## Irwell Insurance Company Limited

# Solvency and Financial Condition Report (SFCR)

## As at 31 March 2017

# Contents

# Irwell Insurance Company Limited
# Solvency and Financial Condition Report
# 31 March 2107
# Executive Summary

The Company continues to operate profitably in its specialist area of insuring employment and taxation risks. All business is written through companies in the Peninsula Business Services Group ('PBSG'), acting as intermediaries. The business has grown in the year due to the acquisition by PBSG in December 2015 of a complementary HR consulting and tax fee protection business. From October 2016, Irwell has been underwriting the insurance business relating to the acquired undertaking.

Irwell is confident in the robustness of its governance procedures, considering them to be both appropriate and proportionate. In delivering our system of governance, we are well supported by our outsourced actuarial and internal audit partners.

This is the first financial year when we have been operating and reporting under the Solvency II regime. We calculate our Solvency Capital Requirement (SCR) using the Standard Formula. The Company's SCR at 31 March 2017 is £11,044k. This is covered by £17,321k of eligible capital resources, giving a Solvency II surplus of £6,277k and a capital ratio of 157%.

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C Houghton Chairman Date

## A.1 Business

### Name and legal form of the undertaking

Irwell Insurance Company Limited (Irwell) is a private company limited by shares. The Company operates from a single office, the address of which is:

2 Cheetham Hill Road, Manchester, M4 4FB

This is also the registered office of the Company.

The Company has no related undertakings or branches.

### Regulator

The Company is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The PRA is responsible for the financial supervision of insurance companies and is therefore the supervisor for the purposes of Solvency II regulation. The address of the PRA is:

20 Moorgate
London EC2R 6DA

### External auditors

The external auditors are:

PKF Littlejohn LLP
1 Westferry Circus Canary Wharf London E14 4HD

PKF Littlejohn have been appointed as the Company's external auditor from the 2016/17 financial year. They replace EY, who had been the Company's external auditor since the Company's incorporation in 1994.

### Ownership

The Company has two shareholders. The controlling party is the beneficiaries of the Fred Done 1998 Children's Life Interest Settlement, a trust fund set up by F. Done into which has been placed 2,638,296 shares (65.96%). The beneficiaries are the children of F. Done.

The other shareholder is P. Done, who holds 1,361,704 shares in the Company (34.04%).

### Material Lines of Business and Geographical Areas

The principal activity of the Company is the transaction of general insurance business. All business is written through companies in the Peninsula Business Services Group ('PBSG'), acting as intermediaries. The business conducted provides indemnity against awards and costs relating to employment tribunal claims, legal costs relating to potential breaches of Health and Safety legislation and professional fees relating to HM Revenue & Customs investigations.

Most of our business is UK based although approximately 3% of our business comes from the Republic of Ireland.

### Significant business or external events in the year

In December 2015, PBSG acquired Croner Group Limited (Croner), a complementary HR consulting and tax fee protection business, from Wolters Kluwer (UK) Limited. Following the acquisition, the Croner HR consulting business has continued to operate as a stand-alone business within PBSG and has retained the Croner Group (CG) name. The tax fee protection business has been merged with the existing Taxwise business and rebranded as Croner Taxwise Limited (CTW). From October 2016, Irwell has underwritten the insurance business relating to the acquired undertakings.

The result of the EU referendum requires us to consider the future of our operations in the Republic of Ireland. However we only write a small amount of business in that country, so we do not consider that leaving the European Union (Brexit) poses a significant risk to Irwell.

## A.2 Underwriting Performance

### Underwriting performance

The following table summarises the underwriting performance of the Company:

| | *Legal expenses* | *General liability* | *Total* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| **2017** | | | |
| Gross premiums written | | | |
| - UK | 19,767 | 2,173 | 21,940 |
| - Ireland | 503 | 275 | 778 |
| | **20,270** | **2,448** | **22,718** |
| | | | |
| Gross premiums earned | 18,030 | 2,472 | 20,502 |
| Gross claims incurred | (10,163) | 74 | (10,237) |
| Allocated investment return | | | 273 |
| Net operating expenses | | | (10,018) |
| | | | |
| **Balance of technical account** | | | **520** |
| | | | |
| **2016** | | | |
| Gross premiums written | | | |
| - UK | 18,152 | 3,039 | 21,191 |
| - Ireland | 374 | 271 | 645 |
| | **18,526** | **3,310** | **21,836** |
| | | | |
| Gross premiums earned | 20,490 | 3,918 | 24,408 |
| Gross claims incurred | (7,012) | (301) | (7,313) |
| Allocated investment return | | | 191 |
| Net operating expenses | | | (14,671) |
| | | | |
| **Balance of technical account** | | | **2,615** |

The Company continues to be profitable, albeit at a reduced level. The premium rate applied to certain business was reduced part way through the prior year and has continued at that rate throughout the current year. This is one reason for the reduction in profitability. Profitability has also been adversely affected by market pressures in other parts of the business. There has not been a commensurate decrease in premiums written. This is due to Irwell underwriting the acquired Croner business from October 2016. This also explains the increase in unearned premiums at the year-end.

The principal reason for the reduction in net operating expenses is a reduction in profit commission payable to PBS commensurate with the reduction in the premium income relating to that business.

On 26 July 2017, the Supreme Court unanimously ruled that the government acted unlawfully and unconstitutionally in introducing tribunal fees in 2013. As a result, the government has announced that employment tribunal fees will be discontinued immediately. We do not consider that this development will have any impact on the Company's technical provisions at 31 March 2017 because all business written by the Company is written on a claims made basis.

### *Reinsurance*

The Company does not purchase reinsurance since we deem our catastrophe risk to be low. This is a decision that is regularly reviewed and confirmed.

## *A.3 Investment Performance*

### *Overall investment performance*

Until 31 March 2017, our investment portfolio was managed by AllianceBernstein (AB). Immediately post the financial year end, investment management has been transferred to Lombard Odier & Cie (Gibraltar) Limited (LO). Our outsourced investment managers operate under the Company's approved investment policy. Irwell's investment portfolio is low risk in terms of asset type, duration and diversification. At 31 March 2017, the Company's investment portfolio comprised the following:

| | *31 March 2017* | | *31 March 2016* | |
|---|---|---|---|---|
| | *£000* | *% of total* | *£000* | *% of total* |
| Government bonds | 20,132 | 65 | 21,625 | 70 |
| Corporate bonds | 6,125 | 20 | 7,594 | 24 |
| Cash and cash equivalents | 4,683 | 15 | 1,890 | 6 |
| Loans | 0 | 0 | 0 | 0 |
| | | | | |
| **Total** | **30,940** | **100** | **31,109** | **100** |

The Company has no investments in securitisations.

In August 2016 a loan of £3.5m was made to PBSG at a rate of 1.25%. This loan was repaid in full on 30 March 2017.

The investment yield for the year ended 31 March 2017 was as follows:

| | *31 March 2017* | | *31 March 2016* | |
|---|---|---|---|---|
| | *£000* | *% of total* | *£000* | *% of total* |
| Government bonds | 336 | 66 | 267 | 61 |
| Corporate bonds | 138 | 27 | 97 | 22 |
| Cash and cash equivalents | 12 | 2 | 23 | 5 |
| UCITS | - | - | (16) | (3) |
| Loans | 26 | 5 | 68 | 15 |
| | | | | |
| **Total** | **512** | **100** | **439** | **100** |

The return earned by the Company's investment portfolio during the reporting period continued to be modest, which was commensurate with the continuing low interest rate environment and in line with our forecast.

## *A.4 Performance of other activities*

Irwell has no leasing arrangements.

There are no income or expense items other than those detailed in A.2 and A.3 respectively.

## *A.5 Any other information*

There is no material information regarding Irwell's business and performance to be disclosed other than as detailed in A1-4 above.

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## B.1 General information on the system of governance

### General governance arrangements

**Board**

The Board has ultimate responsibility for organising and controlling the Company's business. Its principal functions are to determine the Company's risk appetite and business strategy, to have oversight of the Company's operations and performance and to ensure that the Company has an effective risk management process. The Board normally meets four times a year.

**Audit and Risk committee (ARC)**

The Board formally delegates responsibility for audit and risk matters to an ARC. The committee meets at least four times a year. Its terms of reference cover the following principal areas:

- Monitor the integrity of the Company's financial statements and regulatory reporting;
- Review the Company's internal controls;
- Review the Company's risk management systems, including risk appetite and the identification and management of key risks;
- Review and monitor the internal and external audit processes;
- Procedures for handling allegations from whistle-blowers.

**Executive management**

Day to day management of the business is in the hands of three executive directors. They are responsible for risk management, compliance, underwriting policy, claims review and approval, claims reserving, investment management and finance and administration.

Our three intermediaries Peninsula Business Services Ltd (PBS), CG and CTW, each operate under a delegated risk authority. Each intermediary both writes the business and handles the claims on our behalf, reporting both premiums and claims to Irwell on a monthly basis. Therefore, an important function of executive management is the control and regular monitoring of these outsourced functions.

Investment management during the reporting year was provided by AllianceBernstein, operating under an investment strategy approved by the board. Executive management is responsible for the regular monitoring of investment performance and adherence to the agreed strategy.

The Company uses contractors or consultants as appropriate to provide investment management services, actuarial services, internal audit services and IT management, bookkeeping services and compliance checking services.

**Key functions**

Irwell has established the four key functions required by the Solvency II directive. These are:

- Risk Management
- Compliance
- Actuarial
- Internal Audit

In addition, the following functions have been classed as key to Irwell's operations:

- Outsourcing
- Investment management

These functions are responsible for providing oversight of the relevant area and assurance to the Board on the operation of the Company's risk management framework. All functions are overseen by one or more executive directors, or the ARC, thus ensuing they have the appropriate authority to perform their roles.

***Risk managemen*t**

The key function holder is the Chief Risk Officer (CRO). The ARC provides oversight as to the reasonableness, proportionality and effectiveness of the Company's prudential risk management, regulatory compliance and internal control systems.

The Irwell Board has ultimate responsibility for risk management and the function therefore has the required authority to fulfil its role.

***Compliance***

The CRO performs the function of Compliance Officer and is responsible for both day to day compliance monitoring and regular reporting to the Board on compliance related matters. The compliance functions of the outsourced intermediaries are subject to periodic review by internal audit.

The ARC considers and approves the compliance monitoring programme for the forthcoming year annually at its meeting in month 12.

The compliance function formally reports to the ARC on a quarterly basis and to the Board on a six monthly basis.

The Compliance Officer is assisted in the performance of the role by an external contractor.

***Actuarial***

The Actuarial Function has specific duties and responsibilities under Solvency II. Irwell outsources Actuarial Function holder support to Barnett Waddingham LLP, with oversight from the Actuarial Function Holder. The outsourcing arrangement ensures that the Actuarial Function is operationally independent.

The Actuarial Function Report is prepared and presented to the Board at least annually.

***Internal audit***

Irwell's Internal Audit function is overseen by the ARC. Internal Audit is responsible for evaluating the approach to risk management and governance, with particular emphasis on the internal control system.

Irwell outsources the Internal Audit function to Mazars LLP, who have the skills, knowledge and expertise to provide the services and are entirely independent from operational aspects of the business.

The Internal Audit function is authorised to review all areas of the Company and its business and it therefore entitled to have full and unrestricted access to all information, records, property, personnel and activities. Board members have a duty to make all requested information available promptly and to assist with any enquiries.

The ARC approves the internal audit plan, taking advice on known and potential risks. In addition the ARC receives and reviews the reports produced by Internal Audit.

***Outsourcing***

Irwell operates a business model under which most services provided to the Company are outsourced. Therefore, an important function of executive management is the control and regular monitoring of these outsourced functions and the three executive directors are collectively responsible for this oversight. In support of this activity, the Company has a comprehensive, documented outsourcing policy, covering scoping, selection, governance, regulatory compliance, performance management and data and information requirements. All intermediaries are regulated by the FCA in their own right and provide Irwell with regular compliance reports.

The CEO has overall ownership of the outsourcing policy, which is reviewed and approved by the ARC at least once a year. Ultimate responsibility for the outsourcing of key functions and activities lies with the Irwell Board.

***Investment management***

The investment is outsourced to independent investment managers who operate under an investment strategy approved by the board. Executive management is responsible for the regular monitoring of investment performance and adherence to the agreed strategy and provides a quarterly report to the Board.

## *Material changes*

There have been no material changes to the system of governance over the reporting period.

## *Remuneration policy*

The Company's only employees are the three executive directors. Their remuneration is approved by the Board. The Company does not operate a performance based remuneration scheme. Its remuneration practices are therefore considered to be consistent with sound and effective risk management and do not encourage excessive risk taking. The non-executive directors received no remuneration during the reporting period.

The Company does not operate a pension scheme; the Company makes annual contributions into the personal pension arrangements of one director.

### *Related party transactions*

F. Done and P. E. Done are also directors of and own a controlling interest in PBSG which is the parent of PBS, a company of which P. E. Done is also a director. Irwell only underwrites business for the clients of PBSG and its subsidiary companies. Therefore all premiums received and all claim payments are made via PBSG and its subsidiary companies. During the year ended 31 March 2017, PBSG's subsidiary companies performed part of the administration services on behalf of the Company. These companies received a fee of £10,000 (2016: £10,000) and received commission paid by the Company totalling £8,836,000 (2016: £10,958,000) of which £4,169,000 (2016: £3,982,000) was owed at the year-end. They also received fees for claims handling expenses of £1,621,000 (2016: £1,735,000).

During year ended 31 March 2010, a loan of £3 million was made to Goldentree Financial Services PLC, a company of which F. Done is both the joint controlling party and a director and P. E. Done is a shareholder. This loan was fully provided against at 31 March 2010 and, due to continued uncertainty over the recoverability of the loan, the provision remains in place at 31 March 2017.

On 25 August 2016, the Company made available a development loan of £3.5 million to PBSG. The loan was repaid on 30 March 2017 together with the accrued interest of £26,000.

## *B.2 Fit and proper requirements*

So as to enable sound and prudent management of the Company, a policy is in place to ensure that persons appointed to manage the Company's business activities are fit and proper. As part of that policy, an assessment is made prior to appointment to a role to ensure that the individual has both the appropriate knowledge and skills through their professional qualifications and/or experience, and is of good repute and integrity.

This assessment takes place prior to appointment to a role and is reviewed periodically thereafter by the Board.

Executive management of the Company collectively possess competence, experience and knowledge in at least the following areas:

- Insurance and financial markets
- Business strategy
- Systems of governance
- Financial and actuarial analysis
- Risk management
- Regulatory requirements

## B.3 Risk management system including the own risk and solvency assessment (ORSA)

### Risk Management

Irwell has in place a Corporate Governance Framework which incorporates the Company's risk management policy. This framework sets out the principles for managing risk within Irwell and describes the risk management roles and responsibilities of individuals, the ARC and the Board. The Corporate Governance Framework is reviewed and updated as necessary on a regular basis in the light of changes to the Company's risk profile, external risk factors and developments in best practice.

Irwell has implemented a three lines of defence model for its risk management, as follows:

**First line of defence**

The first line of defence owns and manages risk on a day to day basis. For Irwell, this consists of the three executive directors together with its intermediaries, to whom underwriting and claims handling is outsourced, and the outsourced actuarial function. All share responsibility for risk management at the operational level.

**Second line of defence**

The second line of defence provides the oversight and advice necessary to support the first line of defence in identifying, managing and monitoring risk. For Irwell, this comprises the Risk Management and Compliance functions. Further information on the Compliance Function is given in B4 below.

**Third line of defence**

The third line of defence provides independent assurance that risk management and the internal control system are working as designed. For Irwell, this comprises the Internal Audit function. Further information on the Internal Audit Function is given in B5 below.

The CRO is responsible for the day to day operation of Irwell's risk management processes and the production of management information that allows for timely and relevant decision making on risk related matters. The CRO is also responsible for the on-going maintenance of the risk register. The risk register identifies all material risks the Company faces in relation to the implementation of its strategic objectives and details of mitigating actions in place for all risks identified.

The intermediaries supply management information to an agreed timetable to support the process, including:

- Underwriting and claims data;
- TCF MI including insurance complaints, and
- Operational compliance monitoring.

The ARC has oversight of the Company's risk process and is responsible for advising the Board on risk issues, including the Company's risk appetite and risk strategy. In performing this function, the ARC considers risk reports and other management information The ARC also undertakes regular reviews of the risk register, and reviews it formally at least annually, and makes recommendations regarding additions/modifications to the register as appropriate. The Board has ultimate responsibility for risk related issues.

### *ORSA process*

The three executive directors are jointly responsible for all aspects of the process for producing the Company's ORSA. The ORSA is reviewed and signed off by the Board. The ORSA sets out details of the Company's current business strategy and risk appetite and details of all material risks that Irwell faces in pursuit of its business objectives.

Irwell uses the standard formula to calculate its SCR. The ORSA includes consideration of whether the SCR calculated in this way is appropriate given our actual risk profile. The ORSA also includes consideration of whether there are any current or emerging risks in Irwell which are not covered explicitly by the standard formula.

The Company operates on a three year business planning timeframe. The ORSA therefore includes consideration of our business plans over that period, and, flowing from that, any anticipated changes in our risk appetite and risk profile. This includes consideration of any potential changes to current risks and the impact of any emerging risks.

The Irwell policy is for the ORSA to be produced annually. An updated ORSA would be prepared at an intermediate stage in the event that there is any significant change to our risk profile.

### *ORSA inputs*

The key inputs to the ORSA process are:

- The Irwell risk management process
- The business planning process
- The Solvency II balance sheet and SCR calculation

### *ORSA Activities*

The following activities are performed annually in support of the production of the Company's ORSA:

- Projection of Solvency II technical provisions, Solvency II balance sheet and calculation of the SCR (using the standard formula) over the three year planning period;
- Performance of stress and scenario testing, encompassing all material risks that are covered by the standard formula. The effects of the selected stresses and scenarios are quantified using management's own expert knowledge of the business;
- Consideration of whether there are any further risks not covered by the standard formula that are capable of being measured quantitatively, and
- Calculation of an ORSA capital requirement based on the outcome of our stress and scenario testing.

### *ORSA Outcomes*

The outcome of the ORSA process is an ORSA report that covers the following areas:

- A description of the Company's current business strategy and appetite for risk in pursuing that strategy;
- An assessment of all material risks facing the Company and the mitigating actions in place;
- An assessment of any emerging risks impacting the Company's business strategy;
- The Company's own view of its current capital and solvency requirements based on management's expert understanding of the business and appropriate stress and scenario testing; and
- The Company's forward looking view of its capital and solvency position over a three year planning period.

The ORSA report is used by the board for the following purposes:

- Confirmation that all material risks facing the business have been identified together with appropriate mitigating actions;
- Concurrence that the risks detailed are within the agreed risk tolerances;
- Concurrence with the view expressed regarding the current and forward looking capital assessments;
- Confirmation that the level of capital held by the Company is appropriate; and
- Concurrence that the Company will be able to withstand any reasonably foreseeable shocks over the next three years.

## *B.4 Internal control system*

### *Internal controls*

Irwell's internal control system is designed to ensure the effectiveness and efficiency of its operations, to enable the Company to manage its risks and to ensure compliance with its legal and regulatory obligations. The activities comprising the internal control system are detailed within the Company's Governance Framework referred to in B3 above. These include controls which are operated within the key functions of the business, reviews and reporting performed as part of the risk management and compliance functions and the independent assurance provided by Internal Audit. The Corporate Governance Framework includes details of roles, responsibilities and reporting procedures for each material risk type. Controls in place to mitigate these risks are detailed in the risk register and summarised in the Corporate Governance Framework. A log is maintained to monitor risk events when they occur, recording the cause of the event, the impact and any remedial actions that have been taken. The CRO is responsible for escalating any issues to the ARC.

The internal control system is subject to review by the internal audit function on a cyclical basis and the results are reviewed by the ARC.

Irwell's Corporate Governance Framework recognises that management of the Company is in the hands of three executive directors and that there are no other employees. Four-eye review processes have therefore been established in order to mitigate the lack of segregation of duties at the operational level. Furthermore, the Company's business model involves outsourcing the key processes of underwriting and claims handling. The Company's internal control system therefore emphasises the establishment of controls over, and regular monitoring of, these outsourced functions, particularly in respect of the reporting to the Company of premium and claims data.

### *Compliance*

Irwell's Compliance Function is responsible for ensuring compliance with the Company's legal and regulatory obligations. In particular, its responsibilities comprise:

- Identifying and evaluating compliance risks;
- The establishment and monitoring of procedures and controls over identified compliance risks;
- Ensuring that the Company and its intermediaries comply with all relevant rules, regulations and legislation, and
- Reporting to the Board on all compliance matters.

The CRO also performs the function of Compliance Officer and is responsible for both day to day compliance monitoring and regular reporting to the Board on compliance related matters. The compliance functions of the outsourced intermediaries are subject to periodic review by internal audit.

## *B.5 Internal audit function*

Internal Audit must be objective, impartial and independent and not subject to influence from the Board or management. Accordingly, and taking account of the Company's small size, Irwell has appointed an external provider to perform the internal audit.

An annual internal audit plan is proposed by the external provider and approved by the ARC. This plan is developed to ensure that, over the audit universe, sufficient evidence will be obtained to evaluate the effectiveness of the risk management and the control processes across the business.

Each internal audit plan encompasses the following areas:

- Suitability of the internal control system and its efficiency
- Failures/shortcomings of any internal control and potential improvements
- Compliance with internal strategies and policies
- Compliance with internal procedures and processes
- Actions taken to remedy past inadequacies
- Reported deficiencies, failings and irregularities
- Material functions/activities carried out by outsourced service providers

After each audit, appropriate reports are produced and submitted to the ARC for review.

In addition, an annual report is prepared for the Board highlighting significant issues/control weaknesses identified during the year and any agreed remedial action to be taken. This report also comments on matters identified previously and their resolution or otherwise.

## B.6 Actuarial function

The role of the Actuarial function is to provide the Board with an independent perspective on key insurance aspects of the Company's operations. This ensures that the Board is fully informed of matters that may impact the business.

Irwell does not employ an in-house actuarial resource and therefore utilises the services of its external actuary in filling the actuarial function.

The Chairman is responsible for the overseeing of the outsourced actuarial function, including agreeing the scope of work and reviewing and challenging the results.

The Actuarial function is responsible for the following areas:

- Coordinating the calculation of the technical provisions and reporting thereon;
- Assessing whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate;
- Assessing data quality;
- Providing an underwriting policy opinion;
- Providing a reinsurance arrangements opinion, and
- Production of an Annual Actuarial Function Report.

The reporting on the technical provisions and the annual actuarial function report are subject to review and approval by the Board.

## B.7 Outsourcing

Irwell is a small insurance company run by a Board of directors and the ARC and operates a model whereby most of the services required are outsourced. While this creates additional risk, it enables the Company to operate in the most effective manner.

The Irwell Board has identified the following to be key outsourced functions for the business, together with the relevant responsibilities:

- Underwriting and Claims Handling
- Internal Audit
- Actuarial
- Investment Management

The Board considers that executive management has collectively the appropriate level of knowledge, skills and experience to oversee the provision of these services.

Irwell has a separate outsourcing policy which sets out the processes and procedures to be followed when deciding to outsource a particular activity. This includes details on risk management and the contractual arrangements.

The following were the material outsourced service providers during the reporting period:

| Service provider | Service provided | Jurisdiction |
|---|---|---|
| Peninsula Business Services Limited | Underwriting and claims handling | UK |
| Croner Taxwise Limited | Underwriting and claims handling | UK |
| Croner Group Limited | Underwriting and claims handling | UK |
| Mazars LLP | Internal audit services | UK |
| Barnett Waddingham LLP | Actuarial services | UK |
| AllianceBernstein LP | Investment management services | UK |

## *B.8 Any other information*

The Company is satisfied that its system of governance, as outlined in B1-7 above, is appropriate and proportionate to the nature, scale and complexity of the Company's business. This is something that is continuously reviewed. Both internal and external audits may provide recommendations for improvement which are considered and implemented if it is deemed appropriate to do so.

## Summary of risk profile

Irwell's business model has remained constant over the reporting year as a specialist underwriter of legal protection and accountants' tax fee protection risks. We currently have no plans to broaden our product range or to seek out intermediaries outside PBSG. Irwell takes a prudent approach to risk management, focusing on its niche area of underwriting expertise, writing short-tail risks with low catastrophe exposure. In support of this strategy, the Board pursues a conservative investment policy. The following sections provide a summary of each of Irwell's material risks, including a description of the risk, the measures used to assess the risk, risk concentrations and the risk mitigation techniques used by Irwell to manage the risk.

## C.1 Underwriting risk

Underwriting risk is assessed between the following risk categories:

- Premium risk
- Reserving risk
- Catastrophe risk
- Lapse risk
- Concentration risk

Appropriate underwriting and risk selection/pricing directly impacts on claims performance via claims frequency and loss ratios and in the same manner claims development and performance drives underwriting decisions. Appropriate and adequate reserving is a key factor in managing business performance. The Company does not use any special purpose vehicles. Underwriting risk is the most significant risk relating to Irwell's business and accounts for 83% of the basic undiversified SCR at 31 March 2017.

### Measures used to assess risk

Irwell underwrites legal expenses and liability insurance in the UK and the Republic of Ireland. The business is sourced via three authorised intermediaries who act under a delegated risk transfer agreement for underwriting and a claims handling contract for claims. Underwriting risks are assessed as follows:

- Levels of business written, the sources of that business and detailed claims information are recorded using management information received from the intermediaries on a monthly basis. This information is used to monitor the performance of the business and the level of reserves required.
- The adequacy of premium income to cover expected claims and expenses is the responsibility of the Board based on recommendations from the Underwriting and Claims Director and is achieved by following the Company's agreed pricing mechanism.
- The Company performs regular reviews of the intermediaries' underwriting records and claims data, including adherence to premium limits, underwriting guidelines and claims handling authorities. The outcomes of these reviews are submitted to the ARC, together with overall MI on results and performance. This information is used in the management of underwriting risk.
- The calculation of the technical provisions is performed by the external actuaries basing their methodology on market best practice, and reviewed and signed off by the ARC. This review

process includes consideration of the assumptions used, the suitability of the techniques used and the reasonableness of the results. Economic trends, developments in government policy and legal changes are all closely monitored.

Responsibility for assessing and monitoring insurance risk rests with the ARC, which reports directly to the Board.

### *Premium risk*

The key risk relating to business written is that intermediaries fail to follow agreed underwriting guidelines.

This risk is mitigated by:

- All intermediaries are related parties;
- We regularly review our policy wordings and update them as necessary;
- Any variation to the agreed rates must be approved by the Underwriting and Claims Director;
- Irwell has the ability to change premium and/or commission rates at short notice in the event of a deterioration in loss ratios;
- The Company performs regular reviews of the intermediaries underwriting records to ensure that they adhere to the terms of the delegated underwriting authority;
- The intermediaries are subject to regular audit from the internal auditor.

### *Reserving Risk*

The Company is also exposed to the risk that the actual payment of claims, or the timing thereof, differs from expectations with the result that that its premium and claims reserves are not sufficient to meet its insurance liabilities. This is influenced by the both the frequency and the severity of claims.

This risk is mitigated by:

- All contracts are written on a claims-made basis;
- Regular reviews of our intermediaries are performed to ensure the quality of the claims data received and to ensure adherence to delegated claims handling authorities;
- External actuaries have been employed to perform the actuarial function for Irwell, including reviewing and assessing the Company's technical provisions.

### *Catastrophe risk and reinsurance risk*

The business written by Irwell consists of employment business, covering awards and fees relating to employment tribunal cases, health and safety risks, covering legal fees relating to breaches of health and safety legislation and accountants' tax fee protection business, covering professional fees relating to HMRC enquiries. All business written is highly diversified and subject to relatively low policy limits. The directors therefore consider that the Company is not exposed to accumulation of losses due to catastrophic events. As a result, we do not purchase catastrophe reinsurance. This is a decision that is regularly reviewed and confirmed.

### *Lapse risk*

The Company's lapse risk is not significant.

### *Concentration Risk*

Underwriting concentration risk is limited due to fact that the risks that the Company underwrites are diversified across a large portfolio of individually small insurance contracts. The Company sources business through three intermediaries, who are members of the same group, and as a result of this the Company has a concentration of business around a single key business partner. This risk has been identified and recorded in the Company's risk register. This concentration risk is mitigated by detailed and ongoing monitoring of the intermediaries.

### *Risk sensitivity relating to underwriting risk*

The Company has performed a range of stress tests relating to increases in frequency and severity assumptions and by selecting more pessimistic development patterns from the chain ladder analysis performed. We have also performed reverse stress testing. We have concluded that the standard formula gives a higher capital charge for non-life underwriting risk than is indicated by our own analysis. This is because the standard formula does not fully take account of some of the specific characteristics of our business. Because our employers' policy covers awards at employment tribunals, a proportion of our business is categorised as general liability business. The factors applied to this business in the standard formula do not adequately take into account the low policy limits we have in place, nor does it account for the caps placed on awards by employment tribunals. As discussed above, the Company's catastrophe exposure is low due to the policy limits we have in place.

### *Material Change*

There has been no material change in the year to the underwriting risks that the Company is exposed to or the measures used to assess those risks.

## *C.2 Market risk*

Market risk is the risk of losses on the Company's investments due to fluctuations in market values. Market risk is subdivided into interest rate risk, equity risk, property risk, spread risk, concentration risk and currency risk. The Company's investments comprise cash and cash equivalents, government and supranational debt and fixed and variable rate covered bonds and investment grade corporate bonds. All investments are denominated in sterling. Due to the nature of the Company's investment portfolio, only interest rate risk, spread risk and concentration risk apply to Irwell.

### *Measures used to assess risk*

Irwell has a cautious investment strategy with strict requirements laid down regarding investment type, grade and counterparty exposure limits. This is codified in an investment policy document which is reviewed and approved by the Board on at least an annual basis. Investment management is outsourced to AB, who are required to operate within the bounds of the Company's investment policy. AB provides the Company with a monthly investment report providing a monthly performance summary and a month end portfolio valuation and details of transactions in the month. This report is reviewed by executive management. In addition, AB provides the Company with a quarterly performance summary and narrative investment commentary. These reports are reviewed at Irwell's quarterly board meetings. As mentioned in A3 above, from the 2017-18 financial year investment management has been transferred to LO.

Market risk is also identified, assessed and monitored through the Company's risk register. The risk register is the responsibility of the ARC and is reviewed and updated as necessary on at least a six monthly basis.

### *Interest rate risk*

Interest rate risk is the risk of investment losses due to changes in interest rates. We have a short-dated investment portfolio with an average duration at 31 March 2017 of 1.49 years. This feature of our portfolio mitigates the interest rate risk. At 31 March 2017, interest rate risk accounted for 0.8% of our basic undiversified SCR.

### *Spread risk*

Spread risk is the risk that the value of investments will decline due to changes in credit spreads. Credit spreads are narrower for higher rated securities. The risk is therefore mitigated by Irwell specifying in its investment policy the minimum ratings that must apply to different categories of securities both in terms of individual issuers and in terms of the portfolio as a whole. As a result, spread risk for Irwell is low. At 31 March 2017, spread risk accounted for 2% of our basic undiversified SCR.

### *Concentration risk*

Concentration risk is the risk of investment losses that may occur due to having a large portion of the investment portfolio with the same counterparty. This risk is mitigated by Irwell ensuring appropriate diversification, specifying in its investment policy maximum limits for any one issuer. As a result, concentration risk for Irwell is minimal. At 31 March 2017, concentration risk accounted for 0.4% of our basic undiversified SCR.

Concentration risk relating to cash at bank is considered under credit risk in C3 below.

During the financial period under review, the Company made available a development loan of £3.5 million to PBS. The loan was repaid on 30 March 2017, and therefore did not represent a credit risk at the year end. However, the risk during the year was mitigated as follows:

- The loan was to a company that is in a strong trading and financial position and is controlled by the Irwell shareholders. Irwell is supplied with PBS management accounts, monitors PBS's on-going financial position and receives the related loan interest on a timely basis.

### *Prudent person principle*

Irwell's investment strategy is focused on capital preservation and ensuring sufficient liquidity to meet claims and expenses on an ongoing basis. As a result we have a low risk, well diversified portfolio of investment assets which is fully compliant with the prudent person principle. In particular:

- The average short duration of the investments matches the short-tail nature of the insurance business written by the Company. This ensures that the assets held to cover the technical provisions are invested in a manner appropriate to the nature and duration of the insurance liabilities and in the best interest of all policyholders.
- Investment management is outsourced to a leading asset management firm.

- The asset managers operate under a strict set of investment guidelines specifying limits as to duration, security and diversification.
- The investment guidelines also ensure that holdings are only acquired in investments where it is confirmed that data is available properly to identify, measure, monitor, manage, control and report on those assets and perform the necessary solvency capital calculations in accordance with the Standard Formula.
- Although Irwell writes a small amount of business in Eire, the premiums are paid to the Company in sterling. Claims are similarly paid in sterling. Therefore currency of the asset and liability base is appropriately matched being fully in sterling.
- There are no investments in derivatives.

### *Risk sensitivity relating to market risk*

Irwell's prudent investment strategy described above results in total market risk comprising approximately 2% of the Company's SCR at 31 March 2107. It is therefore not regarded as a material risk.

### *Material change*

There has been no material change in the year to the market risks that the Company is exposed to or the measures used to assess those risks.

## *C.3 Credit risk*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Irwell is exposed to credit risk in relation to amounts due from intermediaries in respect of premiums due to the Company (type 2 counterparties) and in respect of deposits with banks (type 1 counterparties). Investment credit risk is dealt with in C2 (Market Risk) above. The Company does not purchase reinsurance and therefore credit risk relating to amounts due from reinsurers does not apply.

### *Measures used to assess risk*

Credit risks are identified, assessed and monitored through the Company's risk register. These risks are discussed by the ARC on at least a six-monthly basis and their potential impact is assessed. In addition, the intermediaries are subject to periodic internal audit reviews.

### *Amounts due from intermediaries*

All of the premium debtors on the Irwell balance sheet will ultimately be collected by three intermediaries, all of which are connected parties, being subsidiaries of PBSG. This increases the counterparty credit risk because of the concentration on one group of companies. This risk is mitigated as follows:

- Irwell has in place credit terms with its intermediaries and their adherence to those terms is carefully monitored.
- Review of financial information of the intermediaries, including financial statements and 3 year business plans.
- The majority of premiums are paid in instalments and therefore, at any balance sheet date, only one month's premiums is in the hands of the intermediaries.

- A further mitigation of this risk is the financial strength of PBSG which is monitored by Irwell on a continuous basis.

At 31 March 2017, credit risk relating to amounts due from intermediaries accounted for 13% of our basic undiversified SCR.

### *Deposits with banks*

Cash deposits are principally held by one of the big four UK banks, with funds also held at two other of the big four banks. At 31 March 2017, credit risk relating to deposits with banks accounted for 3% of our basic undiversified SCR.

### *Risk sensitivity to credit risk*

For Irwell's business, the major component of this capital charge is in relation to type 2 counterparties, in the form of amounts due from intermediaries in respect of premiums receivable. As explained above, all our premiums are sourced through PBSG's subsidiaries. In performing a stress test in respect of these balances, we have considered the maximum extent of counterparty default risk and have concluded that we are at risk for one month's premiums from each intermediary. Applying this stress results in a 4.5% increase in the Company's basic undiversified SCR.

### *Material change*

There has been no material change in the year to the credit risks that the Company is exposed to or the measures used to assess those risks.

## *C.4 Liquidity risk*

Liquidity risk relates to the risk that there may be insufficient financial resources to meet the Company's financial obligations as and when they fall due.

### *Measures used to assess risk*

Liquidity risk is assessed and monitored on a continuous basis so as to ensure that funds are maintained at a level sufficient for ongoing requirements. Investments and cash are reviewed by the Board at its quarterly meetings.

Liquidity risk is also identified, assessed and monitored through the Company's risk register.

### *Liquidity risk exposure*

The ongoing cashflow requirements of Irwell are currently more than covered by the premium receipts each month from intermediaries. The main cash movement on a month to month basis is through one of the big four UK banks. Bank deposits are also maintained at two of the other big four banks. The Company's liquid funds only partly comprise monies held with banks. The Company's investment portfolio always includes a proportion of cash equivalents and other short dated assets that can be called at short notice if required. As such, the Company ensures that liquid assets are always readily available to meet its liabilities.

### *Expected profit in future premiums*

The expected profit included in future premiums is £1,571k, calculated in accordance with Article 260(2).

### *Prudent person principle*

The Company's investment policy emphasises the liquidity requirements of the business and, in particular, the nature and timing of its insurance liabilities.

### *Risk sensitivity relating to liquidity risk*

Liquidity risk is not a material risk for Irwell. Therefore, no stress testing has been performed.

### *Material change*

There has been no material change in the year to the liquidity risks that the Company is exposed to or the measures used to assess those risks.

## *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. The key operational risks are:

- Outsourcing
- People – dependence on three executive directors
- Systems – reliance on intermediaries IT systems
- Regulatory
- Reputation

### *Measures used to assess risk*

Operational risk is assessed and monitored through the Company's risk register. This sets out the key risks to which the Company is exposed and the controls in place to mitigate each risk.

### *Outsourcing*

The critical functions of underwriting and claims handling are delegated to the Company's three intermediaries.

Irwell remains ultimately responsible for these activities. This responsibility is taken at board level and the associated risk of non-compliance or poor compliance with Irwell's requirements is managed as follows:

- Irwell has a written outsourcing policy, agreed at board level;
- Irwell has written delegated underwriting and claims handling agreements in place with its intermediaries;
- Irwell proactively manages performance of the intermediaries in respect of the delegated authorities; and
- Each intermediary is regulated by the FCA in its own right and Irwell monitors those companies' interactions with the regulator.

### *People – dependence on three executive directors*

With the critical functions of underwriting and claims handling being outsourced, the Company is reliant on its three executive directors for the management of the Company and its efficient functioning. Service contracts have been issued with sufficiently long periods of notice to ensure a smooth transition if personnel were to change.

### *Systems – reliance on intermediaries' IT systems*

There is IT systems risk because of reliance on PBSG IT systems. This risk is mitigated by the historical reliability of the systems, the programme of continual improvement and a robust off site back up and disaster recovery process that is in place.

### *Regulatory*

This relates to the risk of failing to comply with current regulatory requirements or to identify, understand and apply changes to law or regulations.

This risk is mitigated by the Company having a strong system of governance, including an effective risk management system and effective internal controls. In addition, as mentioned above, Irwell proactively manages the activities of the outsourced underwriting and claims handling functions to ensure regulatory compliance.

### *Reputation*

This is the risk that a regulatory breach or poor customer service could give the Company a poor reputation. Mitigation of regulatory risk is dealt with in the previous paragraph. In light of the delegation to our intermediaries of the underwriting and claims handling functions, Irwell has a heavy dependence on its intermediaries for maintaining our reputation with policyholders. Our proactive monitoring of the performance of our intermediaries includes the regular review of our reputational risk, including the monitoring of customer service in line with the FCA's principles for treating customers fairly.

Complaints management is also a key area in maintaining our reputation. Whilst the day to day management of complaints is dealt with by the intermediaries, complaints are referred promptly to Irwell as it our responsibility to ensure they are investigated and appropriately brought to a conclusion. We have a very low level of complaints.

### *Risk sensitivity relating to operational risk*

Operational risk represents 5.6% of the Company's SCR at 31 March 2017.

### *Material change*

There has been no material change in the year to the operational risks that the Company is exposed to or the measures used to assess those risks.

## *C.6 Other material risks*

All material risks are dealt with in C1-5 above.

## C.7 Any other information

There is no material information regarding Irwell’s risk profile other than as detailed in C1-6 above.

## D.1 Assets

### D1.1 Assets at 31 March 2017:

| | Financial statements valuation | Reanalysis for solvency | Solvency valuation adjustments | Solvency valuation |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Government and corporate bonds | 26,096 | 161 | - | 26,257 |
| Amounts due from intermediaries | 10,293 | (10,293) | - | - |
| Deferred tax asset | - | - | 150 | 150 |
| Cash at bank | 4,683 | | | 4,683 |
| Taxation | 89 | | | 89 |
| Deferred acquisition costs | 4,149 | - | (4,149) | - |
| Accrued interest | 161 | (161) | - | - |
| | | | | |
| Total assets | 45,471 | (10,293) | (3,999) | 31,179 |

### D1.2 Solvency valuation

- Government and corporate bonds are valued at fair value, being market value at 31 March 2017 plus any accrued interest. They are all level 1 investments, valued by reference to quoted prices on an active market.
- Amounts due from intermediaries are all due within one year. They are therefore valued at the undiscounted amount of the amount expected to be received. For solvency purposes, they are netted off technical provisions.
- The deferred tax asset (DTA) relates to timing differences between the tax values of assets and liabilities and their values calculated on in accordance with Solvency II principles. The DTA is valued on the basis of the amount expected to be recovered against future taxable profits.
- Cash at bank is valued at its carrying value at 31 March 2017 plus any accrued interest.

### D1.3 Differences between solvency valuation and valuation in financial statements

The valuation of assets for solvency purposes is consistent with the valuation in the financial statements, with the following exceptions:

- In the financial statements, accrued interest is shown within 'prepayments and accrued income', whereas in the Solvency II balance sheet it included within 'Government and corporate bonds' and 'Cash at bank' as applicable.
- As stated in D1.2 above, amounts due from intermediaries are netted off technical provisions in the Solvency II balance sheet.
- Deferred acquisition costs (DAC) comprise acquisition costs that are attributable to premiums unearned at 31 March 2017. DAC is not recognised for solvency purposes since, under Solvency II, the premium provision only allows for future expense cash flows.
- The DTA comprises a solvency adjustment and therefore is not included in the financial statements.

## D.2 Technical Provisions

### D2.1 Technical provisions at 31 March 2017:

| Line of business | Claims provision | Premium provision | Risk margin | Total technical provisions |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| | | | | |
| Third party liability | 1,066 | (364) | 64 | 766 |
| Legal expenses | 11,229 | (1,116) | 1,316 | 11,429 |
| | | | | |
| **Total** | **12,295** | **(1,480)** | **1,380** | **12,195** |

### D2.2 Solvency valuation

Technical provisions comprise claims provisions, premium provisions and a risk margin.

Claims provision losses for PBS and CTW are calculated using chain ladder projections. The chain ladder method is a standard actuarial technique based on historical claims experience, and is considered a proportionate and appropriate method to use. Claims provision for CG comprise notified losses and an IBNER. The incurred but not enough reported reserve (IBNER) has been estimated based on management's judgement as little historical data is available.

Premium provision losses are calculated using loss ratios (for CTW and CG), and frequency and average cost per claim (for PBS) assumptions, that have been derived from analysis of recent claims experience. In addition, the Company has some bound but not incepted ('BBNI') business that is included in the premium provision based on the same assumptions.

Both the claim and premium provisions are required to include all future expenses that will be incurred in servicing all existing business. In addition, the premium provision includes the expected profit commission that will be generated by business that has not yet expired. All future expenses have been derived from the forecasts that are produced as part of the Company's business planning process.

Both claim and premium provisions include an estimate for events not in data (ENID). The methodology used to set ENID loadings is based on a volatility benchmark and an industry standard "truncated distribution" method.

Amounts due from intermediaries, comprising premiums receivable in respect of existing policies, the related commission creditors, and creditors for claims payable, are included within technical provisions for solvency purposes. There are no valuation differences compared with the amounts for these items in the financial statements.

The technical provisions are presented on a discounted basis. Loss cash flows are projected using payment patterns from the reserving analysis. Cash flows are discounted at EIOPA's risk free spot rate.

The risk margin represents the amount that a third party would require in addition to the best estimates to assume the Company's insurance liabilities, calculated on a cost of capital basis. The risk margin is estimated by assuming that future solvency capital requirements ('SCR') will be proportional to best estimate undiscounted outstanding claims. The risk margin is broadly equal to 13% of the SCR.

### *D2.3 Level of uncertainty associated with the value of technical provisions*

The key areas of uncertainty relating to technical provisions are as follows:

- When projecting future claims, it is necessary to make some assumptions regarding the future claims development. There is always inherent uncertainty in estimating future liabilities since events and circumstances will not occur exactly as predicted.
- A significant amount of judgement is applied in establishing claims provisions, making their estimation inherently uncertain. Judgement is applied both in establishing case estimates and in interpreting historical data in the process of projecting ultimate claims. However, the level of uncertainty is moderated due to the fact that all business is written on a claims made basis. This means that no pure IBNR is required although it is necessary to consider the need for an IBNER.
- The determination of the premium provision is also inherently uncertain in that is based on actuarial analysis of historical data.
- ENID are by definition uncertain in that they relate to events not represented in the historical data. They are not significant in the context of the Company's total technical provisions.
- The risk margin is uncertain in that it is based on forecasts of future SCRs.

### *D2.4 Differences between solvency valuation and valuation in financial statements*

The technical provisions per the financial statements (UK GAAP) and per the solvency valuation are reconciled as follows:

| | **Third party liability** | **Legal expenses** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Claims provision** | | | |
| UK GAAP claims provisions | 1,201 | 10,053 | 11,254 |
| Removal of prudence margin | (341) | (238) | (579) |
| Reallocation of claims creditors | 84 | 881 | 965 |
| ENID | 13 | 238 | 251 |
| Expenses adjustment | 112 | 413 | 525 |
| Discounting | (3) | (118) | (121) |
| **Claims provision per solvency valuation** | **1,066** | **11,229** | **12,295** |
| **Premium provision** | | | |
| UK GAAP UPR | 1,267 | 9,653 | 10,920 |
| Removal of DAC | (259) | (3,890) | (4,149) |
| Removal of profit on UPR | (412) | (1,085) | (1,497) |
| Bound but not incepted business | (16) | (118) | (134) |
| Reallocation of premium debtors | (1,319) | (8,974) | (10,293) |
| Reallocation of commission creditors | 235 | 2,971 | 3,206 |
| ENID | 10 | 97 | 107 |
| Expenses adjustment | 131 | 288 | 419 |
| Discounting | (1) | (58) | (59) |
| **Premium provision per solvency valuation** | **(364)** | **(1,116)** | **(1,480)** |
| **Risk margin** | **64** | **1,316** | **1,380** |
| | | | |
| **Total technical provisions per solvency valuation** | **766** | **11,429** | **12,195** |

The key adjustments required to effect the transition from the UK GAAP technical provisions to the technical provisions for solvency purposes are as follows:

- The UK GAAP technical provisions include a margin for prudence. The claims provision for solvency represents a best estimate and therefore this margin is removed.
- Under UK GAAP, the unearned premium provision comprises the proportion of the premiums written in a year relating to the period of risk from 1st April to the subsequent dates of expiry of policies. In contrast, the premium provision for solvency purposes is calculated on a best estimate basis and therefore takes account of expected future profits.
- For solvency purposes, insurance debtors and creditors are netted off technical provisions.
- The solvency technical provisions include loadings for ENID and for future expenses in relation to exiting insurance business.
- The solvency technical provisions include values for business bound but not incepted at the balance sheet date.
- The UK GAAP technical provisions are not discounted whereas discounting is applied to the solvency technical provisions.
- The solvency technical provisions include a risk margin whereas no allowance is made for a risk margin when establishing the UK GAAP technical provisions.

### *D2.5 Other matters*

The Company has not applied for approval for, and therefore has not applied the matching adjustment, the volatility adjustment, transitional risk-free interest term structure or the transitional deduction with respect to the calculation of Solvency II technical provisions.

The Company does not purchase reinsurance and there are therefore no reinsurance recoverables relating to its technical provisions.

There have been no material changes to the assumptions made in calculating the technical provisions compared to the previous period.

## D.3 Other liabilities

### D3.1 Other liabilities at 31 March 2017:

| | Financial statements valuation | Reanalysis for solvency purposes | Solvency valuation adjustments | Solvency valuation |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | | | | |
| Insurance creditors | 4,579 | (4,171) | 458 | 866 |
| Other creditors | 732 | | - | 732 |
| Accruals | 64 | | - | 64 |
| | | | | |
| **Total** | **5,375** | **(4,171)** | **458** | **1,662** |

### D3.2 Solvency valuation

Insurance creditors comprise claims agreed for payment and acquisition costs and profit commission payable to intermediaries. All amounts are due within one year and are therefore valued at the undiscounted amount of the amount due to be paid. For solvency purposes, claim and acquisition cost creditors are netted off technical provisions. The profit commission creditor remains within insurance creditors in the solvency valuation.
Other creditors and accruals are all expected to be settled within one year and are therefore valued at the undiscounted amount of the amount expected to be paid.

### D3.3 Differences between solvency valuation and valuation in financial statements

As stated in D2.2 above, claim and acquisition cost creditors are netted off technical provisions in the Solvency II balance sheet.

For solvency purposes, the profit commission creditor is based on the profit for the year calculated on Solvency II principles.

## D.4 Alternative methods for valuation

Not applicable.

## D.5 Any other information

There is no other material information to disclose regarding the valuation of assets and liabilities for solvency purposes.

## E.1 Own Funds

### E1.1 Objectives, policies and processes for managing own funds

In order to ensure continuous compliance with the regulatory capital and solvency position, the objective of the Company is to maintain own funds so as to hold a buffer over the SCR of at least 20%. Irwell uses the standard formula to calculate its SCR. The board formally reviews the ratio of own funds over the SCR at each board meeting.
The Company operates on a three year business planning timeframe. As part of the normal business planning process, a three year forecast is produced at the commencement of each financial year. The forecast includes a projection of the of the solvency margin over that period. The business plan also forms a key input to the Company's ORSA.

### E1.2 Own funds by tier

| **Own fund item** | **Tier** | | |
|---|---|---|---|
| | | **£'000** | **%** |
| | | | |
| Ordinary share capital | 1 | 4,000 | 23.1 |
| Reconciliation reserve | 1 | 13,171 | 76.0 |
| | | | |
| **Sub-total Tier 1** | | **17,171** | **99.1** |
| | | | |
| Deferred tax asset | 3 | 150 | 0.9 |
| | | | |
| **Total own funds** | | **17,321** | **100** |

The reconciliation reserve comprises retained earnings together with solvency valuation adjustments.

The total own funds shown in the above table is eligible to cover the SCR.

Only tier 1 items totalling £17,171k are available to cover the MCR.

There are no restrictions regarding the availability of own funds.

### E1.3 Reconciliation of equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes

There is no difference between the amount of ordinary share capital reported in the financial statements and the amount included in own funds.

The differences between equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes relate to adjustments made in order to value assets and liabilities at their solvency valuation. These adjustments are fully described in section D above and summarised in the table below:

| | **£'000** |
|---|---|
| | |
| Shareholders' equity in the UK GAAP financial statements | 17,922 |
| Adjust technical provisions to best estimate | 5,056 |
| DAC not recognised for solvency purposes | (4,149) |
| Risk margin | (1,380) |
| Discounting of technical provisions | 180 |
| Deferred tax asset | 150 |
| Profit commission adjusted to Solvency II basis | (458) |
| | |
| **Total own funds** | **17,321** |

### E.1.4 other disclosures

No basic own funds are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC.

There are no ancillary own funds and no deductions made from the own funds.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

### E2.1 SCR

At 31 March 2017, the SCR was £11,044k.

The SCR was determined using the standard formula, and is summarised as follows:

| | **£'000** |
|---|---|
| | |
| Market risk | 209 |
| Counterparty default risk | 1,800 |
| Non-life underwriting risk | 9,485 |
| Diversification | (934) |
| **Total Basic SCR** | **10,560** |
| | |
| Operational risk | 615 |
| Deferred tax adjustment | (131) |
| **Total SCR** | **11,044** |

The final amount of the SCR remains subject to supervisory assessment.

### E2.2 MCR

At 31 March 2017, the MCR was £3,332k.
Inputs used by the Company to calculate the MCR were as follows:

| Line of business | Technical provisions | Written premiums in last 12 months |
|---|---|---|
| | **£'000** | **£'000** |
| | | |
| Third-party liability | 702 | 2,448 |
| Legal expenses | 10,113 | 20,270 |
| | | |
| **Total** | **10,815** | **22,718** |

The MCR calculation is based on the technical provisions and the expected level of retained premiums over the previous 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. The MCR for Irwell is subject to an absolute floor of £3,332k as at 31 March 2017.

### E2.3 Analysis of change

Information on changes to SCR and MCR over the reporting period has not been provided as this is the first year that the Company has been subject to the Solvency II regime.

### E2.4 Other

No simplifications are used to calculate the SCR.

No undertaking-specific parameters are used to calculate the SCR pursuant to Article 104(7) of Directive 2009/138/EC.

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

The Company does not hold equities and therefore the equity risk sub-module is not applicable.

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

The Company does not use any internal model.

## E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has complied throughout the year with the minimum capital requirement and the solvency capital requirement.

## E.6 Any other information

None

## *Annex - Quantitative reporting templates*

| | |
|---|---|
| P.02.01.02 | Balance Sheet |
| P.05.01.02.01 | Premiums, claims and expenses by line of business |
| P.17.01.02 | Non-Life Technical Provisions |
| P.19.01.21 | Non-Life Insurance Claims Information |
| P.23.01.01 | Own funds |
| P25.01.21 | Solvency Capital Requirement |
| P.28.01.01 | Minimum Capital Requirement |

**Annex I**
**S.02.01.02**
**Balance sheet**

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | 150 |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 26,257 |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | |
| Equities | **R0100** | |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | 26,257 |
| Government Bonds | **R0140** | 20,132 |
| Corporate Bonds | **R0150** | 6,125 |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | |
| Collective Investments Undertakings | **R0180** | |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | |
| Loans and mortgages | **R0230** | |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | |
| Reinsurance recoverables from: | **R0270** | |
| Non-life and health similar to non-life | **R0280** | |
| Non-life excluding health | **R0290** | |
| Health similar to non-life | **R0300** | |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | |
| Reinsurance receivables | **R0370** | |
| Receivables (trade, not insurance) | **R0380** | |
| Own shares (held directly) | **R0390** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | |
| Cash and cash equivalents | **R0410** | 4,683 |
| Any other assets, not elsewhere shown | **R0420** | 89 |
| **Total assets** | **R0500** | 31,179 |

**Annex I**
**S.02.01.02**
**Balance sheet**

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 12,195 |
| Technical provisions – non-life (excluding health) | **R0520** | 12,195 |
| TP calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | 10,815 |
| Risk margin | **R0550** | 1,380 |
| Technical provisions - health (similar to non-life) | **R0560** | |
| TP calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | |
| Risk margin | **R0590** | |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | |
| Technical provisions - health (similar to life) | **R0610** | |
| TP calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | |
| TP calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | |
| Risk margin | **R0680** | |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| TP calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 867 |
| Reinsurance payables | **R0830** | |
| Payables (trade, not insurance) | **R0840** | 732 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in BOF | **R0860** | |
| Subordinated liabilities in BOF | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | 64 |
| **Total liabilities** | **R0900** | 13,858 |
| **Excess of assets over liabilities** | **R1000** | 17,321 |

**Annex I**

**S.05.01.02**

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

| | | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** | | Total |
|---|---|---|---|---|
| | | General liability insurance | Legal expenses insurance | |
| | | **C0080** | **C0100** | **C0200** |
| **Premiums written** | | | | |
| Gross - Direct Business | **R0110** | 2,447 | 20,270 | 22,718 |
| Gross - Proportional reinsurance accepted | **R0120** | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | 0 |
| Reinsurers' share | **R0140** | 0 | 0 | 0 |
| Net | **R0200** | 2,447 | 20,270 | 22,718 |
| **Premiums earned** | | | | |
| Gross - Direct Business | **R0210** | 2,472 | 18,030 | 20,502 |
| Gross - Proportional reinsurance accepted | **R0220** | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | 0 |
| Reinsurers' share | **R0240** | 0 | 0 | 0 |
| Net | **R0300** | 2,472 | 18,030 | 20,502 |
| **Claims incurred** | | | | |
| Gross - Direct Business | **R0310** | 74 | 10,162 | 10,236 |
| Gross - Proportional reinsurance accepted | **R0320** | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | 0 |
| Reinsurers' share | **R0340** | 0 | 0 | 0 |
| Net | **R0400** | 74 | 10,162 | 10,236 |
| **Changes in other technical provisions** | | | | - |
| Gross - Direct Business | **R0410** | 0 | 0 | 0 |
| Gross - Proportional reinsurance accepted | **R0420** | 0 | 0 | 0 |
| Gross - Non- proportional reinsurance accepted | **R0430** | | | 0 |
| Reinsurers'share | **R0440** | 0 | 0 | 0 |
| Net | **R0500** | 0 | 0 | 0 |
| **Expenses incurred** | **R0550** | 661 | 8,303 | 8,965 |
| **Other expenses** | **R1200** | | | 1,160 |
| **Total expenses** | **R1300** | | | 10,124 |

**Annex I**

**S.17.01.02**

**Non-life Technical Provisions**

| | | Direct business and accepted proportional reinsurance | | Total Non-Life obligation |
|---|---|---|---|---|
| | | General liability insurance | Legal expenses insurance | |
| | | C0090 | C0110 | C0180 |
| **Technical provisions calculated as a whole** | R0010 | 0 | 0 | 0 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | R0050 | 0 | 0 | 0 |
| **Technical provisions calculated as a sum of BE and RM** | | | | |
| **Best estimate** | | | | |
| Premium provisions | | | | |
| Gross | R0060 | -364 | -1,116 | -1,480 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0140 | 0 | 0 | 0 |
| Net Best Estimate of Premium Provisions | R0150 | -364 | -1,116 | -1,480 |
| **Claims provisions** | | | | |
| Gross | R0160 | 1,066 | 11,229 | 12,295 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0240 | 0 | 0 | 0 |
| Net Best Estimate of Claims Provisions | R0250 | 1,066 | 11,229 | 12,295 |
| **Total Best estimate - gross** | R0260 | 702 | 10,114 | 10,815 |
| **Total Best estimate - net** | R0270 | 702 | 10,114 | 10,815 |
| **Risk margin** | R0280 | 64 | 1,316 | 1,380 |
| **Amount of the transitional on Technical Provisions** | | | | |
| Technical Provisions calculated as a whole | R0290 | 0 | 0 | 0 |
| Best estimate | R0300 | 0 | 0 | 0 |
| Risk margin | R0310 | 0 | 0 | 0 |
| **Technical provisions - total** | | | | |
| Technical provisions - total | R0320 | 766 | 11,430 | 12,195 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | R0330 | 0 | 0 | 0 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | R0340 | 766 | 11,430 | 12,195 |

**Annex I** **S.19.01.21** **Non-life Insurance Claims Information**

**Total Non-Life Business**

| | | |
|---|---|---|
| Accident year | **Z0010** | Accident year [AY] |

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

| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | In Current year | Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** | | **C0170** | **C0180** |
| **Prior** | **R0100** | | | | | | | | | | | | **R0100** | | |
| **N-9** | **R0160** | 1,096,804 | 2,164,191 | 1,472,926 | 185,509 | 368,964 | -107,926 | 139,046 | | 5,833 | 23,923 | | **R0160** | 23,923 | 5,349,268 |
| **N-8** | **R0170** | 1,911,668 | 4,112,000 | 824,770 | 436,201 | -209,415 | 213,152 | 46,781 | | | | | **R0170** | | 7,335,157 |
| **N-7** | **R0180** | 2,663,484 | 4,962,175 | 1,344,792 | 144,075 | 379,233 | 142,571 | 44,910 | 16,394 | | | | **R0180** | 16,394 | 9,697,634 |
| **N-6** | **R0190** | 2,943,933 | 4,684,064 | 1,570,037 | 989,496 | -653,550 | 216,367 | 242,285 | | | | | **R0190** | 242,285 | 9,992,633 |
| **N-5** | **R0200** | 3,292,657 | 5,124,465 | 2,023,607 | 251,311 | -62,351 | 612,871 | | | | | | **R0200** | 612,871 | 11,242,560 |
| **N-4** | **R0210** | 4,201,403 | 4,844,069 | 1,136,300 | 648,668 | 255,596 | | | | | | | **R0210** | 255,596 | 11,086,036 |
| **N-3** | **R0220** | 3,733,641 | 5,137,431 | 1,940,278 | 361,078 | | | | | | | | **R0220** | 361,078 | 11,172,427 |
| **N-2** | **R0230** | 3,456,348 | 3,743,689 | 704,040 | | | | | | | | | **R0230** | 704,040 | 7,904,077 |
| **N-1** | **R0240** | 3,526,347 | 3,599,069 | | | | | | | | | | **R0240** | 3,599,069 | 7,125,416 |
| **N** | **R0250** | 3,221,544 | | | | | | | | | | | **R0250** | 3,221,544 | 3,221,544 |
| | | | | | | | | | | | | **Total** | **R0260** | 9,036,800 | 84,126,752 |

**Gross undiscounted Best Estimate Claims Provisions** (absolute amount)

| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **C0200** | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0290** | **C0300** | | **C0360** |
| **Prior** | **R0100** | | | | | | | | | | | 28,656 | **R0100** | 28,604 |
| **N-9** | **R0160** | | | | | | | | | | 5,471 | | **R0160** | 5,461 |
| **N-8** | **R0170** | | | | | | | | | 91,779 | | | **R0170** | 91,612 |
| **N-7** | **R0180** | | | | | | | | 45,432 | | | | **R0180** | 45,238 |
| **N-6** | **R0190** | | | | | | | 225,961 | | | | | **R0190** | 224,803 |
| **N-5** | **R0200** | | | | | | 623,098 | | | | | | **R0200** | 620,709 |
| **N-4** | **R0210** | | | | | 753,086 | | | | | | | **R0210** | 748,920 |
| **N-3** | **R0220** | | | | 1,747,146 | | | | | | | | **R0220** | 1,734,120 |
| **N-2** | **R0230** | | | 1,703,260 | | | | | | | | | **R0230** | 1,689,856 |
| **N-1** | **R0240** | | 3,317,827 | | | | | | | | | | **R0240** | 3,290,596 |
| **N** | **R0250** | 3,874,574 | | | | | | | | | | | **R0250** | 3,814,991 |
| | | | | | | | | | | | | **Total** | **R0260** | 12,294,911 |

**Annex I**

**S.23.01.01**

**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | **R0010** | 4,000 | 4,000 | | | |
| Share premium account related to ordinary share capital | **R0030** | | | | | |
| ~~I~~initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | **R0040** | | | | | |
| Subordinated mutual member accounts | **R0050** | | | | | |
| Surplus funds | **R0070** | | | | | |
| Preference shares | **R0090** | | | | | |
| Share premium account related to preference shares | **R0110** | | | | | |
| Reconciliation reserve | **R0130** | 13,171 | 13,171 | | | |
| Subordinated liabilities | **R0140** | | | | | |
| An amount equal to the value of net deferred tax assets | **R0160** | 150 | | | | 150 |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | **R0180** | | | | | |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | **R0220** | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | **R0230** | | | | | |
| **Total basic own funds after deductions** | **R0290** | 17,321 | 17,171 | | | 150 |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | **R0300** | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | **R0310** | | | | | |
| Unpaid and uncalled preference shares callable on demand | **R0320** | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | **R0330** | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | **R0340** | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | **R0350** | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | **R0360** | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | **R0370** | | | | | |
| Other ancillary own funds | **R0390** | | | | | |
| **Total ancillary own funds** | **R0400** | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | **R0500** | 17,321 | 17,171 | | | 150 |
| Total available own funds to meet the MCR | **R0510** | 17,171 | 17,171 | | | |
| Total eligible own funds to meet the SCR | **R0540** | 17,321 | 17,171 | | | 150 |
| Total eligible own funds to meet the MCR | **R0550** | 17,171 | 17,171 | | | |
| **SCR** | **R0580** | 11,044 | | | | |
| **MCR** | **R0600** | 3,332 | | | | |
| **Ratio of Eligible own funds to SCR** | **R0620** | 2 | | | | |
| **Ratio of Eligible own funds to MCR** | **R0640** | 5 | | | | |

**Annex I**

**S.23.01.01**

**Own funds, continued**

| | | C0060 | |
|---|---|---|---|
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | **R0700** | 17,321 | |
| Own shares (held directly and indirectly) | **R0710** | | |
| Foreseeable dividends, distributions and charges | **R0720** | | |
| Other basic own fund items | **R0730** | 4,150 | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** | | |
| **Reconciliation reserve** | **R0760** | 13,171 | |
| **Expected profits** | | | |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | | |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | 1,571 | |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 1,571 | |

**Annex I**
**S.25.01.21**
**Solvency Capital Requirement - for undertakings on Standard Formula**

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0100 |
| Market risk | R0010 | 209 | - | |
| Counterparty default risk | R0020 | 1,800 | - | |
| Life underwriting risk | R0030 | | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | 9,485 | | |
| Diversification | R0060 | -934 | - | - |
| Intangible asset risk | R0070 | | - | - |
| **Basic Solvency Capital Requirement** | R0100 | 10,559 | - | - |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 615 |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | -131 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 11,044 |
| Capital add-on already set | R0210 | |
| **Solvency capital requirement** | R0220 | 11,044 |
| **Other information on SCR** | | - |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirement for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

**Annex I**

**S.28.01.01**

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

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

| | | C0010 |
|---|---|---|
| $MCR_{NL}$ Result | R0010 | 2,874 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| General liability insurance and proportional reinsurance | R0090 | 702 | 2,447 |
| Legal expenses insurance and proportional reinsurance | R0110 | 10,114 | 20,270 |

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

| | | C0040 |
|---|---|---|
| $MCR_{L}$ Result | R0200 | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 0 | |
| Obligations with profit participation - future discretionary benefits | R0220 | 0 | |
| Index-linked and unit-linked insurance obligations | R0230 | 0 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 0 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 0 |

**Overall MCR calculation**

| | | C0070 | | |
|---|---|---|---|---|
| Linear MCR | R0300 | 2,874 | | |
| SCR | R0310 | 11,044 | - | - |
| MCR cap | R0320 | 4,970 | | |
| MCR floor | R0330 | 2,761 | | |
| Combined MCR | R0340 | 2,874 | | |
| Absolute floor of the MCR | R0350 | 3,332 | | |
| - | - | C0070 | | |
| **Minimum Capital Requirement** | R0400 | 3,332 | | |