Solvency and Financial Condition Report 2019

Gringolet Company Limited

Date: May-2020
Version: 1.0

Contents

Summary

This report forms part of the annual submission to the Prudential Regulatory Authority under the annual submission requirements of Solvency II. This report outlines the financial condition Gringolet Company Limited ("Gringolet" or the "Company). All figures are as at 31 December 2019, unless otherwise stated.

Business and Performance

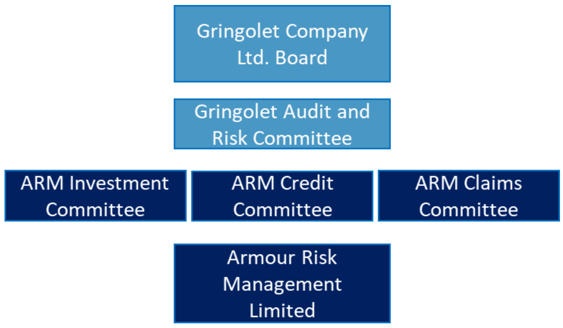
The Company plans to continue with the orderly run-off of the remaining book of business, settling claims as they become due. The board anticipates that in time, and by the effective and efficient management of the Company, a small surplus can be achieved thereby providing a return on the capital employed.

Where capital is in excess of the amount required by the Company's Risk Appetite, it will be distributed as dividends subject to prior "non-objection" by the regulator, and Board approval. The success of the strategy depends on settling the remaining claims in a timely and cost-effective manner, and therefore reducing inherent uncertainty in these claims.

System of Governance

The majority of administrative functions are undertaken by an outsource provider, with the selected partner being Armour Risk Management Limited ("Armour" or "ARM").

Whilst the Board retains ultimate ownership, it has delegated oversight responsibilities for risk management, capital modelling, financial reporting and expense management to the Board's Audit and Risk Committee ("ARC").



The role of the ARC is to constructively and independently challenge the activities of the service providers. Three ARM committees monitor performance and provide focused challenge on the Company's investments, credit control, and claims management. The actions of these committees are overseen by the ARC and summarised to the Board.

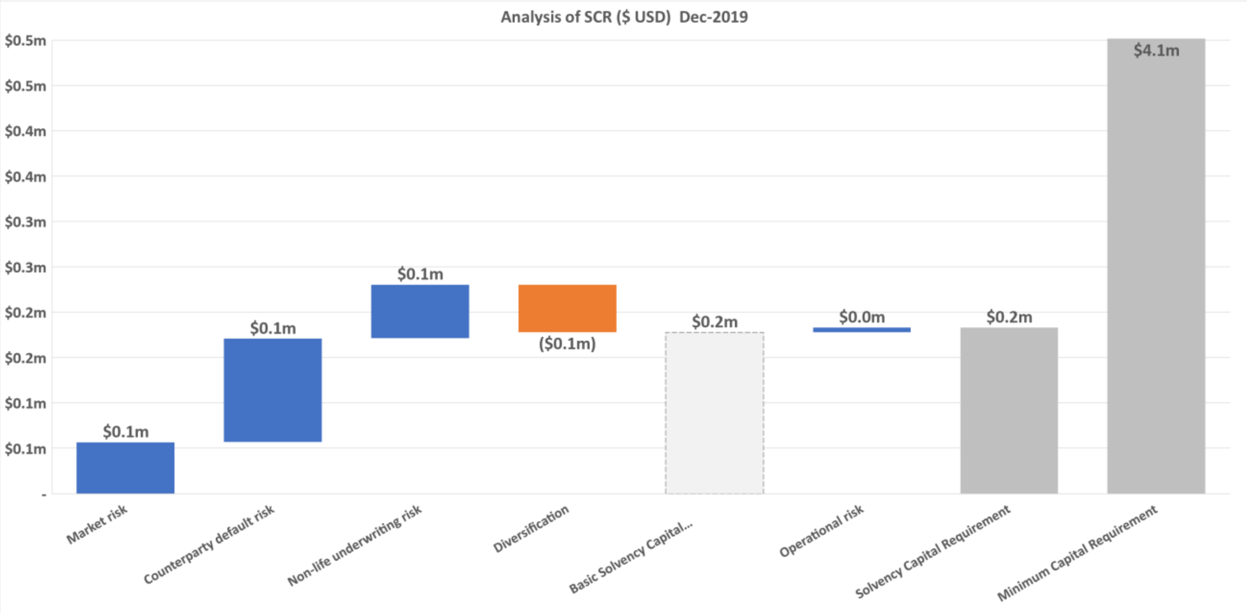
This approach provides independent assurance to the Board about the capability of the business to achieve its objectives and management's ability to manage the business to achieve the overall business objectives. To assist it in its duties, an Internal Audit function has been formed and is being utilised. The Head of Internal Audit has unfettered access to the Gringolet Board members.

Risk Profile

The Company's key risk is that claims and expenses are higher than the amounts assumed in the calculation of Technical Provisions (see Insurance Risk).

The Company is exposed to Counterparty Default Risk due to exposure to its banks, HSBC and Barclays (see Counterparty Default Risk).

Currency Risk arises from net exposures to assets and liabilities denominated in GBP (see Market Risk).



Valuation for Solvency Purposes

Net Solvency II Technical Provisions were $0.2m (2018: $0.2m) and are valued using standard actuarial techniques based on historic claims and future expense projections.

Other assets and liabilities amounted to $4.5m (2018: $4.7m) and primarily consisted of cash at bank. Assets required to match liabilities were held in GBP, while surplus assets were held in USD.

The Company has not taken advantage of any transitional provisions or used a volatility or matching adjustment.

Capital Management

The Solvency position can be summarised by the following table:

USD ($)	Dec-2019	Dec-2018
SCR	0.2m	0.2m
MCR	4.1m	4.2m
Own Funds	4.3m	4.5m
SCR coverage ratio	2,334%	2,325%
MCR coverage ratio	104%	108%

All Own Funds are eligible Tier 1 and consist of paid in share capital, capital contributions and retained earnings.

The Company has met the MCR and SCR capital requirements throughout the period.

The effects of Covid-19 on the Company

- There are currently no open claims that can be affected. The potential for further claims deterioration as a direct result of the pandemic is not considered to be a significant risk given the mature nature of the portfolio

- The exposure to losses arising from currency exchange fluctuations is mitigated through asset/liability matching, with surplus capital being held in the reporting currency; all funds are held as cash at bank with short-term ratings equivalent to AA.

- As a regulated entity, there is an expectation that contingency plans are in place to deal with major events. Prior to engaging with our third-party service providers, we assess the adequacy of business contingency planning. The Board are satisfied that steps have been taken to ensure that plans are in place to enable key functions to operate, whist protecting the welfare of employees and other stakeholders.

A. Business and Performance

A1. Business

Gringolet Company Limited is an insurance company limited by shares incorporated in the UK.

The address of its registered office is:
20 Old Broad Street,
London,
EC2N 1DP

The supervisors of the Company are:
Prudential Regulation Authority
20 Moorgate,
London
EC2R 6DA

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

The approved auditors of the Company are:
PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

Below shows Company ownership, as at 31 December 2019:

Name	% overall holding
ILS Property & Casualty Re II Limited	99.99625%
Untraceable members	00.00375%

Material lines of business and geographical areas

Net Best Estimate Technical Provisions ($ USD)	Dec-2019	Dec-2018
UK Employers Liability	0.2m	0.2m
Total Net Solvency II Technical Provisions	**0.2m**	**0.2m**

The UK Employers Liability insurance was underwritten in the UK. There were no significant events during the year.

Objectives and strategies

The Company plans to continue with the orderly run off of the remaining book of business, settling claims as they become due. The board anticipates that in time, and by the effective and efficient management of the Company, a small surplus can be achieved thereby providing a return on the capital employed.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company does not have any related undertakings or permanent employees.

A2. Underwriting Performance

The UK GAAP Technical Account results for 2019 and 2018 were as follows:

Technical Account ($ USD)	Dec-2019	Dec-2018
Claims paid	-	-
Change in the provision for claims	-	0.0
Net operating expenses	(0.3m)	(0.2m)
Balance on technical account for general business	**(0.3m)**	**(0.2m)**

Claims activity is minimal and the most significant item is the operating expenses.

A3. Investment Performance

As part of running off its general insurance and reinsurance business, the Company has operated a cautious investment strategy and all funds are held as cash at bank with short-term ratings equivalent to AA.

The Company holds surplus assets in US dollars in order to reduce currency risk for its stakeholders.

All investment gains and expenses are recognised through the Profit and Loss Account.

Investment gains ($ USD)	Dec-2019	Dec-2018
Bank interest	0.0m	0.0m
Total investment income	0.0m	0.0m

A4. Performance of other activities

Other items ($ USD)	**Dec-2019**	**Dec-2018**
Foreign exchange on monetary assets	-	-
Currency translation differences	0.0m	(0.0m)
Total other items	**0.0m**	**(0.0m)**

A5. Any other information

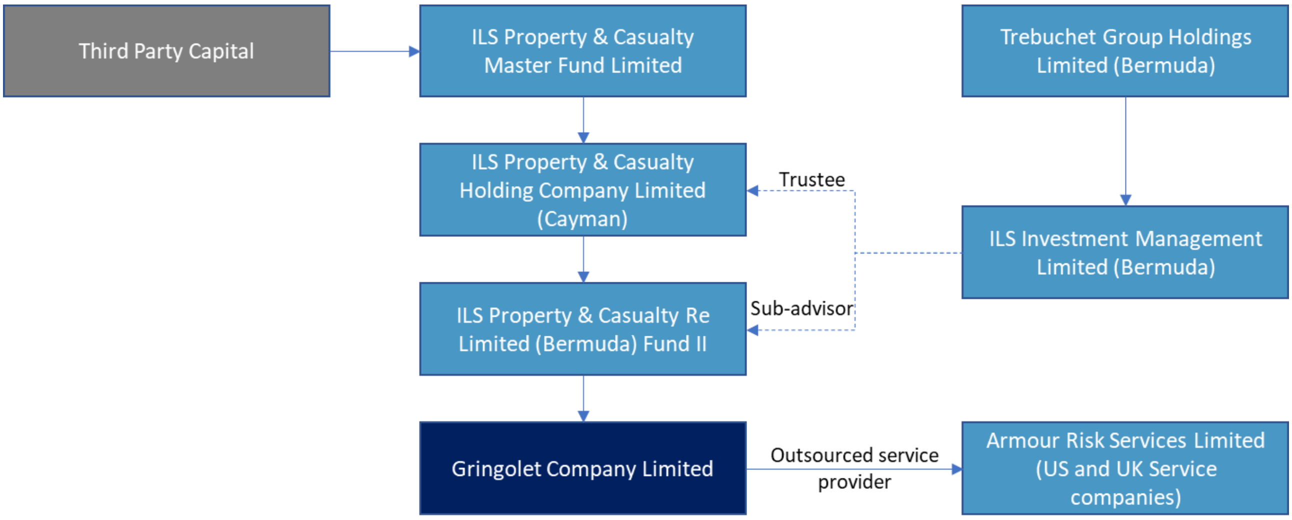
There is no other material information to report.

B. System of governance

B1. General information on the system of governance

The Company has established a sound and effective corporate governance framework that is appropriate to the size, nature, complexity and risk profile of the Company. The Company does not have any employees and outsources the majority of administrative functions to ARML.

The governance structure presented below reflects the position as at the Q4 2018 Board meeting, which took place on 2 April 2019, which was still in place at 31 December 2019.



The Board is responsible for ensuring that proper systems and risk management oversight continue to be in place for the Company and that regulatory standards for compliance and governance are adhered to. The Board of Directors includes one independent Non-Executive Director (iNED), as at 31 December 2019, two Non-Executive Directors (NEDs), an Acting Executive Chairman, and two Directors. Collectively, the Gringolet Board delivered an appropriate balance of knowledge, experience, skills and independent challenge.

The Board receives quarterly updates from an Investment Committee, Credit Committee, and Audit and Risk Committee in order to assist it in the effective discharge of its duties, although it continues to retain ultimate responsibility.

The Board's oversight responsibilities include:

- Developing high-level strategy and objectives;
- Reviewing and approving business plans and budgets;
- Confirming that corporate governance policies and practices are developed and applied in a prudent manner;
- Ensuring that the Company is effectively directed and managed;
- Ensuring that its activities are conducted with due care, skill and integrity;
- Ensuring sufficient capital is held to maintain the Company's ongoing solvency;
- Providing oversight of the risk management framework, including setting the Company's risk appetite and tolerance statements;
- Appointing senior executives;
- Approving the financial statements;

- Setting and overseeing the effectiveness of the Company's governance structure and internal control system;
- Reviewing and approving significant policies and procedures: and
- Reviewing and approving of arrangements with its principal outsourcer, ARM and ensuring it adheres to the above Risk Management Framework.

The Board meets at least quarterly, or as is needed, and carries out its duties within established terms of reference. It is provided with accurate, appropriate and timely information that enables it to monitor and review key areas, including Company performance and key risks to which it is exposed.

The Company is structured to operate in alignment with a Three Lines of Defence model, ensuring appropriate segregation of roles and responsibilities across the Company. This segregation applies across all business functions meaning multiple layers of review take place within each business function, and between committees and the Board.

The key functions of the Committees of the Board are summarised as follows:

- **Audit and Risk Committee** – provides oversight of the Company's risk management, capital management and audit activities. Key responsibilities include: oversight of current and future risk exposures, including the determination and monitoring of actual exposures against risk appetite and tolerance; providing guidance on the implementation of the risk management framework; ensuring the maintenance of sufficient economic and regulatory capital and allocation of capital; promoting a risk aware culture; oversight of the effectiveness of internal controls and the performance of the outsourced internal and external audit functions

- **Investment Committee** - provides oversight of the performance and management of the Company's investment portfolio. Key responsibilities include: development and maintenance of an appropriate investment strategy; monitoring of the investment strategy, asset allocation and value of invested assets; and monitoring the performance of the investment manager.

- **Credit Committee –** provides oversight of the counterparty credit exposures of the Company's liability portfolios. Key responsibilities include: oversight of current debt exposures for claims and reinsurance claims.

- **Claims Committee –** provides oversight of the claims handling process and development trends, including movements in reportable claim values and handling of large claims.

B2. Fit and Proper requirements

The Company does not employ any staff, with its principal functions being outsourced. Therefore, personnel arrangements are managed by the Human Resources function, which sets the minimum standards for the appointment and promotion of individuals. The Company ensures that Board members and senior executives are fit and proper to discharge their responsibilities in accordance with the following definitions:

- **Fit** – their professional qualifications, knowledge and experience are adequate to enable sound and prudent management of the Company's activities. An assessment of whether an individual is 'fit' involves an evaluation of their professional qualifications, knowledge and experience to ensure they are appropriate for the role. It also demonstrates whether the person has exercised due skill, care, diligence, integrity and compliance with relevant standards applicable to the area or sector in which the individual has worked.

- **Proper** – whether a person is of good repute and integrity. An assessment of whether a person is 'proper' includes an evaluation of their honesty, reputation and financial soundness. This includes, if relevant, criminal convictions or disciplinary offences.

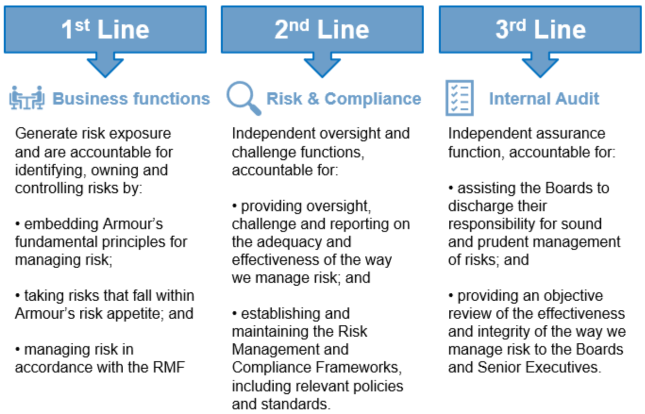
The Company's Fit and Proper Policy covers the initial and ongoing procedures to be applied in order to confirm that the relevant individuals meet the specified Fit and Proper requirements, together with relevant regulatory notification and reporting responsibilities. The following table provides details on which individuals are covered by this Fit and Proper policy and the assessment requirements that relate to them.

Individual's status	Description	Assessment Process
Senior Manager Function	PRA and FCA SMFs	SMFs subject to PRA and FCA approval Firm to assess ongoing fitness and propriety.
Key Function Holder not performing a PRA or FCA SMF	Individuals responsible for a key function	Firm to assess initial fitness and propriety and make a notification to the regulators. PRA supervise assessments on an ex-post basis. Firm to assess ongoing fitness and propriety.
Persons "performing a key function"	Individuals employed in a key function but not the key function holder.	Firm to assess initial fitness and propriety and on an ongoing basis.
Certified Persons	Those classified as holding a certification role and therefore being subject to the Certification Regime requirements.	Firm is responsible for identifying those persons who hold a certification role and for completing an annual certification for each of them. Firm to notify the Regulators of all Certified Persons.
All other staff	n/a	Internal HR processes to ensure performance

B3. Risk Management System

Gringolet has established, and maintains, a strong and effective Enterprise Risk Management Framework ("ERMFW" or "the Risk Framework"). The Risk Framework supports the execution of the Company's strategic objectives and business plan, allowing an appropriate understanding of the nature and significance of the enterprise-wide risks to which the Company is exposed. This includes assessing the sensitivity to those risks and the ability to identify, assess, control and mitigate these.

Risk governance is a key component of the Company's overall Risk Framework, providing for clear roles and responsibilities in the oversight and management of risk. Moreover, it provides structure to the reporting and escalation of risk and control issues across the Company. Gringolet adopts a Three Lines of Defence approach to managing and mitigating risk events:



The Risk Framework is built on three core pillars:

- Strategic Planning;
- Risk Appetite; and
- Capital Modelling.

Strategic planning

Strategic planning is key to the development and achievement of the Company's objectives. It considers factors such as prospective opportunities, market conditions, the profitable development of reserves, the objectives of the Company, financial targets, and risk appetites.

Risk appetite

The Company's Risk Appetite Statements (RASs or "the statements") set out the nature and level of risk it is willing to take in pursuit of organisational objectives. The RASs are used to support risk-based decision making by clearly defining appetite i.e. the maximum level of risk we wish to take and our risk tolerances.

The statements are formally reviewed annually to ensure they reflect any changes to strategic objectives, and to the internal and external environment. The Board remains responsible for the review, challenge, and adoption of the risk appetite framework.

The core objective of Gringolet is to pay liabilities as they become due while meeting regulatory requirements. It does this by maintaining a capital level that is well in excess of assessed liabilities in order to absorb reasonably foreseeable fluctuations in the amounts required.

The Company needs to hold capital in line with the Solvency Capital Requirement (SCR) according to Solvency II. The cautious approach followed ensures the Company is capable of meeting liabilities as they fall due whilst offering a prudent level of policyholder protection.

Capital management

The objective of capital management is to ensure the Company manages and maintains adequate levels of capital to achieve a balance between elements of strategic planning and risk appetite. The liabilities and risk margin of the Company should reduce over time, meaning Own Funds should increase above the target SCR risk appetite threshold.

When this happens, the Board can choose to apply to the Prudential Regulatory Authority ("PRA") for non-objection to a dividend remittance. Any dividend paid will reduce own funds to a point not below the agreed SCR thresholds as set out in the Risk Appetite Framework.

Risk register

The risk register summarises the overall risk profile of the Company and is broader in application than the capital-based risk profile produced by the Solvency II Standard Formula. Gringolet monitors risk against the following risk categories:

- Strategic risk
- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk

If a new risk is identified, it is assessed, measured, managed, and monitored using the processes within the risk management framework. Various risk mitigation techniques are regularly assessed to ensure they are appropriate to the nature and scale of the risks assumed. More detail on the material risk classes is included below.

Risk owners are required to assess the inherent and residual risk position using standardised assessment ratings. Each Risk Owner has the responsibility to identify and assess design and performance of key controls that are in place to mitigate the impact and probability of each risk event occurring.

Ineffective controls are identified for improvement and the Board receive regular reports on the completion of control improvement activities.

The assessment is subject to a regular review, with independent oversight provided by the Enterprise Risk management Function. Output from the assessment and key changes to the risk profile are reported to and reviewed by the Audit and Risk Committee with escalation to the Board as appropriate.

Own risk and solvency assessment (ORSA)

The Own Risk and Solvency Assessment ("ORSA") provides a process for the assessment of all the risks inherent to the Company's business to determine its corresponding capital needs. An ORSA is a company's own assessment of the risks faced, the operation of the RMF, its capital requirements and how these are met.

The Company adopts the definition of the ORSA to be the entirety of the processes and procedures employed to identify, assess, control, manage, and report the short and long term risks the Company faces or may face and to determine the assets necessary to ensure that the undertaking's overall capital needs (solvency and economic) are met at all times.

Each ORSA:

- Considers all aspects of the Company and as a result of this, all material risks with additional scrutiny in place for key risks to the business identified by the Board;
- Focusses on the Company's overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and business strategy;
- Assesses on a continuous basis the compliance with the SCR, MCR, and the requirements regarding Technical Provisions;
- Assesses the significance with which the risk profile of the Company deviates from the assumptions underlying the SCR calculated with the standard formula;
- Is aligned with the Company's strategic direction, receiving regular input from the Board regarding progress against strategic initiatives;
- Is forward-looking, considering the business performance and projections;
- Will evolve in line with movements in both the strategy and risk profile of the Company;
- Is an output of a series of activities making up the RMF; and
- Production is supported by a consistent approach to capturing data on a timely and accurate basis.

Each ORSA is created and collated by the Risk Management Function in accordance with the RMF and reported to and challenged by the ARC and the Boards.

The ORSA process ensures that the Boards will be provided with the relevant risk and capital information they require and at an appropriate frequency, to enable them to act in the best interests of their stakeholders.

Stress and scenario testing is included to provide insights into the strength of the balance sheet and assess future potential solvency positions. The CRO maintains operational responsibility for reviewing the ORSA process and delivering ORSA reports to the Board.

The ultimate responsibility for the ORSA rests with the Board, who reviews and approves the results of the ORSA process at least annually and is used as an input by the Board in making strategic decisions such as setting the Company's capital management policy and deciding on risk mitigation actions to be undertaken.

Based on the risk profile, the standard formula is used to determine capital requirements. The Company sets aside capital to cover its quantifiable risks in accordance with its capitalisation policy (which could involve a buffer to allow for risk not allowed for within standard formula). The risk-based capitalisation position of the Company is monitored on a frequent basis by the Company CRO and CFO against target capital with a number of options if risk and capital develop out of pre-defined control ranges. The plan is stressed by scenarios within the ORSA process and mitigations considered to ensure that the calculated target capital still holds under those scenarios.

B4. Internal Control

The Company Internal Control Framework seeks to mitigate risks, protect policyholders and limit the likelihood of losses or other adverse outcomes, as well as providing a framework for the overall management and oversight of the business.

Controls take different forms, including but not limited to:

- Policies and procedures
- Approvals and authorisations
- Authority limits
- Management reporting
- Reconciliations and verifications
- Peer reviews

Key controls are captured within the risk register and assessed as part of the risk and control assessment process. Internal and external auditors play a key role in the oversight and assessment of the overall control environment. Findings from audits are shared with and discussed at the Audit and Risk Committee and contribute to risk assessment and solvency self-assessment processes.

The Gringolet internal control system is a critical component of the safe and sound operation of the Company, and comprises a coherent, comprehensive and continuous set of mechanisms designed to ensure:

- The Company operates effectively and efficiently, and within agreed risk tolerances, as it pursues its strategic objectives;
- Availability and reliability, and security, of financial and non-financial data; and
- Compliance with applicable laws, regulations and administrative processes.

The Board remain responsible and assume ownership of the internal controls system. They set the "tone at the top" for integrity and ethics, promoting a positive control environment.

B5. Internal Audit Function

The Internal Audit function is in place to provide risk-based, independent and objective assurance, advice, and insight to the Gringolet Board. It is an independent assurance function within the third line of defence, providing the Board and Audit and Risk Committee with independent and objective assurance, and value adding insight on the effectiveness and efficiency of governance, risk management, and internal control processes.

It has unfettered access to all areas of the Company, including the Board, so as to effectively carry out its duties. Internal Audit is overseen by the Audit and Risk Committee which approves an annual internal audit plan. Findings and action points arising from each review are discussed with the relevant business areas and reported to the Audit Committee.

B6. Actuarial Function

The Actuarial function is outsourced to Armour and subsequently carried out by a Fellow of the Institute and Faculty of Actuaries (FIA). The work is supervised, and peer reviewed by the Chief Risk Officer, also an FIA.

The work carried out includes:

- Quarterly and annual Solvency calculations
- Annual Reserve review
- Quarterly reserve monitoring process
- Production of the Actuarial Function Report

The Chief Actuarial Officer provides oversight of all actuarial activity, ensuring that relevant standards are met, while also supporting strategic projects and providing guidance to the Board. The Chief Actuary is regularly in attendance at Board and ARC meetings.

Each of these activities is undertaken at least annually, but also on an “as and when required” basis to support the business and its decision-making processes.

B7. Outsourcing

Oversight of the Company’s key service provider (ARM) is managed in accordance with the Company’s Third-Party Service Agreement which is subject to review and approval by the Company’s Board and contains detailed requirements regarding;

- Relationship management
- Due diligence and third-party selection
- Contract negotiation
- Ongoing monitoring
- Termination
- Oversight and accountability
- Documentation and reporting
- Independent review requirements

The service providers provide a quarterly performance report providing the following information:

- Statutory management accounts, prepared in accordance with Solvency II regulation;
- A written management report, benchmarked against the strategy and service agreement as determined and agreed by the Board of Directors of the Company and the Service Provider;
- Any movement in assets or liabilities that negatively affects the statutory capital of the Company by more than 5% is to be reported to the Board of Directors of the Company immediately;

- The Service Provider will be available to attend the quarterly Board meetings to provide a verbal report and answer any question the Board of Directors may have; and
- At all times the Service Provider will co-operate with the internal audit team and implement all reasonable requests immediately. The auditors' findings are reported directly to the Audit and Risk Committee.

In addition, responsibility for specific outsourced functions has been delegated to Executive Directors, see B1. above. The outsourced functions are subject to both internal and external audit scrutiny. The auditors' findings are reported directly to the Audit and Risk Committee.

The key functions outsourced to Armour are:

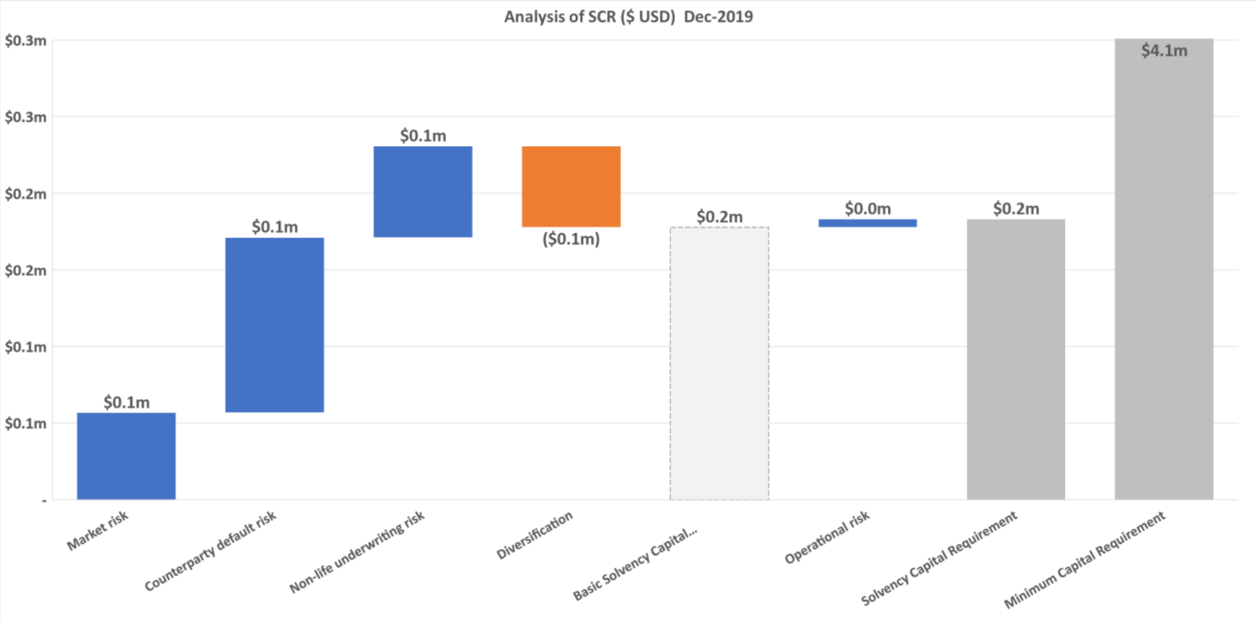
- Actuarial & Claims
- Finance
- Risk
- Compliance
- Internal Audit
- Operations

B8. Any other information

None at this time.

C. Risk Profile

This section describes the key risks that the Company is exposed to. The Standard Formula is used to aid the quantification and ranking risks, in addition to calculating the SCR. The following table shows the contribution each risk type is making to the overall SCR:



C1. Insurance Risk

Insurance risk for the Company is very low. The principal risk associated with insurance contracts the Company underwrote is that the actual claim payments, or the timing of these, differ from expectations. This is influenced by the frequency and severity of claims and subsequent development of long-tail claims. Insurance risk is typically concerned with a combination of earned (Reserving) and unearned (Underwriting) premium. The Company only underwrote annual policies, with the last one having been placed in 1974, so all risks were fully earned by 1975 meaning it is just reserving risk in this case.

Reserve risk arises from the inherent uncertainty surrounding the on-going adequacy of the reserves or technical provisions that have been set aside to cover insurance liabilities. The key risk is that current reserves (including incurred but not reported (IBNR) reserves) are not sufficient to cover the run-off of the claims that have already occurred.

Reserve risk exposure is managed by the Actuarial function and through defined reserving practices. A number of controls are in place to ensure that reserving processes continue to be effective and that essential reserving data is complete and appropriate.

The Company's approach to reserving is described in full in its Reserving Review report, which is updated annually. In addition, the Actual versus Expected Analyses ("AvE") are performed on a quarterly basis. The Actuarial Function meets with Claims Managers on a regular basis in order to understand claims developments and their causes. The Audit and Risk Committee, and Board receive regular updates on material movements and development trends.

C2. Market Risk

Currency Risk

Currency Risk arises where there is a mismatch between assets and liabilities by currency. The Company's liabilities are primarily denominated in GBP, so the Company is holding GBP cash balances with a similar value. The value of liabilities is subject to change, so asset liability matching is actively monitored through the Gringolet Investment Committee to limit potential mismatch.

Interest Rate Risk

Interest Rate Risk arises from a mismatch between assets and liabilities by duration or currency. Under Solvency II, Technical Provisions are discounted using EIOPA yield curves. Hence a change in the yield curve will lead to a change in the value of these provisions, which could lead to a loss or gain for the Company. At present this risk is relatively low due to short to medium term duration of the Company's liabilities and the low level of interest rates. The Investment Committee aims to purchase assets with similar durations to liabilities in order to mitigate this risk.

Prudent Person Principle

The Solvency II regulations require insurers to invest their assets in accordance with the Prudent Person Principle. The Company's attitude to investment risk is described in its Risk Appetite Statement, which also sets out the associated Risk Tolerances. The Risk Tolerances, in turn, inform the Investment Guidelines. Together these specify the allowable types of investment activity and the limits on specific investments and classes of investment. The Investment Committee monitors ongoing compliance with these tolerances and is made aware of any technical or actual breaches.

C3. Counterparty Default Risk

Counterparty Default Risk is the Company's most significant risk. However, this is only on account of the very low level of any other risk type presently. The Company's Counterparty Default Risk encompasses cash held with two banks. The Credit Committee is responsible for managing this risk. The Risk Appetite Statement places limits on the amounts that can be held with individual banks. It also specifies how this risk is monitored.

C4. Liquidity Risk

Liquidity Risk is the risk that cash is not available to settle liabilities as they fall due. In addition to reputational damage it may lead to additional costs such borrowing costs or distressed asset sales.

At present all assets are held in cash, so there is no Liquidity Risk in not considered material.

C5. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This risk is mitigated by the robust governance model the Company has in place, and contractual agreements with outsources service providers. The Company's capital requirements also include an allowance for Operational Risk.

C6. Other material risks

Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the group are subject to legal and regulatory requirements within the jurisdictions in which it operates, and the Compliance function is responsible for ensuring that these requirements are adhered to.

Group risk

Group risk occurs where business units fail to consider the impact of their activities on other parts of a group, as well as the risks arising from these activities. Gringolet operations are outsourced to ARML, both of which have the same ultimate controller. Risks affecting ARML could have a knock-on effect on the Company.

C7. Any other information

The Company has a high SCR coverage ratio and it is difficult to foresee any circumstances in which it could become insolvent.

The MCR coverage ratio is 104%. A weakening of the US dollar, or future claims and expense exceeding reserves, both have the potential to cause a reduction in this ratio.

D.Valuation for Solvency Purposes

Comparisons of the UK GAAP and Solvency II balance sheets is summarised in the following tables:

	2019			2018		
Balance Sheet Comparison	**Solvency II value $m**	**Statutory accounts value $m**	**Difference $m**	**Solvency II value**	**Statutory accounts value**	**Difference**
Assets						
Investments	-	-	-	-	-	-
Reinsurance recoverables from:	-	-	-	-	-	-
Debtor balances	-	-	-	-	-	-
Cash and cash equivalents	$0.0m	$0.0m	-	-	-	-
Accrued income	$4.5m	$4.5m	-	$4.8m	$4.8m	-
Total assets	**$4.5m**	**$4.5m**	-	**$4.8m**	**$4.8m**	-
Liabilities						
Technical provisions	$0.2m	$0.1m	$0.1m	$0.2m	$.0.1m	
- Best Estimate	$0.2m	n/a	n/a	$0.2m	n/a	
- Risk margin	$0.0m	n/a	n/a	$0.0m	n/a	
Insurance & intermediaries payables	-	-	-	-	-	
Any other liabilities, not elsewhere shown	$0.1m	$0.1m	-	$0.1m	$0.1m	
Total liabilities	**$0.2m**	**$0.2m**	**$0.1m**	**$0.3m**	**$0.2m**	
Excess of assets over liabilities	**$4.3m**	**$4.3m**	**($0.1m)**	**$4.5m**	$4.6m	($0.1m)

Own Funds are equal to excess of assets over liabilities on a Solvency II basis and consist of Tier 1 Paid Share Capital and the Reconciliation Reserve.
A qualitative description of the reasons for differences between UK GAAP and Solvency II is set out at section D1. (assets), D2. (technical provisions) and D3. (liabilities other than technical provisions).

D1. Assets

The assets in the Company are either cash or receivables and therefore valuation of these amounts under Solvency II has been taken to be the values under the local reporting requirements.

Cash and cash equivalents balances are valued at their nominal value. Other assets are generally held at their nominal value and recognised when they fall due.

There has been no change to the valuation and recognition basis during the year.

D2. Technical Provisions

The Company has determined the technical provisions as per the EIOPA guidance as the discounted best estimate of reserves plus the risk margin.

Solvency II technical provisions by material line of business

Technical Provisions are for direct UK Employers' Liability policies, which are classified as General Liability under Solvency II.

Net Best Estimate Technical Provisions ($ USD)	Dec-2019	Dec-2018
UK Employers Liability	0.2m	0.2m
Total Net Solvency II Technical Provisions	**0.2m**	**0.2m**

Calculation of technical provisions

The technical provisions are calculated in line with the prescribed Solvency II requirements as per Articles 76 to 86 of Directive 2009/138/EC. In particular, the value of technical provisions corresponds to the current amount an insurance or reinsurance undertaking would have to pay if they were to transfer their insurance or reinsurance obligations immediately to another insurance or reinsurance undertaking. A full review of Solvency II technical provisions was carried out as at the date of this report.

The Best Estimate has been calculated using the following methods:

- Reserves for existing losses are set on an individual basis using judgement and the latest available information.
- An IBNR reserve for future losses is estimated based on the historical claim experience. Significant judgement has been required due to the low volume of recent claims.
- Reserves are held for operating expenses based on expense forecasts and the assumption that an inwards Part VII Transfer will be completed within the next 12-18 months.

The technical provisions are based on a review as at 31st December 2019.

Level of uncertainty associated with the value of technical provisions

Due to the age of the portfolio, future claims costs are not expected to be a significant source of uncertainty. Expenses could vary from the forecast amounts, for example due to inflation. The completion date of any Part VII Transfer can be uncertain and significant delays would cause expenses to be higher than forecast.

Valuation differences of technical provisions by material line of business between Solvency II and UK GAAP

The following table shows the differences between UK GAAP and Solvency II Technical Provisions:

Technical Provisions Reconciliation ($ USD)	Dec-2019	Dec-2018
GAAP Net Technical Provisions	**0.1m**	**0.1m**
Remove margin for prudence		
ENID	-	-
Expense Provisions	0.1m	0.1m
Discounting	(0.0m)	(0.0m)
Risk Margin	0.0m	0.0m
Solvency II Net Technical Provisions	**0.2m**	**0.2m**

The Company has not taken advantage of any of the transitional provisions under Solvency II or for a Matching or Volatility Adjustment. Technical Provisions are based on forecasts of future claims and expenses, which are inherently uncertain. Ultimate claims could be either higher or lower than the amounts assumed.

No simplifications have been used except in the calculation of the Risk Margin, which has been calculated using Method 2, and no material issues have identified with the data used in the calculation of Technical Provisions.

D3. Other liabilities

Solvency II requires that all assets and liabilities should be measured at fair value. However, book value as per UK GAAP is used as a proxy for the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due within one year or amounts due in more than one year are not material.

D4. Alternative methods for valuation

Not applicable.

D5. Any other information

There is no further material information to disclose.

E. Capital Management

This section describes the solvency requirements of the Company and the level of Own Funds in relation to the solvency capital requirements.

E1. Own funds

Under the Solvency II guidance, the eligible Tier 1 Own Funds of the Company were $4.3m (2018: $4.5m).

There are no Own Funds that are ineligible or that are included in Tiers 2 and 3. The Own Funds consist of Paid In Share Capital and a Reconciliation Reserve. There are no significant restrictions or constraints on the Own Funds.

	Dec-2019				Dec-2018			
Own Funds ($m) 2019	Tier 1	Tier 2	Tier 3	**Total**	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Share Capital	2.6m	-	-	2.6m	2.6m	-	-	2.6m
Reconciliation Reserve	1.7m	-	-	1.7m	4.9m	-	-	1.8m
Own Funds	**4.3m**	**-**	**-**	**4.3m**	**4.5m**	-	-	**4.5m**

Own Funds consist of the UK GAAP Shareholders' Funds on a GAAP basis adjusted for the Solvency II restatements, which are shown in the table below:

Own Funds Reconciliation ($ USD)	**Dec-2019**	**Dec-2018**
UK GAAP Shareholders' Funds	4.3m	4.6m
Remove margin for prudence	-	-
ENID	-	-
Expense Provisions	(0.1m)	(0.1m)
Discounting	0.0m	0.0m
Risk Margin	(0.0m)	(0.0m)
Other	-	-
Solvency II Own Funds	**4.3m**	**4.5m**

The Reconciliation Reserve consists of the following items:

Reconciliation Reserve ($ USD)	**Dec-2019**	**Dec-2018**
Capital contribution reserve	3.9m	39m
Profit and loss account	(2.1m)	(1.9m)
Solvency II Restatements	(0.0m)	(0.0m)
Solvency II Reconciliation Reserve	**1.7m**	**1.9m**

No distributions were made to shareholders during the year.

Objectives, policies and processes for managing own funds

The Company is a run-off operation, so capital requirements are expected to reduce steadily as claims are settled. The reducing capital requirements will allow excess Own Funds to be distributed as dividends. As well as running off the existing liabilities in an orderly manner, the Company's strategy is to seek further opportunities for inwards transfers of run-off portfolios. Own Funds would of course need to be reassessed before executing a further transfer.

As a run off operation, the Company has provided a Scheme of Operations to the regulator, which projects its planned dividend payments. Capital requirements and Own Funds are assessed on a quarterly basis. The Company will not pay dividends if they would lead to the Risk Appetite being exceeded and they are subject to prior "non objection" by the PRA.

Ensuring minimum Tier 1 levels to cover the SCR

Under Solvency II, the SCR must be covered by at least 50% Tier 1 capital. The Company's regulatory capital requirements were $4,126,980 (2018: $4,187,660). Hence, the Tier 1 Own Funds were 104% of the required capital (2018: 108%). The capital requirement is based on the MCR, as the SCR is significantly lower.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The following table shows the components of the SCR:

Analysis of SCR ($ USD)	Dec-2019	Dec-2018
Non-life underwriting risk	£0.1m	£0.1m
Market risk	£0.1m	£0.1m
Counterparty default risk	£0.1m	£0.1m
Diversification	(£0.1m)	(£0.1m)
Basic Solvency Capital Requirement	**£0.2m**	**£0.2m**
Operational risk	£0.0m	£0.0m
Solvency Capital Requirement	**£0.2m**	**£0.2m**
Minimum Capital Requirement	**£4.1m**	**£4.2m**

No simplifications or Undertaking Specific Parameters ("USPs") have been used in the calculation of the SCR.

The following table shows the derivation of the MCR:

Overall MCR calculation ($ USD)	Dec-2019	Dec-2018
Linear MCR	0.0m	0.0m
SCR	0.2m	0.2m
MCR cap	0.1m	0.1m
MCR floor	0.0m	0.0m
Combined MCR	0.0m	0.0m
Absolute floor of the MCR	4.1m	4.2m
Minimum Capital Requirement	**4.1m**	**4.2m**

The change in the MCR since 2018 is due to a strengthening of the USD against the EUR. For both years the Absolute Minimum Capital Requirement is €3.7m.

E3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

E4. Differences between the standard formula and any internal model used

Not applicable.

E5. Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement

Not applicable.

E6. Any other information

Not applicable.

F.Director's statement

We acknowledge our responsibility for preparing this 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 so to comply subsequently and will continue so to comply in future.

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Director

Annex 1 – Quantitative reporting templates

The following templates are provided below:

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

Unless otherwise stated, figures are shown in thousands of US dollars, rounded to the nearest thousand.