



GPI

A Kinnell Group Company

**SOLVENCY
& FINANCIAL
CONDITION
REPORT
2018**

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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 new and continuing developments in the following areas:

- **System of governance changes**

During the reporting period there were a number of changes to the Governance Structure of GPI, including the departure of the Chief Executive Officer (SIMF1), Head of Underwriting (SIMF22) and the Chief Financial Officer (SIMF 2). Andrew Page took up the position of Chief Executive Officer for GPI, and Carol Ritchie the post of interim Chief Financial Officer. A number of other changes to the governance structure were made, with all changes being communicated with the Prudential Regulation Authority, and set out in more detail in Section B.

- **Managed Investment Portfolio asset reallocation**

During 2017 GPI reevaluated its investment portfolio and the effect of this has continued in 2018. 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**

During the year, a Loss Portfolio Transfer and Adverse Development Cover reinsurance contract was commuted and rewritten in the year for a cost of £1.2 Million. The contract covers all business written in the period 1st January 2003 to 31st December 2018 and offers protection to the claims costs occurring from these policies. This resultant risk transfer also provides a material beneficial reduction in capital requirement in relation to these policies.

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 Geographical Split of Business	100% Miscellaneous Financial Loss	
	100% UK & Ireland	100% UK & Ireland
	2018	2017
	£m	£m
Gross Written Premium	3.36	3.10
Technical Provisions	19.78	19.85
Movement in UPR	0.30	0.51
Claims Paid and Incurred	1.76	1.51
Operating Expenses	1.42	1.49
Expenses as a % of Premium	42%	48%

Investment Performance 2018

	Net Investment Income 2018	Net Investment Expense 2018	Net Realised gains and losses 2018	Changes in fair value 2018	Net Investment Result 2018
Managed Funds					
Government Bonds	277,352		(28,897)	(201,855)	46,600
Corporate Bonds	189,954		(20,470)	(218,635)	(49,151)
Equity					
Collective Investment Undertakings					
Cash and Deposits					
Loans and Receivables	19,721				19,721
Investment in Subsidiary	350,000				350,000
Cash and Cash Equivalents	7,338	(3,187)			4,151
Investment Property				5,000	5,000
Other Investment Income	28,090				28,090
	872,455	(3,187)	(49,367)	(415,490)	404,411

Key Elements of the Governance System

GPI is subject to the Senior Managers & Certification Regime (SMCR) which is a regulatory framework that came into force on 12th December 2018. The regime reflects the regulators' intention to align regulation of insurance with the banking supervision rules, 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 Board (GMB), previously referred to as the Group Management Committee (GMC).

The GMB 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 Managers & Certification Regime with relevant control functions effectively have authority over the whole Group.

The GMB is made up of 7 Members:

- Non-Executive Chairman - Jeremy Brettell
- Non-Executive Director - Paul Wakefield
- Non-Executive Director - Jon Vanstone (WSL, & Certass Chairman)
- Chief Executive Officer - Andrew Page
- Interim Chief Financial Officer - Carol Ritchie
- Group Head of Finance - Fiona Ross (Maternity Leave August 18 – May 19)
- Operations Director - Jay Frew

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

The GMB 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 Asset and Liability Committee
- The Reserving Committee

This corporate governance framework has been established to ensure that all entities within the Kinnell Group comply with their relevant regulatory obligations; the GMB 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. More information on the committee structure can be found in section B.1.

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 moderate volatility recently, mostly in response to Brexit implications and we expect this will continue, although overall returns remain within appetite. Nevertheless, the Profit & Loss remains volatile to the monthly unpredictability of the markets due to the impact of fair value accounting. This risk is mitigated through using appropriately skilled investment managers and reducing volatility in the portfolio by moving assets to less risky asset classes. Investments will follow a defensive approach to protect capital, aiming for low volatility, and returns in excess of agreed benchmarks, but within the consideration of both the cost of capital under Solvency II and the actual capital risk in order to achieve a balanced efficient return.

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:

- Monthly management information tracking loss ratio changes, key risks and early warning indicators, in order to monitor key assumptions used within the technical provisions; and
- Obtaining an actuarial calculation and validation (experience analysis) of the reserves, provided by the Chief Actuary, including external actuarial peer review.

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.

Strategic Risk

As the Brexit process has created uncertainty the Company is monitoring the situation closely particularly in respect of any impact on our investment strategy and analysis of emerging business risks. Uncertainty around freedom of services is likely to structure future strategic decisions. The Company no longer writes new business in the EU27 but there are a small number of schemes which are in run off in the EU27, however our main competitors operate in the UK via passporting arrangements.

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 the 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 effective challenge & 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 Company has met the key deliverable requirements of the PRA. The Own Risk and Solvency Assessment (“ORSA”) was submitted in September 2018. Quantitative Reporting Templates (“QRTs”) have been submitted to the PRA for all quarters in 2018. All submissions were made before the last submission dates.

The Company is compliant with PRA and Solvency II requirements.

Solvency Ratio

At the 31st December 2018 GPI had total own funds of £11.73m. These are split between Tier 1 and Tier 3.

The own funds supported the Solvency Capital Requirement of £7.47m resulting in a ratio of eligible funds to meet the SCR of 157% and a surplus of £4.26m. The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall was £2.26m, resulting in a ratio of eligible funds to meet the MCR of 503%.

Description	SCR	
	31st Dec 2018	31st Dec 2017
Solvency Capital Requirement	7,477,795	7,811,546
Surplus	4,255,609	3,137,937
Ratio of Eligible Own Funds to SCR	157%	140%

Own Funds

Description	Own Funds
	31st Dec 2018
Own funds - Tier 1	11,362,752
Own funds - Tier 3	370,652
	11,733,404

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

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

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 ONE. 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 providing services to support contractors, including primarily the provision and administration of insurance backed guarantees. 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 is a dual regulated insurer with 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 2018 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 2018 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

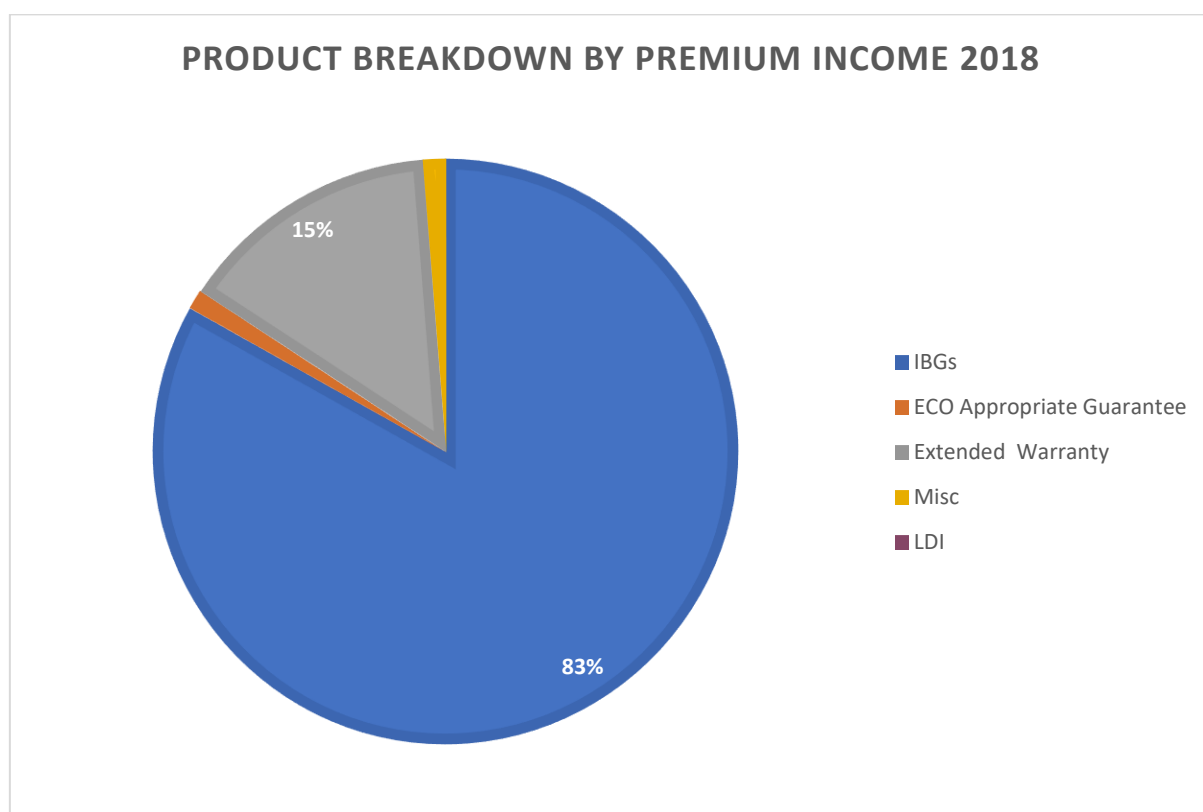
As a specialist underwriter GPI retains experience and expertise in the provision of long-term Insurance Backed Guarantees (IBGs) and Latent Defects Insurance (LDI) for construction and related work, with a historic niche in timber treatment, damp proofing, roofing, and double glazing. During 2018 GPI 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. GPI, via WSL, has also been 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. The extent of involvement in these areas has varied in line with changes to Government policy and incentives available to the industry.

Overall, business introduced to GPI by WSL contributed approximately 61% of the premium income written by GPI in 2018. 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.

During the year, a Loss Portfolio Transfer and Adverse Development Cover (LPT/ADC) reinsurance contract was commuted and rewritten in the year for a cost of £1.2 Million. The contract covers all business written in the period 1st January 2003 to 31st December 2018 and offers protection to the claims costs occurring from these policies.

The mix of products underwritten by GPI for the 2018 financial year is demonstrated in the chart below:



Note: LDI makes up 0.001% of premium income in 2018, therefore being <1%, it is not visible on the chart above.

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)

During the course of the year, the Company's written premium income increased by 9% to £3.4m from £3.1m in 2017. The strategic policy is to reduce non-core insurance premium, and associated claims costs, and to focus growth on the core products of Insurance Backed Guarantees and structural warranties within Board approved risk tolerances. 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 2018 claims and operating expenses were in line with management's expectations.

Underwriting Performance

Material Class of Business	100% Miscellaneous Financial Loss	
	100% UK & Ireland	100% UK & Ireland
Geographical Split of Business	2018	2017
	£m	£m
Gross Written Premium	3.36	3.10
Technical Provisions	19.78	19.85
Movement in UPR	0.30	0.51
Claims Paid and Incurred	1.76	1.51
Operating Expenses	1.42	1.49
Expenses as a % of Premium	42%	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.

During the year, a Loss Portfolio Transfer and Adverse Development Cover reinsurance contract was commuted and rewritten in the year for a cost of £1.2 million. The contract covers all business written in the period 1st January 2003 to 31st December 2018 and offers protection to the claims costs occurring from these policies.

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 2017, 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 2018 and 2017.

Investment Performance 2018

	Net Investment Income 2018	Net Investment Expense 2018	Net Realised gains and losses 2018	Changes in fair value 2018	Net Investment Result 2018
Managed Funds					
Government Bonds	277,352		(28,897)	(201,855)	46,600
Corporate Bonds	189,954		(20,470)	(218,635)	(49,151)
Equity					
Collective Investment					
Undertakings					
Cash and Deposits					
Loans and Receivables	19,721				19,721
Investment in Subsidiary	350,000				350,000
Cash and Cash Equivalents	7,338	(3,187)			4,151
Investment Property				5,000	5,000
Other Investment Income	28,090				28,090
	872,455	(3,187)	(49,367)	(415,490)	404,411

Investment Performance 2017

	Net Investment Income 2017	Net Investment Expense 2017	Net Realised gains and losses 2017	Changes in fair value 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				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)	1,202,644

A.4 Performance of other activities

The Group intends to grow insurance and non- insurance related income from a number of initiatives. These are expected to include:

- Developing further products within the current contractor base.
- Through extension of the Competent Persons Scheme into related / adjacent specialisms, developing products for those areas of need.
- Exploring opportunities for non-insurance income from the development of broking activities and remedial repair services external to the Group.
- Also exploring opportunities in the London market using reinsurance as a strategic tool.

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 Managers & Certification Regime, and the FCA's regulatory framework to ensure this is delivered. In December 2018 the Senior Insurance Managers Regime transitioned to the Senior Managers and Certification Regime (SMCR). 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.

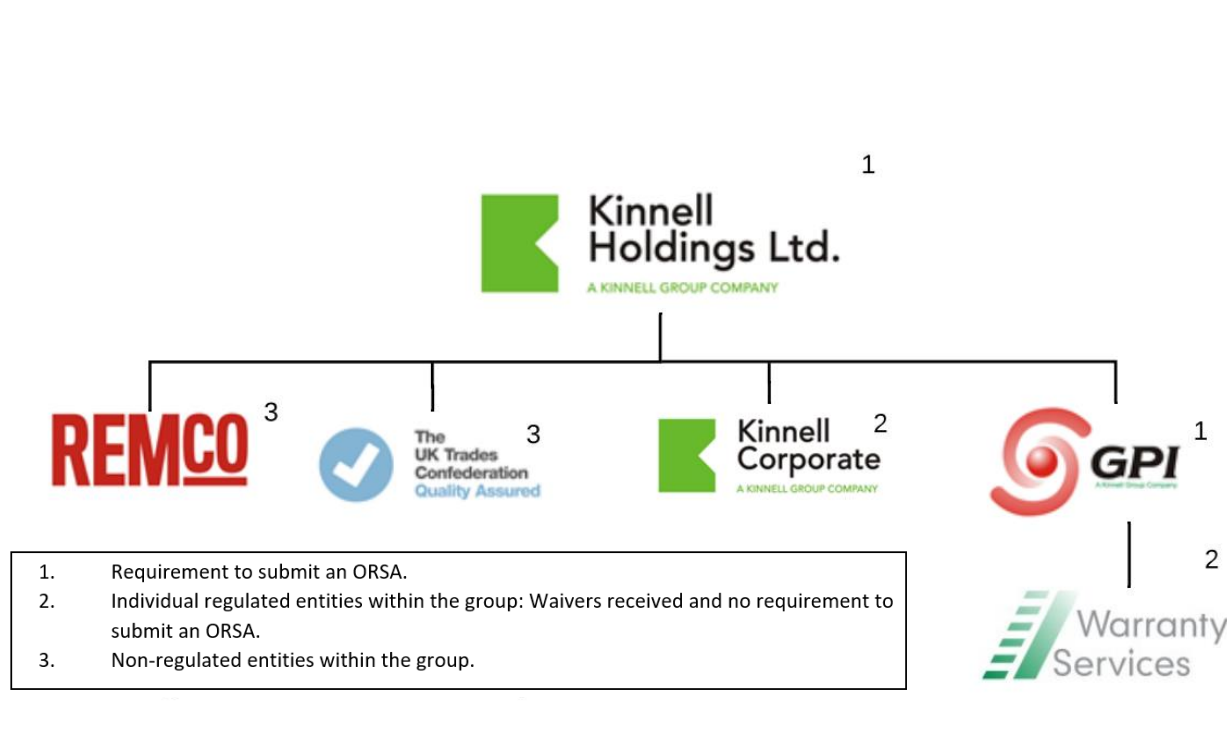
This assessment is supported by our internal audit function who undertake a review of the systems of governance on a bi-annual basis. In addition, the internal annual risk and control self-assessment process that is undertaken across all areas of the business provides a continuous assessment of the operational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

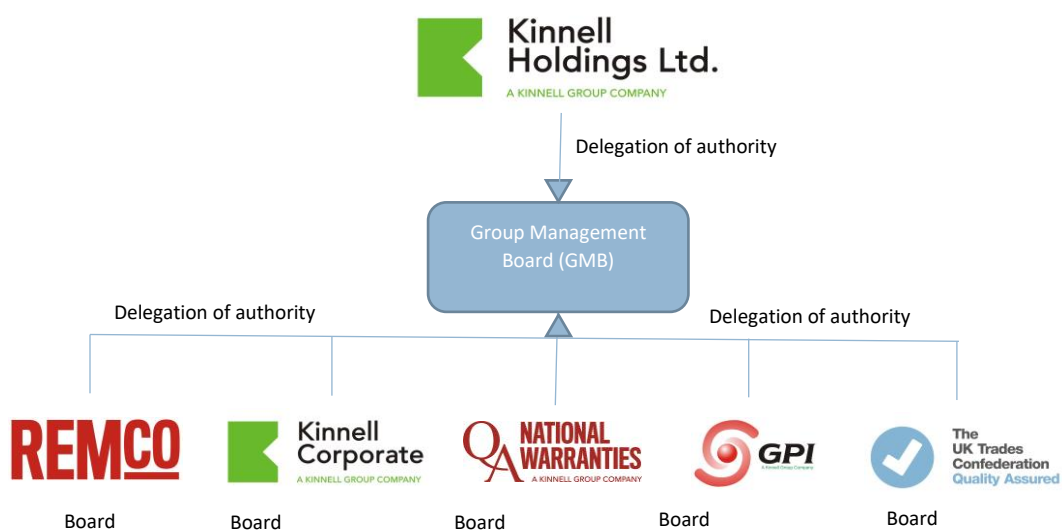


Within each business the role of the Board is to:

- 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 Board (GMB). The GMB 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 Managers and Certification Regime with relevant control functions effectively have authority over the whole Group. The scope of authority of the GMB is set out in full within the Terms of Reference.

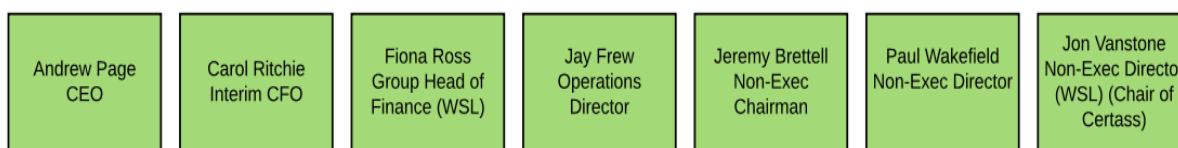
The diagram below illustrates the delegation of authority to the GMB (except in relation to matters reserved for the individual entity Board):



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 Board now comprises of two independent non-executive directors (one in the capacity of Chairman), one non-executive director (WSL NED & Chairman of Certass, no Senior Managers functions held), four executive directors, including the CEO, CFO (Interim), the Operations Director and the Group Head of Finance Director (currently on maternity leave, no Senior Management Functions held). GMB members can serve for a period of 3 years prior to re-election currently with no maximum term. The current composition of the GMB can be viewed in the diagram below:



The corporate governance structure has been designed to include at least two Non-Executive Directors as members of the GMB, and membership of each of the board level committees includes both Jeremy Brettell and Paul Wakefield. This is to ensure effective, independent challenge, and to prevent any one individual director having unfettered powers of decision. The Chairman of the GMB is responsible for overseeing corporate governance throughout the Group, and to evaluate at least annually the role and effectiveness of the GMB.

During the reporting period Alastair Wilson ceased to act as the Chief Executive Officer (SIMF1) and the Head of Underwriting (SIMF22) for Guarantee Protection Insurance Ltd, and Managing Director of Warranty Services Ltd in June 2018. Lyndsay Wilson ceased to act as Chief Financial Officer of

Guarantee Protection Insurance Ltd in June 2018. GPI communicated this change in personnel to the Prudential Regulation Authority, and the SIMF roles held by both individuals were removed. Andrew Page was employed and took up the role of SIMF 1 Chief Executive Officer of Guarantee Protection Insurance Ltd and Managing Director of Warranty Services Ltd. Carol Ritchie was appointed as interim SIMF 2 Chief Financial Officer of Guarantee Protection Insurance Ltd. Jay Frew took up the position of Money Laundering Reporting Officer for Guarantee Protection Insurance Ltd.

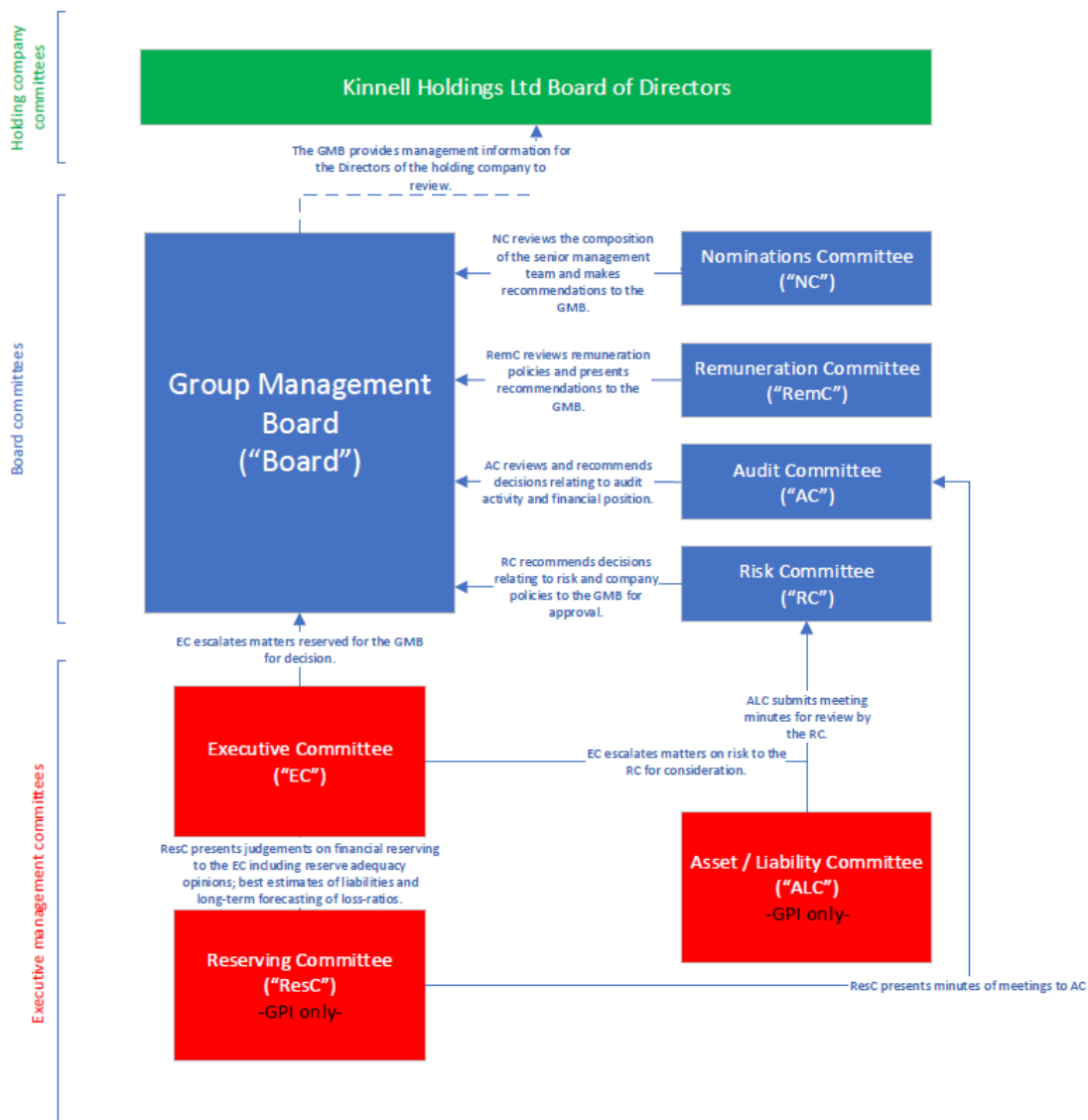
Other changes included the departure of our Key Function Holder for Claims and Underwriting, and our Key Function Holder of Risk and Governance. These roles were not directly replaced, with the existing Key Function Holder for Risk & Compliance, Key Function Holder for Legal and Key Function Holder for Operations taking on additional responsibility to ensure that the Governance, Claims and Underwriting functions are adequately covered.

In December 2018, Guarantee Protection Insurance Ltd became subject to the Senior Managers & Certification Regime (SM&CR). Where possible, existing Senior Insurance Manager functions (SIMFs) were transferred to the corresponding Senior Manager Functions (SMFs). A number of additional applications were made, with Jay Frew taking up the Executive Director function (SMF3), Blair Houston taking up the Compliance oversight function (SMF16), Jennifer Reid taking up the Other Overall Responsibility Function (SMF18) in terms of responsibility for recruitment, training and development of the business' conduct rules staff, and Jeremy Brettell taking up the Chair of the Remuneration Committee function (SMF12) .

The GMB 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). In 2018, a review of our Committee structure took place, and as part of this both the Executive Risk & Governance Committee (ERGC) and the Sales and New Business Committee (SNBC) were removed as functional committees, and the Executive Committee (EC) now incorporates both items into its agenda.



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:

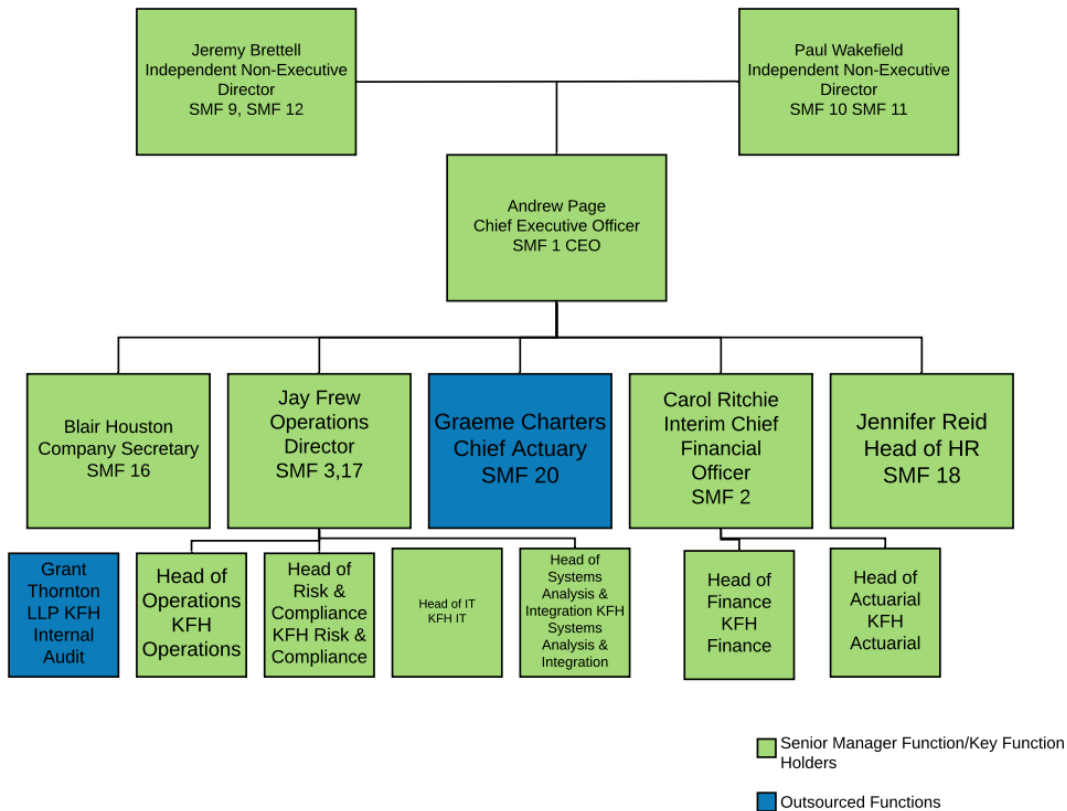
- Oversight of the effectiveness of systems and internal controls;
- Oversight of internal and external audit activities;
- Monitoring of any significant pending legal actions;
- Review and challenge of the Group's financial statements.

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

- The Executive Committee: the GMB delegates the operational management, implementation of risk management framework, and operational oversight of the business 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 GMB is furnished with appropriate recommendations in respect of these matters. Actuarial input and oversight is provided by way of membership of the Chief Actuary (SIMF 20).
- The Reserving Committee: The Reserving Committee 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. The Reserving Committee considers both Best Estimate and UK GAAP reserves. This committee is not a decision-making authority and formally reports into the Audit Committee.

The Senior Managers and Certification Regime (SMCR) came into force on 10th December 2018. The regime aligns the regulation of insurance with the banking and supervision rules, with its primary purpose to strengthen accountability and ensure that Senior Insurance Managers conduct themselves with honesty, integrity, and skill. GPI has in place a governance map that reflects the SMCR and the allocation of responsibilities within the business. The diagram over the page summarises the key reporting lines captured on the SMCR poster detailing GPI's Senior Managers and their designated Senior Management Functions (SMFs).

Senior Managers and Certification Governance Map



As part of the wider regime, firms are also required to allocate prescribed responsibilities to Senior 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 Management Functions (SMFs) are detailed below:

PRESCRIBED RESPONSIBILITIES			
PR #	PR Description	FCA/PRA	PR Holder
A	Responsibility for the firm's performance of its obligations under the Senior Managers Regime	Dual	Andrew Page
B	Responsibility for the firm's performance of its obligations under the employee Certification Regime	Dual	Andrew Page
B-1	Responsibility for the firm's obligations for conduct rules training and reporting	FCA	Andrew Page
C	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map	Dual	Blair Houston
D	Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime	FCA	Jay Frew

F	Responsibility for: a) leading the development of and b) monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body	Dual	Jeremy Brettell
G	Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all of the firm's SMF managers and key function holders (other than members of the firm's governing body)	Dual	Andrew Page
H	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm	PRA	Andrew Page
I	Responsibility for leading the development of the firm's culture by the governing body as a whole	PRA	Jeremy Brettell
M	Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices	Dual	Jeremy Brettell
N	Responsibility for the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing	Dual	Jeremy Brettell
O	Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity	PRA	Carol Ritchie
Q	Responsibility for the production and integrity of the firm's financial information and its regulatory reporting	PRA	Carol Ritchie
T	Responsibility for the development and maintenance of the firm's business model by the governing body	PRA	Andrew Page
T-2	Responsibility for the performance of the firm's Own Risk and Solvency assessment (ORSA)	PRA	Andrew Page
U	Responsibility for the firm's performance of its obligations under Fitness and Propriety (in the PRA Rulebook) in respect of notified non-executive directors and those who perform a key function (where applicable for insurers)	PRA	Andrew Page
X	Responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook (for CRR and non CRR firms), Conditions Governing Business 7 (for SII firms and third country branches) or Non-solvency II firms: Governance 5 (for large NDFs)	PRA	Andrew Page
Z	Responsibility for the firm's compliance with CASS	FCA	Andrew Page

A number of 'Overall Responsibilities' were also identified and allocated when SMCR came into force in December 2018, and these can be found in the following table:

OVERALL RESPONSIBILITIES	
Identified Overall Responsibility	Overall Responsibility Holder
Responsibility for the development of the business' sales channels and client relationships.	Andrew Page
Responsibility for the development of agency relationships.	Andrew Page
Responsibility for production and distribution of financial promotions.	Andrew Page
Responsibility for reporting to the business' governing body on compliance with laws and regulations.	Blair Houston
Responsibility for the development and management of the business' policy management framework	Blair Houston
Responsibility for reporting to the business' governing body on matters relating to the business' financial position.	Carol Ritchie
Responsibility for insurance product development.	Jay Frew
Responsibility for the business' claims handling function.	Jay Frew
Responsibility for the business' complaints handling function.	Jay Frew
Responsibility for reporting to the business' governing body on matters relating to risk.	Jay Frew
Responsibility for recruitment, training and development of the business' conduct rules staff.	Jennifer Reid
Board-level responsibility for the supervision of risk management activity.	Paul Wakefield
Board-level responsibility for the supervision of audit activity.	Paul Wakefield

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 SMCR responsibilities across staff at key function level to reflect operational delegations. The SMCR governance map is formally reviewed on a quarterly basis to allow any changes to responsibilities or reporting lines to be appropriately reflected.

Policy Management

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

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

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

Remuneration Principles

Fixed remuneration (i.e. salary) is determined on the basis of the role and position of each individual employee and is based on a number of factors including professional experience, education, responsibility, technical job requirements, seniority, and local market conditions. Review of all staff remuneration is undertaken on an annual basis, and involves input from the Finance department, the Human Resources department, and the Executive management team as well as external independent benchmarking where this is deemed necessary. Any outputs from this process are then presented with recommendations to the Remuneration Committee, who are responsible to review and then make relevant recommendations to the GMB 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 considering recommendations relating to remuneration decisions, the Remuneration Committee may consult directly with any members of the GMB, 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. Recommendations are made by Management to the Remuneration Committee, who will review and where necessary consult with KHL Board, then make recommendations to the GMB for approval.

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

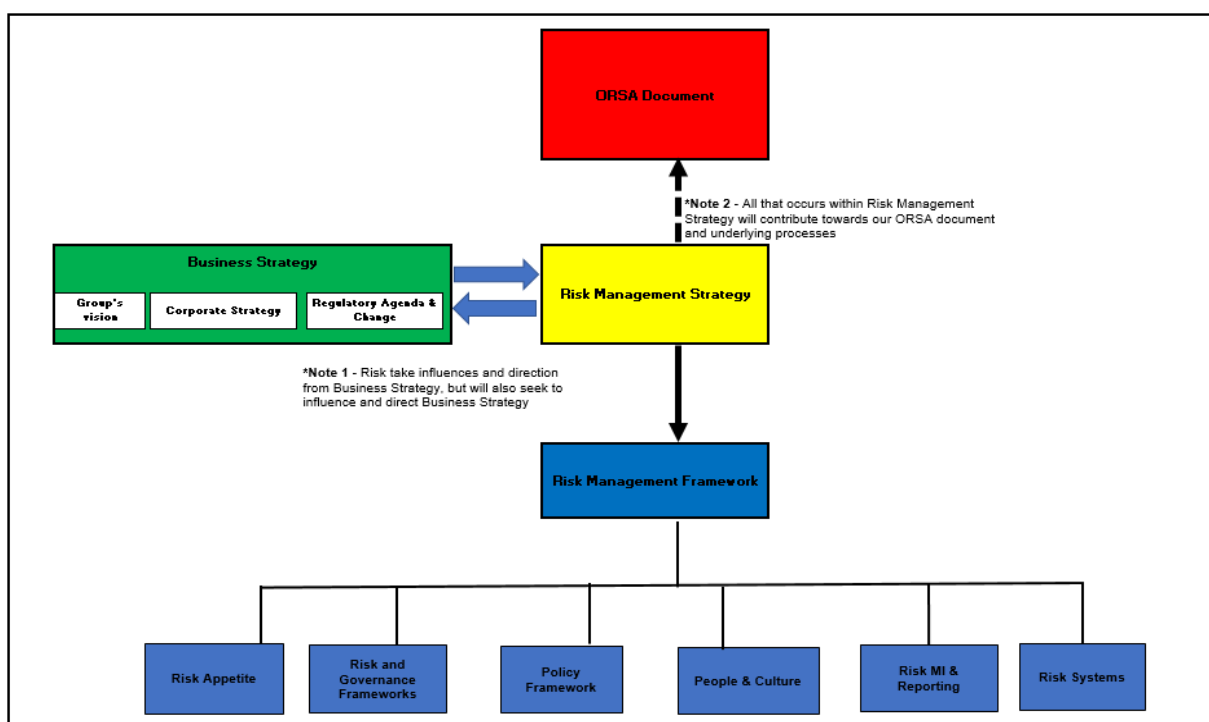
The Company has a fit and proper review process with all new applicants to the company subject to complete vetting in accordance with the recruitment and vetting policy. On a yearly basis, all existing

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 GMB approval. GMB approval is a fundamental step within the Group's corporate governance framework to ensure that the RMF remains aligned with the GMB's approved strategy and risk appetite statements. The RMF incorporates established points of review by, and, escalation to, the GMB. 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 GMB 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 Committee (ExeCo); 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 a 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 a risk form and submitted into the ExeCo 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 GMB 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 ExeCo 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 GMB-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 GMB down to the granular metrics that are managed at an operational level, and aggregated upwards into the GMB metrics.

All KRIs and related risk tolerances have been proposed initially by Executive Management prior to review, challenge, and approval by the GMB via the Risk Committee. The KRI dashboard also incorporates Operational risk events and near misses and is reviewed by the Risk Committee via the Executive Committee, to ensure that the business frequently assesses the Group's actual risk profile

against the GMB-approved risk appetite statements. This assists the second line of defence in providing challenge and effective reporting of its assessment of the Group's risk profile to the GMB.

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 GMB 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: executive (via the ExecCo) and Board-level (via the Board Audit and Risk committees and the GMB).

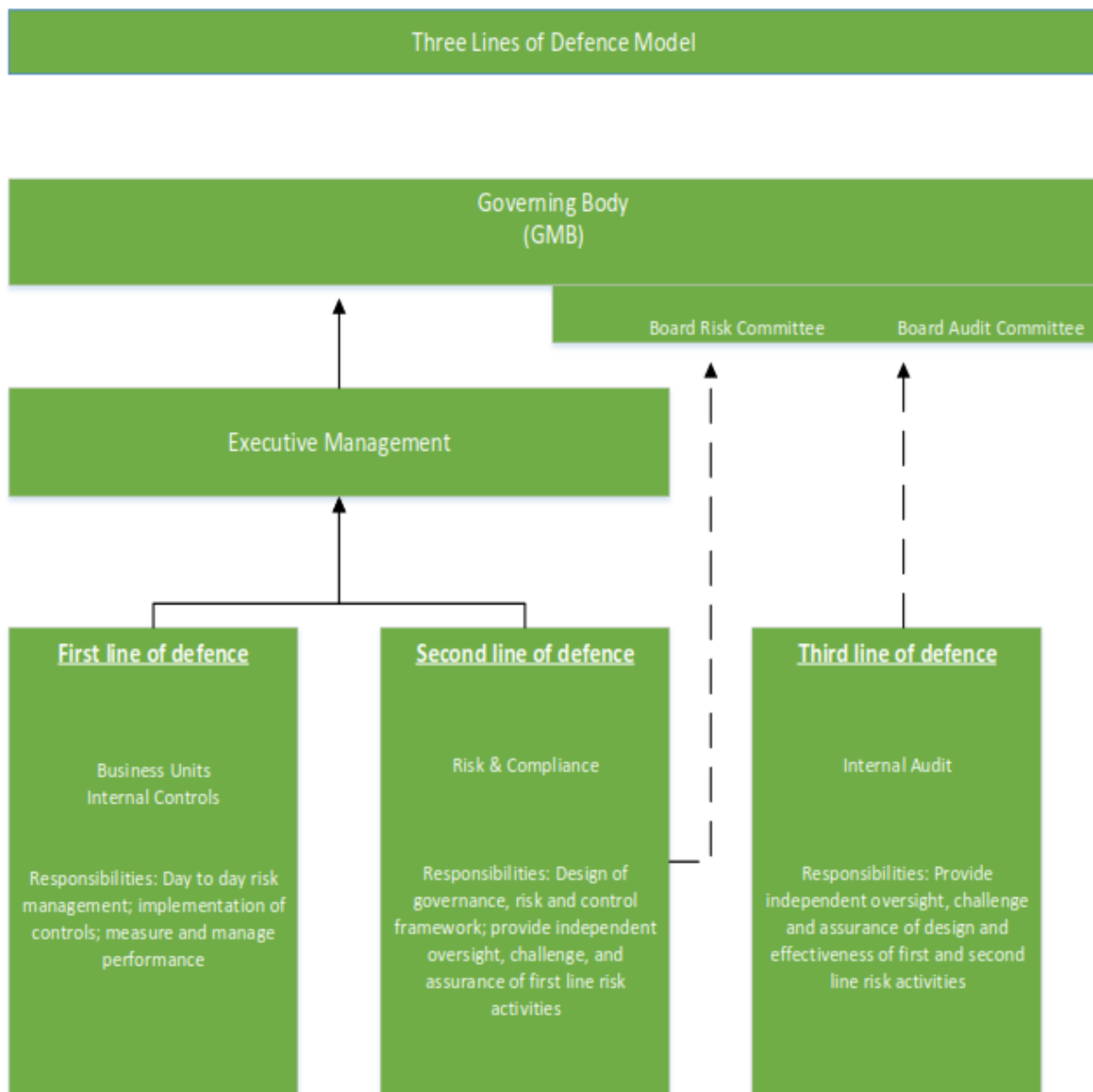
Reporting includes (but not limited to) the following elements:

- 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 Committee.

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 ExeCo, and to the GMB 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 GMB 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 GMB 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. A formal timeline is adopted annually 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 GMB at various points during the process in order that their effective challenge forms an embedded part of the review process.

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.

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 GMB. 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 GMB approval. In the absence of any escalation, the GMB formally reviews the document annually.

In addition, the Executive Committee, Risk Committee, or GMB 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 GMB 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 GMB 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 GMB 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 GMB 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 GMB 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.

B.6 Actuarial function

Reflecting the current scale of the business, the GMB decided that GPI is best served by utilising the services of both an external actuarial firm as well as developing an in-house actuarial capability. This aids decision making and quality of management information as the skill set is increasingly 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 five years. Specific OAC staff are allocated to GPI, reflected within our Senior Managers & Certification Regime structure and the SMF 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 GMB 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 GMB 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 GMB 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 GMB 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 Committee for consideration under the terms of reference of that 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 GMB 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 GMB 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 Anglian Windows Plastic Windows Guarantee Ltd	UK
Policy Administration & Operations	Warranty Services Ltd Certass 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

No further information to be reported.

C. Risk Profile

Appetite and Sensitivity

The Risk appetite set by the GMB 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 GMB 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 GMB 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 have 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 firm's 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 proportionate, robust underwriting processes exist to demonstrate to the GMB 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 GMB, 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 GMB and drive the business core strategy as follows:

- There is no appetite for undertaking activities that are not aligned with the GMB 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;

- GMB 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. GMB approval must be sought for any new risks outside of this tolerance;
- GPI will not write any (new) business outside the UK/Ireland without GMB approval;
- Any new reinsurance will require GMB 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)	Increase/(decrease) in own funds (capital)
	2018	2017
	£'000	£'000
10% increase in incurred claims costs	(155)	(129)
10% increase in net operating expenses	(164)	(168)

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

The non-life underwriting risk allocation within the standard formula capital requirement pre-diversification is £6.10m.

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 £2.11m.

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)	Increase/(decrease) in own funds (capital)
	2018	2017
	£'000	£'000
10% increase to € rate on held balance at year end	(9.2)	(0.2)
10% decrease to € rate on held balance at year end	9.2	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.

The Company invests in mixed term debt at fixed interest rates. When interest rates rise, it is usual for the fixed rate securities to decline in value. A decline in interest rates will in general have the opposite effect. There is also an impact on the Profit and Loss Account in respect of the income received from debt securities.

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 inherently not affected by a change in interest rates.

0.5% increase to interest rate on interest bearing assets:

	Increase/(decrease) in own funds (capital)	Increase/(decrease) in own funds (capital)
	2018	2017
	£'000	£'000
Bonds	(275)	(361)
Cash and cash equivalents	24	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 5% increase/decrease on market prices is as follows:

	Increase/(decrease) in own funds (capital)	Increase/(decrease) in own funds (capital)
	2018	2017
	£'000	£'000
5% increase in movement in fair value of debt securities	770	862
5% decrease in movement in fair value of debt securities	(770)	(862)

A 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 GMB 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 (SMF 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 its credit risk through the following actions:

- GPI receives most of its income through direct debit, which mitigates 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, most 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 out with the UK government. 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 £424k.

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 3-year budgeting process to identify future spends and liquidity requirements.
- GPI is unlikely to need access to capital held within investments, as its' 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 £308k.

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 100% 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

At year end, GPI holds a 157% solvency coverage (140% - 2017), which is within the prescribed appetite of minimum 110%.

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 GMB 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, to a limited extent, result in higher contractor failure rates which would therefore bring more installations into eligibility for claim should any installation prove to be defective. It is comforting that the significant economic crisis experienced during 2008/9 did not result in an exponential rise in claims - certainly we can identify higher contractor failure rates and higher claims but at a 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 the net impact of inflation stress tests proves immaterial. The business is therefore 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 Ltd) which undertakes the bulk of the repairs for the 10 year IBG book. The introduction of The Remedial Company Ltd has brought cost of claim volatility down over recent years and is now stabilising. This repair cost is monitored on a monthly basis through the operational risk dashboard and there are management actions in place to further lower costs through operational efficiencies within The Remedial Company Ltd.

It should be noted that the Board has identified the development and extension of The Remedial Company Ltd services externally as a strategic opportunity, and it is likely therefore that some investment in that business will occur to deliver the strategic opportunities identified. Such additional development costs will be ring-fenced and accounted for separately so that the underlying internal claims costs, and subsequent impact on reserves and liabilities, are not distorted.

Lastly, we can be exposed to a spike in high value claims, in particular in structural warranties that can have significantly higher 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. Looking forwards, we anticipate greater use of reinsurance to further mitigate larger one off exposures.

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.

Strategic Risks

The exposure to changes in political appetite in the carbon emissions arena and Government generally has reduced in line with our reduced involvement in the insurance of ECO/Green Deal obligations introduced by the Government. However, this does remain an area of significant opportunity, especially with greater cohesion and cooperative working with Certass, and this is reviewed accordingly.

Brexit risks are constantly reviewed, and this is seen as an opportunity to create valuable strategic relationship with EU/non-UK insurers.

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 Company's year end valuation of 31st December 2018.

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

Asset Type	Other Assets		Assets per UK GAAP
	Assets per Solvency II	Variance	
Property UK	225,000	-	225,000
Investment securities	15,393,814	-	15,393,814
Cash and Cash Equivalents	3,170,993	-	3,170,993
Investments in Subsidiary Undertakings	1,956,749	-	1,956,749
Subsidiary Receivables	1,074,342	1,080	1,075,422
Insurance and Intermediary Receivables	321,100	-	321,100
Deferred Tax	370,652	-	370,652
Reinsurance receivable	81,300	-	81,300
Reinsurance recoverable	154,794	(154,794)	0
Loans and mortgages	200,000	-	200,000
Any other Assets not shown elsewhere	1,898,233	1,028,967	2,927,200
	<u>24,846,977</u>	<u>875,253</u>	<u>25,722,230</u>

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 valued independently and reported on 21 December 2018 by DM Hall, Chartered Surveyors, it was prepared in accordance with RICS Valuation – Professional Standards in place at that time and was carried out in their capacity as External Valuers. No independent professional valuation was carried out in 2017.

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. The investments are valued at quoted prices in active markets for the same assets and this is carried out by external investment managers, LGT Vestra LLP.

As at 31st December 2018, the total value of our financial investments was £15.39m, analysed as follows:

	£
Government Bonds	9,084,196
Corporate Bonds	<u>6,309,619</u>
	<u>15,393,815</u>

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

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 £3,095,257 in cash deposits in addition to the £75,737 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. In 2017 the Solvency II value was lower than the UK GAAP carrying value as intangible assets held by the subsidiary are deducted from the Solvency II valuation. Intangible assets are fully amortised in 2018.

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 UK 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. Current financial projections of the company indicate that the deferred tax asset of £370,652 is expected to be utilised in the foreseeable future.

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 UK GAAP balance sheet, as it is expected to be repaid in the foreseeable future.

Other assets

The remaining assets are valued on the same basis between Solvency II and the UK 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 UK GAAP valuations of technical provisions split between best estimate and risk margin. The reconciling items between UK GAAP and Solvency II are included in the table on page 51.

Description	Technical Provisions	
	Liabilities per Solvency II	Liabilities per UK GAAP
	£	£
Technical Provisions	10,278,062	19,777,058
Risk Margin	1,898,747	
Total	12,176,809	19,777,058

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 UK 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 UK 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 UK 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 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 UK GAAP. For Solvency II purposes, we have adopted the figures that appear in our UK GAAP financial statements for Other liabilities.

Description	Other Liabilities	
	Liabilities per Solvency II	Liabilities per UK GAAP
Creditors arising out of direct insurance operations	291,791	291,791
Other creditors including taxation and social welfare	443,464	443,464
Accruals and deferred income	201,509	201,509
Total	936,764	936,764

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 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 2018 GPI had total own funds of £11.73m. These are split between Tier 1 and Tier 3.

The own funds supported the Solvency Capital Requirement of £7.48m resulting in a ratio of eligible funds to meet the SCR of 157% and a surplus of £4.26m. The Minimum Capital Requirement (MCR), a minimum level below which the amount of financial resources should not fall was £2.26m, resulting in a ratio of eligible funds to meet the MCR of 503%.

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 expected to be utilised in the foreseeable future.

Description	Own Funds
	31st Dec 2018
Own funds - Tier 1	11,362,752
Own funds - Tier 3	370,652
	<hr/>
	11,733,404
	<hr/> <hr/>

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

The increase in Own Funds in the year relates to the continued improvement in the profitability of core underwriting schemes and new profitable business written in the year.

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		
	2018 £m	2017 £m
Total Equity in financial statements	5.008	4.677
Deduct items not recognised in financial statements		
1. Risk Margin	(1.899)	(2.082)
2. Difference between BEL and Technical Provisions	9.499	9.297
3. Movement in valuation of subsidiary	0	(0.127)
4. Difference between Tangible Assets	(0.002)	(0.005)
5. Difference between Prepayments	(1.027)	(1.027)
6. Introduction of reinsurance recoverable	0.155	0.216
Solvency II - Basic Own Funds	11.734	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 UK GAAP financial statements.
2. The difference between the Best Estimate of Liabilities and the UK GAAP 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 UK 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, UK 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 UK 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 2018 is shown below:

SCR - By Risk Category	31-Dec-18
	£
Non-Life Underwriting risk	6,103,783
Market risk	2,114,958
Counterparty default risk	424,134
Diversification benefit	(1,473,422)
Basic Solvency Capital Requirement	7,169,453
Operational risk	308,342
Solvency Capital Requirement	7,477,795

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 continuing rebalancing of assets into a more efficient matched structure of Government and Corporate Bonds reduces the associated Market risk calculation of the portfolio.

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 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 2018	
Linear MCR	2,256,795
SCR	7,477,795
MCR cap	3,365,008
MCR floor	1,869,449
Combined MCR	2,256,795
Absolute floor of the MCR	2,221,825
Minimum Capital Requirement	2,256,795

Overall MCR calculation 2017	
Linear MCR	2,340,243
SCR	7,811,546
MCR cap	3,515,196
MCR floor	1,952,887
Combined MCR	2,340,243
Absolute floor of the MCR	2,196,325
Minimum Capital Requirement	2,340,243

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 2018 is calculated to be £7,477,795.

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 and SCR.

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 GMB utilises the expertise of its internal and 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



Carol Ritchie
Interim CFO

Date: 17/04/2019

Appendix ii: External independent auditor's opinion

Report of the external independent auditors to the Directors of Guarantee Protection Insurance Limited ('the Company')

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 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31st December 2018; (**the Narrative Disclosures subject to audit**); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.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 31st December 2018 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

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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter - Basis of Accounting

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

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.

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

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 Board of Directors of the Company in accordance with our letter of engagement dated [date] and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

The Directors have requested that we consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements as if the Company was subject to the External Audit Part of the PRA Rulebook for Solvency II firms. 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

17 April 2019

S.02.01.02
Balance sheet

	Solvency II value		Solvency II value
Assets	C0010	Liabilities	C0010
R0010 Goodwill		R0510 Technical provisions - non-life	12,176,809.30
R0020 Deferred acquisition costs			
R0030 Intangible assets		R0520 <i>Technical provisions - non-life (excluding health)</i>	12,176,809.30
R0040 Deferred tax assets	370,652.00	R0530 <i>TP calculated as a whole</i>	0.00
R0050 Pension benefit surplus		R0540 <i>Best Estimate</i>	10,278,061.65
R0060 Property, plant & equipment held for own use	0.00	R0550 <i>Risk margin</i>	1,898,747.65
R0070 Investments (other than assets held for index-linked and unit-linked contracts)	19,673,793.33	R0560 <i>Technical provisions - health (similar to non-life)</i>	0.00
R0080 <i>Property (other than for own use)</i>	225,000.00	R0570 <i>TP calculated as a whole</i>	0.00
R0090 <i>Holdings in related undertakings, including participations</i>	1,956,749.12	R0580 <i>Best Estimate</i>	0.00
R0100 <i>Equities</i>	0.00	R0590 <i>Risk margin</i>	0.00
R0110 <i>Equities - listed</i>			
R0120 <i>Equities - unlisted</i>		R0600 Technical provisions - life (excluding index-linked and unit-linked)	0.00
R0130 <i>Bonds</i>	15,393,814.43		
R0140 <i>Government Bonds</i>	9,084,195.96	R0610 <i>Technical provisions - health (similar to life)</i>	0.00
R0150 <i>Corporate Bonds</i>	6,309,618.47	R0620 <i>TP calculated as a whole</i>	
R0160 <i>Structured notes</i>	0.00	R0630 <i>Best Estimate</i>	
R0170 <i>Collateralised securities</i>	0.00	R0640 <i>Risk margin</i>	
R0180 <i>Collective Investments Undertakings</i>	1,650,000.00		
R0190 <i>Derivatives</i>	0.00	R0650 <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0.00
R0200 <i>Deposits other than cash equivalents</i>	448,229.78	R0660 <i>TP calculated as a whole</i>	
R0210 <i>Other investments</i>	0.00	R0670 <i>Best Estimate</i>	
		R0680 <i>Risk margin</i>	
R0220 Assets held for index-linked and unit-linked contracts			
		R0690 Technical provisions - index-linked and unit-linked	0.00
R0230 Loans and mortgages	1,074,342.20	R0700 <i>TP calculated as a whole</i>	
R0240 <i>Loans on policies</i>	0.00	R0710 <i>Best Estimate</i>	
R0250 <i>Loans and mortgages to individuals</i>		R0720 <i>Risk margin</i>	
R0260 <i>Other loans and mortgages</i>	1,074,342.20		
		R0730 Other technical provisions	
R0270 Reinsurance recoverables from:	154,794.33	R0740 Contingent liabilities	0.00
R0280 <i>Non-life and health similar to non-life</i>	154,794.33	R0750 Provisions other than technical provisions	
R0290 <i>Non-life excluding health</i>	154,794.33	R0760 Pension benefit obligations	
R0300 <i>Health similar to non-life</i>	0.00	R0770 Deposits from reinsurers	
R0310 <i>Life and health similar to life, excluding index-linked and unit-linked</i>	0.00	R0780 Deferred tax liabilities	
R0320 <i>Health similar to life</i>		R0790 Derivatives	0.00
R0330 <i>Life excluding health and index-linked and unit-linked</i>		R0800 Debts owed to credit institutions	
R0340 <i>Life index-linked and unit-linked</i>		R0810 Financial liabilities other than debts owed to credit institutions	
R0350 Deposits to cedants	0.00		
R0360 Insurance and intermediaries receivables		R0820 Insurance & intermediaries payables	291,790.71
R0370 Reinsurance receivables	81,300.44	R0830 Reinsurance payables	
R0380 Receivables (trade, not insurance)	321,100.18	R0840 Payables (trade, not insurance)	644,972.85
R0390 Own shares (held directly)		R0850 Subordinated liabilities	0.00
R0400 Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00	R0860 <i>Subordinated liabilities not in BOF</i>	
R0410 Cash and cash equivalents	3,170,994.38	R0870 <i>Subordinated liabilities in BOF</i>	0.00
R0420 Any other assets, not elsewhere shown		R0880 Any other liabilities, not elsewhere shown	
R0500 Total assets	24,846,976.86	R0900 Total liabilities	13,113,572.86
		R1000 Excess of assets over liabilities	11,733,404.00

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	Total
Miscellaneous financial loss	
C0120	C0200

Premiums written

R0110	<i>Gross - Direct Business</i>	3,364,074.79	3,364,074.79
R0120	<i>Gross - Proportional reinsurance accepted</i>		0.00
R0130	<i>Gross - Non-proportional reinsurance accepted</i>		0.00
R0140	<i>Reinsurers' share</i>		0.00
R0200	<i>Net</i>	3,364,074.79	3,364,074.79

Premiums earned

R0210	<i>Gross - Direct Business</i>	3,667,167.16	3,667,167.16
R0220	<i>Gross - Proportional reinsurance accepted</i>		0.00
R0230	<i>Gross - Non-proportional reinsurance accepted</i>		0.00
R0240	<i>Reinsurers' share</i>		0.00
R0300	<i>Net</i>	3,667,167.16	3,667,167.16

Claims incurred

R0310	<i>Gross - Direct Business</i>	1,641,138.00	1,641,138.00
R0320	<i>Gross - Proportional reinsurance accepted</i>		0.00
R0330	<i>Gross - Non-proportional reinsurance accepted</i>		0.00
R0340	<i>Reinsurers' share</i>	81,484.00	81,484.00
R0400	<i>Net</i>	1,559,654.00	1,559,654.00

Changes in other technical provisions

R0410	<i>Gross - Direct Business</i>	-303,092.37	-303,092.37
R0420	<i>Gross - Proportional reinsurance accepted</i>		0.00
R0430	<i>Gross - Non-proportional reinsurance accepted</i>		0.00
R0440	<i>Reinsurers' share</i>		0.00
R0500	<i>Net</i>	-303,092.37	-303,092.37

R0550	Expenses incurred	1,813,051.23	1,813,051.23
R1200	Other expenses		
R1300	Total expenses		1,813,051.23

S.17.01.02
Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	Total Non-Life obligation
Miscellaneous financial loss	
C0130	C0180
0.00	0.00
	0.00

R0010 **Technical provisions calculated as a whole**
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

Technical provisions calculated as a sum of BE and RM
Best estimate

Premium provisions			
R0060	Gross - Total	9,210,078.30	9,210,078.30
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	154,794.33	154,794.33
R0150	Net Best Estimate of Premium Provisions	9,055,283.97	9,055,283.97
Claims provisions			
R0160	Gross - Total	1,067,983.35	1,067,983.35
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0.00
R0250	Net Best Estimate of Claims Provisions	1,067,983.35	1,067,983.35

S.17.01.02
Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	Total Non-Life obligation
Miscellaneous financial loss	
C0130	C0180
10,278,061.65	10,278,061.65
10,123,267.32	10,123,267.32
1,898,747.65	1,898,747.65

R0260 **Total best estimate - gross**
R0270 **Total best estimate - net**

R0280 **Risk margin**

Amount of the transitional on Technical Provisions

R0290	TP as a whole		0.00
R0300	Best estimate		0.00
R0310	Risk margin		0.00
R0320	Technical provisions - total	12,176,809.30	12,176,809.30
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	154,794.33	154,794.33
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	12,022,014.97	12,022,014.97

S.17.01.02
Non-Life Technical Provisions

Direct business and accepted proportional reinsurance	Total Non-Life obligation
Miscellaneous financial loss	
C0130	C0180

S.19.01.21
 Non-Life insurance claims
 Total Non-life business

Z0020 Accident year / underwriting year

Gross undiscounted Best Estimate Claims Provisions (absolute amount)												C0360
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	Year end (discounted data)
	Development year											
	0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior										0.00	0.00
R0160	N-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0170	N-8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
R0180	N-7	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00
R0190	N-6	0.00	0.00	0.00	0.00	0.00	0.00	0.00				0.00
R0200	N-5	0.00	0.00	0.00	0.00	1,207.50	0.00					0.00
R0210	N-4	0.00	0.00	0.00	30,187.54	0.00						0.00
R0220	N-3	0.00	0.00	50,494.14	11,622.00							11,622.00
R0230	N-2	0.00	148,067.05	52,749.00								52,749.00
R0240	N-1	598,529.27	164,425.00									164,425.00
R0250	N	839,186.00										839,186.00
R0260												Total 1,067,982.00

S.23.01.01

Own Funds

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

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

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
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Deductions

R0230	Deductions for participations in financial and credit institutions
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R0290 Total basic own funds after deductions

Ancillary own funds

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

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

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

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)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
1,602,100.00	1,602,100.00		0.00	
0.00	0.00		0.00	
0.00	0.00		0.00	
0.00		0.00	0.00	0.00
0.00	0.00			
0.00		0.00	0.00	0.00
0.00		0.00	0.00	0.00
9,760,652.00	9,760,652.00			
0.00		0.00	0.00	0.00
370,652.00				370,652.00
0.00	0.00	0.00	0.00	0.00

0.00

0.00	0.00	0.00	0.00	
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11,733,404.00	11,362,752.00	0.00	0.00	370,652.00
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0.00				
0.00				
0.00				
0.00				
0.00				
0.00				
0.00				
0.00				
0.00				
0.00				
0.00			0.00	0.00

11,733,404.00	11,362,752.00	0.00	0.00	370,652.00
11,362,752.00	11,362,752.00	0.00	0.00	
11,733,404.00	11,362,752.00	0.00	0.00	370,652.00
11,362,752.00	11,362,752.00	0.00	0.00	

7,477,795.38
2,256,794.62
156.91%
503.49%

C0060
11,733,404.00
0.00
1,972,752.00
0.00
9,760,652.00

0.00

