FAIRMEAD INSURANCE LIMITED

(FORMERLY LEGAL & GENERAL INSURANCE LIMITED)

SOLVENCY AND FINANCIAL CONDITION REPORT

31 DECEMBER 2019

CONTENTS

SUMMARY

THIS DOCUMENT

This Solvency and Financial Condition Report ('SFCR') for Fairmead Insurance Limited (formerly Legal & General Insurance Limited) ('the Company') is a regulatory document required by the reporting part of the PRA Rulebook for Solvency II firms, and Directive 2009/138/EC of the European Parliament (Solvency II Directive) Article 51. All values are (unless otherwise stated) as at 31 December 2019.

WHO WE ARE

The Company is a general insurance company authorised in the UK, whose ultimate controlling party is Allianz SE. Allianz SE and its subsidiaries are referred to as the 'group' In this report. The principal activity of the company is to underwrite non-life insurance business.

WHAT WE DO

We enable our customers, who are mainly the mass market in the United Kingdom, the Channel Islands and the Isle of Man, to protect against unforeseen events by providing household insurance (c. £407m of gross written premium ('GWP'), short-term income protection (c. £13m GWP) and pet insurance (c. £28m GWP). We distribute our products through various channels including brokers, Managing General Agents ('MGAs'), independent financial advisors ('IFAs'), direct sales (over the telephone and online, including aggregators) and through banks and building societies. We deploy our strong balance sheet, our ability to understand and pool risk, our market insight and our capacity to create good value customer propositions for every customer, large or small. Our strong social purpose means that we strive at all times to do the right thing, not just for our customers and shareholders, but for the broader economy and society at large.

Household insurance provides cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which our customers may incur as a property owner, occupier or individual. We are currently a top 10 UK home insurer by size, with over a 4% market share[1]. Short-term income protection enables our customers to continue meeting some of their financial obligations in the event that they are unable to work as a result of accident, sickness or unemployment. Pet insurance provides cover in respect of veterinary expenses incurred treating customers' pets as well as any incidental liabilities which pet owners may incur as a result of damage or injury caused by their pets. A death benefit is also provided.

OUR BUSINESS

On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership subsequently transferred to a subsidiary of Allianz Holdings plc, Liverpool Victoria General Insurance Group Limited ('LV=GI'). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE.

OUR SOLVENCY POSITION AND PERFORMANCE

The Company's key performance measures are presented below.

Performance Measures (£m)	2019	2018
Operating (loss)/profit	(23)	(37)
Solvency II Own Funds	165	176
Solvency II Regulatory Surplus	36	44
Solvency II coverage ratio[2]	128%	133%

[1] Deloitte Annual Home Insurance Seminar 2019

[2] The Solvency II coverage ratio is on a standard formula basis at year end 2019, but an internal model basis at year end 2018

The Solvency II coverage ratio is the eligible Own Funds divided by the Solvency Capital Requirement (SCR).

The Company uses Operating Profit[3] as its measure of underwriting performance. The Company made an Operating loss of £23m in 2019 (2018: £37m loss), as a result of adverse claims inflation experience. This has led to an even greater focus on pricing strategy to ensure business continues to be written at an appropriate margin.

Changes in the solvency ratio are due to changes in own funds (detailed below and further in section D) and changes in the Solvency Capital Requirement ('SCR') shown in section E.

Further details on our business and performance are discussed in section A, Business and Performance.

ANALYSIS OF CHANGE IN OWN FUNDS

Over the reporting period the Company's own funds decreased by £11m to £165m (2018: £176m) due to the following reasons:

a) Operating losses from adverse attritional claims experience.

b) Flooding events in June, July and November 2019, which are estimated to have cost £18m before any quota share recovery.

c) Our premium provisions (i.e., provisions held in respect of unexpired risk exposures as at 31 December 2019) also increased over the same period as a result of business growth

d) The above movements were offset by a £31m return on investments.

Further details on our business and performance are discussed in section A, Business and Performance and Section D, Valuation for Solvency Purposes.

OUR GOVERNANCE

The Board of Fairmead Insurance Limited is accountable for the long-term success of the Company by setting the Company's strategic objectives, monitoring performance against those objectives and directly overseeing the business activities undertaken by the Company, whilst operating within the framework and overall strategy defined by the group board. The role of the Board of Allianz SE is to lead the group and oversee the governance of the group. It plays a key role in ensuring that the tone for the group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the group board.

RISK MANAGEMENT FRAMEWORK

We deploy a 'three lines of defence' risk governance model, whereby business areas are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies; the risk function led by the Chief Risk Officer, provides objective challenge and guidance on risk matters; with Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

Our risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' (ORSA) process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Company's plan.

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[3] Operating profit measures the pre-tax profit excluding the impact of investment volatility and exceptional items. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, start-up, and closure costs, and impairment costs, are excluded from operating profit.

Further details on our systems of governance are discussed in section B, Systems of Governance.

OUR RISK PROFILE

We are exposed to the following material risks:

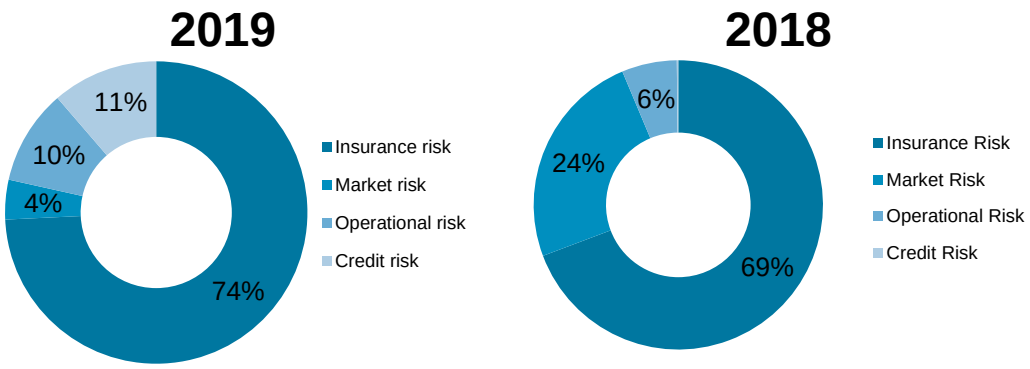
- weather-related catastrophe risks on our household insurance business;
- insurance risks arising from the volatility of claims relative to premiums charged;
- investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and
- operational risks, in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate.

OUR CAPITAL MODEL

We assess on an ongoing basis the capital that we need to hold above our liabilities to meet the Company's strategic objectives and ensure continued solvency.

Our regulatory SCR is based on the Standard Formula, following the Company's application to the PRA to revoke its internal model approval as a result of its sale to Allianz. This was granted with effect from completion of the sale on 31 December 2019. The Standard Formula is calibrated to a point stress 1-in-200 year event, equivalent to a 99.5% value at risk confidence level over one year. In terms of capital requirement, weather risk and premium and reserve risk are our most significant risks.

Our Solvency II capital requirement by major risk category is shown in the chart below. These figures are post diversification between risk categories:



Over the year there has been a shift from market risk to operational and credit/counterparty default risk. This is driven by the changes in the investment portfolio with 100% being invested in a LGIM Sterling Liquidity Fund by the end of 2019 (a requirement of the Company's sale to Allianz), and the move to using the standard formula.

As Premium, Reserve and Catastrophe risk are the most material insurance risks within the Standard Formula, sensitivity testing has been performed for these risks. Overall it can be seen that the SCR is relatively insensitive to foreseeable changes in the business.

Further details on our risk profile and sensitivity tests are discussed in section C, Risk Profile.

OUR VALUATION FOR SOLVENCY PURPOSES

Assets, technical provisions and other liabilities are valued on the Company's Solvency II balance sheet according to Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

Technical provisions are calculated as the sum of Best Estimate Liabilities (BEL) plus Risk Margin (RM). The gross BEL represents our best estimate of future cash flows on the in-force business as at 31 December 2019, and also on policies which have been written but not incepted at that date, taking into account the time value of money, and is calculated without any deductions for the amounts recoverable from reinsurance contracts. The company does not use the transitional measures under Solvency II.

As at 31 December 2019, the Company's excess of assets over liabilities is £165m (2018: £176m) on a Solvency II basis, which is £34m lower than the IFRS net asset position.

Further details can be found in Section D, Valuation for Solvency Purposes.

OUR CAPITAL MANAGEMENT

The Company is required to measure and monitor its capital resources on a regulatory basis and to comply with the regulatory capital requirements as set out in Solvency II regulations as published by the Prudential Regulation Authority (PRA) at the balance sheet date.

As at 31 December 2019 the Company held £36m of surplus Own Funds above the SCR requirement, representing a regulatory capital coverage ratio of 128%. This buffer of capital resources over the regulatory requirement ensures that we are able to more than meet our insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer throughout the previous year and remain well above our red risk appetite level of 110%.

Our Solvency II Balance sheet and Solvency coverage are presented below:

£m	Total 2019	Total 2018
Solvency II Tier 1 Own Funds	158	171
Solvency II Tier 3 Own Funds	7	5
Solvency Capital Requirement	129	132
Solvency Surplus	36	44
Ratio of eligible Own Funds to SCR	1.28	1.33
Minimum Capital Requirement	40	38
Minimum Capital Surplus[4]	118	134
Ratio of eligible Own Funds to MCR	3.95	4.56

The Company's SCR was £129m at 31 December 2019. We measure and monitor our capital resources on a regulatory basis and to comply with regulatory capital requirements. Our regulatory capital requirement is determined using the Standard Formula Model.

All of our Own Funds have been assessed as basic Own Funds. There are no ancillary Own Fund items included in total Own Funds. Material basic Own Funds have been assessed against Article 71 of the Delegated Regulation and accordingly been categorised as unrestricted Tier 1 Own Funds with the exception of the deferred tax asset which is categorised as Tier 3 Own Funds.

[4] Note: the MCR is only covered by Tier 1 own funds

ANY OTHER INFORMATION

CHANGE OF OWNERSHIP

Fairmead Insurance Limited is wholly owned by Liverpool Victoria General Insurance Group Limited . On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership was subsequently transferred to a subsidiary of Allianz Holdings Plc, Liverpool Victoria General Insurance Group ("LV=GI"). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE. Prior to this date the company's controlling party was Legal and General Group Plc.

IMPLEMENTATION OF NEW REINSURANCE ARRANGEMENTS

The company has expanded its reinsurance arrangements which have significantly mitigated insurance risks.

The company entered into a reinsurance deal with Legal and General Assurance Society on 31 December 2019 to reinsure all future economic risk arising from our two main MGAs through a 100% quota share arrangement.

As part of the transition to Allianz the weather catastrophe reinsurance treaty was terminated and the quota share arrangement with Legal and General Assurance Society was commuted. From 1 January 2020 the company has placed its weather catastrophe reinsurance with the Allianz Re. In addition to the above the company has entered into a 50% Quota Share reinsurance with Allianz Re, covering both the reserves and future claims risk. The Quota Share cedes the relevant proportion of premium (net of commission and inuring reinsurance premium) and losses to the reinsurer, along with a commission based on a fixed percentage of gross earned premium.

There is also an Adverse Development Cover in place which protects the level of Reserves for accidents occurring prior to 31 December 2018.

DIRECTORS' CERTIFICATE

FAIRMEAD INSURANCE LIMITED (FORMERLY LEGAL & GENERAL INSURANCE LIMITED) – FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Directors acknowledge their responsibility for the proper preparation of the Solvency and Financial Condition Report in all material respects in accordance with the PRA rules and Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2019, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2019 to the date of the publication of the Solvency and Financial Condition Report, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2020.

Chris Wren-Kirkham

Chief Financial Officer

16 March 2020

AUDITOR'S REPORT

Fairmead Insurance Limited (formerly Legal & General Insurance Limited) – financial year ended 31 December 2019

Report of the external independent auditor to the Directors of Fairmead Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, 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;

- Company templates S05.01.02, S19.01.21;

- Information relating to 31 December 2018 contained within the Relevant Elements of the Solvency and Financial Condition Report which are, or derive from the Solvency Capital Requirement calculated under the Company's previous PRA approved Internal Model;

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

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of the Company as at 31 December 2019 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of Fairmead Insurance Limited in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose 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 this matter.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the Solvency and Financial Condition Report. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of technical provisions and related disclosures and the appropriateness of the going concern basis of the Solvency and Financial Condition Report. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Directors have prepared the Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Solvency and Financial Condition Report. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how

those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. 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.

Responsibilities of the Directors for the Solvency and Financial Condition Report

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 which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with 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.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Report on Other Legal and Regulatory Requirements[1]

In accordance with Rule 4.1 (3) of the External Audit Part 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 the Company's 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 for Solvency II firms 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 for Solvency II firms 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.

Salim Tharani for and on behalf of KPMG LLP
15 Canada Square,
Canary Wharf,
London, E14 5GL
16 March 2020

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’.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Fairmead Insurance Limited (formerly Legal & General Insurance Limited) for the financial year ended 31 December 2019.

The Company	Fairmead Insurance Limited 57 Ladymead Guildford, Surrey GU1 1DB
The supervisory authority responsible for financial supervision of the Company	Prudential Regulation Authority 20 Moorgate London EC2R 6DA
The ultimate parent entity	Allianz SE Koeniginstrasse 28 80802 Munich Germany
The supervisory authority responsible for financial supervision of Allianz SE	Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin Dreizehnmorgenweg 13-15 53175 Bonn
The external auditor	KPMG LLP 15 Canada Square London E14 5GL

A.1.1.1 QUALIFYING HOLDINGS AND MATERIAL RELATED UNDERTAKINGS

Fairmead Insurance Limited is wholly owned by Liverpool Victoria General Insurance Group Limited . On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership was subsequently transferred to a subsidiary of Allianz Holdings Plc, Liverpool Victoria General Insurance Group ("LV=GI"). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE.

A.1.1.1 GROUP STRUCTURE

A simplified group structure is shown below (on a forward-looking basis).

Liverpool Victoria General Insurance Group Limited is the Company's immediate parent undertaking, owning 100% of the £37m (£1 nominal) issued and fully paid ordinary share capital. The ultimate parent company and controlling party is Allianz SE, a company incorporated in Germany.

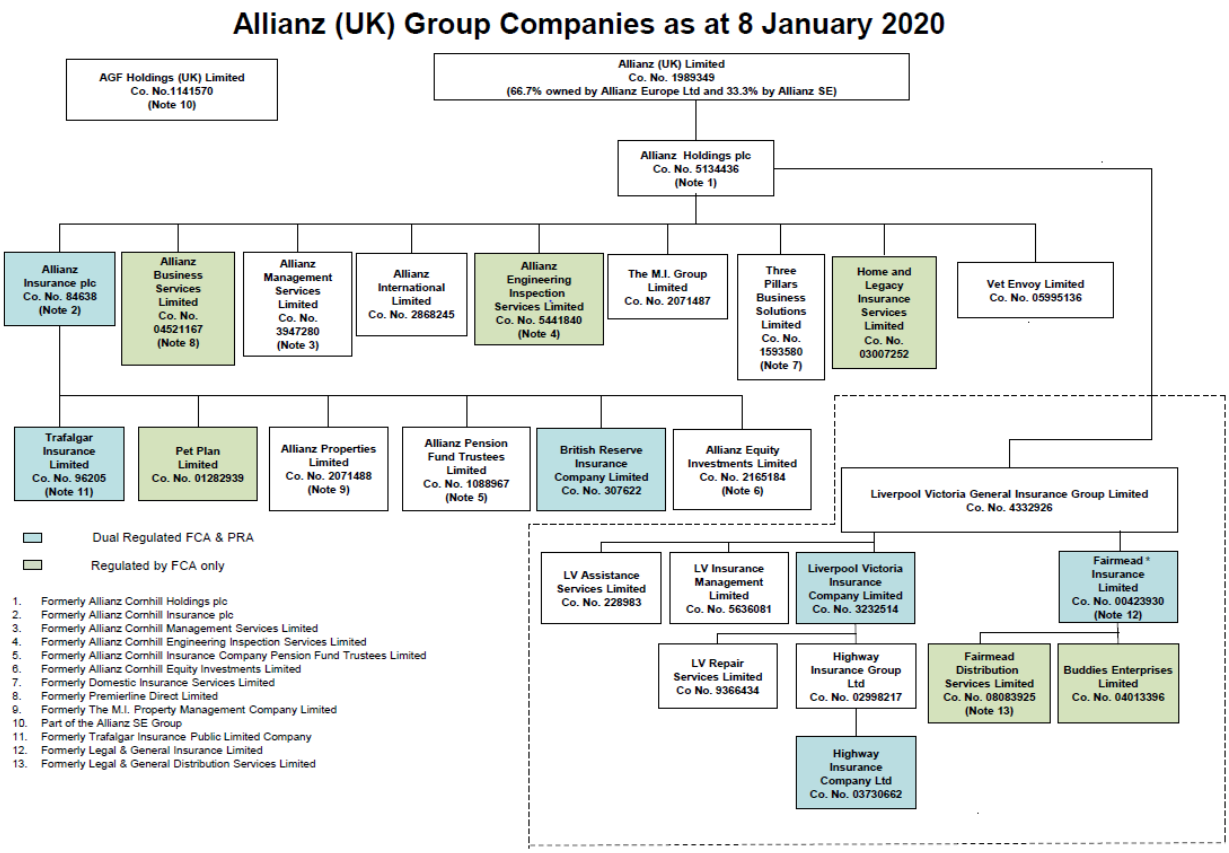
Allianz SE is the parent undertaking of the largest group of undertakings to consolidate financial statements at 31 December 2019. The Report and Financial Statements of Allianz SE is available from the Company Secretary at the Registered Office, Koeniginstrasse 28, 80802 Munich, Germany, or on the group website www.allianz.com.

The smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Allianz Holdings Plc

Fairmead Insurance Limited owns 100% of Fairmead Distribution Services Limited (formerly Legal & General Distribution Services Limited). During 2019 Fairmead Distribution Services Limited distributed general insurance products underwritten by third parties.

Fairmead Insurance Limited owns 100% of Buddies Enterprises Limited, which distributes pet insurance products underwritten by Fairmead Insurance Limited.

Simplified group structure as of 8 January 2020 :



A.1.2 PRINCIPAL ACTIVITY

Fairmead Insurance Limited is an insurance company authorised and regulated in the UK by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority (FCA). The principal activity of the company is the transaction of general insurance business in the personal sector marketplace, specifically relating to risk covers for household, short-term income protection and pet insurance. We operate within the United Kingdom, the Channel Islands and the Isle of Man.

Our principal insurance product is household insurance. These contracts provide cover, subject to policy limits, against loss, damage or liability which our customers may incur as a property owner, occupier or landlord. This includes loss or damage from many causes, including but not limited to fire, smoke, explosion, lightning or earthquake; malicious acts of vandalism; storm or flood; subsidence, heave or landslip; theft or attempted theft; escape of water and leakage of oil; accidental damage to underground pipes or cables serving homes and alternative accommodation costs if our customers have to temporarily move out of their home because of an insured event. We offer a range of optional extras including accidental damage; personal possessions for loss or damage to items in and away from the home; family legal protection to pursue certain UK legal proceedings arising from, for example: death of or personal injury to a family member, buying or hiring goods or services, infringement of legal rights from owning or occupying a home and breach of employment contract. Our landlord insurance includes loss of rent or alternative accommodation cover for the tenant with additional cover options available for landlords' contents insurance, accidental or malicious damage by tenants, legal expenses, rent guarantee and eviction of squatters. Our main underwriting risks for household are an accumulation of claims arising from severe weather events as well as individual large liability claims. To mitigate these risks, we buy reinsurance protection, thereby transferring these risks to other specialist companies. Our principal reinsurance arrangements are a catastrophe excess of loss treaty, a liability excess of loss treaty, a risk excess of loss treaty

for individual large risks and quota share arrangements which includes a 100% quota share agreement for our two main MGAs.

A.1.3 SIGNIFICANT BUSINESS OR OTHER EVENTS

A.1.3.1 BUSINESS EVENTS

Acquisition by Allianz SE

On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership was subsequently transferred to a subsidiary of Allianz Holdings Plc, Liverpool Victoria General Insurance Group ("LV=GI"). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE. A Transitional Service Agreement has been signed with Legal & General Assurance Society limited to provide a range of services for the next three years, ending 31 December 2022.

Implementation of new Reinsurance Arrangements

The company entered into a reinsurance deal with Legal and General Assurance Society on 31 December 2019 to reinsure all future economic risk arising from our two main MGAs, through a 100% quota share arrangement.

As part of the transition to Allianz the weather catastrophe reinsurance treaty was terminated and the quota share arrangement with Legal and General Assurance Society was commuted. From 1 January 2020 the company has placed its weather catastrophe reinsurance with Allianz Re. In addition to the above the company has entered into a 50% Quota Share reinsurance with Allianz Re, covering both the reserves and future claims risk. The Quota Share cedes the relevant proportion of premium and losses to the reinsurer, along with a commission based on a fixed percentage of gross earned premium.

There is also an Adverse Development Cover in place which protects the level of Reserves for accidents occurring prior to 31 December 2018.

Revocation of Internal Model Approval

The Company applied to the PRA to have its internal model approval revoked with effect from the completion of its sale to Allianz. This was granted and took effect from 31 December 2019.

A.1.3.2 OTHER EVENTS

Share Capital and Investments in Subsidiaries

On 22 February 2019, the Company increased its shareholding in Buddies Enterprises Limited by £300k by subscribing to 750 additional £0.25 ordinary shares, with associated share premium.

A.2 UNDERWRITING PERFORMANCE

£m	2019	2018
Gross premium written	448	410
Gross premium earned	437	390
Gross claims incurred	(250)	(230)
Expenses	(225)	(188)
Reinsurance	0	(24)
Underwriting (loss)	(38)	(52)
Allocated Investment Return[1]	15	15
Operating (Loss)/Profit[2]	(23)	(37)

[1] Allocated investment return is the part of the investment performance allocated to operating profit, based upon our long term strategic investment return target of 4.5% (2018:4.5%) (before investment management fees).

[2] The key reconciling items to the 2019 IFRS reported loss of £(57m) are the difference between allocated and actual investment income £16m, impairment of intangible assets & investments in subsidiaries £(49m) and investment management expenses £(1m).

See Annex 1, S.05 Information on premiums, claims and expenses

Our 2019 underwriting result and operating loss is presented above. The operating loss of £23m (2018: £37m loss) improved from 2018 due to a combination of growth in premiums and improved reinsurance result partly offset by adverse claims experience and higher expenses, driven by continued investment in the business. Weather experience during 2019 was broadly in line with our long term expectations.

Total gross written premium for 2019 increased 9% to £448m (2018: £410m) as we continued our strategy of focusing on the household and pet offerings, developing existing relationships with managing general agents as well as bringing on new partners. The development of these relationships has enabled significant access to new customers and resulted in the continued growth in premium.

Household non-liability insurance is the most significant line of business as at 31 December 2019, representing 89% of GWP (2018: 88%). Miscellaneous financial loss comprised 8% of GWP (2018: 8%), Short-term income protection 1% (2018: 2%), and General liability 2% (2018: 2%).

Following the acquisition of the company by Allianz, we will be implementing a project to migrate business from the Company's to LV=GI administration systems, which is scheduled to be completed over the next 3 years.

A.3 INVESTMENT PERFORMANCE

Our 2019 investment performance is presented below:

£m	2019	2018
Dividend Income on financial investments at fair value through profit or loss	2	1
Interest Income on financial investments at fair value through profit or loss	1	2
Gains/(Loss) on financial investments at fair value through profit or loss	28	(13)
Total	31	(10)

We continued to monitor the performance of the investment portfolio against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited (LGIM). Investment gains totalled £31m (2018: £10m loss), representing a positive return of 8.6% against our long-term strategic target of 4.5%. The improved performance is largely attributed to more stable markets delivering a stronger performance across the year notably in equities, emerging market and high yield debt, and listed infrastructure. US equities also hit a record high and European indices climbed to their highest level in more than a decade.

The portfolio was liquidated over the course of the second half of 2019 and transferred into a LGIM Sterling Liquidity Fund at year end in readiness for transfer to a new investment manager, PIMCO, following the acquisition of the business by Allianz.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 MATERIAL LEASING ARRANGEMENTS

We are currently in a 10-year lease arrangement for our premises in Birmingham (entered into in 2014), which had a break clause after five years that was not taken. The annual lease expense is £1m.

We do not have any other significant lines of business or other activities.

A.5 ANY OTHER INFORMATION

No further information to note.

B. SYSTEM OF GOVERNANCE

The Company, formerly Legal & General Insurance Limited is regulated by both the PRA and FCA.

On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership subsequently transferred to a subsidiary of Allianz Holdings plc, Liverpool Victoria General Insurance Group Limited ('LV=GI'). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE.

LV=GI is a subsidiary of Allianz Holdings PLC ('the UK Group').

The Company has the following subsidiaries:

- Fairmead Distribution Services Limited (Fairmead DSL), formerly Legal & General Distribution Services Limited, which distributes general insurance products underwritten by third parties
- Buddies Enterprises Limited (Buddies), an insurance intermediary, a distributor and administrator of pet insurance products which, since 2018, have been underwritten by the Company

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD AND BOARD REPORTING

The Fairmead Insurance Limited Board comprises:

- Chairman
- Chief Executive Officer (CEO)
- Chief Financial Officer
- Commercial Director

The Company's Chief Risk Officer is a standing attendee.

The appropriate review and annual submissions have been made to the Prudential Regulation Authority (PRA) for all of the above in compliance with the PRA's Senior Managers and Certification Regime.

The Company's Board ('the Board') meets around six times each year and has a Schedule of Matters Reserved for the Board which is subject to annual review. The Board has a schedule which identifies the regular and standing items that are considered at each Board meeting.

At each Board meeting the Board receives business updates from each of the business directors on the performance of their respective areas of responsibility for the business conducted by the Company. A more detailed review of the underlying businesses financial performance is contained in the monthly Board management information report.

At each Board meeting the Board also receives a report from the Chief Risk Officer on prudential, operational and conduct risks impacting the Company. The Chief Actuary also submits a report updating the Board on the reserves, capital projections, investment performance and reinsurance.

B.1.2 COMMITTEE STRUCTURE AND DELEGATED AUTHORITIES

The CEO has a formal schedule of Delegated Authorities which is based on the Schedule of Matters Reserved for the board, cascaded to the CEO as applicable for their remit of responsibility for business activities undertaken by the Company. The delegated authorities have been reviewed and approved by the Board.

The CEO then onward delegates the matters to their direct reports for which they have decision-making responsibility in relation to their areas.

The CEO's schedule of delegated authorities operates in conjunction with their job description and their CEO Risk and Capital Mandate. The CEO Risk and Capital Mandate sets the parameters of acceptable risk taking as regards to the Company's product lines and investment risk.

The CEO operates a Risk & Compliance Committee (RCC) and Product, Investment and Capital Committee (PICC) to assist with the management of these functions and the discharging of delegated authorities from the Board.

The Board has two standing Board Committees as follows:

General Insurance Reserving Committee

- to discuss reserving policy, the level of General Insurance technical reserves, reserving risk and calculation approach
- to approve IFRS reserves and Solvency II Technical Provisions

General Insurance Financial Reporting Committee

- to provide governance of the Solvency II Standard Formula Model and Economic Capital Model, Solvency II reporting and IFRS key judgements, estimates and methodologies within the Company excluding technical reserves covered by the Company's Reserving Committee
- to approve:
    - Standard formula results
    - Economic Capital calculations
    - Risk Review Report
    - Financial Risk Management Hierarchy
    - Product Risk Heat Map
    - Analysis of Change of Own Funds (Profit and Loss Attribution)
    - Quarterly QRTs
    - Data Quality Review
    - IFRS key judgements, estimates and methodologies
- to recommend submission to the Board for approval:
    - ORSA
    - SFCR, RSR, and Annual QRTs
    - SII Compliance Policy Report
- to monitor:
    - Solvency Forecast

B.1.3 MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE OVER 2019 CYCLE

In line with requirements of the Senior Managers and Certification Regime, which was introduced from 10 December 2018, the Company has implemented a framework identifying material risk takers, the annual certification of senior managers of prescribed functions, prescribed responsibilities, individual accountability, the reporting of breaches to the regulator and additional training.

On 31 December 2019, the Company was acquired by Allianz Holdings Plc and ownership subsequently transferred to a subsidiary of Allianz Holdings plc, Liverpool Victoria General Insurance Group Limited ('LV=GI'). The Company is now part of the wider Allianz Group of companies, whose ultimate parent company is Allianz SE.

B.1.4 REMUNERATION POLICY AND PRACTICES

B.1.4.1 REMUNERATION PRINCIPLES

The 2020 review of salaries and bonuses has been undertaken within the remuneration policy of Legal and General. With that exception, the Company moved to Allianz's remuneration framework with effect from 31 December 2019.

The Allianz remuneration framework has been constructed to ensure that it is competitive and provides a balance of both fixed and variable pay but does not encourage excessive risk taking. The framework and the processes within it are reviewed by the UK Group Compensation Committee. The review also monitors the remuneration framework's consistency with the UK Group's identified risk appetite.

The UK Group Compensation Committee is responsible for the sign off of all remuneration decisions affecting the senior executive managers of the Company. This ensures impartiality of decision-making and ensures there are no conflicts of interest in respect of remuneration decisions and is guided by Group principles and requirements.

The remuneration of all employees comprises a combination of basic salary, appropriate benefits and a performance related bonus. In the case of senior employees the bonus is paid as a combination of cash and long-term equity incentives whose value is related to the share price of Allianz SE (ultimate parent entity). The performance related bonus is based upon a combination of company performance against targets and personal performance against specific personal objectives. There is equal emphasis in the structure of the personal objectives for both the what and the how with senior managers completing a 360-degree feedback process to contribute to the assessment.. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

The Company provides a defined contribution pension scheme, which is open to all employees.

The Company's staff are employed by our parent company, LV=GI, but the Company pays their salaries. Previously all staff were employed by a fellow subsidiary of Legal and General Group, Legal and General Resources Limited.

B.1.5 MATERIAL TRANSACTIONS

There were no material transactions between Directors or key managers and the Company during the reporting period. All transactions between the Company and its directors and key managers are on commercial terms which are no more favourable than those available to employees in general.

The Company uses reinsurance to manage the risk exposures within the company. Various reinsurance treaties are in force with a number of reinsurers including our former shareholder, Legal & General Assurance Society Limited and with a fellow member of the Allianz group, Allianz Re (see also, section D.2.7).

At 31 December 2019 and 31 December 2018 there were no loans outstanding to officers of the company.

B.1.6 SOLVENCY II KEY FUNCTIONS

The Solvency II key functions within the Company's system of governance are:

- Risk Management led by the Company's Chief Risk Officer (CRO)
- Compliance function led by the UK Group Chief Financial Officer
- Internal Audit function led by the UK Group Head of Internal Audit
- Actuarial function led by the Company's Chief Actuary

Independence is maintained by having reporting lines independent of first-line functions.

Further information is provided on Risk Management in section B.3, the Internal Audit in Section B.6, and the Actuarial Function in Section B.7.

B.2 FIT AND PROPER REQUIREMENTS

The Company requires that all directors and other senior managers possess integrity, repute, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement has been aligned to satisfy the requirements of the PRA and/or FCA within the UK regulatory Senior Managers and Certification Regime ("SM&CR"), including all managers identified as Key Function Holders and/or Key Function Performers. The individuals, with the support of their line managers, are responsible for ensuring that their skills, knowledge and experience remains adequate and is kept up to date.

Processes are undertaken to assess the fitness and propriety of individual managers and directors subject to the SM&CR prior to those persons joining the Company. Thereafter, annually throughout their employment, a detailed attestation is required from the relevant individual. This includes declarations concerning:

- criminal proceedings or investigations against them or any firm over which they have held influence;

- civil proceedings and bankruptcy orders or liquidation or similar proceedings against them or any firm over which they have held influence;
- disciplinary and regulatory proceedings or findings against them;
- compliance with procedures concerning personal account dealings in Allianz SE and other securities;
- potential or actual conflicts of interest.

B.2.1 ASSESSMENT AND APPOINTMENT UNDER THE SM&CR AND APER

Once an individual has had his or her fitness for a particular role assessed and has been selected HR will carry out a range of checks including at Companies House (Directorships and the Disqualified Directors Register); Experian; criminal records; the Credit Industry Fraud Avoidance Service (CIFAS); the relevant terrorist financial sanction watch list checks; and previous employment references according to regulatory standards. Where required, the applicant's express permission will be obtained before a check is conducted.

In respect of holders of designated roles which require PRA or FCA approval under the SM&CR and Certification Function Holders, HR will obtain a 'regulatory reference', in accordance with PRA and FCA requirements, from the individual's current or previous employer(s) or from any organisation(s) at which the individual is serving or has served as a non-executive director. It will be necessary to obtain more than one reference where a candidate has been employed by more than one employer or has served at more than one organisation in the previous six years. Reasonable efforts will be made to obtain a reference when a previous employer/organisation is not an authorised firm and therefore not bound by PRA and FCA rules to respond. HR should 'ideally' obtain the reference before submitting an application for approval to the PRA/FCA, but must do so no later than one month before the end of the application period.

B.2.2 ONGOING EVIDENCE OF FITNESS AND PROPRIETY

Reviews are conducted in accordance with the Allianz Group Fit and Proper Policy and the requirements of the PRA and FCA.
As a minimum, the fitness and propriety of all relevant individuals (Key Function Members, holders of designated roles which require PRA or FCA approval and Certification Function Holders) will be assessed at least once a year.
Subject to the satisfactory outcome of the annual fitness and propriety review, all Certification Function Holders will receive a certificate from HR in accordance with PRA and FCA requirements, both upon appointment and at least once a year, to 'certify' that the individual is (and remains) fit and proper to perform the role
Where it is considered that the individual is no longer 'fit and proper', he or she will be removed from the position in accordance with any relevant policies or procedures and the appropriate regulatory bodies notified.

B.3 RISK MANAGEMENT SYSTEM

B.3.1 RISK MANAGEMENT SYSTEM

The Company continues to use the risk and control policies of Legal and General pending transition to the Allianz processes and systems. Legal and General Group has agreed to this.

The Company deploys a 'three lines of defence' risk governance model. This means that:

- we are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with group risk policies, adjusted where required for specific requirements applying to us;
- our Chief Risk Officer provides objective challenge and guidance on risk matters;
- Allianz Group Internal Audit will now provide independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

Understanding the risks that we may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business. We seek to deeply embed the necessary capabilities to assess and price for those risks that we believe offer sustainable returns within each of our operating businesses; as well as ensuring the skill sets to closely manage those risk factors which could

otherwise lead to unexpected outcomes. Our risk management framework supports informed risk taking by the Company setting out those rewarded risks for which we accept exposure; and the risks that we want to avoid; together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

B.3.1.1 RISK APPETITE

The Company's risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking. The Company conducts an annual review of the Company's risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures. Additionally, as part of the annual planning cycle, assessment is made of the level of risk-taking proposed in the plan and the capacity for risk-taking within the overall appetite framework.

The Company's risk appetite is approved by the Company's Board.

B.3.1.2 RISK TAKING AUTHORITIES

The parameters of acceptable risk taking are defined within the 'CEO Risk and Capital Mandate', empowering our Chief Executive Officer to make decisions that are consistent with appetite for risk.

Mandates articulate the product types and features that may be written; the assets classes that may be held; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in the Company operating outside agreed parameters require formal approval.

B.3.1.3 RISK POLICIES

Risk control

The Company has formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specify our overall strategies for ensuring each risk type is managed in line with our risk appetite and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

The Company deploys a range of risk management techniques to manage and mitigate risks, so as to control risk exposures in line with our risk limits. For example, the Company uses reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities.

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

The Company operates a risk identification and assessment process under which we regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Own risk solvency assessment (ORSA)

The Company's risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' (ORSA) process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Company plan.

B.3.1.5 RISK MANAGEMENT INFORMATION

Our risk management information framework is structured to report and support the review of ongoing and emerging risks and assess actual risk positions relative to the risk limits and targets that we set.

B.3.1.6 RISK OVERSIGHT

The Company's Chief Risk Officer, who is independent of the business line, supports our Board and its Risk and Compliance Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. Whilst ongoing assessment of our capital requirements to confirm that they meet regulatory

solvency requirements is primarily the responsibility of the Chief Financial Officer, the CRO provides second line support in this area.

Our Chief Risk Officer also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with our risk appetite.

B.3.1.7 RISK AND COMPLIANCE COMMITTEE

The Company's Board:

- Owns the overall Risk Management System
- Owns the Company's risk appetite statements
- Is the ultimate owner of the Company's regulatory responsibilities

The Company's Risk and Compliance Committee, a sub-committee of the Board, provides a more focussed review and challenge of risks and reviews the effectiveness of frameworks in place to manage those risks.

The Executive Directors are accountable for:

- The implementation and operation of the risk management system
- Identifying, measuring, managing, monitoring and reporting risks within the business
- Ensuring all business decisions are informed by risk-based measures by reference to the agreed risk appetite statements wherever appropriate
- Ensuring appropriate risk taking and risk assurance resources are in place

B.3.2 INTEGRATION OF RISK MANAGEMENT INTO THE DECISION MAKING PROCESS

Understanding the risks that the Company may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business.

The Company seeks to deeply embed the necessary capabilities to assess and price for those risks that it believes offer sustainable returns; as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes.

Our Risk Management framework supports informed risk taking, setting out those rewarded risks that we are prepared to be exposed to; and the risks that we want to avoid; together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

B.4 OWN RISK AND SOLVENCY ASSESSMENT

B.4.1 PURPOSE

The purpose of the Own Risk and Solvency Assessment (ORSA) is to assess the Company's risks and to evaluate whether we have sufficient financial resources to sustain the business strategy over the plan horizon.

The ORSA process brings together the underlying risk and capital management processes by which we assess, monitor and measure our risks, review our business against risk appetite and tolerances and project the solvency position over the business plan. The ORSA is integrated with our business as usual risk and capital management. The ORSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward looking decision-making.

The ORSA policy is reviewed annually by the Company Board.

B.4.2 INTEGRATION OF GROUP AND SUBSIDIARY ORSA PROCESSES

During 2019, the ORSA (i.e. risk and capital management) responsibilities followed the Legal and General group's divisional management structure. Regular ORSA processes were aligned with the strategic and business planning process, with various group functions coordinating and/or aggregating and divisions providing key ORSA inputs in line with the plan timetable. A single Group and Company ORSA report were produced.

For the 2020 ORSA, the Company will align with the strategic and business planning process, including risk strategy and risk appetite, of Allianz Holdings plc, who in turn align with Allianz SE, our ultimate parent. Similar processes and data will be utilised by the Company.

B.5 INTERNAL CONTROL SYSTEM

At 31 December, 2019, the Legal and General Group's Internal Control Policy was 'grandfathered' to the Company and will be updated

The Company's Risk and Compliance Committee is our first line of defence in developing, maintaining and monitoring the internal control system as laid out in the Company's internal control policy. It is a sub-committee of the Company's Board.

The Company's Internal Control Policy requires that our internal control system shall at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking, and a compliance function.

The Company's internal control framework seeks to ensure that:

- an organisational structure is defined, with clarity of roles, responsibilities and reporting lines;
- appropriate management information and reporting processes are defined;
- frameworks for decision making (including the delegation of authority) are articulated;
- clear segregation of duties is in place;
- conflicts of interest are managed;
- administrative and accounting procedures are aligned with group requirements;
- personnel have sufficient skills, knowledge and expertise to discharge their responsibilities (including those relating to the regulatory environment);
- adequate and orderly records of business are maintained;
- the security of customer data and other internal records is ensured;
- business procedures combat financial crime;
- processes are in place to deal with policyholder claims and complaints;
- the integrity of manual and computerised business systems is ensured; and
- processes ensure assessment of the possible impact of any changes in the legal environment

The process is monitored by the audit committee.

An important element of the internal control system is the Compliance function.

B.5.1 SII COMPLIANCE FUNCTION

The Company's Chief Risk Officer utilised a team of subject matter experts who carried out a structured review to ensure that the key requirements of the Solvency II Directive continued to be met and produced a report for the Company's Board as required by the Legal and General Group's Solvency II Compliance Policy.

The Legal and General Group has defined the Solvency II Compliance function as being responsible for:

- advising the Company Board and its sub committees on compliance with the requirements of the Solvency II Directive and its associated laws, regulations and administrative provisions;
- advising the Company Board on the possible impact of any changes in the legal environment on operations of the undertaking concerned and the identification and assessment of compliance risk;

- developing and managing the Company's Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (Solvency II) compliance function; and
- establishing and operating the Company's Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk

The Company has defined the Company's Chief Risk Officer role as the functional head of Solvency II Compliance at the Company level, with subject matter experts from across the business in support of the Solvency II Compliance function.

The Company's Solvency II Compliance Policy defines who will perform the governance tasks and other activities of the Solvency II compliance function, their roles and responsibilities (the competencies that enable them to perform the assigned tasks) and the overall approach to assessing, monitoring and reporting its compliance with applicable laws, regulations and administrative provisions adopted pursuant to Solvency II Directive.

The Company's Solvency II Compliance Plan is defined as the review activities performed by the Compliance Function to support them in advising the Company's Board and its sub committees on compliance in relation to Solvency II matters.

B.6 INTERNAL AUDIT FUNCTION

The Internal Audit function comprises a full-time team of audit professionals led by the Head of Internal Audit. It has a reporting line to the Audit Committee Chairman and Chief Executive to ensure independence from first-line and second-line functions; independence and objectivity is supported by written policy and by the oversight of the Audit Committee. The Internal Audit function produces an annual audit plan in consultation with the Management Board, the second-line functions and the UK Group Board. Delivery of this plan, findings from audits and remediation of those findings are overseen by the Audit Committee.

The primary responsibilities and activities of the function are to:

- carry out reviews of major business activities focusing on the areas of greatest risk to the business together with in-depth reviews of corporate functions and provide specialist expertise such as IT audit capability
- assess adherence to and monitor the overall effectiveness of internal systems and controls, risk management, procedures and policies

During 2019 the internal audit function was undertaken by Legal and General Group. From 31 December 2019, the responsibility transferred to Allianz Holdings plc.

B.7 ACTUARIAL FUNCTION

The Company's Actuarial Function comprises the Chief Actuary and the Actuarial Services team.

The Chief Actuary, who reports to the LV = GI CRO, is responsible for the Actuarial Function and presents an annual report to the Company Board summarising the activities of the actuarial function that:

- support compliance with the requirements on the calculation of the technical provisions (TPs);
- provid the opinions on the underwriting policy and reinsurance arrangements; and
- contribute to the effectiveness of the risk management systems more widely

The Actuarial Services team reports to the Company's Chief Finance Officer and carries out the underlying processes; including data processing, methodology and assumption setting and the calculation of the associated reserving and capital modelling results.

The primary responsibilities and activities of the Function are to:

- inform the Board of the reliability and adequacy of the calculation of technical provisions;
- coordinate and oversee the calculation of technical provisions;

- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- express an opinion on the overall underwriting policy and adequacy of reinsurance arrangements;
- contribute to the calculation of insurance risk capital

The Actuarial Function's independence is demonstrated by the Chief Actuary sitting outside the finance reporting line.

B.8 OUTSOURCING

The Company's Supplier Relationship Management Handbook promotes consistency of governance and best practice, ensuring adherence to group policy, regulatory and legislative requirements. Documents, tools and templates are made available within the Handbook as guidance to implement the Procurement Process Steps and the Supplier Relationship Management Process Steps.

The group's Outsourcing and Essential Supplier Services Policy sets out the framework and minimum standards of control and governance that the group expects to be applied in the management of risks associated with outsourced supplier service arrangements. The policy specifies that an activity should not be outsourced where it would materially impair the quality of the group's system of governance; unduly increase the group's exposure to operational risk; impair the ability of supervisory authorities to monitor the group's compliance with its obligations; or undermine continuous and satisfactory service to the group's policyholders.

The policy requires that for all outsourced arrangements a rigorous evaluation and supplier selection process is undertaken having regard for the financial stability, expertise, ability and capacity of the supplier to deliver the required service. The policy also specifies that a written contract must be in place which includes: a service level agreement; the conditions under which the arrangement may be terminated; provision for the orderly transition of services to another provider or Fairmead if the contract is terminated; a defined mechanism to resolve disputes arising out of or relating to the contract; appropriate contingency plans should the supplier be unable to provide the required service; and provisions for the continued availability of any software upon which the group is reliant. Contracts must also ensure access to the provider's premises, business management and any data relating to the outsourced activity, by the group's Internal Audit, Risk and Compliance functions, its external auditors and supervisory authorities; and appropriate warranties that Fairmead and client data is adequately protected against unauthorised access at all times. All outsourced arrangements must be managed under the direction of a named Fairmead relationship manager. The Risk Function maintains oversight of the management of outsourcing arrangements established by the first line business operations.

Below is a schedule of critical and important operational functions and activities that are outsourced to suppliers used by the Company either directly or through relationships established by the Group:

Critical and important operational functions and activities outsourced	Jurisdiction
Loss Adjusting	UK
Telephony	UK
Technology	UK
Home Emergency services	UK
Pet Claims Handling / Legal Expenses Claims Handling	Poland / UK
Customer Service and Administration Support	UK

Insourcing is the use by one group company of another group company for the supply of business facilities or services. The group's core insourced relationships are as follows:

- Investment management services provided by PIMCO via LV=GI;
- Employment via LV=GI
- HR via Allianz
- Intragroup reinsurance arrangements with Allianz Re Dublin

A Transitional Service Agreement has been signed with Legal & General Assurance Society limited to provide a range of services for the next three years, ending 31 December 2022. This covers a wide range of services including:

- Information Technology and Security
- Data Management
- Supplier Contract Management
- Finance Operations

B.9 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within its risk management framework. The CRO office undertakes an annual review of the risk management framework and broader system of governance on behalf of the CEO to confirm its adequacy given the nature, scale and complexity of the risks inherent in its business. The most recent review was undertaken during December 2019 and January 2020 and concluded that the risk framework aligns with the Company's key risk exposures, and operated effectively during 2019 in identifying material risk exposures.

B.10 ANY OTHER INFORMATION

No further information to note.

C. RISK PROFILE GENERAL

C.1 RISK PROFILE

The risk preferences are high-level statements of the principles that the Company uses in its approach to managing the inherent risks arising from the nature of the products that it manufactures and sells.

The high-level preferences are translated into risk preference metrics with key risk limits and risk monitoring metrics managed by attendant Red/Amber/Green ('RAG') calibrations on a quantitative basis.

The inherent risks are:

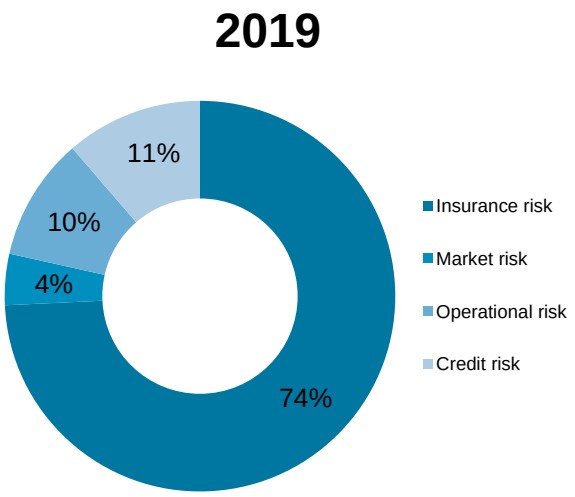
- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

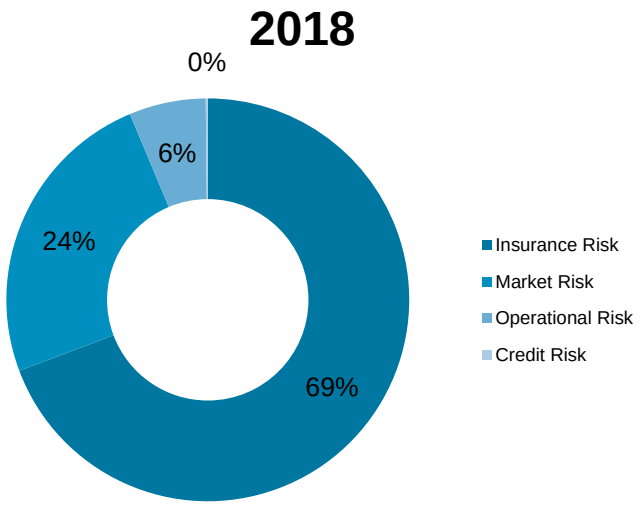
The principles and metrics for each of these risks are described below.

There has been a shift from market risk to operational and credit/counterparty default risk over the course of 2019. This is driven by the changes in the investment portfolio with 100% being invested in a LGIM Sterling Liquidity Fund by the end of 2019 and the move to using the standard formula. No special purpose vehicles are used.

The key metrics used to monitor risk within the business are reported to GIPICC on a monthly basis. There are set tolerances on metrics and these are mapped to a RAG status. Where metrics become amber or red, management will consider whether action needs to be taken.

Below is the breakdown of the Company's diversified Solvency Capital Requirements by major risk categories:





C.1.1 INSURANCE RISK

Insurance risk is also known as underwriting risk. The company is exposed to the following in relation to insurance risk:

- Premium risk is the risk that the actual cost of claims from premium earned over the modelling horizon is different to expected. This is split into various perils and product types. Premium earned includes the unearned premium at the valuation date and earned from new business written over the modelling horizon.
- Reserve risk is the risk that the actual cost of claims from premium earned prior to the valuation date is different from the expected best estimate reserve. i.e. the 'claims reserve' element of the technical provision calculation.
- Expense risk is the risk of possible losses due to actual operating expenses being higher than those forecast in the business plan for the next 12 months. Operating expenses in this context consist of all expenses excluding claims handling expenses and acquisition costs.

This risk is controlled through appropriate underwriting, reinsurance and pricing criteria, and measured through clear metrics concerning concentration risk, target net loss as a result of a 1-in-200 weather event, underwriting performance, expense over/underrun, and prior period reserve adjustment monitoring. The metrics are reported on a monthly basis to the GIPICC. There have been no material changes to the measures used to assess insurance risk over 2019.

C.1.1.1 INSURANCE SPECIAL PURPOSE VEHICLES (SPVS)

The company has no SPVs authorised under Article 211 of the Solvency II Directive.

C.1.2 MARKET RISK

The Company had an investment portfolio that was managed by Legal & General Investment Management (LGIM) on its behalf. The portfolio previously included investments in UK and foreign government securities, corporate bonds, equities, property and cash. However as at the end of 2019, the entire investment portfolio was held in a UK Sterling Liquidity Fund. Going forward, the Company's portfolio will be invested in investment grade government and corporate bonds, and cash. This investment portfolio is exposed to market risk as its value is influenced by external factors such as changes in interest rates and credit spreads. Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from changes in underlying interest rates. Credit spread risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in credit spreads above the risk-free rate.

Interest rate risk also impacts the discounted value of liabilities. Due to the short-term nature of the Company's liabilities, this risk is not material. Inflation risk exists on liabilities where the amount required to be paid to customers could rise as a result of higher inflation. Again due to the short-term nature of the Company's liabilities, this risk is not material.

Market risk appetite is approved and then the investment mandate is agreed and approved at the Company's Product Investment and Capital Committee (PICC) to ensure that the Company's investments are consistent with the market risk appetite. This is monitored through a quarterly investment forum and monthly reporting of risk metrics to the PICC. Metrics presented to PICC consider the proportion of the fund invested in the various approved investment types e.g. proportion invested in UK equity. A red, amber or green status is shown comparing the current position to the agreed risk appetite. There have been no material changes to how market risk is measured over 2019. However there will be changes in 2020 as the investment portfolio is reinvested.

Market risk has decreased over 2019 due to the transfer of the portfolio into a Sterling Liquidity fund.

C.1.2.1 PRUDENT PERSON PRINCIPLE

Article 132 of consolidated level 1 text requires all investments held by insurance and reinsurance undertakings should be managed in accordance with the 'Prudent Person Principle'. The prudent person principle requires companies to only invest in assets and instruments:

- whose risks can be properly identified, measured, monitored, managed, controlled and reported;
- that ensure the security, quality, liquidity and profitability of the portfolio as a whole;

- that are appropriate to the nature and duration of insurance and reinsurance liabilities; and
- in the best interest of policyholders and beneficiaries.

The Company's risk appetite for credit and market risk is set in accordance with the prudent person principle.

At an operational level, the Company fulfils its obligation to the prudent person principle by:

- Having an investment management agreement (IMA) in place between the Company and the Company's investment manager, that addresses appropriate criteria in Article 132 such as:
    - Identifying the market risks within the IMA, modelling them and identifying the capital required to cover such risks.
    - General Insurance Investment Forum in place to review investment performance and policy developments, discuss actions and plans, and provide suggestions and recommendations to GI PICC.
    - Management information on investments and market risk submitted to GI PICC for monitoring purposes based upon an agreed Risk and Capital Mandate that is reviewed at least once per annum.

C.1.3 CREDIT RISK

Credit risk is the risk of financial loss due to the unexpected default, or deterioration in credit standing, of counterparties and debtors of the insurer. Default is split into two types:

Type-1 exposures

This comprises exposures that cannot be diversified away. These counterparties are likely to be rated and often involve an element of risk mitigation.

Examples include:

- Reinsurance
- Derivatives
- Cash in banks

Type-2 exposures

Type-2 exposures are those exposures that are usually diversified with the counterparty likely to be unrated. Examples of type-2 exposures are:

- Receivables from intermediaries
- Policyholder debt
- Some forms of capital (e.g. letters of credit called up but not yet paid)

The level of accepted credit risk is set out within the Credit Risk policy, which is reviewed and approved by GI PICC on at least an annual basis. Risk metrics covering key exposures are set and reported monthly to GI PICC.

C.1.4 LIQUIDITY RISK

Liquidity risk is the risk that the Company, although solvent, either does not have sufficient liquid financial resources (cash) available to meet its obligations as they fall due, or can only secure such liquid financial resources at an excessive borrowing cost relative to that achieved in the recent past.

The Company's Board is responsible for identifying the liquidity requirements of the company, which involves identifying the required liquidity facility to meet claims in extreme events, and ensuring that appropriate funds are in place to meet the claims arising from those events.

The Company's Board, through the PICC, reviews available liquidity at least once a year.

Our Financial Control team are responsible for the continued monitoring of the current and forecast operational cash balance.

Our Actuarial Function is responsible for modelling liquidity shortfalls, including losses arising from liquidity risk in combination with the weather catastrophe risk model are considered.

Any changes in liquidity requirements identified in the monitoring process would be escalated to the GI PICC through the CFO.

C.1.5 OPERATIONAL RISK

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. The company has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action, or reputational damage.

Mitigation techniques are deployed via the company's internal control framework, which comprises the systems, processes and procedures that ensure business operations are conducted so as to meet our obligations to all stakeholders, comply with regulation and legislation, and minimise the risk of material error or fraud. We aim to implement effective controls (both preventative and detective) to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits. We accept that no system of control will eliminate the risk of financial loss or reputational damage, and we expect all employees to report weaknesses and deficiencies as soon as they are identified.

We have not identified any material risk concentrations for operational risk.

C.1.6 OTHER MATERIAL RISKS

There are no other material risks identified.

C.2 RISK CONCENTRATION

The insurance of properties which are concentrated in high risk areas, or an above average market share in a particular region, can give rise to a concentration of insurance risk. This risk is managed by ensuring that the risk acceptance policy, terms and premiums both reflect the expected claim cost associated with the location and avoid adverse selection. Additionally, exposure and competitor activity is monitored by location to ensure that there is a geographic spread of business. Catastrophic reinsurance cover reduces the company's exposure to concentration of risk. The catastrophe reinsurance is designed to protect against up to a modelled windstorm and coastal flood event with a return probability of at least 1-in-200 years.

The incidence of subsidence can have a significant impact on the level of claims on household policies. The company's underwriting and reinsurance strategy mitigates the exposure to concentrations of risk arising from geographic location or adverse selection.

There are no material concentrations of risk associated with the investment portfolio. The investment mandate sets limits on asset holdings to ensure the portfolio remains well diversified.

Similarly with credit risk, there are clear limits in place limiting the exposure to any individual counterparty. This means there is no material concentration of credit risk.

There is naturally a concentration of operational risks within the business. Failures in internal systems could have knock on impacts to other systems and processes. This risk is captured within the scenario workshops conducted within the business.

C.3 RISK MITIGATION

The Company uses reinsurance to manage the exposure to an accumulation of claims arising from a severe weather event. The catastrophe cover runs from 1 January to 31 December 2020 and reinsures the company for losses between £40m and £625m for a single weather event. In addition a single household or pet policy can result in a large liability claim. To mitigate the risk, accident excess of loss reinsurance is in place for liability claims in excess of £0.75m on household and £0.5m on pet. A further reinsurance treaty with Flood Re protects

against flood losses in excess of £250 on policies ceded. Reinsurance is also in place to protect against large losses over £1m arising from individual property risks.

All economic risk arising from specified MGA business is reinsured via a 100% quota share. This acts before the catastrophe reinsurance cover.

Quota share reinsurance is also used to cede 50% of the earned premium (net of inuring reinsurance earned premium) and incurred losses from all products to the quota share reinsurer.

A 100% quota share was introduced in April 2018 to cede all risks associated with legal expense cover underwritten by the company. Any terrorism risk underwritten by the company is ceded to Pool Re.

Adverse development cover has been put in place which passes on any strains on IFRS reserves held as at 31 December 2018 to the reinsurer.

C.4 LIQUIDITY RISK – EXPECTED PROFIT IN FUTURE PREMIUM

The total amount of the expected profit included in future premium (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulations was £28.7m as at 31 December 2019 as shown in the QRT S.23 in Annex 1.

C.5 RISK SENSITIVITY

As Premium, Reserve and Catastrophe risk are the most material insurance risks within the Standard Formula, we show sensitivities for these. The table below shows the impact on the SCR of both increases and decreases.

Description	Impact on SCR (£m)	Impact on SCR (%)
Base SCR	129	
10% increase in all products future NEP	0	0%
10% decrease in all products future NEP	0	0%
10% increase in claims provisions	2	2%
10% decrease in claims provisions	(2)	(2)%
10% increase in 1 in 200 gross CAT loss	0	0%
10% decrease in 1 in 200 gross CAT loss	(0)	(0)%

Changes in future NEP have no impact on the SCR. The premium risk component of the Standard Formula calculations uses the max of past and future premium. Our past net earned premium is significantly higher than future due to the introduction of new reinsurance covers reducing the future premium over 2020.

Changes in claims provision have a marginal and symmetrical impact on the SCR with a 10% change in provisions having a 2% impact on the SCR.

Changes to the gross 1 in 200 CAT loss within the standard formula has an immaterial impact on the SCR. This is due to the existence of catastrophe reinsurance cover which is designed to cover events in excess of the 1 in 200 loss.

Overall it can be seen that the SCR is relatively insensitive to foreseeable changes in the business.

C.6 OTHER MATERIAL RISK INFORMATION

There is no other material risk information.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The assets as at 31 December 2019 under Solvency II are £447m compared to the total value of assets under IFRS of £736m.

£m	Section Reference	2019	2018
Total IFRS Assets		736	739
Solvency II valuation differences	D.1.2	(289)	(303)
Total Solvency II Assets		447	436

D.1.1 SOLVENCY II VALUATION BASIS

Unless otherwise stated, assets and liabilities shall be recognised in conformity with International Financial Reporting Standards (IFRS), as adopted by the EU.

Individual assets and liabilities shall be valued separately and can offset each other, where permitted, in accordance with IFRS accounting principles.

Assets and liabilities (other than deferred tax) shall be valued:

- on a going concern basis;
- in accordance with Article 75 of the Level 1 Directive (or where specifically provided for by Delegated Acts):
    - where IFRS valuation is consistent with Article 75 this shall be adopted, therefore SII economic value is equal to IFRS fair value in line with IFRS unless otherwise stated; and
    - where more than one valuation method is prescribed by IFRS, only valuation methods that are consistent with Article 75 shall be applied.

The bases, methods and main assumptions used to value each class of assets for IFRS can be found under the relevant accounting policy and note in the Company's financial statements.

D.1.2 SOLVENCY II VALUATION DIFFERENCES

The assets as at 31 December 2019 and the impact of valuation differences under IFRS are shown below. There have been no changes to valuation bases used or estimations used during the period.

Assets (£m)	Ref	Solvency II 2019	IFRS 2019	Variance 2019	Solvency II 2018	IFRS 2018	Variance 2018
Deferred acquisition costs	D.1.2.1	-	65	(65)	-	64	(64)
Intangible assets	D.1.2.1	-	13	(13)	-	57	(57)
Deferred tax assets	D.1.2.2	7	-	7	5	-	5
Plant & equipment held for own use	D.1.2.3	-	3	(3)	4	4	-
Right of use asset	D.1.2.3	5	5	-	-	-	-
Investments (other than assets held for index-linked and unit-linked contracts)		368	367	1	352	357	(5)
Holdings in related undertakings, including participations	D.1.2.4	1	-	1	1	6	(5)
Bonds	D.1.2.5.1	-	-	-	109	109	-
Collective investments undertakings	D.1.2.5.2	367	367	-	240	240	-
Derivatives		-	-	-	2	2	-
Reinsurance recoverables	D.1.2.6	38	81	(43)	29	-	29
Insurance and intermediaries receivables	D.1.2.7	-	153	(153)	-	132	(132)
Reinsurance receivables	D.1.2.6	-	15	(15)	-	72	(72)
Receivables (trade, not insurance)	D.1.2.8	16	21	(5)	31	38	(7)
Cash and cash equivalents	D.1.2.9	13	13	-	15	15	-
Total assets		447	736	(289)	436	739	(303)

Differences between the Solvency II and IFRS valuation bases for material asset classes are noted below.

D.1.2.1 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

Intangible assets (including goodwill) are valued at zero unless:

- the intangible asset can be sold separately; and
- it can be demonstrated that there is a value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets).

As at 31 December 2019, intangible assets did not meet these criteria and therefore they are valued at zero on the Solvency II balance sheet.

There is no concept of deferred acquisition costs for Solvency II.

The impacts of these adjustments are £13m and £65m respectively.

D.1.2.2 DEFERRED TAX ASSETS

Under IFRS, the deferred tax position is a liability, driven by timing differences on the recognition of assets and liabilities between the tax basis and IFRS. Differences between the valuation of assets under SII and IFRS result in the recognition of a deferred tax asset under SII, primarily due to the write down to zero of intangible assets and differences in the valuation of TPs.

The Company expects to be able to recover any future taxation losses through group relief if its own future profits are not sufficient, supporting the carrying value of deferred tax assets at FY19.

D.1.2.3 PLANT, PROPERTY & EQUIPMENT FOR OWN USE (PPE) AND RIGHT OF USE ASSETS

The PPE balance relates to leasehold improvements and fixtures and fittings in the Company's Birmingham office. Under IFRS, these are held at depreciated cost, but the fair value is considered to be materially lower and not easily determinable and as such the value has been set to £nil in the 2019 Solvency II balance sheet.

The Company has adopted IFRS 16 'Leases' on a modified retrospective basis from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

D.1.2.4 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

Subsidiary undertakings are held at cost less impairment under IFRS. Under SII, the investment is held at the net asset value of the subsidiary on a Solvency II valuation basis.

D.1.2.5 INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

D.1.2.5.1 BONDS

Bond investments are measured at fair value in accordance with IFRS. Where available, valuations are based on quoted market prices. Where quoted prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial investment.

All investments are classified as Level 1 investments with fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

The Company had no investments in bonds at 31 December 2019.

D.1.2.5.2 COLLECTIVE INVESTMENTS UNDERTAKINGS

Collective investment undertakings are measured at fair value in accordance with IFRS.

All investments have been defined as Level 1 investments with fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

D.1.2.6 REINSURANCE RECOVERABLES AND RECEIVABLES

The reinsurance recoverables and gross liabilities are calculated consistently with the best estimate liability in all cases, save that there is an allowance for the probability means weighted best estimate of external reinsurer default.

D1.2.7 INSURANCE AND INTERMEDIARIES RECEIVABLES

In accordance with Solvency II guidelines premium cash flows falling due after the valuation date are recognised within technical provisions, and premiums overdue at the valuation date are recognised as an asset. Outstanding payment amounts overdue at the valuation date are not material and hence for Solvency II purposes we treat all Insurance and intermediaries receivables reported on an IFRS basis within our Solvency II technical provisions.

D.1.2.8 RECEIVABLES (TRADE, NOT INSURANCE)

Trade receivables are valued at amortised cost. Amortisation is not allowed under SII. We have deemed cost to be materially consistent with fair value given that our trade receivables are short term in nature, with the exception of advanced commission to distribution partners which are valued at nil under Solvency II.

Included within the £16m is £1m tax recoverable with the remaining balance principally relating to accounts in trust with suppliers (£8m) who have delegated authority for claims and current or former group undertakings (£5m).

D.1.2.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at amortised cost in accordance with IFRS. Cash equivalents under Solvency II are defined to include only deposits exchangeable for currency on demand at par and that can be used to make payments without penalty or restriction.

D.1.3 VALUATION UNCERTAINTY

The Company values its assets in accordance with Article 10 of the Solvency II Delegated Regulation. Valuations of assets are underpinned by a system of processes and controls to ensure that we comply with Article 267 of the Solvency II Delegated Regulation. Included within these processes is an assessment of valuation uncertainty and the extent to which asset valuations are appropriate in light of uncertainties that exist. This processes focus on, although is not limited to, assets that are valued using alternative valuation techniques. We have concluded that our assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.2 TECHNICAL PROVISIONS

A summary of our Technical Provisions (TPs) as at 31 December 2019 and 31 December 2018 is provided in the table below. Figures are gross of reinsurance.

2019

Technical provisions (£m)	Section Reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Misc. financial loss	Total
Claims provisions	D.2.1.5	2	0	130	10	(3)	139
Premium provisions	D.2.1.6	1	0	66	0	(5)	62
Best estimate	**D.2.1.1**	**3**	**0**	**196**	**10**	**(8)**	**201**
Risk margin[1]	D.2.1.7	0	0	9	1	1	12
Total		**3**	**0**	**205**	**11**	**(7)**	**214**

[1] Risk margin in 2019 is subject to external audit.

2018

Technical provisions (£m)	Section Reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Misc. financial loss	Total
Claims provisions	D.2.1.5	2	-	108	10	5	125
Premium provisions	D.2.1.6	0	-	76	0	(5)	71
Best estimate	**D.2.1.1**	**2**	**0**	**184**	**10**	**(0)**	**196**
Risk margin	D.2.1.7	0	-	5	0	0	6
Total		**2**	**0**	**189**	**10**	**0**	**202**

Gross Claims provisions have increased due to the growth in exposure of the MGA business and the flooding in November 2019.

Gross Premium provisions have reduced. The main driver is that debtors and creditors are more favourable due to an increase in the pipeline GWP in MGAs.

The risk margin is now based on a standard formula calculation rather than the internal model.

D.2.1 SOLVENCY II VALUATION BASIS

Technical provisions are the sum of the best estimate liabilities (BEL) and the risk margin (RM).

The BEL corresponds to the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure.

D.2.1.1 BEST ESTIMATE LIABILITIES (BEL)

The main cash flows cover premiums, future financial obligations of policyholder claims costs, expenses of running the business (including investment expense and commission payments) and future management actions where deemed objective, realistic and verifiable.

The gross of reinsurance BEL is calculated without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, but includes expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings, at a minimum by line of business segmented according to Chapter 10 of the technical provisions part of the PRA Rulebook for Solvency II firms. The BEL are based on exposures and estimated exposures as at 31 December 2019 and are calculated using standard actuarial projection techniques.

Future premiums and their associated claims and expenses are only considered for the period up to where the policyholder has the option to automatically renew, extend, increase or resume the insurance contract. After this point we can vary the premiums and therefore the automatic renewal option point represents the appropriate contract boundary. The treatment for business distributed through MGAs is on a look through basis. This means that we treat the written but not incepted business through the MGAs as if it were in our main household book of business i.e. we look through the contract we have with them.

D.2.1.2 RISK MARGIN (RM)

The RM is calculated using information determined from, and therefore consistent with, the Company's Standard Formula SCR calculation. The SCR is projected over the full run off period of the technical provisions. The actual SCR calculation is based on the change in own funds over a one year time horizon with allowance for one year's new business. For the purposes of the risk margin calculation the non-hedgeable SCR in each future year of run-off is calculated over the full run off of the technical provisions assuming no new business is written. The run off SCR for each individual risk is modelled and the correlation matrices defined in the standard formula are used to

allow for diversification, in order to calculate an overall run off SCR for the Company. This is discounted using the risk free rate and a capital charge of 6% is applied as required by Solvency II rules.

The RM is subject to audit following the change to using the standard formula model from the internal model.

D.2.1.3 DATA

The calculation of the technical provisions (TPs) is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Articles 48 and 82 of Directive 2009/138/EC, Articles 264 and 272 of the Level II text, and the Level III text for Guidelines on Technical Provisions. A data register shows how the data moves from the source system through the working calculations and finally to the balance sheet. This assessment has concluded that the quality and sufficiency of data complies with the above requirements.

D.2.1.4 METHODOLOGY

The models and methodologies used vary depending upon the class of business being assessed.

D.2.1.5 CLAIMS PROVISIONS

D.2.1.5.1 HOUSEHOLD

Claims are split by peril across buildings and contents sections, with a number of different methods used to calculate the best estimate ultimate cost of claims. These methods are as follows:

- incurred chain ladder projections – an incurred data set is projected to an ultimate position using a chain ladder technique. The loss date is selected as the accident period and development month is selected as the development period. The data is split by month. This method relies on the stability of the claims reporting, handling and settlement process underpinning the data in the past and whether this is representative of what we think would happen in the future given our knowledge of the business and operational aspects of the claims process;
- paid chain ladder projections – this is the same as the incurred chain ladder method except paid data is selected rather than incurred data;
- average cost per claim methods – an assumed average cost is multiplied by the expected number of claims to get the ultimate cost. This method can be based on all claims or closed claims. This method can be used if the data is not stable enough to form credible chain ladder ultimate costs;
- loss ratio method – a selected loss ratio is multiplied by the earned premium to estimate the ultimate cost;
- blended methods of the above – sometimes it is appropriate to put some reliance on current data and some reliance on past data. These methods are referred to as the ‘Bornhuetter-Ferguson method’; and
- large and small claim split – if large and small claims have different development patterns then it may be appropriate to split the experience into two. The aim of this would be to give more stable results. The ultimate cost of the large and small claims may be calculated using the same or different methods as per above.

Fees and recoveries are projected separately and then combined with the claim projection to get to a net claims projection.

D.2.1.5.2 ACCIDENT, SICKNESS AND UNEMPLOYMENT (ASU)

Projections are made based on the possible states of a claim, of which there are three types. The reserves are identified below as are the formulas required:

- In the Course of Payment (ICOP) = monthly benefit x outstanding number of payments
- Notified but not but Accepted (NBNA) = monthly benefit x acceptance rate x outstanding claim duration

- Incurred but not reported (IBNR) = number of IBNR claims x monthly benefit x acceptance rate x claim duration

A combination of actual data, assumptions and triangulation is used to project claims to an ultimate position.

D.2.1.5.3 PET

Claims are split by liability and non-liability and are projected using the following methods:

- Incurred chain ladder projections
- Loss ratio method
- Blended methods of the above

D.2.1.5.4 OTHER ADJUSTMENTS

The above classes have an allowance for expenses, reinsurance, counterparty default, discounting and other adjustments where required.

D.2.1.6 PREMIUM PROVISIONS

The models and methodologies used vary depending upon the class of business being assessed.

D.2.1.6.1 HOUSEHOLD

All in-force household policies at the valuation date are identified split by channel and section of cover (for example: buildings and contents). The expected cost of future claims, gross of reinsurance, on this unearned exposure is calculated using the expected cost of a buildings and a contents claim per policy, which are calculated separately as part of the pricing process or using a loss ratio for some of the smaller MGA business.

Separate reserves are held for events not in data (ENIDs), one for weather related events and one for non-weather events. The weather ENID covers potential losses from future weather events outside what is captured in the data. Data relating to this is sought from our reinsurance broker and validated using the internal capital model. These events sample all losses.

The non-weather ENID is estimated by the Reserving Committee, where various scenarios are discussed which are relevant to household insurance.

A detailed investigation by cost centre is carried out by the finance team to identify the expense provision required.

D.2.1.6.2 ACCIDENT, SICKNESS AND UNEMPLOYMENT (ASU)

In-force policies that are ICOP or NBNA are excluded from the premium provision calculations as they will already have a provision in the claims analysis. The rest have their remaining exposure calculated and the benefit entitled identified. Assumptions on the probability of a claim, acceptance and duration are made using prior data to calculate the required provision.

D.2.1.6.3 PET

A loss ratio is applied to the unearned premium.

D.2.1.6.4 OTHER ADJUSTMENTS

The above classes have an allowance for expenses, reinsurance, counterparty default, written but not incepted policies, contract boundaries, policyholder behaviour, events not in data and other adjustments where required.

D.2.2 MAIN ASSUMPTIONS

Due to the short tailed nature of our business and the amount of data available, the impact of changes in individual assumptions generally has less impact compared to other classes of business, such as life or retirement products. The most material assumptions which have an impact on the provisions, split by product, include:

Household

- For future exposure we adjust past data for actual and projected claims inflation. This uses a combination of actual data and external models to project the cost of future claims. External data is used for the expected cost of weather ENIDs within the expected cost per policy. Changes are fed through to the premium provisions;
- development factors – these are estimated and applied to claims projections with the objective of developing claims to their ultimate level;
- prior loss ratio assumptions, including seasonality adjustments – if recent data is volatile or lacks credibility then a prior loss ratio can be used. This will be based off past claims data, as will the seasonality adjustments;
- splits of ratios in Bornhuetter-Ferguson approaches – the weighting given to each method will be based on an appropriate measure and generally taken from past claims data;
- development ratios for current incurred claims to an ultimate position – based off past claims data and calculated by the software package ResQ;
- fee and recovery amounts and frequencies for recent periods – based of past data and calculated in excel, with the user selecting the appropriate value based on expert judgement of the trends;
- claims handling expenses – assumption based on historical claim handling expenses reported in the revenue account from finance;
- mid-term cancellation (MTC) rates – based off the historical experience of MTCs;
- mix of liability to non-liability claims – based off past data from the claim trends process; and
- amount of written but not incepted business – based on expected conversion rates from quotes issued to customers that are due to come into force post 31 December 2019. Appropriate allowances are made for MGAs

ASU: All ASU assumptions are based off past internal data for:

- Claim acceptance rates
- Claim duration rates
- Number of IBNR claims – developed using data from past claims
- Average monthly benefit
- Mid-term cancellation rates
- Default risk

Pet:

- Risk premium for future exposure – the theoretical risk premium is adjusted for actual performance
- Development factors – these are estimated using ResQ and applied to claims projections with the objective of developing claims to their ultimate level

- Prior loss ratio assumptions – if recent data is volatile or lacks credibility then a prior loss ratio can be used. This will be based off past claims data and the plan
- Splits of ratios in Bornhuetter-Ferguson approaches – the weighting given to each method will be based on an appropriate measure
- Development ratios for current incurred claims to an ultimate position – based off past claims data and calculated using ResQ
- Mid-term cancellation rates – based off the historical experience
- Amount of written but not incepted business – based off the prior month's GWP and the amount of premium expected to incept in future using data from the pet portal

D.2.3 LEVEL OF UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS

A framework to assess the confidence in the methodology and assumptions has been established. The framework allocates a status to the confidence in each of the assumptions or methodology, based on a mixture of qualitative and quantitative criteria. The criteria set out in the framework and the initial assessments have been challenged and validated by experienced actuaries and accountants throughout the business.

The assumptions underpinning the technical provision calculations are the best estimate view of our business. We have a significant amount of data regarding our historic experience. Experience investigations using this data are undertaken regularly and the results used to inform the choice of best estimate assumptions. This is augmented by expert judgement, in particular where past experience is not considered to be an appropriate reflection of future expectations. Where there is a high level of expert judgement required this has been highlighted in the quarterly Technical Provisions Approach and Assumptions documents. Overall we have a high degree of confidence in the assumptions underpinning technical provisions and hence the level of uncertainty in the technical provisions is expected to be low.

The main areas of uncertainty arise from future claims inflation, propensity to claim, data quality and general policyholder behaviour. The assumptions are regularly reviewed and updated in the technical provisions calculations. The risk of the technical provisions being insufficient is modelled within the SCR.

D.2.4 RECONCILIATION BETWEEN IFRS AND SOLVENCY II VALUATION[5]

The table below bridges the BEL under Solvency II to the IFRS provisions for 31 December 2019 and 31 December 2018.

2019

Technical provisions (£m)	Section reference	Solvency II	IFRS	IFRS valuation differences
Claims provisions	D.2.1.5	139	165	(26)
Premium provisions	D.2.1.6	62	225	(163)
Best estimate	**D.2.1.1**	**201**	**390**	**(189)**
Risk margin	D.2.1.7	12	0	12
Total		**213**	**390**	**(177)**

[5] unaudited

2018

Technical provisions (£m)	Section reference	Solvency II	IFRS	IFRS valuation differences
Claims provisions	D.2.1.5	125	133	(8)
Premium provisions	D.2.1.6	71	214	(143)
Best estimate	**D.2.1.1**	**196**	**347**	**(151)**
Risk margin	D.2.1.7	6	0	6
Total		**202**	**347**	**(145)**

The technical provisions (TPs) are lower under Solvency II because cash flows are calculated using best estimate assumptions excluding margins, discounted to allow for the time value of money and they allow for mid-term cancellations. Premium reserves are materially lower because they recognise profits expected to be earned relating to future exposure arising from policies that we are obligated to as at 31 December and premium debtors shift from the asset side of the balance sheet under IFRS to the liabilities side of the balance sheet (as a positive cash flow offsetting future negative cash flows from claims) under Solvency II. IFRS does not require an explicit margin, whilst Solvency II does require a risk margin.

D.2.5 MATCHING ADJUSTMENT, VOLATILITY ADJUSTMENT AND TRANSITIONAL MEASURES

The Company does not utilise any of these arrangements.

D.2.6 REINSURANCE RECOVERABLES

The calculation of the reinsurance recoverable asset is consistent with the calculation of the gross BEL described above. The Company's reinsurance arrangements consist of the following:

- Pool Re to cover terrorism
- A liability treaty for individual large liability claims
- A risk excess of loss treaty to cover individual large losses
- Flood Re cover (which is a rolling treaty covering individual risks on an excess of loss basis),
- a 100% quota share agreement to cover specified MGA business from 31 December 2019
- a catastrophe treaty
- a 100% quota share agreement with DAS to cover legal expenses
- an adverse development cover treaty providing protection against deterioration of the reserves held at 31 December 2018
- a 50% quota share agreement to cover all business

The general reinsurance principle on the catastrophe and liability treaties is to provide cover for extreme events that would have a significant impact on the Company. The reinsurance recoverable asset is adjusted for the best estimate probability of reinsurer default, and includes an allowance for the timing difference between recoveries and reinsurance payments.

D.2.7 MATERIAL CHANGES FROM YEAR ENDED 2018

On 31 December 2019 Allianz acquired the Company from LGAS. Following the sale a number of new reinsurance treaties were effected. The catastrophe treaty that was in force at 31 December 2019 was terminated and replaced from 1 January 2020 by a new treaty with Allianz Re as the only reinsurer. The quota share reinsurance arrangements with Legal & General Assurance Society Limited (LGAS) and Legal & General Reinsurance Company Limited (LGRe) were also terminated and replaced by a new treaty with Allianz Re as the reinsurer. A further reinsurance arrangement is now also in place transferring all economic risk associated with specified MGA business from 31 December 2019 to LGAS through a 100% quota share arrangement. The final

new contract is an adverse development cover treaty which protects the Company from any strains on reserves held at 31 December 2018.

D.2.8 SIGNIFICANT SIMPLIFIED MEASURES

There are no significant simplifications to report for the calculation of the technical provisions.

D.3 OTHER LIABILITIES

As at 31 December 2019 and 31 December 2018 the company had other liabilities as follows:

Other liabilities (£m)	Reference	Solvency II 2019	IFRS 2019	Variance 2019	Solvency II 2018	IFRS 2018	Variance 2018
Deferred tax liabilities	D.3.1	-	-	-	-	9	(9)
Derivatives		-	-	-	1	1	-
Insurance and intermediaries payables	D.3.2	2	8	(6)	1	13	(12)
Reinsurance payables	D.3.3	-	34	(34)	-	61	(61)
Payables (trade, not insurance)	D.3.4	62	100	(38)	56	61	(5)
Lease liability	D.3.5	5	5	-	-	-	-
Total		**69**	**147**	**(78)**	**58**	**145**	**(87)**

There have been no changes to the bases of valuation in the current period.

None of the other liabilities possess future material uncertainty based on estimation.

Material differences between the Solvency II and IFRS valuation bases are set out below.

D.3.1 DEFERRED TAX LIABILITIES

Under Solvency II the deferred tax balance is an asset. Deferred tax is recognised and valued in accordance with IFRS (IAS 12), except that deferred tax balances in respect of temporary differences will be valued based upon the differences between the value of assets and liabilities in the Solvency II balance sheet and their value for tax purposes.

In practice, deferred tax balances are valued for Solvency II purposes by taking the IFRS balance sheet position and then calculating the tax effect of valuation differences between the IFRS and Solvency II balance sheets.

D.3.2 INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables are valued at amortised cost under IFRS. This is considered materially equivalent to fair value given the short term nature of the liabilities

D.3.3 REINSURANCE PAYABLES

Reinsurance payables are included within technical provisions under Solvency II. Section D.2 provides further details.

D.3.4 PAYABLES (TRADE, NOT INSURANCE)

Payable (trade, not insurance) are valued at amortised cost under IFRS. The difference between IFRS and SII (£38m) are payables such as deferred income, reinsurers' share of deferred acquisition costs, both not recognised under Solvency II, and intercompany balances relating to commission which are included within technical provisions.

D.3.5 LEASE LIABILITIES

The Company has adopted IFRS 16 ‘Leases’ on a modified retrospective basis from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

D.3.6 OFF BALANCE SHEET ITEMS

Legal & General Insurance Limited has provided an intercompany indemnity executed in favour of Legal & General Resources Limited (LGRL) in respect of Flood Re arrangements and the requirement to provide uncapped indemnity for any data protection breaches relating to data provided by Flood Re (which includes local authority/council tax data). The agreement with Flood Re also requires Tata Consultancy Services (TCS) (who provide software support and related systems maintenance to us under a separate contract between TCS and LGRL), to offer the indemnity as well as act as an outsourced party in the arrangement. As the liability of TCS is capped in the agreement between TCS and LGRL, we executed this indemnity in favour of LGRL for any claim by Flood Re against TCS for breach where the claim exceeds the £30m cap. As at 31 December 2019, no contingent liabilities were identified in respect of the above indemnity, as the potential liability was considered immaterial.

D.3.7 CONTINGENT LIABILITIES

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them.

Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them (together in this paragraph 'liabilities'). The extent of such liabilities is influenced by the actions of the PRA and FCA, by ombudsman rulings, by industry compensation schemes and by court judgements. It is not possible to predict, with certainty, the extent and the timing of the financial impact to which these liabilities may give rise. The Company considers that it has made appropriate provision for such liabilities as and when circumstances calling for such provision become clear and that it has adequate capital and reserves to meet all reasonably foreseeable eventualities.

D.4 ALTERNATIVE METHODS OF VALUATION

No alternative methods of valuation have been used.

D.5 ANY OTHER INFORMATION

No further information to note

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

The risk appetite, which is set by the Board, sets out our approach for managing own funds, target capital coverage ratios and actions to be taken when managing Own Funds. We aim to maintain an appropriate buffer of capital resources over the regulatory capital requirements and our own internal liquidity targets. The capital coverage is projected over the five-year business planning horizon. Solvency and liquidity levels are monitored on a quarterly and monthly basis respectively, and used to inform the dividend recommendations. There have been no material changes to the calculation of Own Funds over the reporting period.

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

The components of the IFRS equity and the Solvency II Own Funds as at 31 December 2019 and 31 December 2018 are presented below:

Own Funds (£m)	IFRS equity 2019	Solvency II basic Own Funds 2019	IFRS equity 2018	Solvency II basic Own Funds 2018
Ordinary shares	37	37	37	37
Share premium	96	96	96	96
Retained earnings	66	-	114	-
Deferred Tax Asset	-	7	-	5
Reconciliation reserve	-	25	-	38
Total	199	165	247	176

E.1.3 STRUCTURE, AMOUNT, AND QUALITY OF BASIC OWN FUNDS

All of our Own Funds have been assessed as basic Own Funds. There are no ancillary Own Fund items included in total Own Funds. Material basic Own Funds have been assessed against Article 71 of the Delegated Regulation and accordingly been categorised as unrestricted Tier 1 Own Funds with the exception of the deferred tax asset which is categorised as Tier 3 Own Funds.

£m	Total 2019	*Total 2018
Solvency Capital Requirement	129	132
Solvency Surplus	36	44
Ratio of eligible Own Funds to SCR	1.28	1.33
Minimum Capital Requirement	40	38
Minimum Capital Surplus	118	134
Ratio of eligible Own Funds to MCR	3.95	4.56

*2018 comparatives in relation to SCR and risk margin are unaudited

These values can be seen in the Own Funds QRT S.23.01.01 in Annex 1 of this report.

There were no new issues or redemptions of instruments over the reporting period.

E.1.4 RESTRICTIONS ON OWN FUNDS

As at 31 December 2019, there were no restrictions affecting the availability and transferability of Own Funds, or ring-fencing.

E.1.5 RECONCILIATION BETWEEN IFRS EQUITY AND EXCESS ASSETS OVER LIABILITIES

An explanation of the movement in each of the component parts of the Solvency II excess of assets over liabilities is presented in Section D – Valuation for Solvency Purposes, including a qualitative explanation for all valuation adjustments. The movement is shown below:

£m		2019	2018
IFRS shareholders' equity		199	247
Solvency II excess of assets over liabilities		165	176
Difference		(34)	(71)
Explained by:			
Difference in the valuation of assets	Section D1	(289)	(303)
Difference in the valuation of technical provisions	Section D2	177	145
Difference in the valuation of other liabilities	Section D3	78	87
Total:		(34)	(71)

E.1.6 RECONCILIATION RESERVE

The Reconciliation Reserve, which is a core component of basic Own Funds, is made up of the excess of assets over liabilities seen on the Balance Sheet QRT S.02.01.02 (shown in Annex 1 of this report), adjusted for ordinary share capital and the share premium account, which are presented as separate components of Own Funds.

The calculation of the reconciliation reserve is as follows:

£m	2019	2018	
Excess of assets over liabilities	165	176	(per QRT S.02.01.01)
Ordinary share capital	(37)	(37)	
Share premium account	(96)	(96)	
Deferred Tax Asset	(7)	(5)	
Reconciliation reserve	25	38	

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

Our SCR as at 31 December 2019 was £129m. This was calculated using the Standard Formula, with no capital add-ons applied. The previous year's SCR was calculated using the firm's PRA approved Internal Model. However following the acquisition of the Company by Allianz, application was made to the PRA to revoke the Internal Model approval, and this was granted with effect from completion of the transaction on 31 December 2019.

The SCR has decreased from £132m to £129m over the year. This is largely due to increased reinsurance coverage purchased partly offset by an increase from the move from the Internal Model to the Standard Formula.

Further information on the SCR by risk categories is provided in the QRT S.25 in Annex 1 of this report.

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR as at 31 December 2019 was £40m. Calculation of the MCR uses data on net written premiums, net technical provisions and EIOPA specifications including exchange rates, and is subject to a minimum of 25% of

SCR and maximum of 45% of SCR. Our MCR is calculated based on the level of technical provisions and written premiums.

The MCR has increased from £38m to £40m over the year. This is due to an increase in the net written premium over 2019 compared to 2018.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

Not applicable as this relates to the Standard Formula and life insurance business.

E.4 INTERNAL MODEL INFORMATION

Not applicable as the Standard Formula is used for SCR calculation.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There have been no instances of non-compliance with either the MCR or SCR for the Company over the reporting period.

E.6 ANY OTHER INFORMATION

No other information.

ANNEX 1 – QUANTITATIVE REPORTING TEMPLATES (QRTS)

Values are shown in £'000

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	6,995
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	4,587
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	368,203
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	737
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	
R0150	*Corporate Bonds*	
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	367,466
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	38,593
R0280	*Non-life and health similar to non-life*	38,593
R0290	*Non-life excluding health*	38,929
R0300	*Health similar to non-life*	-336
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	15,939
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	12,801
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	447,118

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	213,143
R0520	*Technical provisions - non-life (excluding health)*	209,900
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	198,431
R0550	*Risk margin*	11,469
R0560	*Technical provisions - health (similar to non-life)*	3,243
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	3,031
R0590	*Risk margin*	212
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,671
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	67,288
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	282,102
R1000	**Excess of assets over liabilities**	165,016

S.05.01.02

Premiums, claims and expenses by line of business

	Non-life	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				Total
		Income protection insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0020	C0070	C0080	C0120	C0200
	Premiums written					
R0110	*Gross - Direct Business*	5,353	397,066	10,655	35,416	448,490
R0120	*Gross - Proportional reinsurance accepted*					0
R0130	*Gross - Non-proportional reinsurance accepted*					0
R0140	*Reinsurers' share*	196	155,711	3,810	295	160,012
R0200	*Net*	5,157	241,355	6,845	35,121	288,478
	Premiums earned					
R0210	*Gross - Direct Business*	5,422	387,576	10,385	34,005	437,388
R0220	*Gross - Proportional reinsurance accepted*					0
R0230	*Gross - Non-proportional reinsurance accepted*					0
R0240	*Reinsurers' share*	196	157,051	3,831	295	161,373
R0300	*Net*	5,226	230,525	6,554	33,710	276,015
	Claims incurred					
R0310	*Gross - Direct Business*	4,707	220,540	2,145	22,285	249,677
R0320	*Gross - Proportional reinsurance accepted*					0
R0330	*Gross - Non-proportional reinsurance accepted*					0
R0340	*Reinsurers' share*	55	115,769	1,049	42	116,915
R0400	*Net*	4,652	104,771	1,096	22,243	132,762
	Changes in other technical provisions					
R0410	*Gross - Direct Business*					0
R0420	*Gross - Proportional reinsurance accepted*					0
R0430	*Gross - Non-proportional reinsurance accepted*					0
R0440	*Reinsurers' share*					0
R0500	*Net*	0	0	0	0	0
R0550	**Expenses incurred**	3,241	157,762	4,249	16,660	181,912
R1200	**Other expenses**					
R1300	**Total expenses**					181,912

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance				Total Non-Life obligation
		Income protection insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	
		C0030	C0080	C0090	C0130	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	
R0050	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					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	**Gross - Total**	519	66,234	142	-4,922	61,973
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-243	18,094	1,369	-137	19,083
R0150	**Net Best Estimate of Premium Provisions**	762	48,140	-1,227	-4,785	42,890
	Claims provisions					
R0160	**Gross - Total**	2,511	129,509	10,616	-3,148	139,488
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-94	19,930	0	-327	19,509
R0250	**Net Best Estimate of Claims Provisions**	2,605	109,579	10,616	-2,821	119,979
R0260	**Total best estimate - gross**	3,030	195,743	10,758	-8,070	201,461
R0270	**Total best estimate - net**	3,367	157,719	9,389	-7,606	162,869
R0280	**Risk margin**	212	9,419	565	1,486	11,682
	Amount of the transitional on Technical Provisions					
R0290	TP as a whole					
R0300	Best estimate					
R0310	Risk margin					
R0320	**Technical provisions - total**	3,242	205,162	11,323	-6,584	213,143
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-336	38,023	1,369	-463	38,593
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	3,578	167,139	9,954	-6,121	174,550

S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0020	Accident year

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

	Year	Development 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
R0100	Prior											-232	-232	-232
R0160	2010	82,068	83,105	9,344	3,925	923	405	1,305	882	151	328		328	182,436
R0170	2011	73,088	39,654	6,330	1,561	815	1,101	609	148	69			69	123,356
R0180	2012	90,757	48,517	4,542	1,839	642	1,482	257	-243				-243	147,793
R0190	2013	78,997	60,253	5,747	1,735	2,677	2,618	-327					-327	151,700
R0200	2014	102,146	50,409	4,445	2,157	1,738	1,756						1,756	162,651
R0210	2015	87,246	61,121	5,867	1,790	671							671	156,695
R0220	2016	83,665	52,311	5,713	2,593								2,593	144,282
R0230	2017	96,304	55,135	7,967									7,967	159,406
R0240	2018	125,269	83,083										83,083	208,352
R0250	2019	122,186											122,186	122,186
R0260												Total	217,851	1,558,625

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development 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
R0100	Prior											-227	-225
R0160	2010	89,553	23,032	11,406	7,622	7,102	1,283	756	365	276	258		257
R0170	2011	47,722	5,539	-1,415	-3,335	1,749	1,128	374	282	241			240
R0180	2012	71,817	9,151	3,111	1,569	1,265	177	79	341				339
R0190	2013	76,987	11,122	4,972	5,120	2,647	470	478					476
R0200	2014	65,985	9,982	3,852	3,420	1,989	2,779						2,766
R0210	2015	85,185	9,895	4,432	2,279	3,064							3,050
R0220	2016	61,822	8,506	4,330	3,815								3,797
R0230	2017	67,954	12,288	5,754									5,728
R0240	2018	105,445	27,301										27,176
R0250	2019	114,123											113,626
R0260												Total	157,230

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	37,000	37,000		0	
R0030	Share premium account related to ordinary share capital	96,053	96,053		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	24,968	24,968			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	6,995				6,995
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	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	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	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	165,016	158,021	0	0	6,995
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	165,016	158,021	0	0	6,995
R0510	Total available own funds to meet the MCR	158,021	158,021	0	0	
R0540	Total eligible own funds to meet the SCR	165,016	158,021	0	0	6,995
R0550	Total eligible own funds to meet the MCR	158,021	158,021	0	0	
R0580	**SCR**	128,925				
R0600	**MCR**	39,955				
R0620	**Ratio of Eligible own funds to SCR**	127.99%				
R0640	**Ratio of Eligible own funds to MCR**	395.49%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	165,016
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	140,049
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	24,967
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	28,708
R0790	**Total Expected profits included in future premiums (EPIFP)**	28,708

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	6,105		
R0020	Counterparty default risk	16,324		
R0030	Life underwriting risk			
R0040	Health underwriting risk	2,112		
R0050	Non-life underwriting risk	104,866		
R0060	Diversification	-13,603		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	115,804		

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	13,122
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	128,925
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	128,925
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

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
R0010	MCRNL Result	39,955

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	3,367	5,157
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	157,719	241,355
R0090	General liability insurance and proportional reinsurance	9,389	6,844
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	35,122
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	39,955
R0310	SCR	128,925
R0320	MCR cap	58,016
R0330	MCR floor	32,231
R0340	Combined MCR	39,955
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	39,955