# The Palatine Insurance Company Limited

## Solvency and Financial Condition Report

For the year ended 31 December 2018

# The Palatine Insurance Company Limited 2018

## Contents


Directors' report ..... 3

External Audit Requirement ..... 4

Executive summary ..... 5

Section A Business and performance ..... 6

A1: General business information ..... 6

A2: Underwriting performance ..... 7

A3: Investment performance ..... 8

A4: Performance of other activities ..... 8

A5: Any other material information ..... 8

Section B System of governance ..... 9

B1: Governance structure ..... 9

B2: Fit and proper requirements ..... 12

B3: Risk management system ..... 12

B4: Internal control system ..... 15

B5 Internal Audit function ..... 16

B6: Actuarial function ..... 16

B7: Outsourcing ..... 16

B8: Assessment of adequacy ..... 17

Section C: Risk profile ..... 18

C1: Underwriting risk ..... 18

C2: Financial Market risk ..... 19

C3: Credit risk ..... 19

C4: Liquidity risk ..... 20

C5: Operational risk ..... 20

C6: Other material risks ..... 20

C7: Other information ..... 21

Section D: Valuation for solvency purposes ..... 22

D1: Assets ..... 22

D2: Technical provisions ..... 24

D3: Other liabilities ..... 25

D4: Alternative methods of valuation ..... 26

D5: Any other material information ..... 26

Section E: Capital management ..... 27

E1: Own funds ..... 27

E2: Solvency Capital Requirement and Minimum Capital Requirement ..... 28

E3: Duration-based equity risk ..... 29

E4: Differences between the standard formula and the internal model ..... 29

E5: Non-compliance ..... 30

E6: Any other material information ..... 30

Appendix: Glossary ..... 31

Appendix: Quantitative Reporting Templates ..... 33

## The Palatine Insurance Company Limited 2018

# Directors' report

**Report of the Directors of The Palatine Insurance Company Limited pursuant to Rule 6.2 (1) of the Reporting Part of the PRA Rulebook applicable to Solvency II firms**

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report 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 to comply subsequently and will continue to comply in the future.

The Solvency and Financial Condition Report was approved by the Board of Directors on 4 April 2019 and is signed on its behalf by

Michael Lyons

Director

4 April 2019

# External Audit Requirement

The Company has taken advantage of the audit exemption as provided by the Prudential Regulation Authority Policy Statement PS25/18 issued in October 2018. The changes made to the PRA Rulebook to the requirement for an external audit of the public disclosure requirement take effect from Thursday 15 November 2018.

The exemption is available for those Companies that meet a threshold of a firm's risk metric based on reported gross written premiums and best estimate liabilities.

The Company meets the criteria set out in the PRA methodology as described in appendix 1 of the Policy Statement PS25/18, entitled PRA Rulebook: Solvency II Firms and Non-Authorised Persons: External Audit Amendments Instrument 2018.

# Executive summary

**Business and performance**

- The Company ceased to accept new business in 1994.
- It continues to run off its existing liabilities until expiry or settlement.
- The run-off continues to progress on a solvent basis and is expected to continue to do so in the future.

**System of governance**

- There were no significant changes to the system of governance for the Company in 2018.

**Risk profile**

The following change in the Company's risk exposures occurred during 2018:

- The case reserves reflect only one contract (2017: one), which had one claim during the year. Losses on this contract are fully covered by the Company's reinsurance programme.

**Valuation for solvency purposes:**

**Non-life technical provisions**

- The value of inwards best estimate liabilities including risk margin was GBP 525 thousand at 31 December 2018 (2017: GBP 1 250 thousand).

**Other assets and liabilities**

- No material changes to other assets and liabilities during 2018 (2017: none).

**Capital management**

- Own Funds were GBP 8 008 thousand at 31 December 2018 (2017: GBP 7,981 thousand)
- The Solvency II capital requirement is the Absolute Floor of the Minimum Capital Requirement which remains unchanged at EUR 3,700 thousand. On translation to GBP the Absolute Floor was GBP 3 288 thousand at 31 December 2018 (2017: 3 255 thousand).
- The solvency ratio expressed as eligible own funds as a percentage of the MCR Absolute Floor as at 31 December 2018 was equal to 244% (2017: 245%).

# Section A Business and performance

## A1: General business information

**1. Full name and legal form**

The Palatine Insurance Company Limited (the Company) is an insurance company incorporated in England and Wales as a private limited company under United Kingdom law.

**2. Supervisory authority and group supervisor**

The Company is authorised and regulated in the UK by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to conduct insurance business. It operates through an office in the United Kingdom,

Prudential Regulation Authority
20 Moorgate
London, EC2R 6DA
Phone: +44 (0)20 7601 4444
Fax: +44 (0)20 7601 4771
www.bankofengland.co.uk/pra

Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London, E14 5HS
Phone: +44 (0)20 7066 1000
http://www.fca.org.uk/

The ultimate parent company is Swiss Re Ltd, a joint stock company, listed in accordance with the International Reporting Standard on the SIX Swiss Exchange, domiciled at Mythenquai 50/60 in 8022 Zurich, Switzerland, and organised under the laws of Switzerland. For the purposes of this report, the ultimate parent company and all its subsidiaries are referred to as Swiss Re or the Swiss Re Group. The Group supervisor is the Swiss Financial Market Supervisory Authority.

Swiss Financial Market Supervisory Authority
Laupenstrasse 27
CH – 3003 Berne
Switzerland
Telephone: +41 31 327 91 00
Fax: +41 31 327 91 01
www.finma.ch

**3. Holding company**

The parent company of the Company is Swiss Re Corporate Solutions Ltd (the parent company), a company incorporated in Switzerland as a company limited by shares. The ownership is 100%.

**4. Ultimate parent company**

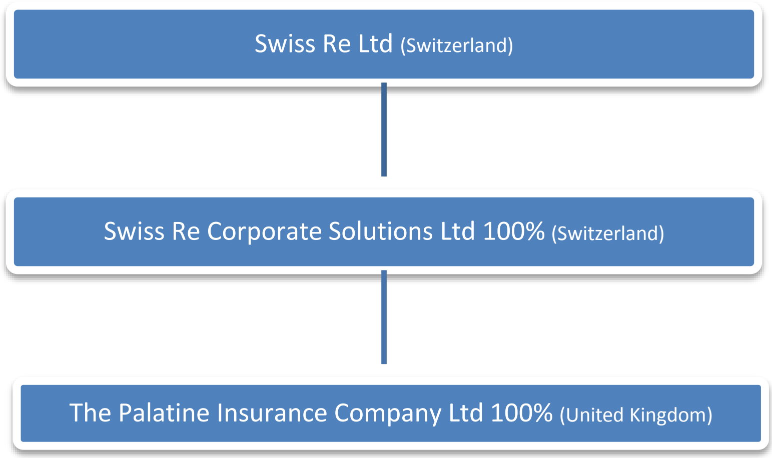
Please refer paragraph "2 Supervisory authority and group supervisor" on page 6 for details of the ultimate parent company.

**5. Material subsidiaries**

As at 31 December 2018, the Company does not have any investments in subsidiaries (2017: none).

**6. Structure chart of the Company**

The Company's parent and ultimate parent company as at 31 December 2018 were as follows:




**7. Material lines of business and geographical split**

**Material lines of business and geographic areas**

The Company ceased to accept new business in 1994. It continues to run off its existing liabilities until expiry or settlement.

The line of business of the remaining liabilities is general liability insurance.

The major geographic area in which the Company previously wrote business was UK.

**8. Significant business or other events**

No significant business or other events have occurred during the year that had a material impact on the Company in terms of risks or management.

## A2: Underwriting performance

**9. Underwriting performance**

The net technical account as per QRT S.05.01, by material lines of business, for the years ended 31 December was as follows:

| GBP thousands | Underwriting performance 2017 | 2018 |
|---|---|---|
| Fire and other damage to property (direct and proportional) | 22 | 9 |
| General liability (direct and proportional) | -35 | -19 |
| Total | **-13** | **-10** |

The GBP 9 thousand for Fire and other damage to property is a claim refund received during the year. On General liability, the negative result is the result of administrative costs with no offsetting technical income. The administrative costs year in year reduced as a result of the removal of the requirement to audit the SFCR.

The underwriting performance by material countries, based on QRT S.05.02.01 for the years ended 31 December, was as follows:

| GBP thousands | Underwriting performance 2017 | 2018 |
|---|---|---|
| United Kingdom | -13 | -10 |
| Total | **-13** | **-10** |

## A3: Investment performance

**10. Investment results**

Investment income and expenses by investment assets category, as at 31 December, were as follows:

| GBP thousands | Income | | Expenses | |
|---|---|---|---|---|
| Asset category | **2017** | **2018** | **2017** | **2018** |
| Government bonds | 17 | 41 | -12 | -9 |
| Total | 17 | 41 | **-12** | **-9** |

The increased investment income for 2018 is due to positive differences between purchase price and face value of bonds purchased during 2018 compared to 2017.

**11. Gains and losses recognised directly in equity**

The Company does not recognise any gains or losses directly in equity (2017: none).

**12. Investments in securitisation**

The Company does not have any investments in tradable securities or other financial instruments based on repackaged loans (2017: none).

## A4: Performance of other activities

**13. Material leasing arrangements**

The Company has no material leasing arrangements (2017: none).

**14. Other material income and expenses incurred during 2018**

No other material income and expenses were incurred during 2018 (2017: none).

## A5: Any other material information

**15. Other material information**

There is no other material information to report for 2018 (2017: none).

# Section B System of governance

## B1: Governance structure

**1. Organisational structure and system of governance**
The Corporate Governance of the Company is set out in the Palatine Insurance Company Ltd Corporate Governance document. This document confirms that the governance should be proportionate to the relatively small size of the reserves and the runoff status of the Company and lays out the principles under which the Board operates.

**Board of Directors**
The Board's duty is to manage the Company in the best possible way to achieve the Company's purpose and within the Company's best interests. The Board is responsible for the sound and prudent management of the Company.

The members of the Board bear ultimate responsibility and liability for meeting applicable legal obligations. They therefore have the right and obligation to take all measures to fulfil their legal duties.

The members of the Board are individuals with the abilities, professional background and personal character (including honesty and financial soundness) necessary and required to ensure an independent decision-making process in a critical exchange of ideas with the executive management.

**Board Composition**
As at 31 December 2018, the Board had two members, M. Lyons and M. Graves. Both are Swiss Re employees.

**Delegation and retained responsibilities of the Board**
The Board retains all responsibility for the oversight and control of the Company and makes no delegation of its responsibilities to any board committees.

**Key functions**
The Board is responsible for adopting appropriate measures to implement Group guidelines or policies relating to the key functions.

There is a clear separation between the risk-taking and risk controlling (assurance) roles. The role of the assurance functions defined as key or critical under the Solvency II framework, are as follows:

**Risk Management**
Please refer to paragraph "10 Implementation and integration of the Risk Management function " on page 16 for details of the Risk Management function.

**Compliance**

Please refer to paragraph "20 Implementation of the compliance function" on page 17 for details of the Compliance function.

**Internal Audit**

Please refer to paragraph "21 Internal Audit function implementation" on page 18 for details of the Internal Audit function.

**Actuarial**

Please refer to paragraph "16 Implementation of the Actuarial function" on page 18 for details of the Actuarial function.

**Key functions holders**
The Board nominates key function holders and monitors the key functions to ensure they are adequately staffed with professionals possessing the requisite professional qualifications, knowledge and experience. Key functions holders operate under the oversight of the Board of the Company.

**Reporting and access to information**
The Board has full authority to investigate any matters within their respective duties. They are authorised to obtain independent professional advice, request external advisors to undertake specific tasks or to obtain any information from any director, officer or employee acting on behalf of the Company and to secure their attendance at relevant meetings when necessary.

The key functions shall have operational independence in performing their reporting functions with the exception of Internal Audit, which shall have complete independence in performing its reporting function. Key function holders will report directly to the Board on any issues that could have an impact on the Company.

### 2. Material changes in the system of governance

There were no significant changes to the system of governance in 2018.

### 3. Remuneration policy and practices

There are no personnel with contracts of employment with the Company. Other personnel who contributed to the operations of the Company are employed by other Swiss Re Group companies which may make recharges to the Company for the services provided.

The Swiss Re Group Standard on Compensation captures Swiss Re's compensation framework and governance, outlines the compensation processes across the Group and provides key guidelines for the execution of individual compensation actions.

Swiss Re aims for total compensation that is competitive in the market and also seeks to ensure that total compensation is well-balanced in terms of fixed versus variable compensation and in terms of short-term versus long-term incentives. This is to encourage sustainable performance and appropriate risk taking in line with the business and risk strategy.

Swiss Re has several incentive programmes that reflect the long-term nature of the business: both the Value Alignment Incentive (VAI) as the deferred part of the Annual Performance Incentive (API) and the Leadership Performance Plan (LPP) aim to reward sustainable long-term performance rather than short-term results. These programmes support closer alignment of the interests of shareholders and employees.

**Overview of the compensation components**

**Fixed compensation**

*Base salary*

Base salary is the fixed compensation paid to employees for carrying out their role and is established based on the following factors:

- scope and responsibilities of the role and qualifications required to perform the role
- market value of the role in the location in which Swiss Re competes for talent; and
- skills and expertise of the individual in the role

*Benefits*

Swiss Re aims to provide a competitive package of employee benefits. Benefits are designed and implemented under a global framework, while appropriately reflecting local employment market conditions.

**Variable compensation**

*Annual Performance Incentive*

The API is a performance-based, variable component of compensation. Combined with the base salary, it provides competitive total cash compensation when both business and individual performance targets are achieved. When the total API level for an employee exceeds a pre-defined amount, the award is split into two components: an immediate cash incentive payment (cash API) and a deferred API (VAI).

*Value Alignment Incentive*

The VAI is a mandatory deferral of a portion of the API and introduces a time component to this performance-based variable compensation. This supports the Group's business model by aligning a portion of variable compensation with sustainable long-term results.

*Leadership Performance Plan*

The purpose of the LPP is to provide an incentive for Swiss Re's senior management to create sustainable company performance over the long-term. The vesting and performance measurement period is three years. For LPP awards granted to Group Executive Committee members and other key executives, the duration of the LPP is five years comprising a three-year vesting and performance measurement period and an additional two-year holding requirement.

**Participation plans**

*Incentive Share Plan*

The Incentive Share Plan (ISP) provides employees with an opportunity to purchase Swiss Re shares with some or all of their immediate cash API. Shares are offered with a 10% discount on the Fair Value and are subject to a one-year blocking period. Full shareholder rights apply during this blocking period. The ISP encourages alignment with shareholder interests. At the end of the one-year period, the employee assumes full ownership of the shares. The ISP has been discontinued from 2019.

*Global Share Participation Plan*

The Global Share Participation Plan (GSPP) provides employees with an opportunity to directly participate in the long-term success of the Group by purchasing Swiss Re shares (up to a maximum of CHF 7 000 per year of a plan cycle and capped at 10% of base salary). Swiss Re provides a 30% match on the number of shares held by employees at the end of the three-year plan cycle. The match is subject to forfeiture in case of termination of employment before the end of the plan cycle. The GSPP has the same core design in all locations.

**Compensation framework for the Board**

Directors receive no additional fees for their services as members of the Board.

## 4. Performance criteria

*Annual Performance Incentive*

Swiss Re operates a Target API (TAPI) system along with a performance management framework that provides equal weighting to results-oriented and behaviour-related performance criteria for all employees. API is awarded for both objectives achieved and the demonstration of desired behaviours.

A TAPI is set for each eligible employee based on multiple factors, but primarily on the role being performed and market benchmarks. The actual API pay-out is based on Swiss Re's financial results and other qualitative criteria as well as the achievement of individual objectives and the demonstration of desired behaviours.

*Value Alignment Incentive*

The performance factors of the VAI are calculated based on the three-year average of the published Economic Value Management (EVM) previous years' business profit margin EVM is Swiss Re's proprietary integrated economic valuation and steering framework consistently measuring performance across all businesses.

*Leadership Performance Plan*

At the grant date, the award amount is split equally into two underlying components Restricted Share Units (RSUs) and Performance Share Units (PSUs). A fair value methodology executed by a third party determines the number of RSUs and PSUs granted:

*Restricted Share Units*

The performance condition for RSUs is return on equity (ROE) with a linear vesting line. Vesting is at 0% for an ROE at the risk free rate and at 100% for an ROE at a predefined premium above the risk free rate. The premium is set at the beginning of the plan period. At the end of each year, the performance against the ROE condition is assessed and one third of the RSUs are locked in within a range of 0% to 100%. At the end of the three-year period, the total number of units locked in at each measurement period will vest (capped at 100%[1]).

*Performance Share Units*

The performance condition for PSUs is relative total shareholder return (TSR) measured over three years. Swiss Re's TSR performance is assessed relative to the TSR of a pre-defined peer group. This peer group consists of companies that are similar in scale, have a global footprint or a similar business mix as Swiss Re.

## 5. Supplementary pension or early retirement schemes for key individuals

Swiss Re does not have a policy of offering supplementary or enhanced early retirement to key individuals.

[1] Maximum vesting percentage excludes share price fluctuation until vesting.

**6. Material transactions**

During 2018, there were no material transactions with shareholders, persons who exercise a significant influence on the Company or with members of the administrative, management and supervisory bodies.

## B2: Fit and proper requirements

**7. Policy framework for fit and proper**

The Company's compliance with fit and proper requirements is assured through a combination of policies and related procedures at both the Group and the Company level. In particular, the Board and Management follow special procedures related to appointments (nominations or changes), performance review and training. A set of tools and templates facilitates the implementation of these policies, which collectively ensure that those who effectively run the undertaking possess the requisite skills, knowledge and expertise for their roles.

**8. Process for assessing fitness and propriety**

Compliance with fit and proper requirements of the Board/Committees is reviewed at various stages, as shown in table below.

| Stage | Activities |
|---|---|
| Nomination | The Company adheres to the Swiss Re Corporate Governance Guidelines which take into account the nature, size and complexity of the Group's legal entities when applying governance standards and requirements. In particular, amongst other things, the Guidelines establish procedures for the appointment and onboarding of Board of Directors and management members. Approval is required from the Financial Conduct Authority and the appointment is confirmed only after the necessary Board, regulatory and internal approvals have been received. |
| Induction | Newly appointed members receive information including a guide to Directors' Duties under the Companies Act 2006, the Company's most recent accounts, Articles Of Association and past year's minutes. . Recent Finance, Legal and Compliance and Risk Management reports are available on request. |
| Training | Training sessions are held by Compliance to support directors' understanding of their duties as needed. |
| Collective Assessment | A formal performance review is conducted annually to ensure the legal entity complies with the Group Corporate Governance Guidelines. Board members complete a self-assessment questionnaire and checklist which makes specific reference to Fit and Proper requirements. Gaps and action items (eg, training needs) are documented for follow-up. |
| Ongoing and ad-hoc assessment | All individuals subject to Fit & Proper requirements have to complete an annual fit and proper declaration, which focuses on the validation of the propriety to cover the assigned position. Re-assessments are performed if (a) additional responsibilities are assigned to a concerned individual, (b) if a concerned individual becomes aware that he/she is no longer meets the Company's fit and proper criteria, or (c) if the performance or the behaviour of a concerned individual raises serious doubts about this person meeting the fit and proper criteria. |

## B3: Risk management system

**9. Risk management system**

The Company aligns its risk management system as part of the global framework that governs risk management practices throughout the Swiss Re Group. Risk policies, standards and guidelines established at Group and Business Unit level form a large part of the Company's risk management system; significant documents are reviewed for appropriateness by the Company and subsequently adopted. The Company establishes additional risk governance where needed as an addendum to the respective Group or Business Unit governance.

Specifically, the Company relies on group processes and controls that are in place and operation within Swiss Re International S.E (SRI), a fellow group undertaking. Both Companies are fully owned by Swiss Re Corporate Solutions Ltd.

A key objective of the Risk Management function is to enable controlled risk-taking and the efficient, risk-adjusted allocation of capital.

Risk management is based on four guiding principles which apply consistently across all risk categories:

- Controlled risk-taking - Financial strength and sustainable value creation are central to Swiss Re´s value proposition. The Company thus operates within a clearly defined risk policy and risk control framework.
- Clear accountability - Swiss Re's operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for the risks they take on, and their incentives are aligned with Swiss Re´s overall business objectives.
- Independent risk controlling - Dedicated units within Risk Management control all risk-taking activities. These are supported by Compliance and Group Internal Audit functions.
- Transparency - Risk transparency, knowledge sharing and responsiveness to change are integral to the risk control process. The central goal of risk transparency is to create a culture of mutual trust, and reduce the likelihood of surprises in the source and potential magnitude of losses. Risk transparency is ensured through regular reporting of both quantitative and qualitative risk information to the Company's Board based on reports submitted to the Board of Swiss Re International SE and noting any exceptional items in respect of the Company.

For its risk identification process, the Company applies Swiss Re's Group and Business Unit frameworks, under which risk takers are responsible for identifying, assessing, managing, controlling and reporting all relevant information on risks they are exposed to or undertake.  In addition, the Company benefits from the results of Swiss Re's emerging risk process. The emerging risk process provides a Group-wide platform for raising emerging risks and reporting early warning signals; this information is complemented with external expertise and reported to internal and external stakeholders.

**Underwriting risk**
The Company accepted underwriting risk in accordance with frameworks applicable at the time of acceptance prior to ceasing to write new or renew business with effect from 1994.

The Company's run-off portfolio is monitored to determine future claims trends and ensure the Company has an appropriate reserving strategy with estimates prepared on a "best estimate" basis,

The Company manages its exposure to insurance risk by use of intra-group risk transfer.

**Financial market risk**
Limits are in place to ensure the Company's financial market risk is managed and monitored in line with its risk appetite as described in the Company's Investment Guidelines. This includes a governance framework which describes appropriate actions to be taken when limits are near to or being breached. Swiss Re Asset Management provide regular reports on compliance with the Investment Guidelines, which are reviewed by Finance.

Foreign exchange risk arising from technical reserves and currency claims settlements are monitored in accordance with the Company's Credit and Financial Risk Guidelines. The Company manages its exposure to currency mismatching by a quota share reinsurance arrangement.

The Company has immaterial exposure to interest rate risk on its investment portfolio. The impact of changes in discount rates applied to net technical liabilities and reinsurance recoverables is considered immaterial.

**Credit risk**
The Company monitors the overall risk profile of its major reinsurance counterparties using analysis prepared by the Risk Management function responsible for monitoring corporate counterparty credit quality and exposures, and compiling watch lists of cases that merit close attention.

**Operational risk**
The Company identifies and manages operational risks based on Swiss Re's Group Operational Risk Management Standards and the associated co-ordinated assurance framework, which provides the basis for the Company's internal system of control. Please refer to point "Internal control system" on page 15. Risk Management supports senior management in establishing an

appropriate control framework and by promoting risk awareness to all employees as well as creating risk transparency through risk reporting. The Company monitors operational risk through routine management information

**Liquidity risk**

The Company's management of liquidity complies with the Group's Funding Liquidity Risk Management Standards given the Company's run-off status and allows for sufficient liquidity, to ensure it can meet potential funding requirements.

**Strategic risk**

The Board has determined that the long term objective of the Company is to run off the business in an orderly fashion, whilst ensuring that the business is managed in a prudent manner and that claimants are treated fairly.

**Regulatory risk**

Regulatory developments and related risks that may affect the Company are monitored by Swiss Re experts as part of regular oversight activities and reported to the Board in regular Compliance updates.

**Political risk**

The Company uses Swiss Re Group processes to identify, manage and monitor potential adverse political developments. Swiss Re experts provide specific country ratings that cover political, economic and security-related country risks; these ratings complement sovereign credit ratings and are used by the Company in internal decision-making processes.

**Reputational risk**

The Company mitigates potential damage to its reputation through clear corporate values, robust internal controls and active dialogue with external stakeholders. All employees of the Group are required to commit to and comply with the values and rules of behaviour defined in the Group Code of Conduct which has been adopted by the Board.

**10. Implementation and integration of the Risk Management function**

Under the Company's Corporate Governance document, the Board assumes the oversight role for risk and capital steering supported by the Finance team and the Risk Officer.

The Company's risk management is supported by both Swiss Re's global risk management units that provide risk modelling and reporting services, regulatory relations management and central risk governance framework development as well as by the Business Unit Risk Management function which provides specialised risk category expertise and accumulation control.

**11. Internal model**

The Company applies the Standard Formula in calculating its Minimum Capital Requirement and its Solvency Capital Requirement.

**12. Process for accepting changes to the internal model**

Not applicable to the Company

**13. Material changes to internal model governance**

Not applicable to the Company

**14. Validation tools and processes**

Not applicable to the Company

**Other risks**

The Company has reviewed whether there are any additional risks faced as a consequence of being part of Swiss Re Group, the Company does not see there are additional risks to be considered.

**15. The prudent person principle**

The general principle governing the management of the Company's investments is, given its status as a run-off company, to ensure that there is sufficient capital preservation and liquidity in relation to its investments to ensure liabilities are met as they fall due.

**16. Own Risk and Solvency Assessment (ORSA) Process**

The ORSA is an ongoing process, with critical risk control and reporting activities being carried out on a regular basis as outlined in Section B3 on page 12. ORSA is an iterative process within the annual business planning exercise and is used to assess risk inherent in the plan and the resilience of the Company solvency and balance sheet over a three year horizon.

Anticipated significant changes in risk profiles are included in assessing the future solvency position. Scenarios are used to provide insights into the strength of the balance sheet and assess future potential solvency positions. Where exceptionally adverse scenarios are identified; mitigation actions and control measures are contemplated but would require Board approval prior to actions being taken.

The Risk Officer in conjunction with Finance maintains operational responsibility for carrying out the ORSA process and delivering ORSA reports to the Board.

**17. Review of ORSA**
The ultimate responsibility for the ORSA rests with the Board, which reviews and approves at least annually the results of the ORSA process.

**18. Solvency assessment**
The Company applies the Standard Formula.

The plan is stressed by scenarios within the ORSA process to ensure that the calculated target capital still holds under those scenarios.

## B4: Internal control system

**19. Internal control system**
**Co-ordinated assurance framework**
Swiss Re's co-ordinated assurance framework is used by the Company to identify the principal operational risks to the organisation and the relevant key controls to manage them, as well as to demonstrate that a sufficient level of assurance is gained from the effectiveness of those controls.

Risk-taking activities are typically subject to three lines of control or defence.

- The first line comprises the day-to-day risk control activities performed by risk takers in the business as well as in other functions of the Company.
- Independent oversight performed by functions such as Risk Management and Compliance represents the second line of control.
- The third line consists of independent audits of processes and procedures carried out by Group Internal Audit or by external auditors.

**Assurance function interactions**
While all functions retain their specific mandates and areas of expertise by working together and relying where possible on each other's work, a holistic approach is assured under the co-ordinated assurance framework. Information, planning and execution of assurance work are coordinated and results are shared, reducing overlap between assurance units, increasing mutual reliance and providing an increased focus on pre-emptive assurance. The integrated approach is deployed within the following activities:

- risk scoping and assurance planning;
- coordination between assurance functions in business interactions;
- issue and action management interactions;
- monitoring across assurance functions, and
- reporting.

**20. Implementation of the compliance function**
The Compliance Charter sets out the objective and purpose of the Compliance function, as well as the overall roles and responsibilities for compliance with all applicable legal and regulatory requirements, the highest professional and ethical standards and its stated corporate values. The Compliance Charter applies to all Swiss Re legal entities.

To ensure that the compliance objectives are met consistent with the expectations of regulatory authorities, shareholders, clients and other stakeholders, the Board supports best compliance practices and an appropriately resourced Compliance function.

The Company Compliance function is responsible for:

- providing primary assurance oversight and assisting Management in the design of remedial actions and overseeing their implementation.
- overseeing compliance-related policies, guidelines and the Code of Conduct, and ensuring that these are regularly reviewed and up to date.
- overseeing, as well as providing, appropriate compliance training to the Company's directors, officers and employees covering the Code of Conduct and certain related legal and regulatory compliance obligations.

The Compliance function is authorised to review all areas and to have full, unrestricted access to all activities, records, property and personnel, including, without limitation, access to employee email records, subject in all cases to applicable law. In addition, the Compliance function is operationally independent.

## B5 Internal Audit function

**21. Internal Audit function implementation**

Group Internal Audit (GIA) assists the Board in protecting the assets, reputation and sustainability of the Company. GIA performs audit activities designed to assess the adequacy and effectiveness of the Company's internal control systems, and to add value through improving the Company's operations.

GIA provides written audit reports, identifying issues and management actions to the Group Audit Committee, the Company's Board and the external auditor on a regular basis. GIA monitors and verifies that management's actions are effectively implemented. Significant issues, and issues that have not been effectively corrected, are highlighted to the Group Audit Committee and the Company's Board.

**22. Independence of the Internal Audit function**

GIA will perform its internal audit activities with independence and objectivity. Activities are coordinated with the other assurance functions. GIA has no direct operational responsibility or authority over any of the activities it reviews.

Authority is granted for full, free and unrestricted access to any and all of the Group's property and personnel relevant to any function under review. All employees are required to assist GIA in fulfilling their duty.

GIA staff govern themselves by adherence to The Institute of Internal Auditors' "Code of Ethics." The Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing" shall constitute the operating guidance for the department. In addition, GIA adheres to the Group's guidelines and procedures, and GIA's organisation and processes, manuals and guidelines.

## B6: Actuarial function

**23. Implementation of the Actuarial function**

The tasks of the Actuarial function under the Solvency II framework are allocated across various functions:

- technical provision calculations are performed by qualified actuaries within P&C Business Management unit with peer review by Group Actuarial Control;
- the adequacy of the Reinsurance arrangements are monitored by the Board

## B7: Outsourcing

**24. Outsourcing policy**

The Company has adopted Swiss Re's comprehensive Global Outsourcing Framework.

The policy covers two types of outsourcing arrangements:

- external outsourcing, where the mandate is given to an external service provider;
- intra-Group outsourcing between Swiss Re entities.

The framework includes an approval process for critical or important new outsourcing arrangements based on a pre-defined due diligence selection process and requires a set of standard terms to be included in the outsourcing agreement. Requirements for post-approval control and monitoring, documentation and reporting are described.

The Board approves the outsourcing of critical and important outsourcing arrangements.

## B8: Assessment of adequacy

### 25. Adequacy of governance

The Board carries out an annual certification of its system of governance against relevant best practice standards. During the reviews performed in April 2018, the Board concluded that the system of governance is adequate to the nature, scale and complexity of the risks inherent in its business.

### 26. Other material information

There is no other material information to report for 2018 (2017: nil).

# Section C: Risk profile

**1. Overview of risk exposure**

The Company is exposed to a landscape of risks, which include those core risks that were taken on as part of past insurance taking activities or are taken on as part of its asset management operations activities.

Sections (C1 to C7) provide quantitative and qualitative information on the specific risk categories.

**2. Measures used to assess risks and material changes**

The Company uses the results of the standard formula calculations to assess risk categories; The Solvency Capital Requirement is calculated in line with the definitions provided under Solvency II.

**3. Quantification of risks by risk category**

The table below quantifies the Company's risk categories as at 31 December for the average exposure for the next year. Due to diversification, the total risk of the Company is lower than the sum of the individual categories.

| GBP thousands | 2017 | 2018 |
|---|---|---|
| Underwriting risk | | |
| • Property and casualty risk | (0) | (0) |
| • Life and health risk | - | - |
| • Credit underwriting risk | - | - |
| Financial market risk | 23 | 33 |
| Credit risk | 34 | 14 |
| Operational risk | 14 | 12 |
| **Total risk net of external and internal risk transfer** | **60** | **51** |

The above table reflects the immaterial nature of the Underwriting risk faced by the Company.

**4. Risk concentration**

The most significant risk concentration for the Company derives from counterparty risk which derives from exposure to intra-group reinsurance with other entities of the Group, namely Swiss Reinsurance Company Limited.

Under the Swiss Solvency Test, which is broadly similar to Solvency II and based on Swiss Re's internal risk model, Swiss Reinsurance Company Limited is well capitalised.

The probability of default is considered within the stress scenarios as part of the annual ORSA process.

## C1: Underwriting risk

**Risk exposure**

Underwriting risk relates to exposures taken on by the Company prior to the cessation of underwriting in 1994, when it wrote insurance business

**Property and casualty risk**

Underwriting risk comprises exposures taken on by the Company when it wrote general liability insurance business.

Given the run-off nature of the Company, the Company is exposed to inherent risk from the business it wrote such as inflation or uncertainty in reserving (reserve risk).

**Life and health risk**

The Company has no life and health exposure.

**Credit underwriting risk**

The Company has no credit underwriting exposure.

**Material risk developments over the reporting period**

There were no material changes over the reporting period. The Company continues to run off its portfolio in alignment with the stated objectives of the Company.

**Risk mitigation**
Underwriting risk is largely mitigated by internal reinsurance. Counterparty risk is regularly monitored.

**Sensitivity analysis and stress testing**
Given the run off status of the Company, underwriting risk mainly relates to reserve risk. A sensitivity analysis has been performed to assess the probability and impact of under-reserving, however the probability of significant under-reserving is considered remote. A sensitivity analysis has been performed to assess the probability and impact of changes in net losses after reinsurance recoveries, which identified a potential impact in the range £8k to £1,000k (2017: £6k to £1,000k) on shareholders' funds and profit or loss for the year, however the probability of occurrence for losses at the higher end of the range is considered very remote.

**Special Purpose Vehicles**
The Company does not use special purpose vehicles.

## C2: Financial Market risk

**Risk exposure**
The value of the Company's assets or liabilities may be affected by movements in financial market prices or rates, such as interest rates or foreign exchange rates.

The Company is exposed to interest rate risk on its investment portfolio of government bonds, but given the continuing low level of investment return the Company's potential loss in the event of a fall in interest rates is minimal.

Changes in the discount rates applied to net technical liabilities and reinsurance recoverables may impact on Solvency II available capital (own funds), but the impact is considered to be immaterial.

The Company's foreign currency exposures on technical liabilities and claims settlements are mitigated by currency matching with investment assets which keep net foreign currency assets to a minimum.

**Material risk developments over the reporting period**
There were no material changes in financial market risk over the reporting period.

**Risk mitigation**
The Company uses a prudent and effective asset and liability matching process to mitigate market risks and regular reporting of the monitoring the effectiveness of the asset and liability matching process is in place.

**Sensitivity analysis and stress testing**
The Company stress tests its sensitivity to market risk by assessing the probability and impact on net asset value of a range of changes in interest and foreign exchange rates and has concluded that results are immaterial.

## C3: Credit risk

**Risk exposure**
Credit risk primarily reflects the risk of incurring a financial loss from the default of counterparties or of third parties. In addition, it takes account of the increase in risk represented by any deterioration in credit ratings. This risk arises directly from investment activities, as well as from counterparty risk both related to external credit risk and to intra-group counterparties which is reflected in the counterparty default risk.

**Material risk developments over the reporting period**
Over the reporting period, credit risk calculated under the standard formula reduced following a move to an alternative investment counterparty.

**Risk mitigation**
Risk Management monitors corporate counterparty credit quality and exposures and compiles watch lists of cases that merit close attention. Risk Management monitors and reports credit exposure and limits on a regular basis in order to maintain exposure within approved limits.

**Sensitivity analysis and stress testing**
An assessment of likelihood of default is made for the significant counterparties to which the Company is exposed and is reviewed by the Board of the Company during the annual ORSA process taking into account internal credit risk management counterparty credit quality assessments.

## C4: Liquidity risk

**Risk exposure**
The Company's exposure to liquidity risk stems mainly from the need to meet potential funding requirements arising from claims settlements and expenses. However, given the high liquidity of the Company's invested assets, the risk to its solvency due to not being able to fund claims payments is very remote.

**Material risk developments over the reporting period**
There were no material changes over the reporting period.

**Risk mitigation**
The Company controls liquidity risk to ensure that it can satisfy claims payments and settle expenses. To manage liquidity risk, the Company maintains balances in current bank accounts and holds Treasury Bills which are readily realisable in a relatively short period of time.

**Sensitivity analysis and stress testing**
The Company has experienced a continuing trend of low levels of claims settlements in terms of value and frequency in recent years as the run off progresses, and considers that the risk of failure to meet its obligations is low. Therefore no specific stress testing or sensitivity analysis is performed at present.

**Amount of expected profit in future premiums**
Not applicable to the Company.

## C5: Operational risk

**Risk exposure**
Operational risk represents the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people or systems risks or from external events (including legal risk) differ from the expected losses. Operational risks are assessed and monitored qualitatively based on the Company's co-ordinated assurance framework.

**Material risk developments over the reporting period**
Operational risk calculated under the standard formula decreased in line with the continuing run off of the portfolio and reduced gross best estimate of liabilities.

**Risk mitigation**
The Company's co-ordinated assurance framework outlined in paragraph "199 Internal control system" on page 157, is used to manage and mitigate operational risk

**Sensitivity analysis and stress testing**
The Company takes note of exercises undertaken by Group Operational Risk Management to re-evaluate its exposure to operational risk. The team conducts workshops where business experts (first line risk takers) and second line of defence risk managers exchange views and outlooks of the potential for one-in-two hundred year operational events and the expected financial impact if these risks should materialize under various scenarios. Whilst the outcome of this review is used to recalibrate the Swiss Re Group Risk Model which is not used by the Company, the understanding of events and how they could impact the Company is taken into account in the broader risk management context. The Company considers there to be no material impact based on this review of operational risk

## C6: Other material risks

There were no other material risks over the reporting period.

## C7: Other information

All material information has been disclosed above.

# Section D: Valuation for solvency purposes

## D1: Assets

**1. Methods applied for valuation of material assets**

Material assets as at 31 December 2018 were as follows: (based on QRT Balance Sheet S.02.01)

| GBP thousands | Solvency II | Company statutory | Difference |
|---|---|---|---|
| Investments | 7 882 | 7 882 | - |
| Reinsurance recoverables | 522 | 530 | -8 |
| Total of all other assets not listed above | 153 | 153 | - |
| **Total assets** | **8 557** | **8 565** | **-8** |

The following valuation bases were used to value material assets for Solvency II purposes:

- Investments – quoted market price valuation
- Reinsurance recoverables – alternative valuation

**Investments**

**Solvency II:**

Investments in government bonds are valued at fair value, determined by reference to observable market prices.

**Company statutory:**

Investments in government bonds are valued at acquisition cost.

**Reinsurance recoverables**

**Solvency II:**

The share of reinsurance technical provisions is determined with reference to the contractual agreement and the underlying gross Solvency II best estimate liability per treaty.

**Company statutory:**

The share of reinsurance technical provisions is determined with reference to the contractual agreement and the underlying gross business data per treaty.

The difference between Solvency II and Company statutory is mostly attributable to the discounting approach where the future cash flows are discounted using the Solvency II discount rates, and the allowance for counterparty default.

**2. Assumptions and judgements applied for the valuation of material assets**

Investments are valued at market value which is determined to the extent possible by reference to observable market prices. There are no major sources of estimation uncertainty when using judgments to determine valuations. Since Solvency II follows fair value (through profit and loss methodology), the securities are not carried at more than recoverable amounts.

**3. Changes made to the recognition and valuation basis of material assets during the year**

No changes were made to the recognition and valuation basis or to estimation assumptions during 2018 (2017: none).

**4. Drivers of differences between Solvency II and Company statutory accounts**

The differences between Solvency II balance sheet and the Company statutory balance sheet are explained by the different valuation methodologies used as described in the paragraph "Methods applied for valuation of material assets" above.

**5. Property (held for own use)**

The Company does not hold any investments in property as at 31 December 2018 (2017: none).

**6. Inventories**

The Company did not hold any inventories as at 31 December 2018 (2017: none).

## 7. Intangible assets

The Company did not show any intangible assets on the Solvency II balance sheet as at 31 December 2018 (2017: none).

## 8. Financial assets

### 8.1 Methods and assumptions applied in determining the economic value

Quoted prices in active markets for identical or similar assets are used to determine the economic value for the majority of securities. Where a quoted price is not available, alternative methods are used. Most financial asset prices are sourced from Blackrock Solutions. The list of vendors used by Blackrock Solutions to confirm pricing is held by the Company. In addition, all prices are reviewed by Swiss Re's independent pricing verification team to ensure agreement. When Blackrock Solutions prices are not available a market price from an alternative source is selected. These are pre-agreed vendors, brokers, dealers or calculated prices depending on the type of financial assets. As at 31 December 2018, the investments were all valued using quoted market prices in active markets for similar assets.

### 8.2 Use of non-observable market data

The Company follows the valuation methodology as per Article 75 (1) of Directive 2009/138/EC which states that "the use of quoted market prices in active markets for the same assets or liabilities, or, where that is not possible, for similar assets and liabilities, shall be the default valuation approach" This approach ensures that the values are not significantly higher or lower.

### 8.3 Significant changes to the valuation models used

There were no significant changes to the valuation method during the year (2017: none).

## 9. Lease assets

The Company does not have any financial and operating leasing arrangements (2017: none).

## 10. Deferred tax assets and liabilities

### 10.1 Recognition of deferred tax assets and liabilities

Deferred income tax assets of GBP nil were recognised for all deductible temporary differences (2017: GBP nil).

Deferred income tax liabilities of GBP nil were recognised for all taxable temporary differences which will result in higher future taxable income positions (2017: nil).

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Due to the fact the Company is in run-off and has no expectation of future gain, unless future investment income or the release of any risk margin on reserves is considered, then no deferred income tax asset on tax losses or net deferred tax assets is recognised. Consequently, no deferred tax asset is recognised on a shock loss beyond any deferred income tax liability computed on the pre-shock Solvency II Balance Sheet.

### 10.2 Amount for which no deferred tax asset is recognised

The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the Solvency II balance sheet is GBP 61 (2017: 510).

There is no expiry date for UK tax losses but this is largely irrelevant for the Company for the reasons referred to above.

### 10.3 Projected future taxable profits

Due to the fact that the Company has been in run-off for many years, the assumption is that there will be no future taxable profits.

### 10.4 Actual tax losses suffered by the Company

Actual tax losses suffered by the Company in either the current or preceding periods, in the tax jurisdiction to which the deferred taxes assets are considered as a deferred tax asset, are assumed to have zero value apart from the ability to carry back tax losses one year under UK law against any tax profits that arose in the previous year.

The Company is in a UK group relief group with all of Swiss Re's other UK subsidiaries. Therefore, the Company can potentially obtain value for tax losses by surrendering tax losses to other entities in that UK group relief group and being paid for that surrender. Such surrenders are only possible in the year that the loss arises, The assumption is that no such loss surrender is possible due to concerns that the nature of such a shock loss may be that it would cause tax losses to also arise in a number of the other Swiss Re UK subsidiaries.

**10.5 Tax rate changes during the year**
The main UK corporation tax rate was 19%. Legislation has been enacted to reduce the main UK corporation tax rate to 19% with effect from 1 April 2017 to 31 March 2020, and to 17% with effect from 1 April 2020.

**11. Holdings in related undertakings**
As at 31 December 2018, the Company did not have any investments in related undertakings (2017: none).

## D2: Technical provisions

### *Life business*

The Company has no life and health exposure (2017: none).

### *Non-life business*

**12. Material technical provisions by Solvency II classes of business**
The following table shows the value of non-life technical provisions, based on QRT S.17.01, by material classes of business as at 31 December 2018:

| GBP thousands | Gross best estimate | Net best estimate | Risk margin | Total net technical provision |
|---|---|---|---|---|
| General liability insurance | 523 | - | 2 | 2 |
| **Total** | **523** | **-** | **2** | **2** |

**Overview of methodology and assumptions**
**Best estimate**
The estimation of the best estimate technical provisions is based on two steps:

- for all contract years, the nominal values of future payments related to premium, claims and commissions (including other contractual costs) are being estimated; and
- for all those nominal values, the timing of such future payments is being estimated.

The two yields are combined with the expected future cash flow streams. Applicable discount rates can be applied to these future cash flow streams for Solvency II reporting. The estimates are elaborated by a dedicated team of reserving actuaries who use classical actuarial methods for analysing triangular information on the development of past premiums, claims and commissions. For such analysis, the contracts are grouped to segments (large or structured contracts may be analysed on a standalone basis where applicable);

The estimates are reviewed and approved by a reserving committee.

**Main assumptions**
Estimating technical provisions is not a purely calculative process. Sometimes assumptions must be made in respect of some parameters in the calculations. If the historical development observed in data captured in a triangle does not cover the full possible development, the length and amount of future development beyond the last observed point (the tail) must be quantified based on assumptions. Another area where important assumptions are needed in reserving is the judgement on whether the future will proceed as in the recent past or whether a different future development should be expected compared to the (recent) past observed in historical data.

**Risk margin**
The Risk Margin calculation is based on the Standard Formula SCR.

Solvency II additionally requires the allocation of the risk margin to the lines of business or segments as defined by Solvency II regulations. The allocation is required to adequately reflect the contribution of the lines of business to the Solvency Capital Requirement of the reference undertaking over the lifetime of the insurance or reinsurance obligations. The breakdown of the risk margin to Solvency II lines of business is performed proportionately to the contribution of the run-off claims observed in each line of business and currency.

**13. Uncertainty associated with the technical provisions**

Estimating technical provisions involves predicting future loss payments based on historical and current information and knowledge, as well as judgment about future conditions. However, changes to historical patterns and trends, changes due to, among other factors, an evolving legal or social environment, claimants' attitudes regarding insurance claims, national or regional economic performance, or changes in the Company's operations and its book of business make the incidence of claims more or less likely and claims' settlement values lower or higher.

The technical provisions contain no provision for the extraordinary future emergence of new classes or types of losses not sufficiently represented in the Company's historical database or that are not yet quantifiable. Contrary to the balance sheet used for Company statutory, the technical provisions used for Solvency II purposes contain best estimates of future losses not yet incurred at the date of valuation. Such losses can result, e.g. from large natural catastrophes. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

**14. Material differences between Solvency II and statutory technical provisions**

Material differences by line of business between Solvency II and statutory net non-life technical provisions as at 31December 2018 were as follows:

| GBP thousands | Solvency II | Company statutory | Difference |
|---|---|---|---|
| General liability insurance | 2 | - | -2 |
| **Total** | **2** | **-** | **-2** |

The actuarial methods and assumptions used for the valuation of technical provisions for Solvency II purposes are identical to those used for the preparation of the Company's statutory accounts. Nevertheless, there are significant differences between the two accounting standards applicable to all lines of business. In Company statutory, future cash flows are not discounted, (time value of money is not recognised), there is no concept of risk margin and the counterparty risk is not included in the valuation.

**15. Recoverables due from reinsurance contracts**

As part of the best estimate calculation, reinsurance recoverables are also taken into account for the calculation of technical provisions. The reinsurance ceded is all proportional reinsurance. Therefore, the determination of the reinsurance recoverable is a purely calculative process and does not require estimations, actuarial methods, assumptions or any other judgemental element. In the valuation of ceded reinsurance, the counterparty default risk is considered.

**16. Material changes in assumptions made**

During 2018, no material changes were made in the relevant assumption of the calculation of technical provisions (2017: none).

**17. Matching premiums**

Not applicable to the Company.

**18. Transitional provisions**

Not applicable to the Company.

**19. Volatility adjustment**

Not applicable to the Company.

**20. Transitional deduction**

Not applicable to the Company.

## D3: Other liabilities

**21. Other material liabilities**

The Company has no material other liabilities based on QRT Balance Sheet S.02.01 as at 31 December 2018 (2017: none).

**22. Financial liabilities**

**22.1 Impact of changes in own credit risk rating**

Currently not applicable to the Company.

**22.2 Credit spread**

The Company uses the Solvency II yield curves published by EIOPA that account for credit spread.

**23. Lease liabilities**

The Company had no financial or lease liabilities as at 31 December 2018 (2017: none).

**24. Deferred tax liabilities**

**24.1 Amount of deferred tax liability**

Please refer to point "10.1 Recognition of deferred tax assets and liabilities" on page 235.

**24.2 Rate changes**

Please refer to point "10.5 Tax rate changes during the year" on page 246.

**24.3 Closing procedures**

During the close process changes, in the applicable tax rates, in expectations on future taxable profits, in tax loss carry forward time limitations and in local tax regulations in the applicable tax regimes are reviewed, documented and considered for the calculation of deferred taxes under Solvency II.

**25. Other provisions**

**25.1 Nature and timing of the obligation**

The Company has no other provisions as at 31 December 2018 (2017: none).

**25.2 Uncertainties surrounding the amount or timing of the outflows of economic benefits**

Currently not applicable to the Company.

**25.3 Cases where market values have not been adjusted**

The market values of liabilities have been adjusted and therefore no additional disclosure is required.

**25.4 Major assumptions concerning future events**

No major assumptions were made regarding interest rates, risk adjustment or any other major assumptions concerning future events.

**26. Employee benefits**

**26.1 Nature of the obligation**

**Other benefit programmes**

Not applicable as there are no personnel with contracts of employment with the Company.

**26.2 Plan assets**

Not applicable to the Company.

**26.3 Deferred recognition of actuarial gains and losses**

Not applicable to the Company.

**26.4 Methodologies and inputs used to determine the economic value**

Not applicable to the Company.

## D4: Alternative methods of valuation

**27. Alternative methods of valuation**

The Company does not value any assets using alternative valuation methods, other than those disclosed on page 24.

## D5: Any other material information

**28. Other material information**

All material information regarding the valuation of assets and liabilities for Solvency II purposes has been described in the sections above.

# Section E: Capital management

## E1: Own funds

### 1. Solvency ratio

The solvency ratio expressed as eligible own funds as a percentage of the Solvency Capital Requirement as at 31 December 2018 was equal to 15 651% (2017: 13 341%). The solvency ratio expressed as eligible own funds as a percentage of the Minimum Capital Requirement as at 31 December 2018 was equal to 244 % (2017: 245 %).

### 2. Own funds – objectives, policies and processes

The Company's capitalisation policy ensures that it is appropriately capitalised for the risk that it incurs. The capital structure and the level of capitalisation are determined by regulatory capital requirements, management's assessment of the risks and opportunities arising from business operations and by financial management considerations. Throughout 2018, the Company's capital level was maintained in accordance with the capitalisation policy.

The Company monitors compliance with the capitalisation policy on a regular basis, taking into account relevant developments in the risk landscape and in its business portfolio. Surplus capital, which is not required to support the run-off of the existing business, may be made available to the Swiss Re Group.

### 3. Own funds – time horizon used for capital planning

No changes are expected over the three-year business planning time horizon.

### 4. Own funds by tier

The value of own funds, all classified as tier 1 based on QRT S.23.01, as at 31 December was as follows:

| GBP thousands | 2017 | 2018 |
|---|---|---|
| Ordinary share capital | 7 500 | 7 500 |
| Reconciliation reserve | 481 | 508 |
| **Total basic own funds after adjustments** | **7 981** | **8 008** |

There have been no major movements in own funds during 2018

### 5. Eligible amount of own funds to cover the Solvency Capital Requirement

The eligible amount of own funds, all classified as tier 1, to cover the Solvency Capital Requirement for 2018 was

GBP 8 008 thousand (2017: GBP 7 981 thousand).

### 5.1 Restrictions to available own funds

No material terms and conditions existed in relation to own funds.

### 6. Eligible amount of basic own funds to cover Minimum Capital Requirement

The eligible amount of basic own funds, all classified as tier 1, to cover the Minimum Capital Requirement for 2018 was GBP 8 008 thousand (2017: GBP 7 981 thousand).

### 7. Differences between equity in Solvency II and Company statutory accounts

The material differences in equity as shown in the Company statutory accounts and Solvency II as at 31 December 2018 were as follows:

| | **Equity reconciliation** | |
|---|---|---|
| GBP thousands | **2017** | **2018** |
| Equity as per Company statutory accounts | 7 983 | 8 010 |
| Solvency II valuation differences | -2 | -2 |
| **Equity per Solvency II** | **7 981** | **8 008** |

Equity as per Company statutory accounts: equivalent to subscribed capital and reserves.

Solvency II valuation differences represents the movement in the valuation of assets, technical provisions or other liabilities in the adoption of the Solvency II.

**8. Basic own funds subjected to transitional arrangements**
No own funds items were subject to transitional arrangements (2017: none).

**9. Ancillary own funds**
There are no ancillary own funds in the Company (2017: none).

**10. Items deducted from own funds**
No amounts have been deducted from own funds of the Company (2017: none).

**11. Subordinated capital instruments in issue at year end**
The Company does not have subordinated capital instruments (2017: none).

**12. Capital instruments issued as debts**
Not applicable to the Company.

**13. Value of subordinated debt**
The Company does not have subordinated debt (2017: none).

**14. Principal loss absorbency mechanism**
The Company does not have a loss absorbency mechanism that qualifies as high quality own funds instruments (2017: none).

**15. Key elements of the reconciliation reserve**
The reconciliation reserve based on QRT S.23.01 as at 31 December 2018 was as follows:

| GBP thousands | **2017** | **2018** |
|---|---|---|
| Excess of assets over liabilities | 7 981 | 8 008 |
| Share capital per Company statutory accounts | 7 500 | 7 500 |
| **Reconciliation reserve** | **481** | **508** |

The difference between the excess of assets over liabilities under Solvency II and the equity value shown in the Company statutory accounts is mainly due to different valuations applied under Solvency II for assets, technical provisions and other liabilities.

**16. Total excess of assets over liabilities within ring fenced funds**
The Company does not have any ring fenced fund (2017: none).

## E2: Solvency Capital Requirement and Minimum Capital Requirement

**17. Solvency Capital Requirement and Minimum Capital Requirement**
The Company uses the Standard Formula to measure its capital requirement.

As at 31 December 2018 the Company Solvency Capital Requirement was GBP 51 thousand (2017: GBP 60 thousand) and the Minimum Capital Requirement was GBP 3 288 thousand (2017: GBP 3 255 thousand).

| GBP 000s | **2017** | **2018** |
|---|---|---|
| Linear MCR | - | - |
| SCR | 60 | 51 |
| MCR cap | 27 | 23 |
| MCR floor | 15 | 13 |
| Absolute floor of the MCR (EUR 3,700k) | 3 255 | 3 288 |
| **Minimum Capital Requirement** | **3 255** | **3 288** |

The change in the GBP value of the absolute floor is based on the rate of GBP:EUR 0.88873 (2017: 0.87980) published by the Official Journal of the European Union for 31 October 2018.

**18. Solvency Capital Requirement split by risk category**

| GBP 000s | **2017** | **2018** |
|---|---|---|
| Underwriting risk: | | |
| • Non-life underwriting risk | - | - |
| • Market risk | 23 | 33 |
| • Counterparty default risk | 34 | 14 |
| Diversification | -11 | -8 |
| **Basic SCR** | **46** | **39** |
| Operational risk | 14 | 12 |
| Deferred tax impact | - | - |
| **Solvency Capital Requirement** | **60** | **51** |

The reduction in counterparty default risk is both as a result of lower reinsurance receivables and cash assets held at the balance sheet date. The financial market risk increases as a result of the Company having more investments held with longer maturity dates at 2018 year end compared to 2017 year end. The underwriting risk and operational risks are reduced in-line with the best estimate liabilities.

**19. Simplification calculation**

The Company makes use of simplified calculations permitted by the Standard Formula non-life underwriting risk and counterparty risk sub-modules.

**20. Standard formula parameters**

The Company does not apply any Underwriting Specific Parameters (USPs).

**21. Non-disclosure of capital add-on during transitional period ending no later than 31 December 2020**

This is not applicable to the Company.

**22. Standard formula capital add on applied to Solvency Capital Requirement**

This is not applicable to the Company.

**23. Information on inputs used to calculate the Minimum Capital Requirement**

The Company uses the Standard Formula to calculate the minimum capital requirement. Inputs comprise the best estimate technical provisions excluding the risk margin, split by lines of business. Premiums written during the last twelve months are excluded as they are not relevant for the Company as it is in run-off.

**24. Material changes to the Solvency Capital Requirement and Minimum Capital Requirement during 2018**

Please refer to point "18 Solvency Capital Requirement split by risk category" on page 292 for details of the current year Solvency Capital Requirement and the Minimum Capital Requirement. The SCR decreased in the year mainly resulting from a reduction in reinsurance receivables. The Minimum Capital Requirement is equal to the GBP equivalent of the Absolute Floor of EUR 3 700 thousand. Therefore the Minimum Capital Requirement increased during 2018 is as a result of the movement in the annual EUR rate.

## E3: Duration-based equity risk

**25. Indication that the Company is using the duration-based equity risk sub-module**

Not applicable to the Company.

## E4: Differences between the standard formula and the internal model

Not applicable to the Company.

**26. The structure of the internal model**

**27. Risk categories concerned and not concerned by the internal model**

**28. Aggregation methodologies and diversification effects**

**29. Risk not covered in the standard formula but covered by the internal model**

**30. Various purposes for which the internal model is being used**

**31. Scope of the internal model in terms of business units and risk categories**

**32. Partial internal model**

**33. Methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement**

**34. Risk measures and time period used in the internal model**

**35. Nature and appropriateness of the data used in the internal model**

## E5: Non-compliance

**36. Any non-compliance with the Company Solvency Capital Requirement and Minimum Capital Requirement requirement**

The Company complied with the Company Solvency Capital Requirement and Minimum Capital Requirement during 2018.

## E6: Any other material information

**37. Other material information**

All material information regarding the capital management has been described in the sections above.

# Appendix: Glossary

| | |
|---|---|
| Board | The Board of Directors of the Company. |
| Casualty insurance | Branch of insurance – mainly comprising accident and liability business – which is separate from property, engineering and life insurance. |
| Economic net worth | Market-consistent value of assets less the market-consistent value of liabilities. |
| Economic Value Management | Swiss Re's integrated economic valuation framework for planning, pricing, reserving and steering the business. It also provides the basis for determining available capital under the Swiss Solvency Test and for Solvency II. |
| EMEA | Europe, Middle East and Africa. |
| EUR rate | The annual EUR to GBP FX rate defined by Article 299 of the Solvency II Directive as the rate on the last day of the preceding October. The Absolute Floor of the Minimum Capital Requirement is translated into GBP at the annual EUR rate. |
| FCA | Financial Conduct Authority |
| GIA | Group Internal Audit. |
| Intra-group reinsurance | Reinsurance between subsidiaries of the same parent company or between a subsidiary and its parent; Intra-group reinsurance aims to optimise capital allocation and tax efficiency for the Swiss Re Group as well as ensure adherence to regulatory solvency requirements. |
| Intra-group transaction | This can be either in the form of a proportional (e.g. quota-share) or non-proportional (e.g. stop-loss or Cat XL) agreement. |
| Key functions | Risk management, compliance, internal audit and actuarial. |
| Key function holder | The Board nominates individuals as designated representatives of the respective key functions towards the Company. |
| Minimum Capital Requirement | If, despite supervisory intervention, the available resources of the insurer fall below the Minimum Capital Requirement, then "ultimate supervisory action" will be triggered. In other words, the insurer's liabilities will be transferred to another insurer and the license of the insurer will be withdrawn or the insurer will be closed to new business and its in-force business will be liquidated. |
| Minimum Capital Requirement – Absolute Floor | The lowest permissible value of the Minimum Capital Requirement specified in EUR under Article 129 of the Solvency II Directive. This is translated into GBP using the annual EUR rate. |
| Non-proportional reinsurance | Form of reinsurance in which coverage is not in direct proportion to the original insurer's loss; instead the reinsurer is liable for a specified amount which exceeds the insurer's retention; also known as "excess of loss reinsurance". |
| ORSA | Own Risk and Solvency Assessment. |
| Own Funds | Excess of Assets over Liabilities including any amount that is deemed suitable to provide support for the Solvency Capital Requirement. |
| PRA | Prudential Regulation Authority |
| Property insurance | Collective term for fire and business interruption insurance as well as burglary, fidelity guarantee and allied lines. |
| QRT | Quantitative Reporting Template. |
| Reinsurance | Insurance which lowers the risk carried by primary insurance companies. Reinsurance includes various forms such as facultative, financial, non-proportional, proportional, quota share, surplus and treaty reinsurance. |
| Reserves | Amount required to be carried as a liability in the financial statements of an insurer or reinsurer to provide for future commitments under outstanding policies and contracts. |
| Return on equity | Net income as a percentage of time-weighted shareholders' equity. |
| Risk management | Management tool for the comprehensive identification and assessment of risks based on knowledge and experience in the fields of natural sciences, technology, economics and statistics. |
| Risk profile | Threats to which an organisation is exposed. The risk profile will outline the type of risks and potential effect of the risks. This outline allows a business to anticipate additional costs or disruptions to operations. |
| Risk tolerance | An expression of the extent to which the Board has authorised executive management to assume risk. It represents the amount of risk that the Company is willing to accept within the constraints imposed by its capital resources, its strategy, its risk appetite, and the regulatory and rating agency environment within which it operates. |
| RSR | Regular Supervisory Report. |
| SFCR | Solvency and Financial Condition Report. |

| | |
|---|---|
| Solvency Capital Requirement | Solvency Capital Requirement under Solvency II – calculated using the Standard Formula |
| Target capital | As defined by the Legal Entity Capitalisation Policy, target capital is currently under review and is expressed as a ratio of the higher of Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR). |
| Technical result | Underwriting defined as nominal premiums less nominal commissions and claims. |
| The Company | The Palatine Insurance Company Limited |
| US GAAP | United States Generally Accepted Accounting Principles are the accounting rules, as issued by the Financial Accounting Standards Board, its predecessors and other bodies, used to prepare financial statements for publicly traded companies in the United States. |
| Value at risk | Maximum possible loss in market value of an asset portfolio within a given time span and at a given confidence level. 99% value at risk measures the level of loss likely to be exceeded in only one year out of a hundred, while 99.5% value at risk measures the loss likely to be exceeded in only one year out of two hundred. 99% tail value at risk estimates the average annual loss likely to occur with a frequency of less than once in one hundred years. |

# Appendix: Quantitative Reporting Templates

Quantitative Reporting Templates (QRTs) for public disclosure are:

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

# The Palatine Insurance Company Limited

**Solvency & Financial Condition Report**
**Appendix - Quantitative Reporting Templates**
**Year ended 31.12.2018**

**Amounts in GBP 000s**



| | | Page |
|---|---|---|
| S.02.01.02 | Balance sheet | 2 |
| S.05.01.02 | Premiums, claims and expenses by line of business | 4 |
| S.05.02.01 | Premiums, claims and expenses by country | 6 |
| S.17.01.02 | Non-life technical provisions | 7 |
| S.19.01.21 | Non-life insurance claims | 9 |
| S.23.01.01 | Own funds | 11 |
| S.25.01.21 | Solvency Capital Requirement - for undertakings on Standard Formula | 13 |
| S.28.01.01 | Minimum Capital Requirement - only life or non-life insurance or reinsurance activity | 15 |

| | |
|---|---|
| **Report:** | S.02.01.02 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Balance sheet**

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Goodwill | **R0010** | |
| Deferred acquisition costs | **R0020** | |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 7 882 |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | |
| Equities | **R0100** | |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | 7 882 |
| Government Bonds | **R0140** | 7 882 |
| Corporate Bonds | **R0150** | |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | |
| Collective Investments Undertakings | **R0180** | |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | |
| Loans and mortgages | **R0230** | |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | |
| Reinsurance recoverables from: | **R0270** | 522 |
| Non-life and health similar to non-life | **R0280** | 522 |
| Non-life excluding health | **R0290** | 522 |
| Health similar to non-life | **R0300** | |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | |
| Reinsurance receivables | **R0370** | |
| Receivables (trade, not insurance) | **R0380** | 0 |
| Own shares (held directly) | **R0390** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | |
| Cash and cash equivalents | **R0410** | 153 |
| Any other assets, not elsewhere shown | **R0420** | |
| **Total assets** | **R0500** | 8 557 |

| | |
|---|---|
| **Report:** | S.02.01.02 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Balance sheet** **Continued**

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 524 |
| Technical provisions – non-life (excluding health) | **R0520** | 524 |
| Technical provisions calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | 523 |
| Risk margin | **R0550** | 1 |
| Technical provisions - health (similar to non-life) | **R0560** | |
| Technical provisions calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | |
| Risk margin | **R0590** | |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | |
| Technical provisions - health (similar to life) | **R0610** | |
| Technical provisions calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | |
| Technical provisions calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | |
| Risk margin | **R0680** | |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| Technical provisions calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |
| Other technical provisions | **R0730** | |
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 0 |
| Reinsurance payables | **R0830** | |
| Payables (trade, not insurance) | **R0840** | 25 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in Basic Own Funds | **R0860** | |
| Subordinated liabilities in Basic Own Funds | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | |
| **Total liabilities** | **R0900** | 549 |
| **Excess of assets over liabilities** | **R1000** | 8 008 |

| | |
|---|---|
| **Report:** | S.05.01.02 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Premiums, claims and expenses by line of business**

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** |
| **Premiums written** | | | | | | | | | | |
| Gross - Direct Business | **R0110** | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0120** | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | | |
| Reinsurers' share | **R0140** | | | | | | | | | |
| Net | **R0200** | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | |
| Gross - Direct Business | **R0210** | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0220** | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | | |
| Reinsurers' share | **R0240** | | | | | | | | | |
| Net | **R0300** | | | | | | | | | |
| **Claims incurred** | | | | | | | | | | |
| Gross - Direct Business | **R0310** | | | | | | | - 9 | - 11 | |
| Gross - Proportional reinsurance accepted | **R0320** | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | | |
| Reinsurers' share | **R0340** | | | | | | | 0 | - 11 | |
| Net | **R0400** | | | | | | | - 9 | 0 | |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross - Direct Business | **R0410** | | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0420** | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0430** | | | | | | | | | |
| Reinsurers' share | **R0440** | | | | | | | | | |
| Net | **R0500** | | | | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | | | 27 | |
| **Other expenses** | **R1200** | | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | | |

| | |
|---|---|
| **Report:** | S.05.01.02 Continued |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Premiums, claims and expenses by line of business**

| | | | | | Line of business for: accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | Total |
| | | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | |
| Gross - Direct Business | **R0110** | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0120** | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | |
| Reinsurers' share | **R0140** | | | | | | | | |
| Net | **R0200** | | | | | | | | |
| **Premiums earned** | | | | | | | | | |
| Gross - Direct Business | **R0210** | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0220** | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | |
| Reinsurers' share | **R0240** | | | | | | | | |
| Net | **R0300** | | | | | | | | |
| **Claims incurred** | | | | | | | | | |
| Gross - Direct Business | **R0310** | | | | | | | | - 21 |
| Gross - Proportional reinsurance accepted | **R0320** | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | |
| Reinsurers' share | **R0340** | | | | | | | | - 11 |
| Net | **R0400** | | | | | | | | - 9 |
| **Changes in other technical provisions** | | | | | | | | | |
| Gross - Direct Business | **R0410** | | | | | | | | |
| Gross - Proportional reinsurance accepted | **R0420** | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | **R0430** | | | | | | | | |
| Reinsurers' share | **R0440** | | | | | | | | |
| Net | **R0500** | | | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | | | 27 |
| **Other expenses** | **R1200** | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | 27 |

| | |
|---|---|
| **Report:** | S.05.02.01.non-life |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Premiums, claims and expenses by country**

| | | Home Country | Total Top 5 and home country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | |
|---|---|---|---|---|---|---|---|---|
| | R0010 | | | | | | | |
| | | C0080 | C0140 | C0090 | C0090 | C0090 | C0090 | C0090 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | | |
| Reinsurers' share | R0140 | | | | | | | |
| Net | R0200 | | | | | | | |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | | |
| Reinsurers' share | R0240 | | | | | | | |
| Net | R0300 | | | | | | | |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | R0310 | - 21 | - 21 | | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | | |
| Reinsurers' share | R0340 | - 11 | - 11 | | | | | |
| Net | R0400 | - 9 | - 9 | | | | | |
| **Changes in other technical provisions** | | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | | |
| Reinsurers' share | R0440 | | | | | | | |
| Net | R0500 | | | | | | | |
| **Expenses incurred** | R0550 | 27 | 27 | | | | | |
| **Other expenses** | R1200 | | | | | | | |
| **Total expenses** | R1300 | | 27 | | | | | |

| | |
|---|---|
| **Report:** | S.17.01.02 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Non-life Technical Provisions**

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | | | | | | |
| 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 | **R0050** | | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | | | |
| Premium provisions | | | | | | | | | | | | | | | | | | |
| Gross | **R0060** | | | | | | | | | | | | | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | | | | | | | | | | | | | | | | | |
| Net Best Estimate of Premium Provisions | **R0150** | | | | | | | | | | | | | | | | | |
| **Claims provisions** | | | | | | | | | | | | | | | | | | |
| Gross | **R0160** | | | | | | | | 523 | | | | | | | | | 523 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | | | | | | | | 522 | | | | | | | | | 522 |
| Net Best Estimate of Claims Provisions | **R0250** | | | | | | | | 0 | | | | | | | | | 0 |
| **Total Best estimate - gross** | **R0260** | | | | | | | | 523 | | | | | | | | | 523 |
| **Total Best estimate - net** | **R0270** | | | | | | | | 0 | | | | | | | | | 0 |
| **Risk margin** | **R0280** | | | | | | | | 1 | | | | | | | | | 1 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | | |
| Technical provisions calculated as a whole | **R0290** | | | | | | | | | | | | | | | | | |
| Best Estimate | **R0300** | | | | | | | | | | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | | | | | | | | | | | | | | | | | | |
| Technical provisions - total | **R0320** | | | | | | | | 524 | | | | | | | | | 524 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | | | | | | | | 522 | | | | | | | | | 522 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **R0340** | | | | | | | | 2 | | | | | | | | | 2 |

| | |
|---|---|
| **Report:** | S.17.01.02 Continued |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Non-life Technical Provisions**

| | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Legal expenses insurance** | **Assistance** | **Miscellaneous financial loss** | **Non-proportional health reinsurance** | **Non-proportional casualty reinsurance** | **Non-proportional marine, aviation and transport reinsurance** | **Non-proportional property reinsurance** | **Total Non-Life obligation** |
| | | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0170** | **C0180** |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | |
| 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 | **R0050** | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | |
| **Best Estimate** | | | | | | | | | |
| Premium provisions | | | | | | | | | |
| Gross | **R0060** | | | | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | | | | | | | | |
| Net Best Estimate of Premium Provisions | **R0150** | | | | | | | | |
| **Claims provisions** | | | | | | | | | |
| Gross | **R0160** | | | | | | | | 523 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | | | | | | | | 522 |
| Net Best Estimate of Claims Provisions | **R0250** | | | | | | | | 0 |
| **Total Best estimate - gross** | **R0260** | | | | | | | | 523 |
| **Total Best estimate - net** | **R0270** | | | | | | | | 0 |
| **Risk margin** | **R0280** | | | | | | | | 1 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | |
| Technical provisions calculated as a whole | **R0290** | | | | | | | | |
| Best Estimate | **R0300** | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | |
| **Technical provisions - total** | | | | | | | | | |
| Technical provisions - total | **R0320** | | | | | | | | 524 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | | | | | | | | 522 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | **R0340** | | | | | | | | 2 |

| | |
|---|---|
| **Report:** | S.19.01.21 |
| **Reporting entit** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Non-life insurance claims information**

**Total Non-Life Business**

| | | |
|---|---|---|
| Accident year / Underwriting year | **Z0020** | (2) Underwriting year |

**Gross Claims Paid (non-cumulative)**

(absolute amount)

| **Year** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10 & +** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** |
| Prior | **R0100** | | | | | | | | | | | 741 |
| N-9 | **R0160** | | | | | | | | | | | |
| N-8 | **R0170** | | | | | | | | | | | |
| N-7 | **R0180** | | | | | | | | | | | |
| N-6 | **R0190** | | | | | | | | | | | |
| N-5 | **R0200** | | | | | | | | | | | |
| N-4 | **R0210** | | | | | | | | | | | |
| N-3 | **R0220** | | | | | | | | | | | |
| N-2 | **R0230** | | | | | | | | | | | |
| N-1 | **R0240** | | | | | | | | | | | |
| N | **R0250** | | | | | | | | | | | |

| | | **In Current year** | **Sum of years (cumulative)** |
|---|---|---|---|
| | | **C0170** | **C0180** |
| | **R0100** | 741 | 741 |
| | **R0160** | | |
| | **R0170** | | |
| | **R0180** | | |
| | **R0190** | | |
| | **R0200** | | |
| | **R0210** | | |
| | **R0220** | | |
| | **R0230** | | |
| | **R0240** | | |
| | **R0250** | | |
| **Total** | **R0260** | 741 | 741 |

| | |
|---|---|
| **Report:** | S.19.01.21 Continued |
| **Reporting entit** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Non-life insurance claims information**

**Total Non-Life Business**

| Accident year / Underwriting year | **Z0020** | (2) Underwriting year |
|---|---|---|

**Gross undiscounted Best Estimate Claims Provisions**

**Development year**

| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 |
| Prior | R0100 | | | | | | | | | | | 531 |
| N-9 | R0160 | | | | | | | | | | | |
| N-8 | R0170 | | | | | | | | | | | |
| N-7 | R0180 | | | | | | | | | | | |
| N-6 | R0190 | | | | | | | | | | | |
| N-5 | R0200 | | | | | | | | | | | |
| N-4 | R0210 | | | | | | | | | | | |
| N-3 | R0220 | | | | | | | | | | | |
| N-2 | R0230 | | | | | | | | | | | |
| N-1 | R0240 | | | | | | | | | | | |
| N | R0250 | | | | | | | | | | | |

| | | Year end (discounted data) |
|---|---|---|
| | | C0360 |
| | R0100 | 523 |
| | R0160 | |
| | R0170 | |
| | R0180 | |
| | R0190 | |
| | R0200 | |
| | R0210 | |
| | R0220 | |
| | R0230 | |
| | R0240 | |
| | R0250 | |
| Total | R0260 | 523 |

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|---|---|
| **Report:** | S.23.01.01 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | C0010 | C0020 | C0030 | C0040 | C0050 |
| Ordinary share capital (gross of own shares) | R0010 | 7 500 | 7 500 | | | |
| Share premium account related to ordinary share capital | R0030 | | | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | 508 | 508 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that shall not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | 8 008 | 8 008 | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 8 008 | 8 008 | | | |
| Total available own funds to meet the MCR | R0510 | 8 008 | 8 008 | | | |
| Total eligible own funds to meet the SCR | R0540 | 8 008 | 8 008 | | | |
| Total eligible own funds to meet the MCR | R0550 | 8 008 | 8 008 | | | |
| **SCR** | R0580 | 51 | | | | |
| **MCR** | R0600 | 3 288 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 156.51 | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 2.44 | | | | |

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|---|---|
| **Report:** | S.23.01.01 Continued |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

| **Reconciliation reserve** | | **C0060** |
|---|---|---|
| Excess of assets over liabilities | **R0700** | 8 008 |
| Own shares (held directly and indirectly) | **R0710** | |
| Foreseeable dividends, distributions and charges | **R0720** | |
| Other basic own fund items | **R0730** | 7 500 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** | |
| **Reconciliation reserve** | **R0760** | 508 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | |
| Expected profits included in future premiums (EPIFP) - Non-life business | **R0780** | |
| **Total EPIFP** | **R0790** | |

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|---|---|
| **Report:** | S.25.01.21 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

**Solvency Capital Requirement - for undertakings on Standard Formula**

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | **C0110** | **C0090** | **C0120** |
| Market risk | **R0010** | 33 | | |
| Counterparty default risk | **R0020** | 14 | | |
| Life underwriting risk | **R0030** | 0 | | |
| Health underwriting risk | **R0040** | 0 | | |
| Non-life underwriting risk | **R0050** | 0 | | |
| Diversification | **R0060** | - 8 | | |
| Intangible asset risk | **R0070** | 0 | | |
| **Basic Solvency Capital Requirement** | **R0100** | 39 | | |

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|---|---|
| **Report:** | S.25.01.21 Continued |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

| **Calculation of Solvency Capital Requirement** | | **C0100** |
|---|---|---|
| Operational risk | **R0130** | 12 |
| Loss-absorbing capacity of technical provisions | **R0140** | 0 |
| Loss-absorbing capacity of deferred taxes | **R0150** | 0 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | **R0160** | |
| **Solvency capital requirement, excluding capital add-on** | **R0200** | 51 |
| Capital add-ons already set | **R0210** | 0 |
| **Solvency Capital Requirement** | **R0220** | 51 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | **R0400** | |
| Total amount of Notional Solvency Capital Requirements for remaining part | **R0410** | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | **R0420** | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | **R0430** | |
| Diversification effects due to RFF nSCR aggregation for article 304 | **R0440** | 0 |

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|---|---|
| **Report:** | S.28.01.01 |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

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

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| MCRNL Result | **R0010** | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | **C0020** | **C0030** |
| Medical expense insurance and proportional reinsurance | **R0020** | | |
| Income protection insurance and proportional reinsurance | **R0030** | | |
| Workers' compensation insurance and proportional reinsurance | **R0040** | | |
| Motor vehicle liability insurance and proportional reinsurance | **R0050** | | |
| Other motor insurance and proportional reinsurance | **R0060** | | |
| Marine, aviation and transport insurance and proportional reinsurance | **R0070** | | |
| Fire and other damage to property insurance and proportional reinsurance | **R0080** | | |
| General liability insurance and proportional reinsurance | **R0090** | 0 | 0 |
| Credit and suretyship insurance and proportional reinsurance | **R0100** | | |
| Legal expenses insurance and proportional reinsurance | **R0110** | | |
| Assistance and proportional reinsurance | **R0120** | | |
| Miscellaneous financial loss insurance and proportional reinsurance | **R0130** | | |
| Non-proportional health reinsurance | **R0140** | | |
| Non-proportional casualty reinsurance | **R0150** | | |
| Non-proportional marine, aviation and transport reinsurance | **R0160** | | |
| Non-proportional property reinsurance | **R0170** | | |

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|---|---|
| **Report:** | S.28.01.01 Continued |
| **Reporting entity:** | The Palatine Insurance Company Limited |
| **Due date:** | Dec 31, 2018 |
| **Units:** | GBP thousands |

| **Overall MCR calculation** | | **C0070** |
|---|---|---|
| Linear MCR | **R0300** | 0 |
| SCR | **R0310** | 51 |
| MCR cap | **R0320** | 23 |
| MCR floor | **R0330** | 13 |
| Combined MCR | **R0340** | 13 |
| Absolute floor of the MCR | **R0350** | 3 288 |
| | | |
| **Minimum Capital Requirement** | **R0400** | 3 288 |