

Solvency and Financial Condition Report 2016

Trafalgar Insurance plc

Summary

This is the solvency and financial condition report (“SFCR”) for Trafalgar Insurance plc (“Trafalgar”). Publication of an SFCR is a mandatory requirement of the Solvency II Directive¹ for all insurance companies domiciled in the EU. Solvency II, which entered into force on 1st January 2016, is a comprehensive updating of the way in which insurance companies in the EU are supervised by their local regulators.

The main Solvency II Directive is supplemented by further texts² which set out in detail the required contents and structure³ of the report. This introduction is intended to fulfil the requirement⁴ that the SFCR should contain a clear and concise summary, which highlights material changes over the year.

Trafalgar Insurance plc is an insurance company within the Allianz Group in the UK which is in runoff. Further information about Allianz’s operations in the UK can be found on the Allianz UK website⁵. That website also contains the 2016 Allianz Holdings plc Report and Accounts, which includes some technical information required for this SFCR.

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

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

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

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

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

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

¹ Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.

² Commission delegated regulation (EU) 2015/35, articles 290 - , Implementing Regulation (EU) 2015/2452

³ See in particular Annex XX, Commission delegated regulation (EU) 2015/35

⁴ Article 292, Commission delegated regulation (EU) 2015/35

⁵ <https://www.allianz.co.uk/about-allianz-insurance.html>

⁶ www.allianz.com

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

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

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

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

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

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

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

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

A. Business and Performance

This section is unaudited

A.1 Business

Trafalgar Insurance plc (“Trafalgar”) is a public limited company incorporated in the UK under company no 96205.

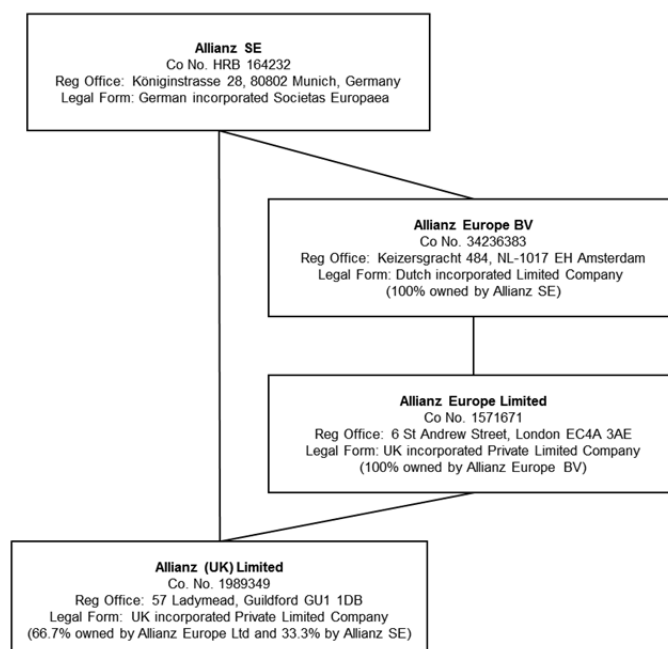
It is supervised by the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, in respect of financial and prudential matters, and by the Financial Conduct Authority (FCA), 25 The North Colonnade, London E14 5HS, in respect of conduct matters.

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

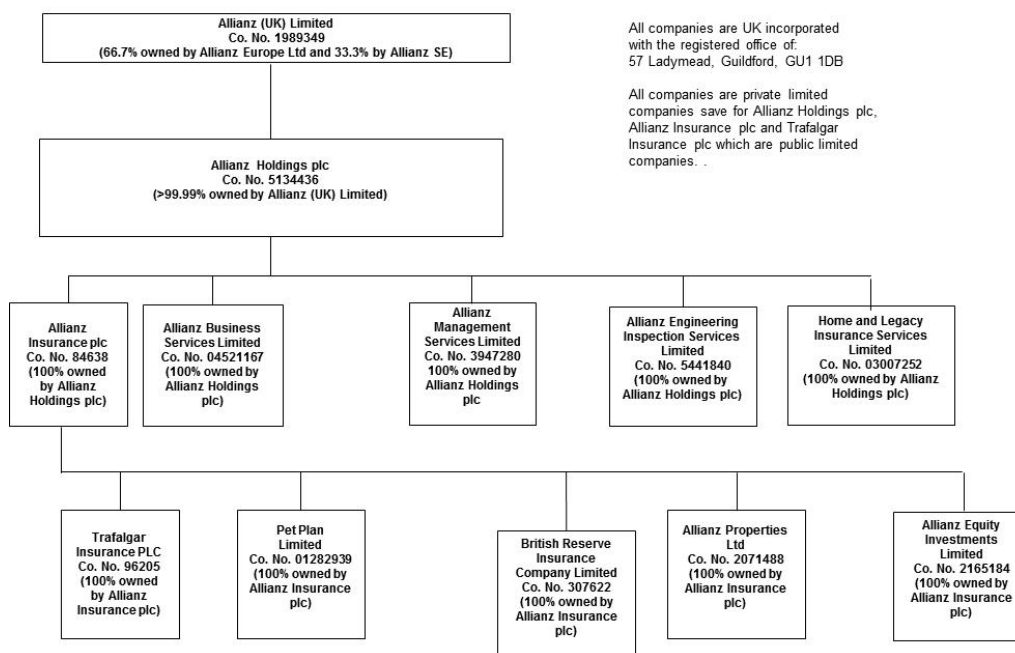
Trafalgar’s external auditor is KPMG LLP, 15 Canada Square, London, E14 5GL.

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

Allianz (UK) Limited and its parent companies



Allianz (UK) Limited and its material subsidiaries



Trafalgar ceased to underwrite business during 2006. As a result of historical activity it has provisions in respect of Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations, and non-proportional marine, aviation and transport reinsurance. The only material geographical area in which the company carries out business is the United Kingdom.

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

A.2 Underwriting Performance

During 2016, Trafalgar made a profit of £382k (2015: £219k) from underwriting activities, almost entirely from the positive runoff of prior year liabilities.

A.3 Investment Performance

During 2016, Trafalgar made a profit of £935k (2015: £2,120) from investment activities. Approximately half of this profit came from realised gains. The main driver for the fall from 2015 was the transfer of the portfolio to a portfolio carrying lower credit risk.

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

A.4 Performance of Other Activities

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

B. System of Governance

This section is unaudited

B.1 General Information on System of Governance

The Board and its Committees

The Board currently comprises three Directors. The Board is responsible for deciding strategy and for ultimate oversight of the conduct and performance of Trafalgar. It is also responsible for External Reporting.

The members of the Board of Trafalgar are:

Simon McGinn

Mark Churchlow

Jon Dye

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

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

Risk Function: Stephen Wilcox – Chief Risk Officer

Internal Audit Function: Andrew Gascoyne – Head of Internal Audit

Compliance Function: Ann Alexander – Group Compliance Officer

Actuarial Function: Kevin Wenzel – Chief Actuary

B.2 to B.6

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

B.7 Outsourcing

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

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

B.8 Any other Information

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

C. Risk Profile

This section is unaudited.

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

Trafalgar has insured only non-life insurance risks. As a result of its asset management activities to support its primary business activities it is also exposed to market and credit risks. As a result of its runoff of motor claims settled by annuities it is exposed to life insurance risks, particularly longevity.

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

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

C.1 Underwriting Risk

Underwriting risk consists solely of reserve risk.

Reserve risk

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

Trafalgar monitors the development of reserves for insurance claims on a line of business level at least annually. There was no material change to reserve risk exposure during 2016.

There is a concentration of reserve risk because the outstanding reserves of Trafalgar relate to a very small number of claims. This concentration is managed by the Directors of Trafalgar, advised by their claims and actuarial advisors. The main mitigation factor in place is the presence of reinsurance, limiting the adverse development possible.

C.2 Market risk

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

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

When setting up the SAA, care is taken to ensure an adequate target level of quality and security (for example, ratings and collateral) together with a sustainable return as well as sufficient liquidity. Compliance with the SAA is monitored by the Risk function and by the Board Risk Committee with support from the Investment Committee.

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

There was no material change in market risk exposure during the year. Trafalgar has no material concentration of market risks and no material sensitivity to market risk. Trafalgar does not use derivatives to seek or to hedge risk.

C.3 Credit risk

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

C.4 Liquidity risk

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

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

C.5 Operational risk

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

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

C.6 Other material risks

Trafalgar has no other material risks.

D. Valuation for solvency purposes

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

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

(£000s)	IFRS	Valuation Differences	MVBS
Assets			
Deferred tax assets		237	237
<i>Investments</i>			
Government Bonds	25,451		25,451
Corporate Bonds	12,730		12,730
Technical provisions – Reinsurance recoverables	6,729	2,148	8,876
Reinsurance receivables	17		17
Cash and cash equivalents	4,760		4,760
Total Assets	49,686	2,384	52,070
Liabilities			
<i>Technical provisions</i>			
Best Estimate	7,412	2,673	10,086
Risk margin		866	866
Insurance and intermediaries payables	72		72
Trade payables	260		260
Other liabilities	82		82
Total Liabilities	7,827	3,539	11,366
Excess of Assets over Liabilities	41,859	(1,155)	40,704

There were no changes made to the recognition and valuation bases used or of the methodology for estimations during the reporting period.

Deferred Taxes

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

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

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

D.1 Assets

Receivables are measured at nominal value with an adjustment for a provision for bad or doubtful debts under IFRS and MVBS, unless the market value deviates materially from the adjusted nominal value. In that case, the market value is used in the MVBS. In the case of insurance-related receivables, any difference between IFRS and MVBS would relate to the recognition of certain premiums that are already included in the receivables under IFRS, while they are recognized within technical provisions in the MVBS, because such premiums are not yet due by the balance sheet date; the adjustment in the case of Trafalgar at year-end 2016 is nil.

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

D.2 Technical Provisions

Basis

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

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

Methods and assumptions

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

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

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

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

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

SII line of business (000s)	Gross			Net		
	Claims Provision	Premium Provision	Risk Margin	Claims Provision	Premium Provision	Risk Margin
Non-proportional marine, aviation and transport reinsurance	5	1	0	5	1	0
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	10,080	0	866	1,203	0	866
Total	10,085	1	866	1,208	1	866

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

- longevity of annuity claimants being different from that expected;
- future inflation rates in paying annuities being different from those expected;
- claim reporting patterns being different from those expected;
- claim handling costs being different from those expected.

The only material difference net of reinsurance between IFRS provisions and Solvency II Technical provisions is the introduction under Solvency II of a Risk margin.

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

Reinsurance recoverables

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

Material changes in assumptions

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption. During 2016, one material assumption was updated resulting in a material change to the calculation of the technical provisions. The real discount rate used to calculate the present value of PPO liabilities was changed to reflect the current economic environment.

Simplifications

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

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

D.3 Other liabilities

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

D.5 Any other information

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

E. Capital Management

E.1. Own Funds

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

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

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

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

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

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

	2016	2015
	£m	£m
Tier 1		
Ordinary shares	38.0	38.0
Reconciliation reserve	2.5	2.4
Total Tier 1	40.5	40.4
Tier 3		
Net deferred tax assets	0.2	0.1
Total Tier 3	0.2	0.1
Total eligible own funds to meet the SCR	40.7	40.5
SCR (see below)	1.5	N/A
SCR coverage ratio	2718%	N/A
Total eligible own funds to meet the MCR	40.5	40.4
MCR (see below)	3.3	N/A
MCR coverage ratio	1215%	N/A

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

Only Tier 1 and Tier 2 funds are eligible to meet the MCR. No Own Fund items for Trafalgar rely on transitional measures for their inclusion in Tier 1. There are no restrictions on the

availability of own funds to support the SCR and MCR, and no matching adjustment portfolio exists. There has been no impact of any limit on eligible Tier 2 capital or restricted Tier 1 capital. The company has no subordinated debt, or ancillary Own Fund items. No Own Fund items were issued or redeemed during the year.

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

The significant changes were:

	£m
Profit after tax earned by the company in the year	1.1
Other adjustments to Solvency II technical provisions	(1.0)

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

E.2. Solvency Capital Requirement & Minimum Capital Requirement

Trafalgar uses the Standard Formula to calculate its SCR. The SCR at 31 December 2016 amounts to £1.498m, and the MCR amounts to £3.332m, equal to the absolute floor in MCR set by Solvency II converted at the exchange rate mandated by the PRA. A split of the SCR by the different risk modules is shown in the following table.

Risk Category	£000s
Market risk	
Interest rate risk	654
Spread risk	343
Concentration risk	247
Counterparty risk	1,002
Premium and reserve risk	3
Longevity risk	105
Operational risk	46
Sum of standalone risks	2,400
Diversification benefit	(902)
SCR	1,498

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

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

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

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

No internal model is used by the firm.

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

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

E.6 Any other information

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

Statement of Directors' responsibilities

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

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

By order of the Board
Robin Jack-Kee
Secretary
Trafalgar Insurance plc
Registered Number: 96205
May 15, 2017

Auditors' report

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

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Trafalgar Insurance plc as at 31st December 2016, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02, S12.01.01, S17.01.02, S23.01.01, S25.01.21, S28.01.01 (**the Templates subject to audit**).

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

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

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

Respective responsibilities of directors and auditor

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

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

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805.

Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Trafalgar Insurance plc as at 31st December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA

Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Emphasis of Matter - Basis of Accounting

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

Matters on which we are required to report by exception

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

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

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

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

KPMG LLP
15 Canada Square
London
E14 5GL

16th May 2017

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

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

Solo standard formula

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

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

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

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

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

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

Solo standard formula

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

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

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

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

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

Report:
Reporting entity:
Due date:
Cluster:
Report exported on:

S.02.01.02
 RC750
 31.12.2016
 PROD-RSR-Y
 27.04.2017 14:56:56

Balance sheet

	Solvency II value	
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	237
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	38,180
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	38,180
Government Bonds	R0140	25,450
Corporate Bonds	R0150	12,730
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	2,700
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	2,700
Reinsurance recoverables from:	R0270	8,876
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	8,876
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	8,876
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	17
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	

Cash and cash equivalents
Any other assets, not elsewhere shown
Total assets

R0410	2,060
R0420	
R0500	52,070

Liabilities

Technical provisions – non-life
Technical provisions – non-life (excluding health)
Technical provisions calculated as a whole
Best Estimate
Risk margin
Technical provisions - health (similar to non-life)
Technical provisions calculated as a whole
Best Estimate
Risk margin
Technical provisions - life (excluding index-linked and unit-linked)
Technical provisions - health (similar to life)
Technical provisions calculated as a whole
Best Estimate
Risk margin
Technical provisions – life (excluding health and index-linked and unit-linked)
Technical provisions calculated as a whole
Best Estimate
Risk margin
Technical provisions – index-linked and unit-linked
Technical provisions calculated as a whole
Best Estimate
Risk margin
Other technical provisions
Contingent liabilities
Provisions other than technical provisions
Pension benefit obligations
Deposits from reinsurers
Deferred tax liabilities
Derivatives
Debts owed to credit institutions
Financial liabilities other than debts owed to credit institutions
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)
Subordinated liabilities
Subordinated liabilities not in Basic Own Funds
Subordinated liabilities in Basic Own Funds
Any other liabilities, not elsewhere shown
Total liabilities
Excess of assets over liabilities

	Solvency II value	
	C0010	
R0510	6	
R0520	6	
R0530		
R0540	6	
R0550	0	
R0560		
R0570		
R0580		
R0590		
R0600	10,946	
R0610		
R0620		
R0630		
R0640		
R0650	10,946	
R0660		
R0670	10,080	
R0680	866	
R0690		
R0700		
R0710		
R0720		
R0730		
R0740		
R0750		
R0760		
R0770		
R0780		
R0790		
R0800		
R0810		
R0820	72	
R0830		
R0840	260	
R0850		
R0860		
R0870		
R0880	82	
R0900	11,366	
R1000	40,704	

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Premiums, claims and expenses by country

	Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - life obligations				
R1400	C0220	C0280	C0230	C0230	C0230	C0230	C0230
Premiums written							
Gross	R1410						
Reinsurers' share	R1420						
Net	R1500						
Premiums earned							
Gross	R1510						
Reinsurers' share	R1520						
Net	R1600						
Claims incurred							
Gross	R1610	573	573				
Reinsurers' share	R1620	90	90				
Net	R1700	483	483				
Changes in other technical provisions							
Gross	R1710						
Reinsurers' share	R1720						
Net	R1800						
Expenses incurred	R1900						
Other expenses	R2500						
Total expenses	R2600						

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Premiums, claims and expenses by country

	Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - non-life obligations			
R0010						
	C0080	C0140	C0090	C0090	C0090	C0090
Premiums written						
Gross - Direct Business	R0110					
Gross - Proportional reinsurance accepted	R0120					
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					
Net	R0200					
Premiums earned						
Gross - Direct Business	R0210					
Gross - Proportional reinsurance accepted	R0220					
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					
Net	R0300					
Claims incurred						
Gross - Direct Business	R0310					
Gross - Proportional reinsurance accepted	R0320					
Gross - Non-proportional reinsurance accepted	R0330	1	1			
Reinsurers' share	R0340					
Net	R0400	1	1			
Changes in other technical provisions						
Gross - Direct Business	R0410					
Gross - Proportional reinsurance accepted	R0420					
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					
Net	R0500					
Expenses incurred	R0550	23	23			
Other expenses	R1200					
Total expenses	R1300		23			

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Life and Health SLT Technical Provisions

	Index-linked and unit-linked insurance				Other life insurance				Accepted reinsurance	Total (Life other than health insurance, incl. Uni-Linked)	Health insurance (direct business)			Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)	
	Insurance with profit participation	Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annulities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Contracts without options and guarantees			Contracts with options or guarantees	Annulities stemming from non-life insurance contracts and relating to health insurance obligations				
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole								0		0						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																
Technical provisions calculated as a sum of BE and RM																
Best Estimate																
Gross Best Estimate								10,080		10,080						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								8,876		8,876						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total								1,204		1,204						
Risk margin								866		866						
Amount of the transitional on Technical Provisions																
Technical provisions calculated as a whole								0		0						
Best Estimate								0		0						
Risk margin								0		0						
Technical provisions - total								10,946		10,946						

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Non-life insurance claims information

Total Non-Life Business

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

Gross Claims Paid (non-cumulative)

(absolute amount)	Year	Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
Prior	R0100	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
N-9	R0160											
N-8	R0170											
N-7	R0180											
N-6	R0190											
N-5	R0200											
N-4	R0210											
N-3	R0220											
N-2	R0230											
N-1	R0240											
N	R0250											

	Sum of years (cumulative)	
	In Current year	Sum of years (cumulative)
R0100	0	0
R0160	0	0
R0170	0	0
R0180	0	0
R0190	0	0
R0200	0	0
R0210	0	0
R0220	0	0
R0230	0	0
R0240	0	0
R0250	0	0
Total	0	0

Gross undiscounted Best Estimate Claims Provisions

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

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Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)
 Share premium account related to ordinary share capital
 Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
 Subordinated mutual member accounts
 Surplus funds
 Preference shares
 Share premium account related to preference shares
 Reconciliation reserve
 Subordinated liabilities
 An amount equal to the value of net deferred tax assets
 Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
 Unpaid and uncalled preference shares callable on demand
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR
 Total available own funds to meet the MCR
 Total eligible own funds to meet the SCR
 Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	38,000	38,000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	2,468	2,468			
R0140					
R0160	237				237
R0180					
R0220					
R0230					
R0290	40,704	40,468			237
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	40,704	40,468			237
R0510	40,468	40,468			
R0540	40,693	40,468			225
R0550	40,468	40,468			
R0580	1,498				
R0600	3,332				
R0620	27.167418				
R0640	12.14576				

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Reconciliation reserve

Excess of assets over liabilities
Own shares (held directly and indirectly)
Foreseeable dividends, distributions and charges
Other basic own fund items
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business
Expected profits included in future premiums (EPIFP) - Non-life business
Total Expected profits included in future premiums (EPIFP)

C0060

R0700	40,704
R0710	
R0720	
R0730	38,237
R0740	
R0760	2,468
R0770	
R0780	
R0790	

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	779		2 - Simplifications not used
Counterparty default risk	R0020	1,002		
Life underwriting risk	R0030	105	None	2 - Simplifications not used
Health underwriting risk	R0040	0	None	2 - Simplifications not used
Non-life underwriting risk	R0050	3	None	2 - Simplifications not used
Diversification	R0060	-437		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	1,452		

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Calculation of Solvency Capital Requirement

Operational risk

R0130 46

Loss-absorbing capacity of technical provisions

R0140 0

Loss-absorbing capacity of deferred taxes

R0150 0

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

R0160 0

Solvency capital requirement, excluding capital add-on

R0200 1,498

Capital add-ons already set

R0210 0

Solvency Capital Requirement

R0220 1,498

Other information on SCR

Capital requirement for duration-based equity risk sub-module

R0400 0

Total amount of Notional Solvency Capital Requirements for remaining part

R0410 0

Total amount of Notional Solvency Capital Requirements for ring fenced funds

R0420 0

Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios

R0430 0

Diversification effects due to RFF nSCR aggregation for article 304

R0440 0

C0100

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

Linear formula component for non-life insurance and reinsurance obligations

MCRNL Result **R0010** **C0010** 1

- Medical expense insurance and proportional reinsurance
- Income protection insurance and proportional reinsurance
- Workers' compensation insurance and proportional reinsurance
- Motor vehicle liability insurance and proportional reinsurance
- Other motor insurance and proportional reinsurance
- Marine, aviation and transport insurance and proportional reinsurance
- Fire and other damage to property insurance and proportional reinsurance
- General liability insurance and proportional reinsurance
- Credit and suretyship insurance and proportional reinsurance
- Legal expenses insurance and proportional reinsurance
- Assistance and proportional reinsurance
- Miscellaneous financial loss insurance and proportional reinsurance
- Non-proportional health reinsurance
- Non-proportional casualty reinsurance
- Non-proportional marine, aviation and transport reinsurance
- Non-proportional property reinsurance

	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	0	0
R0030	0	0
R0040	0	0
R0050	0	0
R0060	0	0
R0070	0	0
R0080	0	0
R0090	0	0
R0100	0	0
R0110	0	0
R0120	0	0
R0130	0	0
R0140	0	0
R0150	0	0
R0160	6	0
R0170	0	0

Report:	S.28.01.01
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Cluster:	
Report exported on:	

Linear formula component for life insurance and reinsurance obligations

MCRL Result **R0200** **C0040** 25

Obligations with profit participation - guaranteed benefits
 Obligations with profit participation - future discretionary benefits
 Index-linked and unit-linked insurance obligations
 Other life (re)insurance and health (re)insurance obligations
 Total capital at risk for all life (re)insurance obligations

	C0050	C0060
Net (of reinsurance/SPV) best estimate and TP calculated as a whole		Net (of reinsurance/SPV) total capital at risk
R0210	0	
R0220	0	
R0230	0	
R0240	1,203	
R0250		0

Report:

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Reporting entity:

RC750

Due date:

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Cluster:

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Overall MCR calculation

Linear MCR

SCR

MCR cap

MCR floor

Combined MCR

Absolute floor of the MCR

C0070

R0300	26
R0310	1,498
R0320	674
R0330	374
R0340	374
R0350	3,332
R0400	3,332

Minimum Capital Requirement