Solvency and Financial Condition Report 2016

British Reserve Insurance Company Ltd

Introduction

Summary

This is the solvency and financial condition report ("SFCR") for British Reserve Insurance Company Ltd ("BRIC"). Publication of an SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the EU. Solvency II, which entered into force on 1st January 2016, is a comprehensive updating of the way in which insurance companies in the EU are supervised by their local regulators.

The main Solvency II Directive is supplemented by further texts[2] which set out in detail the required contents and structure[3] of the report. This introduction is intended to fulfil the requirement[4] that the SFCR should contain a clear and concise summary, which highlights material changes over the year.

British Reserve Insurance Company Ltd is an insurance company within the Allianz Group in the UK which is in runoff. Further information about Allianz's operations in the UK can be found on the Allianz UK website[5]. That website also contains the 2016 Allianz Holdings plc Report and Accounts, which includes some technical information required for this SFCR.

Globally, Allianz is a financial services provider with 86 million clients in more than 70 countries. It had revenue in 2016 of €122bn and made an operating profit of €10.8bn. At the same time as this SFCR for British Reserve Insurance Company Ltd is published, Allianz SE will be publishing its own SFCR for the whole Allianz group. More information about the Allianz SE group and its operations around the world can be found on the Allianz group website.[6]

Section A looks at the business and performance of BRIC during 2016. It starts with a section describing the legal structure of BRIC and its place in the Allianz group before covering the two main sources of Allianz's profit – its underwriting of insurance and its investment of the money it holds in order to pay future claims.

Section B looks at the System of Governance. This is the set of rules and processes by which the company is managed. This section describes the ways in which BRIC ensures that its business runs prudently and within the regulations of Solvency II.

The company is run by the Board of Directors, who rely on other managers to operate on their behalf. The actions of those other managers take place within the confines of the System of Governance.

The section confirms that all the required components of the System of Governance are in place. These are:

- Assessment and remuneration policies, to ensure that managers have the skills and capability required to run the company and are that they are paid appropriately;

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.
[2] Commission delegated regulation (EU) 2015/35, articles 290 - , Implementing Regulation (EU) 2015/2452
[3] See in particular Annex XX, Commission delegated regulation (EU) 2015/35
[4] Article 292, Commission delegated regulation (EU) 2015/35
[5] https://www.allianz.co.uk/about-allianz-insurance.html
[6] www.allianz.com

- Independent safeguarding functions, whose responsibility is to ensure that the managers of the company understand and manage risks appropriately;
- A process, the Own Risk and Solvency Assessment, by which all risks facing the company are assessed, managed and reported to the Board.

Finally the section reviews how BRIC relies on other companies to undertake some activities on its behalf. Although some activities are outsourced – section B.7 outlines the most material – BRIC itself is responsible for the delivery of those activities.

Section C reviews the risks which BRIC faces. Each kind of risk is covered in turn. The risk itself and the methods for understanding, managing and mitigating that risk are described, and any major concentration of that risk type is identified.

This section confirms that each risk type to which BRIC is exposed is appropriately understood, managed and mitigated.

Section D reviews the balance sheet of BRIC. The balance sheet is the main mechanism by which the solvency of the company – the amount of money it has available to protect it and its policyholders against a shock – is assessed. This section describes the methods used to value the items on that balance sheet.

An important section is section D.2 on Technical Provisions. “Technical Provisions” are the funds the company has put aside specifically to pay future claims, and so they represent the most important part of the balance sheet. They are also the most uncertain, as it is difficult to assess the funds required accurately.

Section E confirms that BRIC is able to withstand unexpected shocks according to the standards required by Solvency II. “Own Funds” refer to the capital available within the company for this purpose, and section E.1 describes how that capital is managed. It also confirms that the Own Funds are of appropriate quality and will be available if required.

The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). The MCR is the level of Own Funds below which the company cannot legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

Finally, the SFCR contains a Statement of Directors’ responsibilities and an audit opinion in respect of those parts of the SFCR which have to be audited.

A. Business and Performance

This section is unaudited.

A.1 Business

British Reserve Insurance Company Ltd (“BRIC”) is a private limited company incorporated in the UK under company no 307622.

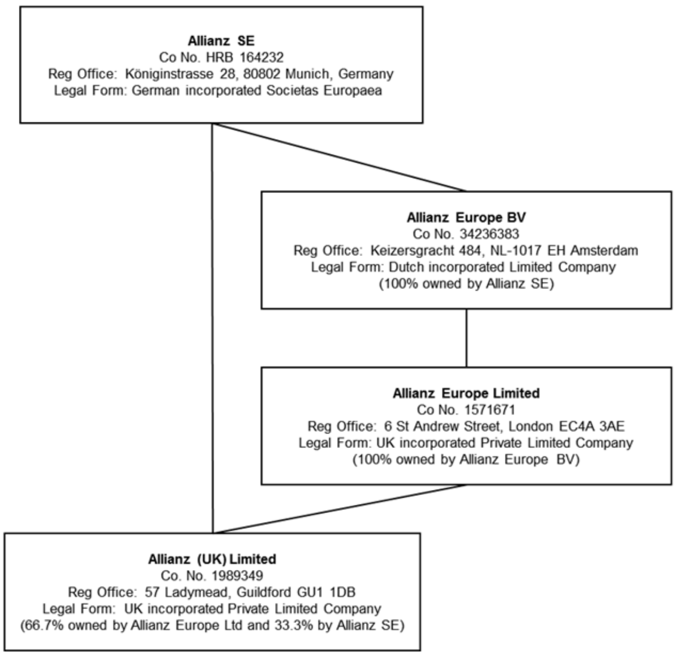
It is supervised by the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, in respect of financial and prudential matters, and by the Financial Conduct Authority (FCA), 25 The North Colonnade, London E14 5HS, in respect of conduct matters.

It is a wholly owned subsidiary of Allianz SE, of Königinstraße 28, 80802 München, Germany. For the financial supervision of the Allianz Group the German Federal Financial Supervisory Authority (“Bundesanstalt für Finanzdienstleistungsaufsicht” – BaFin), Dreizehnmorgenweg 13-15, 53175 Bonn is responsible.

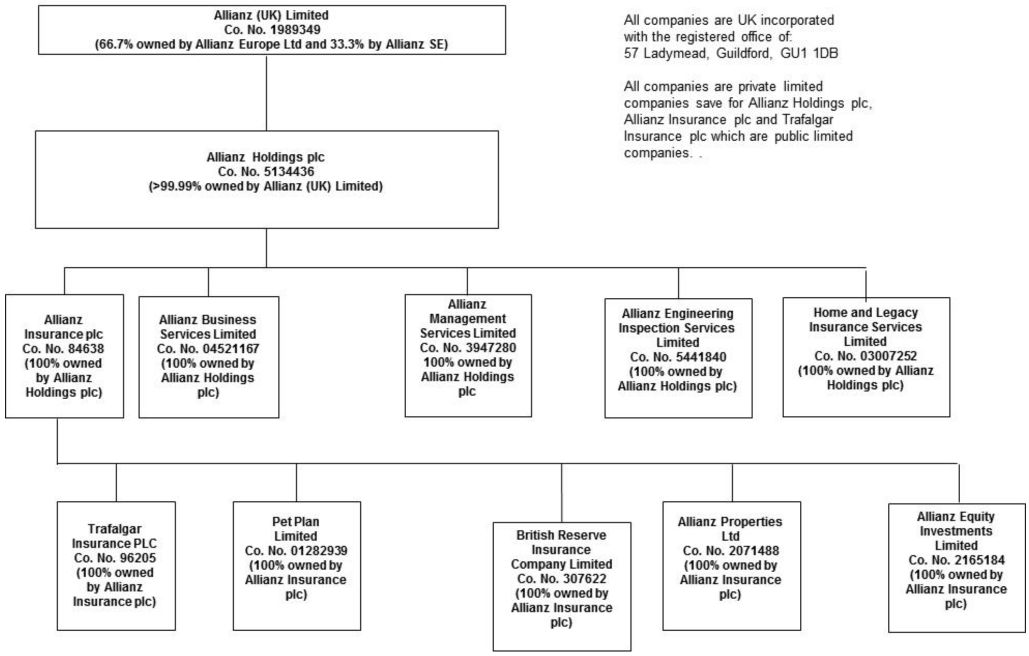
BRIC’s external auditor is KPMG LLP, 15 Canada Square, London, E14 5GL.

The structure charts below describe the structure of BRIC within the Allianz SE group, including the holders of qualifying holdings, and also the material related undertakings of Allianz Insurance plc.

Allianz (UK) Limited and its parent companies



Allianz (UK) Limited and its material subsidiaries



BRIC ceased to underwrite business during 2015. As a result of historical activity it has provisions in respect of Fire and other damage to property insurance and non-proportional marine, aviation and transport reinsurance. The only material geographical area in which the company carries out business is the United Kingdom.

There have been no material changes to the business of the company during 2016.

A.2 Underwriting Performance

During 2016, BRIC made a profit of £236k (2015: £1,204k) from underwriting activities, almost entirely from the positive runoff of prior year liabilities. The fall from 2015 was primarily due to the cessation during 2015 of writing new business.

A.3 Investment Performance

During 2016, BRIC made a profit of £241k (2015: £1,741) from investment activities. Approximately half of this profit came from realised gains. The main driver for the fall from 2015 was the cessation during 2015 of writing new business and the consequent fall in the value of the investment portfolio.

The asset portfolio is invested entirely in cash and fixed interest securities.

A.4 Performance of Other Activities

In 2016, there were no material items of other income.

B. System of Governance

This section is unaudited.

B.1 General Information on System of Governance

The Board and its Committees

As at 31 December 2016, the Board comprised four Directors. The Board is responsible for deciding strategy and for ultimate oversight of the conduct and performance of BRIC. It is also responsible for External Reporting.

The members of the Board of BRIC are:
Simon McGinn
Simon Brimicombe[7]
Mark Churchlow
Jon Dye

BRIC is managed together with the other subsidiaries of Allianz Holdings plc. The committees of Allianz Holdings plc are responsible for oversight of all companies in the Allianz Holdings plc group, including BRIC. Full information about the governance of the insurance companies within the Allianz Holdings plc group is found in the Solvency and Financial Condition Report of Allianz Insurance plc.

The four key functions required by Solvency II are provided by the respective holders of those functions for Allianz Insurance plc. They are:

Risk Function: Stephen Wilcox – Chief Risk Officer
Internal Audit Function: Andrew Gascoyne – Head of Internal Audit
Compliance Function: Ann Alexander – Group Compliance Officer
Actuarial Function: Kevin Wenzel – Chief Actuary

B.2 to B.6

Within the Solvency and Financial Condition Report for Allianz Insurance plc will be found descriptions of the Remuneration principles, Fit and proper requirements, Key Function authority, operational independence and resource. These also apply to BRIC.

B.7 Outsourcing

BRIC does not outsource any Solvency II key functions. The table below outlines the critical or important operational functions or activities that are outsourced, and the jurisdiction in which the service providers are located.

[7] Simon Brimicombe resigned as a Director on 3 April 2017

Activity outsourced	Fellow member of the Allianz SE Group	Outsourcing Provider’s Jurisdiction
Handling of runoff claims	Y	Germany
Management Services, including provision of staff	Y	United Kingdom

B.8 Any other Information

BRIC continuously monitors the effectiveness of its system of governance, including the effectiveness of specific functions, and believes them to be operating effectively.

C. Risk Profile

This section is unaudited.

Risk is measured and steered using a number of qualitative and quantitative tools. There have been no material changes to the measures used to assess risks during 2016.

BRIC has insured only non-life insurance risks. As a result of its asset management activities to support its primary business activities it is also exposed to market and credit risks.

This section provides information on BRIC's overall risk profile followed by a description of each risk category in detail.

BRIC does not use Special Purpose Vehicles to transfer risk. It is not exposed to risk from positions off its balance sheet.

C.1 Underwriting Risk

Underwriting risk consists solely of reserve risk.

Due to the risk management practices in place there are no concentrations regarding underwriting risk that could materially affect BRIC's solvency ratio.

Reserve risk
BRIC holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are not sufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated.

BRIC monitors the development of reserves for insurance claims on a line of business level annually. The main change to reserve risk exposure during 2016 was the running off of the last tranche of business underwritten during 2015.

The main technique for mitigating reserve risk is the reinsurance of certain types of claim to a fellow Allianz SE group subsidiary. The continuing effectiveness of this reinsurance is reviewed periodically by the members of the BRIC Board.

C.2 Market risk

The guiding principle for BRIC's investment risk management is the Prudent Person Principle (Article 132 of the Solvency II EU Directive).

BRIC meets the Prudent Person Principle by using the expertise of the Allianz Insurance plc Chief Investment Officer, who is backed up by the global and specialist expertise of Allianz Investment Management. It also invests according to a Strategic Asset Allocation (SAA) which defines its long term investment strategy for the investment portfolio as a whole.

When setting up the SAA, care is taken to ensure an adequate target level of quality and security (for example, ratings and collateral) together with a sustainable return as well as sufficient liquidity. Compliance with the SAA is monitored by the Risk function and by the Board Risk Committee with support from the Investment Committee. The SAA forms the main method for mitigating market risk, and its continuing effectiveness is monitored by the members of the BRIC Board and their advisors.

BRIC assesses its market risk exposure via quantitative and qualitative processes carried out by the Investment and Risk functions, including regular dialogue between the functions and formal reporting to Investment, Finance and Board Risk Committees.

The main change in market risk during the year was the transfer of some assets from fixed interest to cash. BRIC has no material concentration of market risks and no material sensitivity to market risk. BRIC does not use derivatives to seek or to hedge risk.

C.3 Credit risk

BRIC's credit risk exposure arises from its investment portfolio and reinsurance counterparties. BRIC has material concentration of credit risk with the UK government in respect of its investment portfolio and with a fellow subsidiary of Allianz SE in respect of reinsurance. Each concentration is considered appropriate because of the financial strength of the counterparty.

C.4 Liquidity risk

Liquidity risk is the risk that requirements from current or future payment obligations cannot be met.

BRIC has negligible liquidity risk because its assets are all readily realizable.

C.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, or from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

BRIC uses the processes and policies of the Allianz Holdings plc group to manage its operational risk.

C.6 Other material risks

BRIC has no other material risk exposures.

D. Valuation for solvency purposes

Introduction

The scope of this section of the report is British Reserve Insurance Company Ltd (BRIC).

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Allianz Holdings plc group, of which BRIC is a member, are summarised in note 1.4 and 2 to the Financial statements of that group (pages 32 – 40). BRIC adopts the same recognition, measurement and valuation policies for IFRS purposes as the other members of the Allianz Holdings plc group. This report summarises any differences to those valuation policies for solvency purposes.

The table below shows the IFRS balance sheet as at 31st December 2016, and the key valuation differences between that and the balance sheet used for solvency purposes (Market Value Balance Sheet – "MVBS").

(£000s)	**IFRS**	**Valuation Differences**	**MVBS**
Assets			
Investments			
Government Bonds	2,465		2,465
Deposits other than cash	405		405
Technical provisions – Reinsurance recoverables	3,128	(126)	3,003
Insurance and intermediaries receivables	19	(16)	3
Trade receivables	4		4
Cash and cash equivalents	12,925		12,925
Total Assets	**18,947**	**(142)**	**18,805**
Liabilities			
Technical provisions			
Best Estimate	3,660	(159)	3,501
Risk margin		35	35
Deferred tax liabilities	163	(3)	160
Insurance and intermediaries payables	6		6
Trade payables	119		119
Other liabilities	5,609		5,609
Total Liabilities	9,558	(127)	9,430
Excess of Assets over Liabilities	**9,389**	**(14)**	**9,375**

There were no changes made to the recognition and valuation bases used or estimation methodologies during the reporting period.

Deferred Taxes

Deferred taxes, except deferred tax assets arising from the carry forward of unused tax losses, are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in IAS 12 are assessed, and any deferred tax asset or liability is adjusted or set up as required. The methods used to value deferred tax assets and/or liabilities under IAS 12 are disclosed in the IFRS accounts of Allianz Holdings plc referred to above in the introduction to this section.

The tax rates used in the calculation are the applicable UK tax rates. For losses, this is a blended rate based on the applicable rate at the time the deferred tax items are expected to reverse. Deferred tax on all other items is calculated at the rate that was in force on the reporting date.

D.1 Assets

Receivables are measured at nominal value with an adjustment for a provision for bad or doubtful debts under IFRS and MVBS, unless the market value deviates materially from the adjusted nominal value. In that case, the market value is used in the MVBS. In the case of insurance-related receivables, the difference between IFRS and MVBS mainly relates to the recognition of certain premiums that are already included in the receivables under IFRS, while they are recognized within technical provisions in the MVBS, because such premiums are not yet due by the balance sheet date.

For Technical provisions – Reinsurance receivables, please refer to section D.2.

For the following classes of asset there is no material difference in valuation between the MVBS and the IFRS accounts: Investments, Cash and cash equivalents; Provisions other than Technical Provisions. Full details of the valuation methodology used are disclosed in the IFRS accounts of Allianz Holdings plc referred to above in the introduction to this section.

D.2 Technical Provisions

Basis

Technical provisions are calculated in respect of all insurance obligations to policyholders. The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Together the claims provision and the premium provision constitute the best estimate liabilities (BEL).

Methods and assumptions

The calculation of the BEL is based on up-to-date and credible information and realistic assumptions and is performed using relevant actuarial and statistical methods.

The *claims provision* is based on the IFRS claims provision, with the addition of an allowance for future investment management expenses. A payment pattern is applied to each element of the claims provisions to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements.

The *risk margin* is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance obligations over their lifetime.

Our approach to estimating future SCRs is based on the current SCR as a proportion of best estimate provisions, adjusted to reflect the increased levels of riskiness of the claims reserves over time. It uses ratios to assess premium risk and reserve risk capital throughout the runoff period, and grossing up factors to scale up for other risks. The cost of capital rate used in the calculation of the risk margin is set by EIOPA at 6%.

The table below shows technical provisions both gross and net of reinsurance by Solvency II line of business (LoB).

SII line of business (£000s)	**Gross**			**Net**		
	Claims Provision	**Premium Provision**	**Risk Margin**	**Claims Provision**	**Premium Provision**	**Risk Margin**
Fire and other damage to property insurance	6	0	0	6	0	0
Non-proportional marine, aviation and transport reinsurance	3,511	(16)	35	508	(16)	35
Total	**3,517**	**(16)**	**35**	**514**	**(16)**	**35**

The Solvency II basis carries uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting assumptions, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. These can come from a number of sources, including, but not limited to:

- claim reporting patterns being different from those expected;
- claim handling costs being different from those expected.

There is no material difference between IFRS provisions and Solvency II Technical provisions other than the introduction of a risk margin.

No matching adjustment or volatility adjustment is applied to the risk free yield curve used to discount the technical provisions. No transitional arrangements are applied.

Reinsurance recoverables

Reinsurance recoverables are calculated for the claims provision based on the reinsurance in place.

Material changes in assumptions

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption. During 2016, no assumptions were materially changed.

Simplifications

The calculation of the technical provisions is carried out using materially appropriate, complete and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. Their limitations are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all important characteristics of the business.

The method used to calculate the Risk Margin is defined by Solvency II regulation as a simplification.

D.3 Other liabilities

There is no material difference in valuation methodology for any other class of liability. Full details of the valuation methodology used are disclosed in the IFRS accounts of Allianz Holdings plc referred to above in the introduction to this section.

D.5 Any other information

There is no other material information on the valuation of assets or liabilities

E. Capital Management

E.1. Own Funds

The core objective of the company's management of capital is to ensure, as far as possible, a solvent runoff of liabilities in line with risk appetite.

The Allianz Group maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of three years. Capital management protects the company's Own Funds base in line with the Allianz Risk Strategy and Appetite.

The core element of the approach to capital management is the approval by the BRIC Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate local buffer over the SCR.

The current liquidity plan and solvency projections reflect all planned changes in own funds for the next 3 years.

There were no material changes over the reporting period with regards to objectives, policies and processes employed by BRIC for managing its Own Funds.

The table below shows the breakdown of the Own Funds by Tier, and the SCR and MCR coverage. 2015 figures are unaudited.

	2016	2015
	£m	£m
Tier 1		
Ordinary shares	5.0	5.0
Reconciliation reserve	4.4	3.5
Total Tier 1	**9.4**	**8.5**
Total eligible own finds to meet the SCR	**9.4**	**8.5**
SCR (see below)	1.1	N/A
SCR coverage ratio	**831%**	**N/A**
Total eligible own finds to meet the MCR	**9.4**	**8.5**
MCR (see below)	3.3	N/A
MCR coverage ratio	**281%**	**N/A**

No SCR or MCR comparators are shown because as at 31st December 2015 the Solvency II regulations were not in force.

Only Tier 1 and Tier 2 funds are eligible to meet the MCR. No Own Fund items for BRIC rely on transitional measures for their inclusion in Tier 1. There are no restrictions on the availability of own funds to support the SCR and MCR, and no matching adjustment portfolio exists. There has been no impact of any limit on eligible Tier 2 capital or restricted Tier 1 capital. The company has no subordinated debt, or ancillary Own Fund items. No Own Fund items were issued or redeemed during the year.

The changes in tier 1 capital over the reporting period are all within the reconciliation reserve.

The significant changes were:

	£m
Profit after tax earned by the company in the year	0.4
Revaluation of prior year retained earnings denominated in foreign currency	0.4

The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet.

E.2. Solvency Capital Requirement & Minimum Capital Requirement

BRIC uses the Standard Formula to calculate its SCR. The SCR at 31 December 2016 amounts to £1.129m, and the MCR amounts to £3.332m, equal to the absolute floor in MCR set by Solvency II converted at the exchange rate mandated by the PRA. A split of the SCR by the different risk modules is shown in the following table.

Risk Category	**£000s**
Market risk	
Interest rate risk	21
Currency risk	755
Counterparty risk	512
Premium and reserve risk	306
Lapse risk	6
Operational risk	105
Sum of standalone risks	1,705
Diversification benefit	(416)
SCR before deferred tax	1,289
Deferred tax	(160)
SCR	1,129

The calculation of the MCR follows the methodology described in the Solvency II regulation. It uses the SCR as an input parameter for determining the possible range for the MCR, as well as the standard set of inputs required by the formula-based calculation.

E.3 Use of various options in the Standard Formula calculation

Simplifications, undertaking-specific parameters and the duration-based equity risk sub-module are not used.

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

No internal model is used by the firm.

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

BRIC has complied continuously with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

All important information regarding the capital management of the undertaking is addressed in the above sections.

Statement of Directors’ responsibilities

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.

By order of the Board
Robin Jack-Kee
Secretary
British Reserve Insurance Company Ltd
Registered Number: 307622
May 15, 2017

Auditors' report

Report of the external independent auditor to the Directors of British Reserve Insurance Company Ltd ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by [British Reserve Insurance Company/Trafalgar Insurance] as at 31st December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of British Reserve Insurance Company Ltd as at 31st December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S12.01.01, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;

- information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01, S19.01.21;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of British Reserve Insurance Company Ltd as at 31st December

2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Matters on which we are required to report by exception

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of British Reserve Insurance Company Ltd statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

KPMG LLP
15 Canada Square
London
E14 5GL

16th May 2017

- The maintenance and integrity of British Reserve Insurance Company Ltd's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Report:	S.02.01.02
Reporting entity:	RC740
Due date:	31.12.2016
Cluster:	PROD-RSR-Y
Report exported on:	27.04.2017 14:56:56

Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	2,870
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	2,465
Government Bonds	**R0140**	2,465
Corporate Bonds	**R0150**	0
Structured notes	**R0160**	
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	405
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**	3,003
Non-life and health similar to non-life	**R0280**	3,003
Non-life excluding health	**R0290**	3,003
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**	3
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	4
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**	12,925
Any other assets, not elsewhere shown	**R0420**	
Total assets	**R0500**	18,805

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	3,536
Technical provisions – non-life (excluding health)	**R0520**	3,536
Technical provisions calculated as a whole	**R0530**	
Best Estimate	**R0540**	3,501
Risk margin	**R0550**	35
Technical provisions - health (similar to non-life)	**R0560**	
Technical provisions calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
Technical provisions calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
Technical provisions calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
Technical provisions calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	160
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	6
Reinsurance payables	**R0830**	
Payables (trade, not insurance)	**R0840**	119
Subordinated liabilities	**R0850**	
Subordinated liabilities not in Basic Own Funds	**R0860**	
Subordinated liabilities in Basic Own Funds	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	5,609
Total liabilities	**R0900**	9,430
Excess of assets over liabilities	**R1000**	9,375

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Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110							-37										-37
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130																	
Reinsurers' share	R0140																	
Net	R0200							-37										-37
Premiums earned																		
Gross - Direct Business	R0210							-37										-37
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230																	
Reinsurers' share	R0240																	
Net	R0300							-37										-37
Claims incurred																		
Gross - Direct Business	R0310							-121										-121
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330															343		343
Reinsurers' share	R0340															490		490
Net	R0400							-121								-147		-268
Changes in other technical provisions																		
Gross - Direct Business	R0410																	
Gross - Proportional reinsurance accepted	R0420																	
Gross - Non-proportional reinsurance accepted	R0430																	
Reinsurers' share	R0440																	
Net	R0500																	
Expenses incurred	R0550							-5										-5
Other expenses	R1200																	
Total expenses	R1300																	-5

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Premiums, claims and expenses by country

		Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - non-life obligations				
	R0010							
		C0080	C0140	C0090	C0090	C0090	C0090	C0090
Premiums written								
Gross - Direct Business	R0110	-37	-37					
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140							
Net	R0200	-37	-37					
Premiums earned								
Gross - Direct Business	R0210	-37	-37					
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240							
Net	R0300	-37	-37					
Claims incurred								
Gross - Direct Business	R0310	-121	-121					
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330	343	343					
Reinsurers' share	R0340	490	490					
Net	R0400	-268	-268					
Changes in other technical provisions								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500							
Expenses incurred	R0550	-5	-5					
Other expenses	R1200							
Total expenses	R1300		-5					

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Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010							0								0		0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best Estimate																		
Premium provisions																		
Gross	R0060							0								-16		-16
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							0								-16		-16
Claims provisions																		
Gross	R0160							6								3,511		3,517
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240																	0
Net Best Estimate of Claims Provisions	R0250							6								3,511		3,517
Total Best estimate - gross	R0260							6								3,003		3,009
Total Best estimate - net	R0270							6								3,003		3,009
Risk margin	R0280							0								35		35
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							6								3,530		3,536
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330							0								3,003		3,003
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340							6								527		533

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Non-life insurance claims information

Total Non-Life Business

Accident year / Underwriting year	**Z0010**	(0) Accident year

Gross Claims Paid (non-cumulative)

(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**
Prior	**R0100**											216
N-9	**R0160**	0	0	0	0	0	0	0	0	0	0	
N-8	**R0170**	0	0	0	0	0	0	0	0	0		
N-7	**R0180**	0	0	0	0	0	0	0	0			
N-6	**R0190**	0	0	0	0	0	0	0				
N-5	**R0200**	0	0	0	0	0	0					
N-4	**R0210**	0	0	0	-4	0						
N-3	**R0220**	0	0	13	14							
N-2	**R0230**	0	407	32								
N-1	**R0240**	645	41									
N	**R0250**	2										

		In Current year	Sum of years (cumulative)
		C0170	**C0180**
	R0100	216	216
	R0160	0	0
	R0170	0	0
	R0180	0	0
	R0190	0	0
	R0200	0	0
	R0210	0	-4
	R0220	14	27
	R0230	32	439
	R0240	41	686
	R0250	2	2
Total	**R0260**	305	1,366

Gross undiscounted Best Estimate Claims Provisions

	Year	0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
		Development year												
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											3,657	R0100	3,511
N-9	R0160	0	0	0	0	0	0	0	0	0	0		R0160	0
N-8	R0170	0	0	0	0	0	0	0	0	0			R0170	0
N-7	R0180	0	0	0	0	0	0	1	0				R0180	0
N-6	R0190	0	0	0	0	0	1	0					R0190	0
N-5	R0200	0	0	0	0	4	0						R0200	0
N-4	R0210	0	0	0	3	0							R0210	0
N-3	R0220	0	0	8	0								R0220	0
N-2	R0230	0	-3	2									R0230	2
N-1	R0240	213	4										R0240	4
N	R0250	0											R0250	0
													Total R0260	3,517

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Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35		C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	R0010	5,000	5,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	4,375	4,375			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that 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	9,375	9,375			
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	9,375	9,375			
Total available own funds to meet the MCR	R0510	9,375	9,375			
Total eligible own funds to meet the SCR	R0540	9,375	9,375			
Total eligible own funds to meet the MCR	R0550	9,375	9,375			
SCR	R0580	1,129				
MCR	R0600	3,332				
Ratio of Eligible own funds to SCR	R0620	8.3073				
Ratio of Eligible own funds to MCR	R0640	2.8137				

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Reconciliation reserve		**C0060**
Excess of assets over liabilities	**R0700**	9,375
Own shares (held directly and indirectly)	**R0710**	
Foreseeable dividends, distributions and charges	**R0720**	0
Other basic own fund items	**R0730**	5,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	
Reconciliation reserve	**R0760**	4,375
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	
Expected profits included in future premiums (EPIFP) - Non-life business	**R0780**	10
Total Expected profits included in future premiums (EPIFP)	**R0790**	10

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	**R0010**	760		2 - Simplifications not used
Counterparty default risk	**R0020**	512		
Life underwriting risk	**R0030**	0	None	2 - Simplifications not used
Health underwriting risk	**R0040**	0	None	2 - Simplifications not used
Non-life underwriting risk	**R0050**	306	None	2 - Simplifications not used
Diversification	**R0060**	-394		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	1,184		

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Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	105
Loss-absorbing capacity of technical provisions	**R0140**	0
Loss-absorbing capacity of deferred taxes	**R0150**	-160
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	0
Solvency capital requirement, excluding capital add-on	**R0200**	1,129
Capital add-ons already set	**R0210**	0
Solvency Capital Requirement	**R0220**	1,129
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	0
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	0

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	**R0010**	92

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Medical expense insurance and proportional reinsurance	**R0020**	0	0
Income protection insurance and proportional reinsurance	**R0030**	0	0
Workers' compensation insurance and proportional reinsurance	**R0040**	0	0
Motor vehicle liability insurance and proportional reinsurance	**R0050**	0	0
Other motor insurance and proportional reinsurance	**R0060**	0	0
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	0	0
Fire and other damage to property insurance and proportional reinsurance	**R0080**	6	0
General liability insurance and proportional reinsurance	**R0090**	0	0
Credit and suretyship insurance and proportional reinsurance	**R0100**	0	0
Legal expenses insurance and proportional reinsurance	**R0110**	0	0
Assistance and proportional reinsurance	**R0120**	0	0
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	0	0
Non-proportional health reinsurance	**R0140**	0	0
Non-proportional casualty reinsurance	**R0150**	0	0
Non-proportional marine, aviation and transport reinsurance	**R0160**	492	0
Non-proportional property reinsurance	**R0170**	0	0

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Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL 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

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Overall MCR calculation		**C0070**
Linear MCR	**R0300**	92
SCR	**R0310**	1,129
MCR cap	**R0320**	508
MCR floor	**R0330**	282
Combined MCR	**R0340**	282
Absolute floor of the MCR	**R0350**	3,332
Minimum Capital Requirement	**R0400**	3,332