GRINGOLET Company Limited

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Solvency and Financial Condition Report – December 2016

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Executive Summary

This report forms part of the annual submission to the Prudential Regulatory Authority under the new annual submission requirements following the implementation of Solvency II.

This is the first of such formal submissions and outlines the financial condition of Gringolet Company Limited ("Gringolet" or the "Company"), relative to the requirements under Solvency II.

As Gringolet ceased underwriting in 1974 and completed a successful scheme of arrangement on the majority of its portfolio of risks in September 2010, there is very little inherent risk associated with the historic underwriting. Following the Solvent Scheme of arrangement the company commuted policies with notably Equitas, and various other London market cedants in 2003. The Company's only remaining open liabilities relate to direct Employer Liability ("EL").

The company's current activity is driven by regulatory and administrative reporting requirements, given the lack of claims activity since its change of control. Therefore, the majority of the risk associated with Gringolet is driven as a result of the remaining duration to extinguish all remaining insurance liabilities.

As of 31st December 2016 the Solvency position can be summarised by the following table:

	Own Funds	SCR	MCR
Amount	£3,724,396	£1,008,602	£3,331,850
Ratio to Own Funds	100%	369%	112%

The company currently has own funds of £3,724,396 relative to the standard formula calculation of the Solvency Capital Requirement ("SCR") of £1,008,602 resulting in a solvency ratio of 369%.

The European Minimum Capital Requirement ("MCR") for insurance entities is €3.7m. At the prescribed rate of exchange for 31st December 2016 this amounts to £3,331,850.

During the period, there were no material changes in the company's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. The company does not foresee a change in the activity in the company or any new arising risks in the following year.

A. Business and Performance

A.1 Business

Gringolet Company Ltd ("Gringolet") commenced underwriting general insurance business in 1952 and underwrote business in the UK through the following different distribution channels:

- The Minster, Reliance and Iron Trades ("MRI") stamp, which was placed by Robert Bradford, a major underwriting agency, for three insurance companies; Gringolet (formerly known as The Reliance Fire and Accident Insurance Corporation Limited), Minster and Iron Trades;
- Participation in the Cullum Underwriting Agency writing business on a subscription basis co-(re)insuring with Lloyd's syndicates and other insurance companies; and
- Direct general insurance through insurance brokers, including Products Liability and Employers Liability.

Following discussions with the Department of Trade in 1974 the Company's authorization to effect new business was withdrawn on 31st December 1974. As the Company only wrote annual policies the Company's liability ceased when the final risks expired in 1975.

The remaining risks and liabilities were significantly reduced following a Scheme of Arrangement of all MRI policies and commutation of certain Cullum policies. The MRI Scheme of Arrangement had a claims submission bar date of September 2010 extinguishing all liabilities. Gringolet commuted policies with notably Equitas, and various other London market cedants in 2003. The Company's only remaining liabilities relate to direct Products Liability ("PL") and Employer Liability ("EL") and a very small amount of non-MRI London market business.

In September 2014 Gringolet was acquired by ILS P&C Re. The administration has been undertaken by Armour Risk Management Limited ("Armour Risk") on behalf of ILS P&C Re since this time. There were no material changes to the company's business during the year.

Gringolet is a private limited company registered in the UK which is limited by shares, it has no related undertakings. The Owner of Gringolet Company Limited is ILS Property and Casualty Re Limited; a Bermuda licensed and incorporated reinsurer. The Owner is an indirect wholly owned subsidiary of ILS Property and Casualty Fund Limited, a Cayman based passive investment vehicle ("ILS Fund"). As the Fund is a passive investment vehicle, all day to day activities, including all investment decisions of the ILS Fund and of the Owner reside in the sub advisor to the Fund, ILS Investment Management Limited, a Bermuda based company ("ILS IM"). The controller of the Owner is ILS IM via a sub-advisory agreement. ILS IM is a wholly owned subsidiary of Armour Group Holdings Limited; a Bermuda incorporated company ("Armour Holdings"). Armour Holdings is the ultimate controller of licensed (re)insurers in Bermuda, the USA and the Cayman Islands. Group structure chart can be found in section B.1.

Gringolet (FRN 202792) is authorised and regulated by the Prudential Regulation Authority, which is part of the Bank of England, 20 Moorgate, London EC2R 6DA (enquiries@bankofengland.co.uk, 020 3461 4878).

The company's independent auditors are PricewaterhouseCoopers LLP, 7 More London Riverside London SE1 2RT.

A.2 Underwriting Performance

The UK GAAP financial results for 2016 were as follows:

Technical Account – General Business	**2016**	2015
	£'000	£'000
Claims incurred, net of reinsurance		
Claims paid		
gross amount	**3**	-
reinsurers' share	**-**	-
	3	-
Change in the provision for claims		
gross amount	**-3**	-1
reinsurers' share	**-**	-
	-3	-1
Claims incurred, net of reinsurance	**-**	-1
Net operating expenses	**-74**	-96
Total Technical charges	**-74**	-96
Balance on the technical account for general business	**-74**	-95
Non-Technical Account		
Balance on the general business technical account	**-74**	-95
Investment income	**-**	-
Foreign exchange on monetary assets	**609**	26
Profit/(loss) on ordinary activities before taxation	**535**	-69
Tax on profit/(loss) on ordinary activities	**-**	-
Profit/(loss) for the financial year	**535**	-69
Profit/(loss) attributable to the owners of the parent	**535**	-69

A.3 Investment Performance

As part of running off its general insurance and reinsurance business, the Company operates a cautious investment strategy and all funds are held as bank deposits, thus expected returns are minimal.

The company holds surplus assets in US dollars in order to reduce currency risk for its stakeholders. This accounts for the Foreign exchange gains seen during the period.

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

A.4 Performance of other activities

Responsibility for the day to day management of the Company has been outsourced to Armour Risk. The board monitors performance against the SLA and ensures costs are commensurate with the services provided and proportionate to the size of the entity. For 2016 Armour's fee was £44k. The only other material expense was audit fees of £23k.

The company did not generate any income from other activities.

A.5 Any other information

None at this time.

B. System of governance

B.1 General information on the system of governance

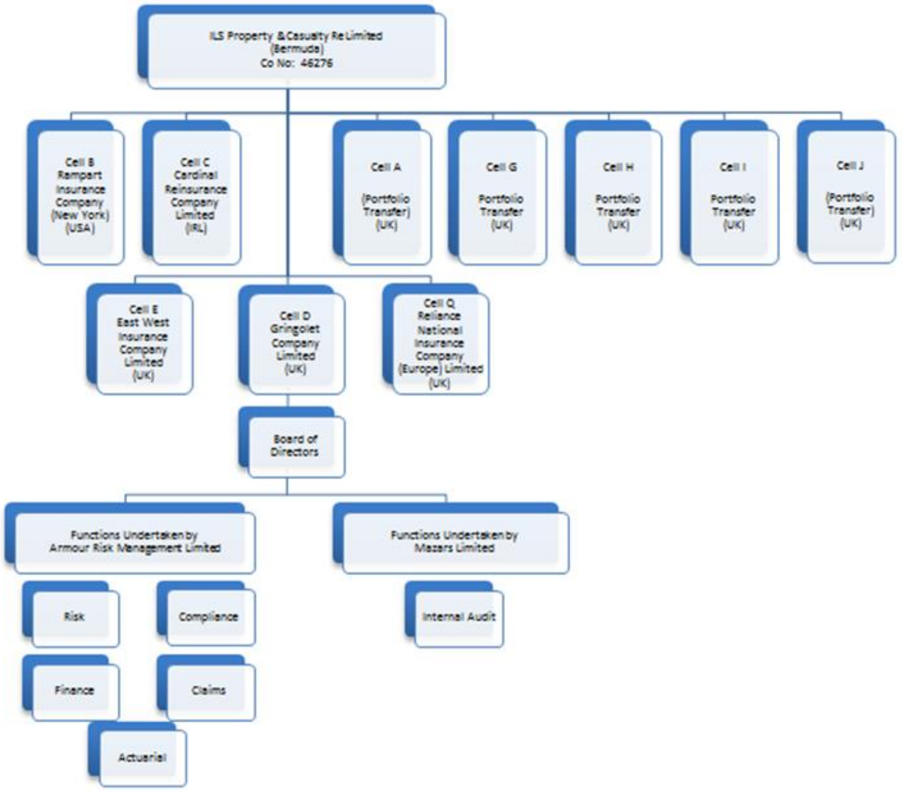
Gringolet is governed by a Board of 4 Directors. There is presently a vacancy for Chairman, this position is subject to regulatory approval and the Company is in the process of preparing the relevant regulatory application.

The Company currently has no employees and does not therefore have a remuneration committee. This approach will be reviewed in the event recruitment is required.

The duties and responsibilities of the Board are documented in the Company's Governance Map which is subject to quarterly review and approval by the Board.

A comprehensive review of the Company's governance is planned for quarter 1, 2017. Any changes made will, once Board approval is received, be reflected in the Company's governance document and future regulatory reports and returns.

Gringolet Organisation and Governance Chart



Board of Directors

The Board consists of highly skilled individuals with significant experience in the insurance/reinsurance market. The Board meets quarterly, at minimum, to review and monitor Company performance.

The following were members of the Company's Board as at 30 June 2016

Director	Approved Function
Mr B S Huntington	SIMF 1 CEO SIMF 2 Head of Risk CF29 Significant Management
Mr J C Williams	SIMF 5 Head of internal audit SIMF 20 Chief Actuary
Mrs D P E Richards	SIMF Chief Finance Function
Vacancy	SIMF 9 Chairman SIMF 14 Senior Independent Director

Key Functions

The following table contains details of the key functions of Gringolet as determined by the Board.

Key Function	Rationale
Actuarial & Claims	Gringolet is a general insurance company which has been in run-off since 1974. Actuarial reserving is considered a key function that enables both the Board and key stakeholders to effectively monitor the remaining portfolio and ensure an efficient run-off for the policyholders.

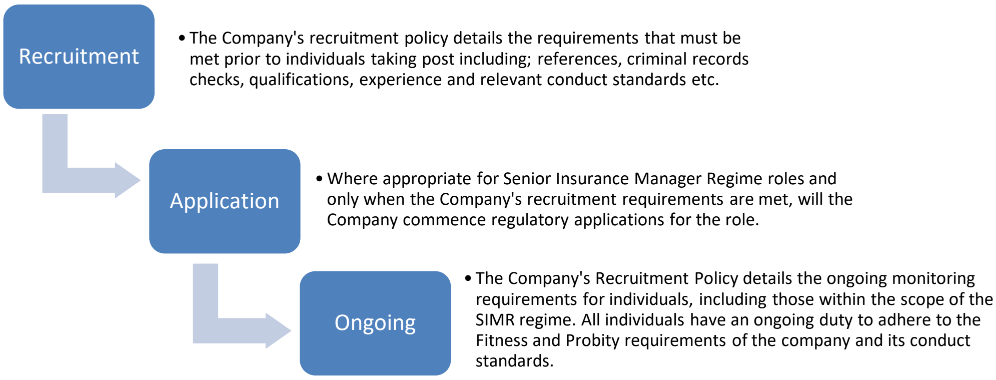
	Being a company in run-off, a primary focus is on the accurate and timely payment of all valid claims. Therefore this is a key focus for the Board to ensure an efficient operation.
Finance	Finance is considered a key function to ensure the company effectively manages capital requirements and liquidity in line with regulatory requirements. Further, future run-off costs are a key consideration and as such the financial management, including expense cost control, is critical to the continued operation.
Risk	The management of risks facing the company is important. The ability to identify, quantify, manage and anticipate outcomes and their potential effects on the company and its remaining run-off. Given the very conservative investment policy of the Company most of the risk is derived from the claims liabilities. Therefore close monitoring of claims activity is a key function.
Internal Audit	Internal audit is considered a key control point to provide comfort to the Board and key stakeholders that statutory and regulatory operating thresholds and requirements are met and that the operation is being run in the optimum way so as to protect policyholders.
Compliance	Fit and proper, regulatory and statutory requirements are desirable and required to be met for the protection of policyholders

Outsourcing
All operational activities are outsourced via robust, third party service agreements. Further details on the nature, including; requirements, management reporting and oversight of outsourced service providers is provided in section B.7 Outsourcing, below.

The only material transaction with connected party was Armour Risk's administration fees (see section A.3). The relationship between Armour Risk and the company is explained in section A.1.

B.2 Fit and proper requirements

The Company is satisfied its framework for fitness and propriety is appropriate to ensure that individuals fulfilling controlled functions meet all relevant regulatory requirements



The Board's review of the continued suitability of directors to continue is evidenced by;

- Annual performance and development reviews, including training,
- Approval of directors appointments and approved persons,
- Oversight of outsource service providers.

The Outsource Service Provider, under the instruction of the governing Board, is responsible for ensuring individuals meet the regulators' fit and proper tests at the point of application. Further, approved persons are required to complete an annual attestation confirming that the fit and proper requirements for the role have been met and that they continue to adhere to the Company's conduct standards.

B.3 Risk Management system including the own risk and solvency assessment

The Company is committed to a robust Risk Management Culture and seeks to ensure that every member, officer or outsource service provider, has regard for the management of risks both in the decision making process and everyday work situations.

The Company's risk management process undertakes a best practice approach and focuses on understanding the key risks and managing them within acceptable levels in the interests of the protection and safety of assets for policyholders. It is a collaborative process where risk response plans are developed in concert with the stake holders who understand the risks and are best able to manage them.

Gringolet's Risk function is led by the Board who also act as Risk Committee. The Board/Committee should;

- Know about the most significant risks facing Gringolet;
- Ensure appropriate levels of awareness throughout the organisation;
- Know how the organisation will manage a crisis;
- Be assured that the risk management process is working effectively;
- Publish a clear risk management policy covering risk management philosophy and responsibilities.

The Terms of Reference for the Board/Risk Committee is as follows;

- Set risk tolerance/appetite for Gringolet and review, at least annually to ensure they continue to be appropriate;
- Promote good risk management practice throughout the Company by co-operation and liaison with outsource service providers and relevant external agencies and regulators;
- To assign an inherent risk rating and ownership, to new risks identified;
- To identify those risks that present the greatest risk to the business and to make proposals for reducing the potential probability or scale;
- To ensure that all actions agreed, in order to minimise risks, are completed in accordance with the agreed deadlines.

Gringolet's risk framework includes separate Risk Appetite and Management Policies and qualitative register.

<u>Appetite Policy</u>

The Company maintains a Risk Appetite policy which is reviewed annually, at minimum and is set to reflect the Company strategy. The policy describes the areas under which the Company categorises its risks; including, strategic, financial, operational, reserving, market and regulatory and compliance and includes details of how risks arising are assessed for their acceptability/tolerance and likely impact.

As a company in run-off, it is considered inappropriate to measure risk tolerance against premium income or market reputation and therefore the Company has chosen to measure risk tolerance against impact on capital.

<u>Management Policy</u>

The Risk Management Policy describes the way the Company oversees risk management and the method by which risks are reviewed; including their mitigation, escalation and testing.

<u>Register</u>

Key data contained in the register is;

- Risk Area; e.g. Strategic, market, operational
- Risk Description
- Gross Risk, Potential Impact
- Inherent Risk; based on assessment criteria
- Mitigation; Strategic, Management and Governance, Controls, Financial Mitigation
- Residual Risk; based on assessment criteria having applied mitigation
- Action Plan
- Risk Owner

Outsource Service Provider Prescribed Responsibilities for Company Risk Management

- To support the provision of staff training in, and raise the level of, risk awareness;
- New Risks – Supply details of the risk to the Board/Risk Committee such that they may evaluate it and determine whether it should be incorporated in the Risk Register;
- Inherent Risk Rating – Submit information regarding the likelihood and potential impact of the risk to the Board/Committee such that they may assign an appropriate inherent risk rating based upon the Risk Matrix;
- Risk Mitigation Procedures/Controls in Place – Supply information to the Board/Risk Committee on new work practices/changes made to existing work practices;
- Residual Risk Rating – Submit information to the Board/Risk Committee such that they may assign an appropriate residual risk rating based upon the Risk Matrix;
- Exposures/Opportunities Identified – Provide the Board/Risk Committee with details of proposed enhancements to existing/new practices such that they may consider the proposed course of action: This should include;
    - Details of benefits
    - Details of costs both financial and non-financial.
    - Estimates of timescales for implementation.
- Actions Planned By When/Who – As a result of the Board/Committee's discussions, appropriate information including agreed actions and subsequent progress will be recorded in the Risk Register (Appendix B).

Own Risk and Solvency Assessment

The Company's ORSA Policy outlines the processes, procedures, timing and approval requirements for the production of the Company's ORSA.

ORSA Policy

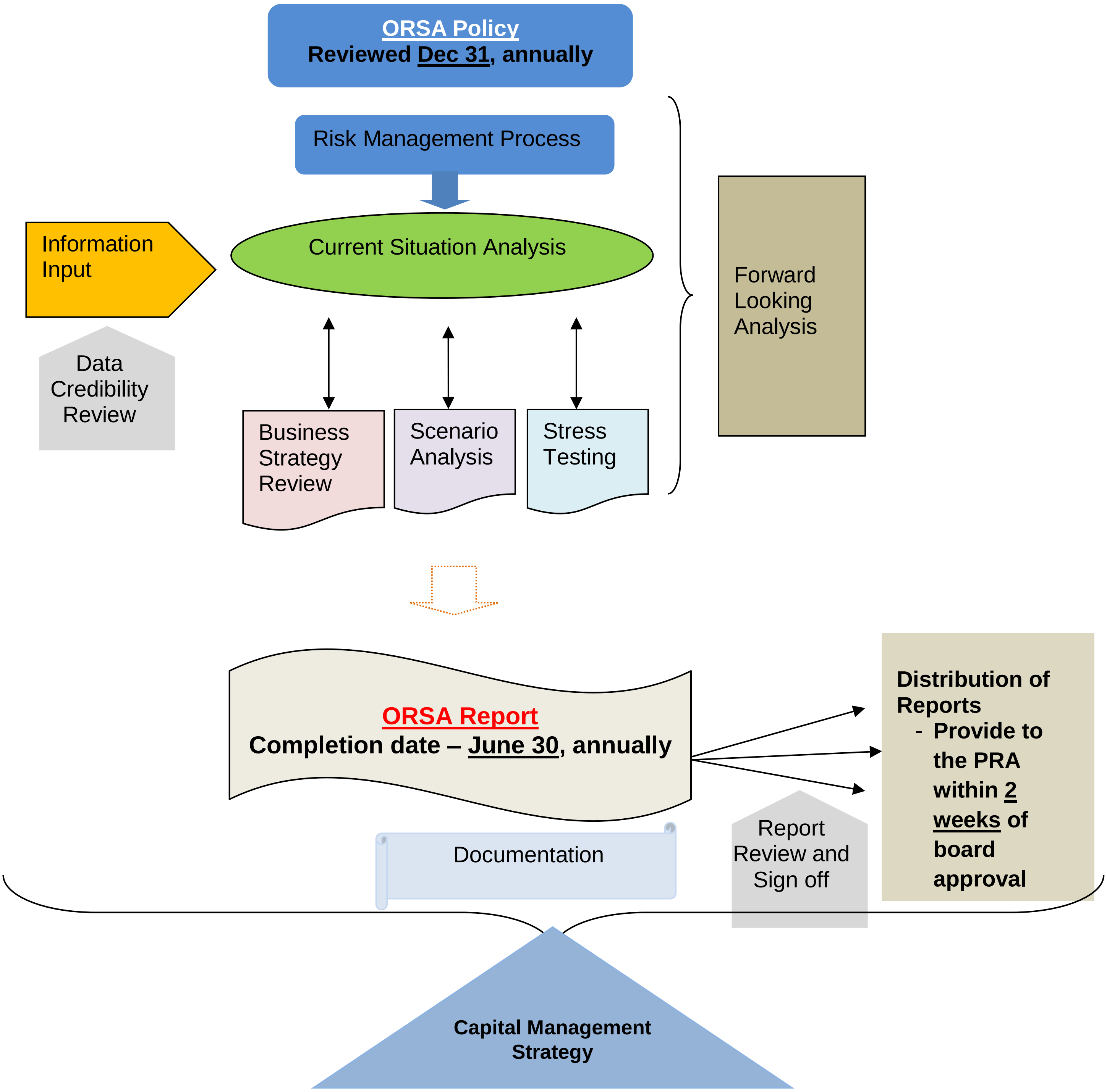
This ORSA Policy provides the purpose of the ORSA and guidelines for the Company to develop the ORSA Report, outlining a comprehensive risk management framework that will enable the Company to:

- Manage risks and capital with forward-looking perspectives;
- Implement risk management and control processes appropriate for the Company's business nature, objectives and complexity;
- Integrate risk management with capital actions to support the business strategy and planning; and
- Coordinate company-level risk management with group-level considerations.

ORSA Process

The ORSA process encourages the Company to develop continuous, forward-looking assessments of Company-level risks, as well as an assessment of potential risks the Company can face based on the Company's business plan under either normal or stress scenarios. It also links the Company's risk assessment and capital views to the Company's financial solvency.

Gringolet has adopted a module approach for the conducting of an ORSA process. The diagram on page 10 provides an overview of the processes conducted.


ORSA Policy
Reviewed Dec 31, annually
Risk Management Process
Information Input
Current Situation Analysis
Data Credibility Review
Business Strategy Review
Scenario Analysis
Stress Testing
Forward Looking Analysis
ORSA Report
Completion date – June 30, annually
Distribution of Reports
- Provide to the PRA within 2 weeks of board approval
Documentation
Report Review and Sign off
Capital Management Strategy

<u>ORSA Report</u>
The ORSA policy directs that the ORSA report include, at a minimum, the following components:

- Executive Summary
- Confirmation Statements
- Strategy and Business Plan
- Risk Management Overview
- Risk Profile (including any breaches in appetite/tolerance)
- Capital Requirement and Solvency Assessment
- Stress and Scenario Analysis
- Forward Looking Assessment
- Governance
- Appendices

<u>Audience</u>
The final ORSA Report will be distributed to various parties and stakeholders of the Company including; regulators, shareholders, board of directors, management and service providers.

The report distribution criteria depend on the requirements of different parties/stakeholders (such requirements are usage of reports for decision making process and/or monitoring of solvency capital requirements).

<u>Timing</u>
Given the scale and complexity of the Company the main ORSA process will be performed at least once a year. However the process will be triggered in the event of a material change in the Company's risk profile.

Whilst the ORSA process will be completed once a year, the goal for the ORSA is continuous use within the Company. It is meant to become an integral piece of the operations in an effort to decrease risk.

The ORSA inputs are produced and monitored on an on-going basis by the outsource service provider, throughout the year.

In accordance with the ORSA Policy the Company is scheduled to conduct the process with a view to production of the 2017 ORSA report by 30 June 2017. Following Board approval, the report will be circulated to regulators and other key stakeholders within 2 weeks.

B.4 Internal control system

The Company operates a robust system of controls over the recognition and reporting of transactions.

<u>Claim Services</u>
Subject to delegation authorities and/or limits specified by ILS P&C Re, Armour Risk will negotiate, accept, reject, and settle any and all claims made in respect of insurance /reinsurance business of the Company.

<u>Compliance Services</u>
Armour Risk supplies compliance services to the company. This document provides an overview of the services provided.

<u>Financial Services</u>

Subject to delegation authorities and/or limits specified by ILS P&C Re, Armour Risk administers bank accounts, cash management, processing of cash receipts and disbursements, and any related to treasury services on behalf of the company. Dual signatures are the minimum requirement on all payments.
Bank account reconciliations are undertaken on a monthly basis. Other control accounts are reconciled quarterly. All reconciliations are subject to review by management.

Financial reports are prepared on a quarterly basis, with explanatory statements for key movements in the period for management review. Regulatory and statutory reporting will be subject to the review and approval of the board.

IT Services
As part of the services provided by Armour Risk, the company has in place disaster recovery plans and systems as required by the regulator or the board.

B.5 Internal audit function

Internal audit is vital to determining whether the risk program for the Company is operating the way it is intended and documented. A strong, independent internal audit function is the hallmark of the "third line of defence" for ERM, designed to enhance the Company's risk governance framework by providing independent verification of risk management.

Key features have to be respected in order to ensure an appropriate working of the function within the framework of Solvency II and in compliance with the Institute of Internal Auditing (IIA) standards. These key features are the following:

Independence and objectivity
Internal audit will be, at all times, independent of the activities it audits. Such independence will allow the internal audit function to perform its work freely and objectively. It will also allow the function to render impartial and unbiased judgments essential to the proper conduct of its activities objectively.

Proficiency and due professional care
In parallel, all internal audit engagements must be performed with proficiency and due professional care. This means that internal auditors must have or must acquire, where necessary, skills and any other competencies needed to perform their individual responsibilities.

Professional ethics
In order to comply with professional ethics, the internal audit function must adhere to the IIA's mandatory guidance including the IIA's Definition of Internal Auditing, Code of Ethics and its Standards. This mandatory guidance constitutes the principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal auditing function's performance.

Current year
The Company outsources the internal audit function to Mazars, Ireland. The audit scope and plan for 2016/2017 will be reviewed and approved by the Board/Audit Committee and will take a risk based approach, using the Company's Risk Appetite Policy and Register as point of reference.

It is anticipated that initial audits will focus on the Company's Use of Service Provider Policy to ensure the effective operations of all outsourced activities.

All audit reports will be reviewed by the Board/Audit Committee and any required actions will be advised to other outsource service providers as required. Any action plans, required in response to internal audit findings, will be reviewed and approved by the Board/Audit Committee and subject to strict oversight to ensure these are fulfilled to the satisfaction of the Company, and in accordance with recommendations.

B.6 Actuarial function

The Actuarial function is outsourced to Armour Risk and subsequently carried out by Babak Termeh Baf Shirazi, FIA or other qualified member where required and subsequently peer reviewed by Stuart Wrenn, FIA.

The work carried out includes:

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

B.7 Outsourcing

Oversight of the Company's service providers is overseen and managed by the Company's Third Party Service Agreement and Use of Service Provider Policy ("USP"). The USP 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 USP is subject to regular review and approval by the Company's Board.

The Service Provider shall provide a quarterly report providing the following:

- 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 Gringolet and the Service Provider;
- Any movement in assets or liabilities that negatively affects the statutory capital of Gringolet 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;
- At all time the Service Provider will co-operate with the internal audit team and implement all reasonable requests immediately.

B8. Any other information

None at this time.

C. Risk Profile

The following section outlines the areas of risk as calculated under the EIOPA guidance around the standard formula model as well as providing narrative around the specific application to Gringolet Company Limited.

The principle risk that the company is exposed to is Currency Risk. This is due to a mismatch between the company's reporting currency and the reporting currency of the fund that owns the company. From the stakeholders' perspective this is not a material risk.

Stress testing is not performed as the risks are all small, relative to the company's MCR. The companies SCR would not exceed its MCR in any reasonably foreseeable circumstances.

C.1 Underwriting risk

Underwriting risk under Solvency II is derived through a combination of risk associated with the unearned and earned business. The company has not accepted any new business since 1974 therefore there is no future event risk associated with unearned premium.

The company has had 3 or fewer claims reported annually since 2012 and the current outstanding loss reserves are £12,555.

The current Underwriting Risk BSCR values are as follows:

	Standalone	Diversified
Underwriting Risk BSCR	£105,370	£92,333

Underwriting risk is mitigated by claims management controls. The risk is small relative to the company's MCR, so there would be no capital benefit from using reinsurance to mitigate this risk.

C.2 Market risk

The company holds all its assets in cash where possible in particular the board has elected to hold any excess asset above the expected liabilities in USD. As a result the Market risk is driven by currency risk associated with having a UK entity holding excess assets in USD in the event of devaluation of the USD in respect to GBP.

There is a small interest rate risk associated with the timing mismatch associated with cash and the future liabilities however this is immaterial in the overall Market risk calculation.

The current Market Risk BSCR values are as follows:

	Standalone	Diversified
Market Risk BSCR	£931,992	£816,687

The investment strategy is considered prudent. Interest Rate Risk is immaterial, so cash is a suitable investment. Although holding US dollar assets exposes the company to Currency Risk on a regulatory basis, it reduces Currency Risk for the company's stakeholders.

C.3 Counterparty default risk

The company holds 91% of its cash assets in 2 bank accounts; as a result there is an element of counterparty default risk should one of these companies become bankrupt.

This risk is mitigated by holding deposits with large ‘A’ rated banks. There are no other assets.

The current counterparty Risk BSCR values are as follows:

	Standalone	Diversified
Market Risk BSCR	£102,710	£90,003

C.4 Liquidity risk
As the company holds all its cash there is no liquidity risk.

C.5 Operational risk
As the company no longer writes ongoing business the operational risk associated with the company is in relation to any fraudulent activity where cash may be stolen from the company and or any risk of regulatory fines associated as a result of any potential non-compliance.

There are a number of processes in place to ensure that no one person may access funds without a second signatory and therefore we believe there is limited risk associated with fraudulent cash payments.

The current operational Risk BSCR values are as follows:

	Standalone
Operational Risk BSCR	£9,579

C.6 Other material risks
There is a risk that the company will not be able to settle its known losses in the expected time frames and therefore would need to increase its expense reserves.

In order to reduce this risk, the board have put in place a plan to combine these liabilities with another group owned portfolio through a part VII transfer. This would ensure the provision of future expenses going forward.

C.7 Any other information
No further information at this time.

D. Valuation for Solvency Purposes
This section outlines the methodology used to calculate the Solvency II balance sheet items relative to the local accounting methods.

D.1 Assets
The only assets in the company are cash balances therefore valuation of these amounts under Solvency II has been taken to be the values under the local reporting requirements, i.e. their nominal value. Note that the Solvency II valuation of cash is in fact £8k higher than the IFRS valuation. This is due to slightly different exchange rates being used.

There are no receivables. At present the cash balances are:

Issuer Name	LEI Code	Currency	Total Solvency II amount
HSBC BANK PLC	MP6I5ZYZBEU3UXPYFY54	USD	£1,783,872
BARCLAYS BANK PLC	G5GSEF7VJP5I7OUK5573	USD	£1,941,664
HSBC BANK PLC	MP6I5ZYZBEU3UXPYFY54	GBP	£345,896
BARCLAYS BANK PLC	G5GSEF7VJP5I7OUK5573	GBP	£19,368

Due to their nature, so judgement is required in their valuation and no changes have been made during the period to their recognition and valuation basis.

D.2 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. The company has elected to use method 2 for the calculation of the risk margin.

Technical Provisions consist of Direct UK General Liability business. Their value as at 31/12/2016 was:

Best Estimate	£319,302
Risk margin	£18,123

The Best Estimate has been calculated based on Reported But Not Settled claims and Incurred But Not Reported claims using a frequency severity approach, based on previous experience.

By comparison to the GAAP reserves the Solvency II reserves allow for additional Loss Adjustment Expenses (+£285k) and discounting for the time value of money (-£5k).

The company has not taken advantage of any of the transitional provisions under Solvency II or for a Matching or Volatility Adjustment.

The valuation basis is consistent with the prior year.

Technical Provisions are based on forecasts of future claims, which are inherently uncertain. Ultimate claims could be either higher of lower than the amounts assumed. Section C.1 provides a quantification of the risk of Technical Provisions being understated.

There are no recoverables from reinsurance or Special Purpose Vehicles (“SPVs”). No transitional provisions have been used. No Simplifications have been used except for calculation of the Risk Margin.

D.3 Other liabilities

Other liabilities consist of Expense Accruals of £26k and Sundry Creditors of £3k. These liabilities have been valued on an identical basis for both UK GAAP accounts and for Solvency II.

Expense Accruals have been valued on a historic cost basis. Sundry creditors are held at their nominal value. Sundry Creditors are recognised when they fall due. Expense Accruals are recognised when the expense is incurred and amortised over the period during which the associated good or services are received. There has been no change to the recognition and valuation bases during the period.

D.4 Alternative methods for valuation

Not applicable.

D.5 Any other information

None at this time.

E. Capital Management

E.1 Own funds

This section describes the solvency requirements of Gringolet and the level of own funds in relation to the indicated required solvency requirements.

Under the Solvency II guidance, the indicated eligible own funds of Gringolet are currently £3,724,396; there are no ineligible own funds. The SCR based on the expected liabilities is currently £1,008,602.

The EIOPA guidelines indicate that all insurance entities must operate with a minimum capital of €3.7m. The prescribed rate of exchange is as at 31st October 2016 and is applicable with effect from 31st December 2016. Hence the Minimum Capital Requirement equates to £3,331,850.

The company's objective is to hold the minimum Own Funds consistent with its Risk Appetite. Own Funds are monitored on a quarterly basis.

Own Funds consist of Tier 1 Share Capital of £1.6m plus a Tier 1 Reconciliation Reserve of £2.1m. This compares to £2.3m of capital contributions and accumulated profits and losses in the UK GAAP accounts. The difference is primarily caused by the higher expense provisions in the Solvency II Technical Provisions.

There have been no major changes to Own Funds during the period other than income disclosed on the Profit and Loss Account (see Section A.2).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is £1,078,043, which is below the Absolute Minimum Capital Requirement ("AMCR") of £3,331,850. Hence the MCR is equal to the AMCR.

The table shows the components of the SCR:

Analysis of SCR	**£**
Market risk	£988,540
Counterparty default risk	£148,531
Non-life underwriting risk	£95,829
Diversification	-£163,569
Basic Solvency Capital Requirement	**£1,069,331**
Operational risk	£8,712
Solvency Capital Requirement	**£1,078,043**

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

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

Not applicable.

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

Not applicable.

E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement

Not applicable.

E.6 Any other information

Not applicable.

Director's statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

Director

Annex 1 – Quantitative reporting templates

We have not provided the S.19.01 series of templates as there is limited information available to produce accurate or useful triangles. The company was purchased by the new shareholders in 2015 and there was no data in regards to the historic paid and outstanding loss reserves at that time. The review of ultimate reserves is currently carried out on an individual loss basis and therefore has not relied on development triangles. We are in a position to produce triangles as of June 2015 however, we would note that there has been little to no data/movement since this date.

The following templates are provided on pages 18 to 27.

S.01.02.01 - Basic Information - General
S.02.01.01 - Balance Sheet
S.02.02.01 - Assets and liabilities by currency
S.05.01.01 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.06.01.01 - Summary of assets
S.06.02.01 - List of assets
S.09.01.01 - Income/gains and losses in the period
S.17.01.01 - Non-Life Technical Provisions
S.17.02.01 - Non-Life Technical Provisions - By country
S.18.01.01 - Projection of future cash flows
S.19.01.01 - Non-life insurance claims
S.20.01.01 - Development of the distribution of the claims incurred
S.21.01.01 - Loss distribution risk profile
S.23.01.01 - Own funds
S.23.02.01 - Detailed information by tiers on own funds
S.23.03.01 - Annual movements on own funds
S.26.01.01 - Solvency Capital Requirement - Market risk
S.26.02.01 - Solvency Capital Requirement - Counterparty default risk
S.26.05.01 - Solvency Capital Requirement - Non-Life underwriting risk
S.26.06.01 - Solvency Capital Requirement - Operational risk
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
S.36.04.01 - IGT - Cost Sharing, contingent liabilities, off BS and other items