2011	0	0	54	3	0	3	0					0	60
R0200	2012	0	607	52	32	0	0						0	692
R0210	2013	1,476	683	32	16	32							32	2,239
R0220	2014	2,111	810	59	13								13	2,993
R0230	2015	1,670	554	70									70	2,294
R0240	2016	1,181	547										547	1,729
R0250	2017	660											660	660
R0260												Total	1,322	10,732

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2008	0	0	0	0	0	0	0	0	0	0		0
R0170	2009	0	0	0	0	0	0	0	0	0			0
R0180	2010	0	0	0	0	0	0	0	0				0
R0190	2011	0	0	0	0	0	0	0					0
R0200	2012	0	0	0	0	0	0						0
R0210	2013	0	0	0	0	0							0
R0220	2014	0	0	0	0								0
R0230	2015	0	0	0									0
R0240	2016	0	0										0
R0250	2017	0											0
R0260												Total	0

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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	1,602		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	8,908	8,908			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	440				440
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	10,949	10,510	0	0	440
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	10,949	10,510	0	0	440
R0510	Total available own funds to meet the MCR	10,510	10,510	0	0	
R0540	Total eligible own funds to meet the SCR	10,949	10,510	0	0	440
R0550	Total eligible own funds to meet the MCR	10,510	10,510	0	0	
R0580	**SCR**	7,812				
R0600	**MCR**	2,340				
R0620	**Ratio of Eligible own funds to SCR**	140.17%				
R0640	**Ratio of Eligible own funds to MCR**	449.09%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	10,949
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	10,949
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	0
	Expected profits	
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

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	2,198		
R0020	Counterparty default risk	401		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	6,413		
R0060	Diversification	-1,517		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	7,495		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	317
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	7,812
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	7,812
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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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	2,340

		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		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance	10,550	3,097
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	2,340
R0310	SCR	7,812
R0320	MCR cap	3,515
R0330	MCR floor	1,953
R0340	Combined MCR	2,340
R0350	Absolute floor of the MCR	2,196
R0400	**Minimum Capital Requirement**	2,340