GRINGOLET Company Limited

4th Floor
20 Old Broad Street
London EC2N 1DP
t: +44 (0)20 7382 2000
f: +44 (0)20 7382 2001

Solvency and Financial Condition Report – 31st December 2018

Author	Gringolet Company Limited
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Summary 3
A. Business and Performance 5
A.1 Business 5
Objectives and strategies 6
A.2 Underwriting Performance 6
A.3 Investment Performance 6
A.4 Performance of other activities 7
A.5 Any other information 7
B. System of governance 8
B.1 General information on the system of governance 8
B.2 Fit and proper requirements 12
B.3 Risk Management system including the own risk and solvency assessment 12
B.4 Internal control system 16
B.5 Internal audit function 17
B.6 Actuarial function 18
B.7 Outsourcing 18
B.8 Any other information 19
C. Risk Profile 19
C.1 Non Life Risk 19
C.2 Market Risk 19
C.3 Counterparty Default Risk 20
C.4 Liquidity Risk 20
C.5 Operational Risk 20
C.6 Other material risks 20
C.7 Any other information 21
D. Valuation for Solvency Purposes 21
D.1 Assets 22
D.2 Technical Provisions 22
D.3 Other liabilities 24
D.4 Alternative methods for valuation 24
D.5 Any other information 24
E. Capital Management 25
E.1 Own funds 25
E.2 Solvency Capital Requirement and Minimum Capital Requirement 26
E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement 26
E.4 Differences between the standard formula and any internal model used 26
E.5 Non-compliance with the minimum capital requirement and significant non-compliance with the solvency capital requirement 27
E.6 Any other information 27

Director's statement 28
Annex 1 – Quantitative reporting templates 29

Summary

This report forms part of the annual submission to the Prudential Regulatory Authority under the annual submission requirements following the implementation of Solvency II. It outlines the financial condition of Gringolet Company Limited ("Gringolet" or the "Company"), relative to the requirements under Solvency II.

Business and Performance

The Company's strategy is to run-off existing liabilities in an orderly manner, while considering additional inwards transfers of run-off portfolios. 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. The success of the strategy depends on settling the remaining claims in a timely and cost effective manner, and therefore reduce the inherent uncertainty in these claims.

This report forms part of the annual submission to the Prudential Regulatory Authority under the annual submission requirements following the implementation of Solvency II. It outlines the financial condition of Gringolet Company Limited ("Gringolet" or the "Company"), relative to the requirements under Solvency II.

System of Governance

In anticipation of the additional risks arising from a future Part VII Transfer, the Company implemented a new Governance Model and a new Risk Management Framework in May 2018. Thereafter, on 10 December 2018, the Company moved to the SM&CR regime following the requisite training. To that end further function (SMF24 Chief Operations; SMF16 Compliance Oversight; and SMF 17 Money Laundering Reporting Officer) have been appointed and are subject to regulatory approval.

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

Whilst the Board retains ownership, it has delegated oversight responsibilities for; risk, capital, financial reporting and expense management, to the Board's Audit and Risk Committee. The role of this committee is to constructively and independently challenge the activities of the service providers. This approach will provide 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 overall business objectives. To assist it in its duties, an Internal Audit function has been formed and is being utilised.

A process to set-up new Claims, Investment and Credit committees is underway. These will supervise the relevant operations.

In addition the Company appointed a Non-Executive Chairman and a Non-Executive Chair of the Audit Committee in the third quarter of 2017. Sadly the Chair of the Audit and Risk Committee passed away in March 2018. A replacement has since been appointed, subject to regulatory approval.

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 Non-life Underwriting 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).

Analysis of SCR ($ USD)	**31/12/2018**	**31/12/2017**
Market risk	64,424	4,259
Counterparty default risk	119,627	193,266
Non-life underwriting risk	61,324	134,421
Diversification	(57,262)	(45,387)
Basic Solvency Capital Requirement	**188,113**	**286,558**
Operational risk	5,575	12,220
Solvency Capital Requirement	**193,688**	**298,778**
Minimum Capital Requirement	**4,187,660**	**4,306,060**

Valuation for Solvency Purposes

Net Solvency II Technical Provisions were $190,450 (2017: $423,921). They are valued using standard actuarial techniques based historic claims and future expense projections

Other assets and liabilities amounted to $4,692,921 (2017: $4,898,834) 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 ($)	**31/12/2018**	**31/12/2017**
SCR	193,688	298,778
MCR	4,187,660	4,306,060
Own Funds	4,502,470	4,474,913
SCR coverage ratio	2325%	1498%
MCR coverage ratio	108%	104%

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.

A. Business and Performance

A.1 Business

Name and legal form of undertaking

Gringolet Company Limited is an insurance company limited by shares incorporated in the UK. Its principal place of business is 20 Old Broad Street, London, EC2N 1DP.

Supervisory authority responsible for financial supervision

The supervisory authority of the Company (FRN 202792) is the Prudential Regulation Authority (PRA), which was created as part of the Bank of England by the Financial Services Act (2012). The registered office of the PRA is as follows:
Prudential Regulation Authority
8 Lothbury
London
EC2R 7HH

The Company is also regulated by the Financial Conduction Authority:
Financial Conduction Authority
12 Endeavour Square
London
E20 1JN

External auditor of the undertaking

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

Holders of qualifying holdings of the undertaking

The majority and controlling shareholder ("the Owner") is ILS Property & Casualty Re Limited, a Bermuda licensed and incorporated reinsurer.

Legal structure of group

The Owner of East West Insurance 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 Trebuchet Group Holdings Limited; a Bermuda incorporated company ("Trebuchet Holdings"). Trebuchet Holdings is the ultimate controller of licenced (re)insurers in Bermuda, the Cayman Islands, Ireland, Mexico, the United Kingdom and the USA. Trebuchet Holdings is controlled by Mr B S Huntington.

As of 21 December 2017 economic interest in ILS IM was assigned to a new ultimate controlling party, Aquiline Holdings GP (Offshore) Limited, an entity controlled by Mr J W Greenberg.

ILS Property & Casualty Re Limited has continued to oversee the orderly run-off of the insurance liabilities, whilst offering synergies that provide cost benefit to the company.

Material lines of business and geographical areas

Net Best Estimate Technical Provisions ($ USD)	31/12/2018	31/12/2017
UK Employers Liability	185,830	407,339
Total Net Solvency II Technical Provisions	**185,830**	**407,339**

The UK Employers Liability insurance was underwritten in the UK.

Significant events during the reporting period

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.

Other

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

A.2 Underwriting Performance

The UK GAAP Technical Account results for 2018 and 2017 were as follows:

Technical Account ($'000 USD)	2018	2017
Claims paid	-	-
Change in the provision for claims	18	-
Net operating expenses	(174)	(150)
Balance on technical account for general business	**(156)**	**(150)**

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

A.3 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 ($'000)	2018	2017
Bank interest	1	0
Total investment income	**1**	**0**

A.4 Performance of other activities

Other items ($'000)	**2018**	**2017**
Foreign exchange on monetary assets	0	1
Currency translation differences	-26	26
Total other items	**-26**	**26**

A.5 Any other information

There is no other material information to report.

B. System of governance

B.1 General information on the system of governance

The Board approved a revised Governance Model and Risk Management Framework during May 2018.

The Company has successfully concluded recruitment of its Chairman and Chair of the Audit and Risk Committee, with both positions receiving regulatory approval in the third quarter of 2017. Sadly the Chair of the Audit and Risk Committee passed away in March 2018. A replacement has since been appointed, subject to regulatory approval.

<u>Operating Model</u>

Key:	
Company activity	Activity outsourced to ARM [except where noted]

Business Strategy and Management	Insurance Management	Governance, Risk and Compliance	Actuarial	Finance	Operations
Run-off strategy	Claims strategy	Risk strategy and tolerances	Liquidity and capital monitoring	Financial planning	Outsource Management
Business planning	Claims management	Risk management	Capital modelling	Regulatory reporting	Migration data transfer
Capital strategy	Claims TPA management	Capital Model management	Reserving	Financial reporting and analysis	Portfolio integration
	Independent Claims Review	Compliance		Expenses Management	Projects & Change Management
	RI Strategy	Company Secretarial & Corporate Governance		Investment strategy	Management information management
	RI recoveries and credit control	Legal - Claims and Corporate		Investment accounting	Facilities / BCP
	Liability Transfer management	Internal Audit		Accounting	Human Resources
		External Audit [PwC]		Accounts Payable	IT Systems
		Audit Oversight		Tax calculation and reporting	IT Infrastructure

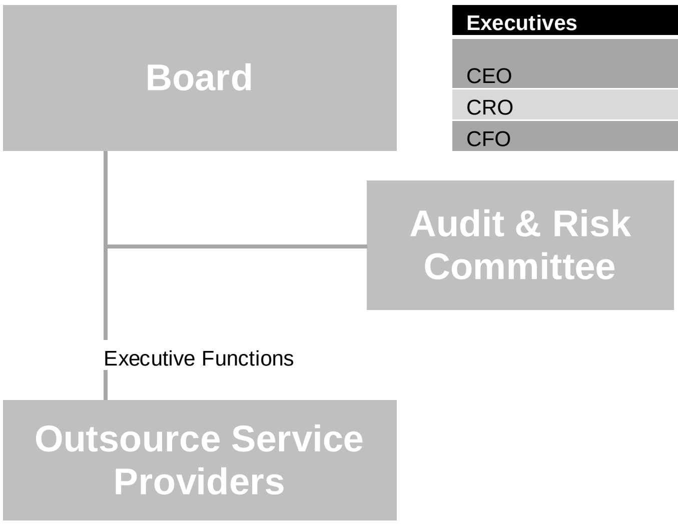
The majority of administrative functions are undertaken by an outsource provider, with the selected partner being Armour Risk Management Limited (“ARM”).

<u>New Governance Chart</u>
The revised Governance model has been designed to continue to support effective Board and management decision making.

The Board retains ownership of the ORSA, Capital Model (currently Standard Formula) and business planning process. This includes the setting of strategic risk appetites and the definition of the short and medium term business strategy. Similarly, whilst the Board has delegated monitoring the evolution of the company’s risk profile for all risk categories, to Armour Risk the Board remains responsible for monitoring and acting.

Whilst the Board retains ownership, it has delegated oversight responsibilities for; risk, capital, financial reporting and expense management, to the Board’s Audit and Risk Committee. The role of this committee is to constructively and independently challenge the activities of the service providers. This approach will provide 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 overall business objectives.

Overall, the objective of the governance process is designed to create an environment that supports improvement and which drives an operational model development cycle, thus improving decision making processes, strategy and capital management.



Board:

Executives	Independent NEDs	Shareholder NEDs
CEO	Chair	2 Shareholder NEDs
CRO	Chair of ARC*	
CFO		

Audit & Risk Committee:

Independent NEDs	Shareholder NEDs
2 Independent NEDs	As required

**Subject to regulatory approval*

<u>Role of the Shareholder NEDs</u>
The parent company is ILS Property and Casualty Re Limited, Bermuda, acting through its segregated cell account E.

Representatives of the parent company are present on the UK Board to ensure alignment with corporate objectives and to provide access to group resources where necessary.

Executive responsibilities

Reflecting the nature of the business and the need to maintain active decision-making and ownership within the company, whilst acknowledging a number of activities are outsourced, each executive Board Member has assumed direct responsibility for a number of areas, adopting the structure defined within the operating model. This split produces independence of control and the size of ARM relative to the Company ensures an adequate and appropriate resource pool.

Exec	CEO		CRO		CFO	
Function	Business Strategy and Management	Insurance Management	Governance, Risk and Compliance	Actuarial	Finance	Operations

Key Functions

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

Key Function	Rationale
Actuarial & Claims	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 a key focus for the Board is to ensure an efficient operation. Reserve reviews are carried out by a Fellow of the Institute & Faculty of Actuaries (FIA). The Head of the Actuarial Function is also a FIA and a Director of the company.
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. The accounting function is supervised by the Chief Financial Officer, who is an Associate of the Chartered Institute of Management Accountants and a Director of the company. Support is provided by an accountant with over 30 years of experience in the insurance industry.
Risk	The management of risks facing the company is important. This requires 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 derives from the claims liabilities. Therefore close monitoring of claims activity is a key function. The Chief Risk Officer is a FIA and a Director of the company.
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. Both the Internal and External Functions report directly to the Audit and Risk Committee, which is chaired by an Independent Non Executive Director.
Compliance	Fit and proper, regulatory and statutory requirements are required to be met for the protection of policyholders. The Compliance Function is headed by a qualified solicitor.

Outsourcing

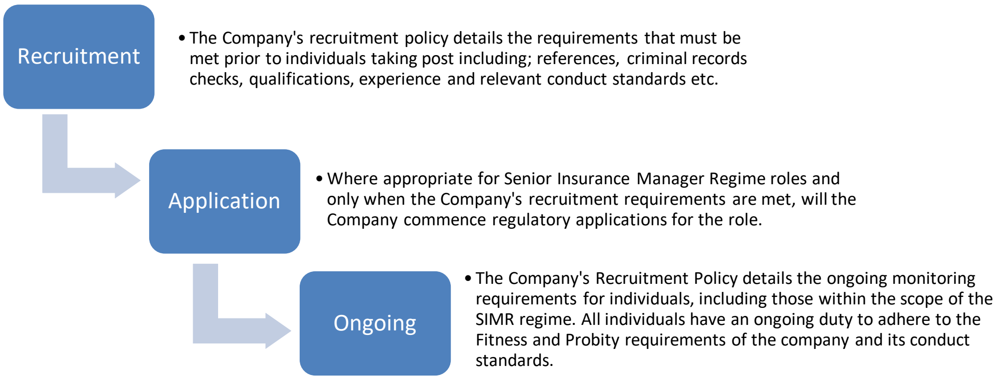
All operational activities are outsourced via robust, third party service agreements. Further details on the nature, including; requirements, management reporting and oversight of outsourced service providers is provided in section B.7 Outsourcing, below.

Remuneration

The outsourcing contracts remunerate for services provided and these include effective risk management. Claims handlers' incentives to settle claims are linked to the long-term performance of the portfolio to discourage excessive risk taking and to protect the rights of policyholders.

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 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 (ARM), 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 stakeholders who understand the risks and are best able to manage them.

The company's Risk function is led by the Audit and Risk Committee ("ARC"). The Board requires its ARC to ensure the business is operating within approved risk appetites.

ARC has more specifically been delegated the following high level statements.

- Responsibility to monitor the financial reporting process, the systems of internal control supporting the financial reporting process, accounting compliance and the audit of financial statements, and where appropriate report its findings to the Board.
- Responsibility to monitor the findings of internal audit plans prepared by the Internal Audit Function.
- Responsibility to receive and consider risk issues reported by the CRO that in the CRO's view require independent consideration.
- To challenge and oversee the process of developing capital models by the business to support the production outputs for active decision making to achieve

business objectives and the long term strategy of the business. This includes the forward looking assessment of the ORSA.

- Recommend the appointment and removal of external auditors and approve any related fees.
- Ensure outsourced functions are subject to Internal Audit.
- Consider the findings of any regulatory reviews and audits of the company, and any audits conducted on service providers, and determine and monitor any remediation activities required.
- Gain assurance that all aspects of the company are compliant with local and where relevant, international regulations and legal requirements.
- Gain assurance that the views of the shareholders have been sought and taken into account where appropriate.
- Challenge and review the annual financial statements before submission to the Board
- Review annually the independence, objectivity, effectiveness, resources and remuneration of the external auditors taking into account the relevant regulatory requirements.
- Assess the effectiveness and independence of internal audit functions in its outsource service providers.

<u>Risk Appetite</u>
The Company reviews its Risk Appetite Statement annually, at a minimum. It describes the link between the Company's appetite for risk, its capital requirements and its Risk Tolerances.

In addition to an overall risk appetite, there is a separate risk appetite for each major category of risk, i.e. Reserving Risk, Market Risk, Counterparty Default Risk and Operational Risk.

The Risk Tolerances which are limits around risk taking, consistent with its risk appetites; for example the authorisation limits delegated to service providers. They provide the link between the Risk Appetite and the operational management of the business.

<u>Risk 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>Risk Register</u>
Key data contained in the register is;

- Risk Category; e.g. earnings, market
- Risk Description
- Likelihood and impact
- Controls
- Residual rating
- Action Plan(s)
- Risk Owner

<u>Own Risk and Solvency Assessment</u>
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:

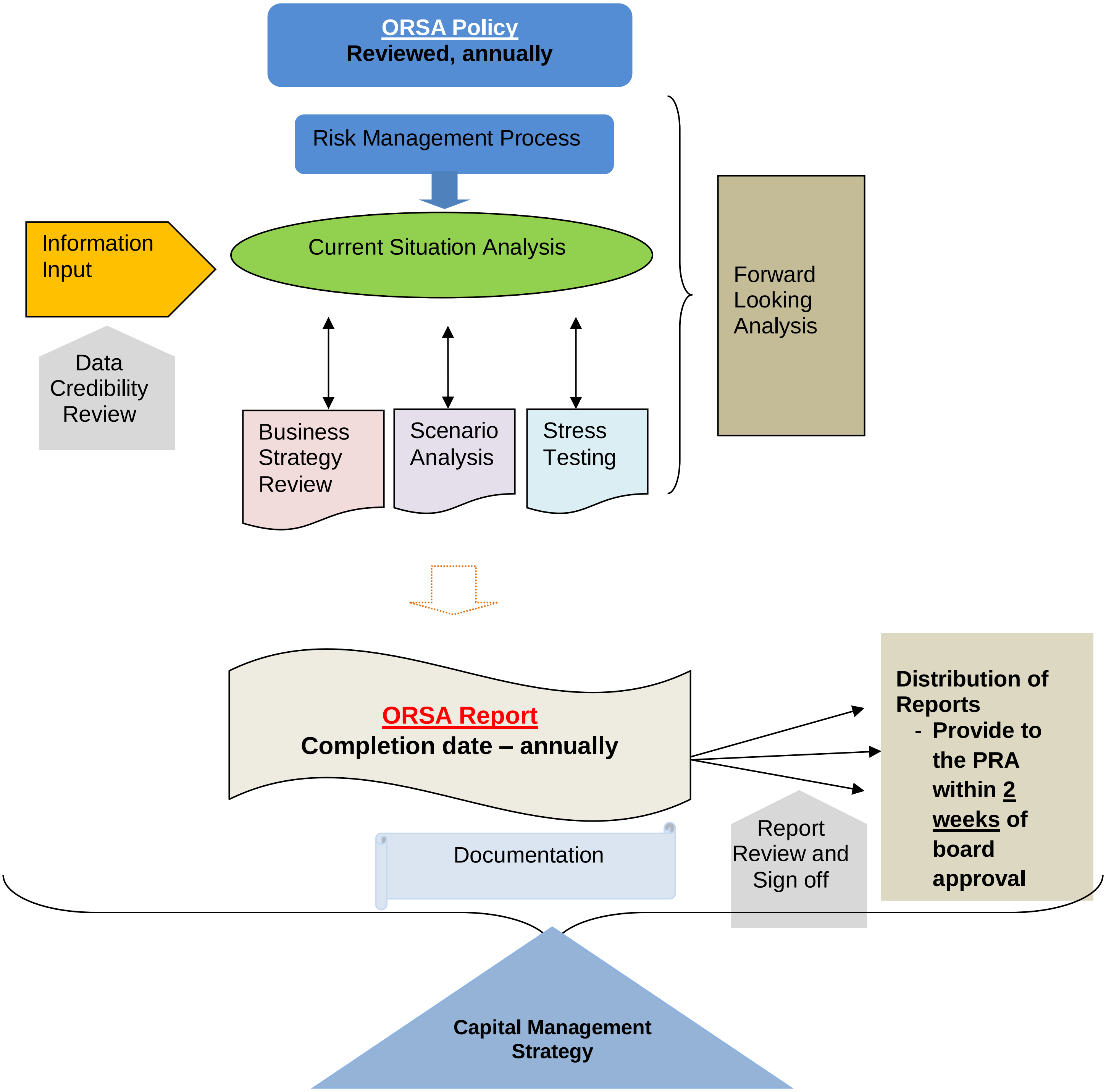
- Manage risks and capital with forward-looking perspectives;
- Implement risk management and control processes appropriate for the Company's business nature, objectives and complexity;
- Integrate risk management with capital actions to support the business strategy and planning; and
- Coordinate company-level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

In conjunction with the Scheme of Operations, the ORSA is used by the Company to prioritise risks and to forecast its capital needs and the likely timing of dividends.

The company has adopted a modular approach for the conducting of an ORSA process as shown in the diagram below, which provides an overview of the processes conducted.



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

- Strategy and Business Plan
- Risk management overview
- Risk profile
- Stress and Scenario Testing
- Forward-looking assessment of solvency needs and available own funds
- Appropriateness of the Standard Formula
- Recommendations based on the outcome of the ORSA

Audience
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).

Timing
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 an integral piece of the operations in an effort to decrease risk. A new ORSA process would be also be triggered by a significant change in circumstances, for example the transfer of a portfolio or policies into the company.

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

The ORSA also determines the company's economic capital requirements, which may differ from its regulatory capital requirements. The company closely monitors Own Funds to ensure that a margin above its capital requirements is maintained at all times.

The Company conducted an ORSA as at 31 March 2018 and the report was circulated to regulators and other key stakeholders.

B.4 Internal control system

The Company operates a robust system of controls over the compliance with laws and regulations, recognition and reporting of transactions, safeguarding of assets and the recording of liabilities.

Claim Services
Subject to delegated authority limits specified by ILS P&C Re, ARM will negotiate, accept, reject, and settle any and all claims made in respect of insurance /reinsurance business of the Company.

Compliance Services
ARM will provide compliance services to the company, including monitoring regulatory and statutory requirements, maintaining compliance policies, monitoring compliance and reporting on complaints.

Financial Services

Subject to delegated authority limits specified by ILS P&C Re, ARM 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.

<u>IT Services</u>
As part of the services provided by ARM, the company has in place disaster recovery plans and systems as required by the regulator and 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:

<u>Independence and objectivity</u>
Internal audit will be, at all times, operationally independent of the activities it audits. Such independence will allow the internal audit function to perform its work freely and objectively. In addition the Internal Audit function reports directly to the Audit and Risk Committee, which is chaired by an Independent Non Executive Director.

<u>Proficiency and due professional care</u>
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.

<u>Professional ethics</u>
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.

<u>Current year</u>
As a result of the revised Governance structure, the future strategy of the function is under review. The Board is considering options of in-house or continued outsource provision however the aim is to centralise the service in the UK to ensure maximum effectiveness.

Internal Audit reports have been reviewed by the Board who has had oversight of relevant action plans.

B.6 Actuarial function

The Actuarial function is outsourced to Armour Risk 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

B.7 Outsourcing

Oversight of the Company's service providers is overseen and managed in accordance with 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 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;
- At all time the Service Provider will co-operate with the internal audit team and implement all reasonable requests immediately.

In addition responsibility for specific Outsourced functions have been delegated to Executive Directors, see B.1 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 primary Outsourced service provider is Armour Risk, which is based in the UK. The key functions outsourced to Armour are:

- Actuarial & Claims
- Finance
- Risk
- Compliance

Internal Audit is outsourced to ILS Investment Management Limited (previously Mazars).

B.8 Any other information

None at this time.

C. Risk Profile

The following section outlines the areas of risk that affect the Company. The Standard Formula is used to quantify and rank risks, in addition to calculating the SCR.

Details of stress testing are provided in section "C.7 Any other information".

The following table shows the risk profile by risk type:

Analysis of SCR ($ USD)	**31/12/2018**	**31/12/2017**
Market risk	64,424	4,259
Counterparty default risk	119,627	193,266
Non-life underwriting risk	61,324	134,421
Diversification	(57,262)	(45,387)
Basic Solvency Capital Requirement	**188,113**	**286,558**
Operational risk	5,575	12,220
Solvency Capital Requirement	**193,688**	**298,778**
Minimum Capital Requirement	**4,187,660**	**4,306,060**

Note that the Company does not have any Health Risk or Life Risk.

C.1 Non Life Risk

Non Life Risk under Solvency II is derived through a combination of risk associated with the unearned and earned business; see Premium Risk and Reserving Risk below.

The Company does not used outwards reinsurance to mitigate this risk.

Note that the Company does not have any Health Risk or Life Risk.

Premium Risk

The last policy incepted in 2013 and there is no future event risk associated with unearned premium. Hence there is no Premium Risk.

Reserving Risk

Reserving risk arises where the reserves established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known or Incurred But Not Reported Claims (IBNR). These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

The Company's approach to reserving is described in its Reserving Review report, which is updated annually. In addition the Actual versus Expected Analyses are performed on a quarterly basis. The Actuarial Function meets with the claims managers on a regular basis, in order to understand claims developments and their causes. The Actuarial Function has full access to relevant data.

C.2 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 EUR. Hence, the company is holding EUR cash balances and bonds with a similar value. The value of liabilities is subject to change, so Asset Liability Matching will be monitored by the Investment Committee.

Interest Rate Risk
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 loss for the company. At present interest rates and the duration of liabilities are both low, so this risk is a relatively small component of the Company's capital requirements. The Investment Committee will consider purchasing assets with similar durations to liabilities in order to mitigate this risk.

Prudent Person Principal
The Solvency II regulations require insurers to invest their assets in accordance with the Prudent Person Principal. 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.

C.3 Counterparty Default Risk
Counterparty Default Risk encompasses cash at bank, a reinsurer and trade debtors. Deductibles are the principal source of risk as the recovery process can be slow. 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.

C.4 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.

C.5 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 a robust governance model. The Company's capital requirements also include an allowance for Operational Risk.

C.6 Other material risks

Regulatory Risk
Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Company monitors regulatory development to ensure ongoing compliance and to ascertain any impact on claims reserves.

Group Risk
Group risk is the risk of loss resulting from risk events within a related entity. Operations are outsourced to ARM, which has the same ultimate controller. Risks affecting ARM could have a knock on effect on the Company.

Other Risks

The Company has not used derivatives in general or as a risk mitigation technique. The Company has not used reinsurance or financial mitigation techniques. No material future management actions have been assumed in the SCR calculation.

C.7 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 108%. 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:

Balance Sheet Comparison - $(USD)	**Solvency II value**	**Statutory accounts value**	**Difference**
31 December 2018			
Assets			
Investments	-	-	-
Reinsurance recoverables from:	-	-	-
Accrued income	-	-	-
Debtor balances	-	-	-
Cash and cash equivalents	4,753,709	4,753,709	-
Total assets	**4,753,709**	**4,753,709**	**-**
Liabilities			
Technical provisions	190,450	116,784	73,667
- Best Estimate	185,830	n/a	n/a
- Risk margin	4,620	n/a	n/a
Insurance & intermediaries payables	-	-	-
Any other liabilities, not elsewhere shown	60,788	60,788	-
Total liabilities	**251,239**	**177,572**	**73,667**
Excess of assets over liabilities	**4,502,470**	**4,576,137**	**(73,667)**

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.

Balance Sheet Comparison - $(USD)	Solvency II value	Statutory accounts value	Difference
31 December 2017			
Assets			
Investments	-	-	-
Reinsurance recoverables from:	-	-	-
Accrued income	-	-	-
Debtor balances	362	362	-
Cash and cash equivalents	4,957,940	4,957,940	-
Total assets	**4,958,302**	**4,958,302**	**-**
Liabilities			
Technical provisions	423,921	141,210	282,712
- Best Estimate	407,339		n/a
- Risk margin	16,582		n/a
Insurance & intermediaries payables	-	-	-
Any other liabilities, not elsewhere shown	59,468	59,468	-
Total liabilities	**483,389**	**200,677**	**282,712**
Excess of assets over liabilities	**4,474,913**	**4,757,625**	**(282,712)**

A qualitative description of the reasons for differences between UK GAAP and Solvency II is set out at section D.1 (assets), D.2 (technical provisions) and D.3 (liabilities other than technical provisions).

D.1 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. However, they also include deductibles due from policyholders. For these a bad debt provision has been netted off against their nominal value.

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

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.

<u>Solvency II technical provisions by material line of business</u>

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

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 correspond 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.

A Reported 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.
- Due to the low frequency of new valid claims and the Claims Made basis of the policies, a judgemental reserve is being held for future 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 months.

The company has elected to use method 2 for the calculation of the Risk Margin.

The technical provisions are based on a review as at 31st December 2018.

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 the a planned Part VII Transfer is uncertain and a significant delay would cause expense 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)	**31/12/2018**	**31/12/2017**
GAAP Net Technical Provisions	**116,784**	**141,210**
Remove margin for prudence		-
ENID	-	-
Expense Provisions	70,604	272,286
Discounting	(1,557)	(6,156)
Risk Margin	4,620	16,582
Solvency II Net Technical Provisions	**190,450**	**423,921**

The valuation basis is consistent with the prior year.

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.

There are no recoverables from Special Purpose Vehicles ("SPVs"). No transitional provisions have been used in the calculations. No Simplifications have been used except in the calculation of the Risk Margin, which has been calculated using Method 2. No material issues have identified with the data used in the calculation of Technical Provisions.

D.3 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.

D.4 Alternative methods for valuation

Not applicable.

D.5 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.

E.1 Own funds

Under the Solvency II guidance, the eligible Tier 1 Own Funds of the Company were $4,502,470 (2017: $4,474,913).

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.

Own Funds ($ USD)	**31/12/2018**	**31/12/2017**
Share Capital	2,609,637	2,609,637
Reconciliation Reserve	1,892,833	1,865,276
Own Funds	**4,502,470**	**4,474,913**

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)	**31/12/2018**	**31/12/2017**
UK GAAP Shareholders' Funds	**4,576,137**	**4,757,625**
Remove margin for prudence	-	-
ENID	-	-
Expense Provisions	(70,604)	(272,286)
Discounting	1,557	6,156
Risk Margin	(4,620)	(16,582)
Other	-	-
Solvency II Own Funds	**4,502,470**	**4,474,913**

The Reconciliation Reserve consists of the following items:

Reconciliation Reserve ($ USD)	**31/12/2018**	**31/12/2017**
Capital contribution reserve	3,884,991	3,884,991
Profit and loss account	(1,918,490)	(1,737,003)
Solvency II Restatements	(73,667)	(282,712)
Solvency II Reconciliation Reserve	**1,892,833**	**1,865,276**

Own Funds increased very materially during the year due to the capital injection as part of the inwards Part VII Transfer. No distributions were made to shareholders during the year.

<u>Objectives, policies and processes for managing own funds</u>

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 needs will 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 $4,187,660 (2017: $4,306,060). Hence, the Tier 1 Own Funds were 108% of the required capital (2017: 104%). 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)	**31/12/2018**	**31/12/2017**
Market risk	64,424	4,259
Counterparty default risk	119,627	193,266
Non-life underwriting risk	61,324	134,421
Diversification	(57,262)	(45,387)
Basic Solvency Capital Requirement	**188,113**	**286,558**
Operational risk	5,575	12,220
Solvency Capital Requirement	**193,688**	**298,778**
Minimum Capital Requirement	**4,187,660**	**4,306,060**

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)	**31/12/2018**	**31/12/2017**
Linear MCR	19,141	41,956
SCR	193,688	298,778
MCR cap	87,160	134,450
MCR floor	48,422	74,695
Combined MCR	48,422	74,695
Absolute floor of the MCR	4,187,660	4,306,060
Minimum Capital Requirement	**4,187,660**	**4,306,060**

The change in the MCR since 2017 is due to a strengthening of the USD against the EUR. For both years the Absolute Minimum Capital Requirement is €3.7m.

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 model 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.

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Director

Annex 1 – Quantitative reporting templates

The following templates are provided on pages 31 onward.

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.