# GROUP AND SOLO
# SOLVENCY AND FINANCIAL CONDITION REPORT
# Year ended 31 December 2021

# Soteria Finance Holdings Limited
# Soteria Insurance Limited

## Executive Summary

### 1. Introduction

The Directors are pleased to present the Solvency & Financial Condition Report (SFCR) for the year ended 31 December 2021.

The Report contains detailed qualitative and quantitative information on the Business and Performance, System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management, together with standardised Quantitative Reporting Templates with respect to the reporting period for the Soteria Finance Holdings Limited Group (the Group) and Soteria Insurance Limited (SIL).

SIL is a UK-based General Insurer that underwrote insurance, predominantly in personal lines (Motor and Home). It is a wholly owned subsidiary of Soteria Finance Holdings Limited (SFHL). As there are no significant differences between the nature of the business of the Group and SIL, and the governance and risk management systems are consistent, this SFCR covers both the Group and Solo entity disclosures. As SIL is the only regulated insurance company in the Group, the data relating to underwriting and investment performance are aligned for both the Group and SIL, and are presented together.

This Executive Summary provides an overview to assist policyholders and other stakeholders in understanding the nature of the business, how the business is managed and its solvency position.

Amounts are presented in thousands of pounds, sterling (£000), unless otherwise stated.

The document makes reference to the Annual Reports and Accounts, which also provide relevant information about SIL, SFHL and the Group, copies of which can be found at www.soteriainsurance.co.uk.

## 2. Business & Performance (Summary of Section A)

### 2.1 Business Model & Strategy

SFHL was incorporated on 28 May 2020. On 2 December 2020, the Company acquired SIL, formerly CIS General Insurance Limited, from The Co-operative Group Limited following approval by the Prudential Regulation Authority (PRA). Together SFHL and SIL form the Group. At the same date, an outsourcing agreement was entered into with the Markerstudy Group to provide insurance services to the Group.

On 11 February 2021, as part of the Group's strategy, the SIL Board made the decision to place SIL into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021. SIL's last insurance policies will expire in March 2022. The Group will continue to administer existing policies in force and settle outstanding claims. The focus of the Directors is to ensure that SIL meets all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Group has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its investors.

### 2.2 Other Significant Events

#### Impact of war in Ukraine

As the Group trades solely in the UK, there is little direct exposure and so the impact is expected to be minimal.

##### Investments

The Russian invasion of Ukraine has had a significant impact on global investment markets, with prices falling significantly since the start of the war. As at the end of March 2022, unrealised losses of £3.9m were incurred, compared with the valuation of investments as at 31 December 2021.

The Group had an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian entity. This was sold on 9 March 2022, realising a loss of £1.8m. This is the only Russian or Ukrainian investment which was held by the Group.

Other investments in corporate bonds are expected to perform poorly in the short term. This performance is being closely monitored by the Investment Committee and mitigating action will be taken if required, for example, by moving investments into better performing asset classes. However, due to the longer term nature of the majority of investment holdings and close matching by duration of short-dated assets to liabilities, it is considered that there is no requirement for immediate changes to be made.

The investment committee are monitoring the situation on a regular basis to ensure that appropriate action can be taken as required.

##### Policyholders

As standard, policyholder screening procedures are in place to ensure no policies are held by sanctioned individuals.

#### UK storms impact

In recent weeks, the UK has seen significant storm impact, with five storms in total occurring to date in 2022, the most notable being storms Dudley, Eunice and Franklin, which all occurred in a matter of days during February. Claims levels for the storms are not material, as few policies remained on cover at the time.

### Coronavirus (Covid-19) impact

Actions taken during 2020 meant that the Group was well prepared, both operationally and financially, for the impact of the pandemic in 2021. The primary impact has been to reduce loss ratios at the start of the year, owing to there being fewer cars on the road, leading to fewer accidents and fewer claims, only partially countered by upward pressure on average costs for some claims types.

## 2.3 Performance

### Lines of Business and Geographical Areas

Lines of business which are material to the performance of the Group are defined in the table below:

| Line of Business | Definition |
|---|---|
| Motor vehicle liability insurance (Motor) | Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land. Obligations are predominantly those relating to third parties involved in incidents with policyholders. |
| Other motor insurance (Other Motor) | Insurance obligations which cover all damage to or loss of land vehicles, predominantly those vehicles owned by policyholders. |
| Fire and other damage to property insurance (Home) | Insurance obligations which cover all damage to or loss of property due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft. |

All business is conducted in the UK, Isle of Man and the Channel Islands.

### Overall Performance

The table below shows the performance of the Group over the year to 31 December 2021.

In a change in accounting basis in the year, for statutory reporting purposes, the Group has chosen to adopt United Kingdom Accounting Standards ("UK GAAP"), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"). In previous financial years, the annual reports and accounts were presented under International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). This decision has led to some changes in accounting policies, with the most significant being the decision to recognise all unrealised gains and losses on investments directly in the income statement. Where comparative figures are shown which previously were reported under IFRS, these have been restated to UK GAAP.

| | Solo £000 | Group £000 |
|---|---|---|
| Net earned premiums | 165,339 | 165,339 |
| Net policyholder claims and benefits | (152,535) | (152,535) |
| Fee and commission income | 4,763 | 4,763 |
| Fee and commission expenses | (775) | (775) |
| Acquisition and administrative expenses | (49,915) | (35,572) |
| Underwriting result | (33,123) | (18,780) |
| Net investment income | 3,983 | 3,983 |
| Investment expenses and charges | (3,168) | (13,126) |
| Loss on ordinary activities before tax | (32,308) | (27,923) |

Differences between Solo and Group figures are as follows:

- £14,950k of acquisition costs included in Solo, which relate to the unwind of deferred acquisition costs. These were expensed at the point of sale for Group.
- £10,133k of finance costs, primarily relating to interest charges on the £60m subordinated loan issued in December 2020, and £606k of administrative expenses incurred by SFHL.

A more detailed analysis of the performance of SIL and the Group, including comparatives against the prior year, can be found in the Annual Report and Accounts which are available at www.soteriainsurance.co.uk.

The underwriting result is described in more detail in Section A.2.2.

Investment income and net unrealised losses on investments reflect income on corporate bonds, gilts, real-estate backed lending and collective investments held by the Group during the year. The change in accounting policy to FRS 102 means that all unrealised gains and losses are now included in the income statement. During the year, a change in asset manager led to a significantly higher than usual level of sales and purchases of investments. Realised gains represent total gains made on assets which were sold in the year, and the net unrealised losses includes a reversal of the prior period's gains on these investments. Investments have performed less strongly in the year than in the previous period, following lower market performance.

## 3. System of Governance (Summary of Section B)

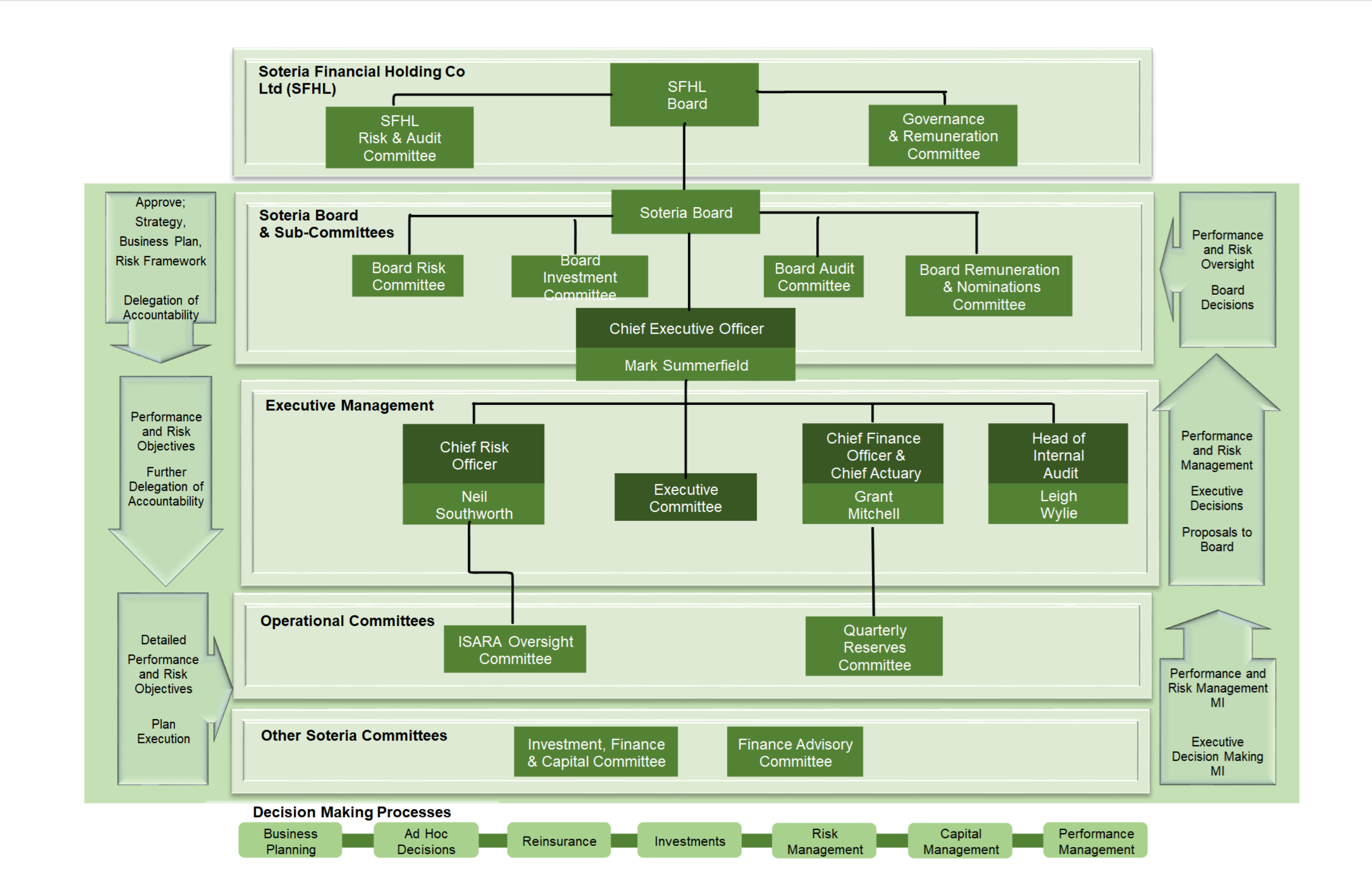
The holding company has its own Board and sub-committees. The governance structure of SIL has remained largely unchanged since the Group was formed despite the decision to place SIL into run-off, with only one exception, which is the cessation of the Migration and Transitional Services Agreement (MTSA) Oversight Committee.

The MTSA Oversight Committee was in place to monitor the progress of the transition to the new business model and in particular the migration of the data previously held by Coop Group to Markerstudy. This project was completed in Q1 2021 and the Committee was no longer required post this date.

## 3.1 Governance Framework

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

The Group has a strong governance framework and has ensured that the accountability and responsibility of individual Senior Managers and Directors is clearly defined and documented. This enables the Board, Executive and associated committees to interact effectively to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business.




The SFHL and SIL Boards own and approve the Risk Vision, the Risk Appetite Statements and the Risk Management Framework for SFHL and SIL respectively, setting the thresholds and approach to risk taking activities. To assist the SFHL Board in carrying out its functions and to ensure that there are effective internal controls and risk management, the SFHL and SIL Boards have established sub-committees and delegated certain responsibilities to them. All Board sub-committees have Terms of Reference which document the membership, their accountabilities and describe the authority delegated to them by their Board. The Boards ensure that each committee is provided with sufficient resources to enable it to undertake its duties.

## 3.2 Key elements of the System of Governance

### Appropriate Responsibility and Accountability

The Group operates a 'three lines of defence' governance model to ensure appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management is the 1st line of defence. It is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. As the Group is largely an outsourced model, much of first line work is carried out by third parties. 2nd line oversight activities are not necessarily carried out by the Risk team and can be carried out by anyone working in or for Soteria, as long as they are independent from whoever carried out the work. The Risk function owns the Risk Management Framework, oversees and challenges its implementation and operation by the 1st line of defence, and considers current and emerging risks across SIL.

Internal Audit is the 3rd line of defence within the Group structure. Internal Audit independently challenges the overall design and operation of the Risk Management Framework and provides assurance to the SFHL Board Risk and Audit Committee (BRAC), SIL Board Audit Committee (BAC) and senior management on the adequacy of both the 1st and 2nd lines of defence, including the quality of their work.

## Fitness & Propriety of Key Function Holders

As a regulated company, all accountabilities within SFHL's trading subsidiary, SIL, are allocated as part of The Senior Manager and Certification Regime (SM&CR).

The SIL Management Responsibilities Map describes and documents the firm's overall governance arrangements. It demonstrates that there are no gaps in the allocation of responsibilities amongst its management.

Senior Manager Functions are roles the regulators deem 'critical' within a firm. They are occupied by individuals who have significant influence over the firm's business strategy, culture and compliance with regulatory requirements. Individuals who are appointed to perform a Senior Manager function must be approved by the FCA and/or PRA.

Key Functions, as defined by Solvency II regulation, are those functions which, if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm's system of governance has identified those persons who are responsible for the Key Functions, known as Key Function Holders (KFHs), along with their lines of accountability.

The Group has established a fit and proper policy and processes which comply with the SM&CR. Certified Employees (the next tier of management below Senior Managers where the role has a risk of significant harm to the firm or any of its customers ) have been identified, to which the requirements will also apply.

The Group will ensure that Senior Managers and Certified Employees are at all times fit and proper persons. This means that these persons have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity.

## Robust Risk Management Framework

The Group operates within a Risk Management Framework that identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across the Group.

The Risk Management Framework is designed to aid the business in the management of risks at all levels in the business in accordance with the 'Three Lines of Defence' model.

## 4. Key Risks (Summary of Section C)

The Group's primary activity up to the point of run-off, of providing Home and Motor insurance through SIL, exposed the Group to a number of risks which could adversely affect its performance and its ability to meets its objectives. These risks include:

| Risk | Definition |
|---|---|
| Insurance Risk | The inherent uncertainties as to the occurrence, amount and timing of insurance claims and other obligations arising from existing policies or from future underwriting (where applicable). The Group's key financial risks are insurance-related: premium risk and reserve risk. |
| Operational Risk | The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. |
| Market Risk, including climate change risk | The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.<br>Included within market risk is climate change risk; the risks that arise from the adjustment to a low-carbon economy which could impact a firm's assets, in particular the value of investments[1] |
| Counterparty Risk, including Credit Risk | The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. |
| Liquidity Risk | The current and prospective risk to earnings or solvency arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses.<br>Liquidity risk is explicitly excluded from the Standard Formula Solvency Capital Requirement. |

Risks are captured within the Standard Formula calculation of the Solvency Capital Requirement (SCR). The table below shows the value of capital held by the Group for each risk, including additional capital held for operational risk (an add-on) where the risk is not adequately captured by the Standard Formula SCR (SF SCR). With the exception of £1k (2020: £nil) of counterparty risk relating to SFHL's cash holdings, the SCR relates entirely to SIL.

[1] Climate change can also impact other level 1 risks, however, given the long-term nature of climate change, the assets backing long-dated PPO liabilities are the biggest area of concern for Soteria.

| | 31 December 2021 £000 | 31 December 2020 £000 | Movement £000 |
|---|---|---|---|
| Insurance risk – non life | 69,628 | 97,249 | (27,621) |
| Insurance risk – life | 3,271 | 4,552 | (1,281) |
| Operational risk | 10,496 | 53,810 | (43,314) |
| Market risk | 12,799 | 32,006 | (19,207) |
| Counterparty risk | 3,043 | 6,026 | (2,983) |
| Diversification | (13,014) | (26,413) | 13,399 |
| SF SCR | 86,223 | 167,230 | (81,007) |

The SF SCR benefits from a reduction in Non-life underwriting risk due to premium risk running off quickly following the business entering run off.

Insurance risk was managed by ensuring that business was underwritten and priced in accordance with agreed strategy and through claims reserving and risk modelling approaches to ensure that premiums charged were reflective of the risk. Insurance risk (Non-Life and Life) has reduced due to the decision to put SIL into run-off, owing to a reduction in future net earned premium. Insurance risk was mitigated through the use of appropriate reinsurance. In 2021, the Group had two main reinsurance programmes in place: catastrophe excess of loss cover and motor excess of loss cover. For the years 2017-2020, a quota share arrangement was in place which covered both Motor and Home business.

Market risk reflects the portfolio of assets held by the Group which focuses on higher rated corporate bonds, gilts and cash and also includes investments in higher-yielding assets. Market risk (credit-spread and counterparty default risks) from corporate bonds is managed through defined limits for exposure to credit ratings and individual counterparties. Other risk mitigation strategies employed to manage exposure to counterparty default include ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis.

Operational risks are identified, measured, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning, and mitigated through corporate insurances. For most of the year, operational risk included an add-on of £40,000k to reflect the risks associated with legacy Co-op systems which were used by SIL prior to acquisition by SFHL and the risks associated with the migration to Markerstudy systems post acquisition. An application was made to remove the add-on, given that the migration has now been successfully completed, and this was approved in December 2021.

The value calculated for each individual risk is the estimated loss that would be incurred in an adverse scenario for that specific risk. As not all of these negative outcomes would be expected to occur within a short time frame the Standard Formula SCR calculation allows for a diversification benefit which is an estimate of the total reduction in the overall level of risk. The effect of diversification in 2021 has reduced the SCR by £13m.

The impact of changes in the risk profile of the Group on capital management is explained in Section 6 of this Summary.

## 5. Valuation for Solvency purposes (Summary of Section D)

Assets and liabilities within the Solvency II balance sheet are valued in accordance with Solvency II regulations. The principle that underlies the valuation methodology is that assets and liabilities are valued at amounts for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The table below shows the valuation of assets and liabilities on a Solvency II basis as at 31 December 2021. Section D includes explanations of the valuation and recognition basis under Solvency II as well as a comparison to the UK GAAP valuation basis which is used in the Annual Report and Accounts. The valuation of the balance sheet on a statutory basis is different to the Solvency II balance sheet due to the reclassification of accrued interest, the difference in the valuation of the technical insurance provisions, the difference in valuation of subordinated debt and the difference in the treatment of the quota share reinsurance arrangement.

| | **SIL UK GAAP (A) £000** | **Consolidated UK GAAP (B) £000** | Reclassifications (C) £000 | Restatements (D) £000 | **Solo Solvency II (A)+(C)+(D) £000** | **Group Solvency II (B)+(C)+(D) £000** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Deferred acquisition costs | **56** | **-** | - | (56)[1] | **-** | **-** |
| Investments | **394,981** | **394,981** | 3,433 | - | **398,414** | **398,414** |
| Mortgages and loans made | **3,500** | **3,500** | - | - | **3,500** | **3,500** |
| Reinsurance recoverables | **64,992** | **64,992** | - | 58,399 | **123,391** | **123,391** |
| Insurance and intermediaries receivables | **18,268** | **18,268** | 474 | (18,134) | **608** | **608** |
| Receivables (trade, not insurance) | **7,997** | **9,623** | (3,913) | 212 | **4,296** | **5,922** |
| Cash and cash equivalents | **151,067** | **151,124** | - | - | **151,067** | **151,124** |
| **Total assets** | **640,861** | **642,488** | (6) | 40,421[1] | **681,276** | **682,959** |
| **Liabilities** | | | | | | |
| Total technical provisions/ UK GAAP insurer contract liabilities | **393,517** | **393,517** | - | 56,777 | **450,294** | **450,294** |
| Deferred tax liabilities | **508** | **508** | - | (508) | **-** | **-** |
| Insurance and intermediaries payables | **-** | **-** | 680 | - | **680** | **680** |
| Reinsurance payables | **218** | **218** | - | 44,573 | **44,791** | **44,791** |
| Payables (trade, not insurance) | **7,232** | **7,232** | (694) | - | **6,538** | **6,538** |
| Subordinated liabilities | **-** | **70,015** | - | (1,025)[2] | **-** | **68,990** |
| Any other liabilities, not elsewhere shown | **2,950** | **14,080** | 8 | - | **2,958** | **14,088** |
| **Total liabilities** | **404,425** | **485,570** | (6) | 99,817[2] | **505,261** | **585,381** |
| **Excess of assets over liabilities** | **236,436** | **156,918** | - | (59,396)[1,2] | **176,015** | **97,578** |

1 The deferred acquisition costs adjustment of £56k applies only to Solo

2 The adjustment of £1,025k on subordinated liabilities applies only to Group

The excess of assets over liabilities of £97,578k forms the basis of Own Funds for the Group under Solvency II, which, when added to the Tier 1 Restricted and Tier 2 subordinated loans and ancillary own funds, is the amount of available capital held to meet the Solvency Capital Requirement.

## 6. Capital Management (Summary of Section E)

At 31 December 2021, the key Solvency II capital measures were:

| | 31 December 2021 | | 31 December 2020 | | Movement | |
|---|---|---|---|---|---|---|
| | Solo | Group | Solo | Group | Solo | Group |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Eligible Own Funds before Volatility Adjustment | 198,074 | 149,191 | 207,077 | 206,707 | (9,003) | (57,516) |
| Effect of Volatility Adjustment | 2,940 | 2,940 | 2,345 | 2,345 | 595 | 595 |
| Eligible Own Funds | 201,014 | 152,131 | 209,422 | 209,052 | (8,408) | (56,921) |
| SCR before Volatility Adjustment | 86,505 | 86,506 | 167,498 | 167,498 | (80,993) | (80,992) |
| Effect of Volatility Adjustment | (283) | (283) | (268) | (268) | (15) | (15) |
| SCR | 86,222 | 86,223 | 167,230 | 167,230 | (81,008) | (81,007) |
| Solvency Coverage Ratio before Volatility Adjustment | 229% | 172% | 124% | 123% | 105% | 49% |
| Solvency Coverage Ratio | 233% | 176% | 125% | 125% | 108% | 51% |
| Solvency Coverage | 114,792 | 65,908 | 42,192 | 41,822 | 72,600 | 24,086 |

Solvency coverage for the Group at 31 December 2021 is £65,908k (176%) (2020: £41,823k (125%)). The Group's Own Funds at 31 December 2021 are £152,131k (2020: £209,052k).

On 2nd December 2020, the Group issued £12,000k of a subordinated perpetual loan charged at 17.5% interest per annum and £60,000k of a subordinated term loan due 2030 at par, charged at 16.875% interest per annum, which serve as tier 1 restricted and tier 2 capital respectively. The Group also entered into an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The available funds are held in an escrow account which SIL can draw down on at its discretion. This Ancillary Own Funds capital is no longer required and the PRA approved the cessation of this facility with effect from 10 February 2022.

As the amount of Tier 2 debt eligible to meet the SCR is restricted the value included within Eligible Own Funds in the table above is reduced by £39,435k.

As described in Section 4, the SCR at 31 December 2021 is £86,223k.

The Group applies a Volatility Adjustment in calculating solvency coverage which has improved solvency coverage by 1%. The Volatility Adjustment is designed by the PRA to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. The Group does not apply the transitional measures of a matching adjustment, transitional deduction to the technical provisions or the transitional risk-free interest rate.

In 2020, the Group SCR was subject to a £40m capital add-on, required to cover increases in operational risk, as described in section 2.5. During 2021, an application was made to the PRA for this to be removed, and this was granted by the PRA in December 2021.

The table below shows the value of Own Funds eligible to meet the Minimum Consolidated Group SCR (MCG SCR) and the SCR at 31 December 2021, classified by tier. The MCG SCR is equal to the Minimum Capital Requirement (MCR) of the Group's insurance subsidiary, SIL.

| **Group** | | | 2021 | | | 2020 | |
|---|---|---|---|---|---|---|---|
| | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 | Total | Movement |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Ordinary share capital | 100 | 100 | - | - | - | 100 | - |
| Share premium account | 36,900 | 36,900 | - | - | - | 36,900 | - |
| Reconciliation reserve | 60,577 | 60,577 | - | - | - | 76,437 | (15,860) |
| Subordinated liabilities | 68,990 | - | 11,443 | 57,547 | - | 72,000 | (3,010) |
| Total basic own funds after deductions | 166,567 | 97,577 | 11,443 | 57,547 | - | 185,437 | (18,870) |
| Ancillary own funds | 25,000 | - | - | 25,000 | - | 25,000 | - |
| Total available own funds to meet the consolidated group SCR | 191,567 | 97,577 | 11,443 | 82,547 | - | 210,437 | (18,870) |
| Total available own funds to meet the MCG SCR | 166,567 | 97,577 | 11,443 | 57,547 | - | 185,437 | (18,870) |
| Total eligible own funds to meet the consolidated group SCR | 152,131 | 97,577 | 11,443 | 43,111 | - | 209,052 | (56,921) |
| Total eligible own funds to meet the MCG SCR | 113,822 | 97,577 | 11,443 | 4,802 | - | 135,159 | (21,337) |
| Consolidated group SCR | 86,223 | | | | | 167,230 | (81,007) |
| Consolidated group MCG SCR | 24,295 | | | | | 48,610 | (24,315) |

| **Solo** | | | 2021 | | | 2020 | |
|---|---|---|---|---|---|---|---|
| | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 | Total | Movement |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Ordinary share capital | 208,000 | 208,000 | - | - | - | 208,000 | - |
| Reconciliation reserve | (31,986) | (31,986) | - | - | - | (23,578) | (8,408) |
| Total basic own funds after deductions | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Ancillary own funds | 25,000 | - | - | 25,000 | - | 25,000 | - |
| Total available own funds to meet the SCR | 201,014 | 176,014 | - | 25,000 | - | 209,422 | (8,408) |
| Total available own funds to meet the MCR | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Total eligible own funds to meet the SCR | 201,014 | 176,014 | - | 25,000 | - | 209,422 | (8,408) |
| Total eligible own funds to meet the MCR | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Solo SCR | 86,222 | | | | | 167,230 | (81,008) |
| Solo MCR | 24,295 | | | | | 48,610 | (24,315) |

Tier 1 Unrestricted Own Funds relate to share capital, share premium and the reconciliation reserve and equate to the value of the excess of assets over liabilities in the Solvency II balance sheet. The reconciliation

reserve represents the changes resulting from valuation differences between UK GAAP versus Solvency II and also retained earnings and other reserves.

Tier 1 Restricted Own Funds and Tier 2 Own Funds relate to subordinated debt and ancillary own funds as described above.

Non-compliance with the MCG SCR occurs when the value of eligible Own Funds falls below the MCG SCR. As at 31 December 2021, the Group has exceeded the MCG SCR with coverage of 465% (2020: 278%) of the MCG SCR. SFHL has been compliant with the MCG SCR throughout the reporting period.

Non-compliance with the SF SCR occurs when the value of eligible Own Funds falls below the SF SCR. As at 31 December 2021, the Group has exceeded the SF SCR with coverage of 176% (2020: 125%) of the SCR, and SIL has exceeded its SF SCR with coverage of 233% (2020: 125%). SFHL has been compliant with the SCR throughout the reporting period.

Non-compliance on a solo basis occurs when the value of eligible own funds falls below the MCR or the SCR. As at 31 December 2021, SIL has exceeded both the MCR and SCR with coverage of 724% (2020: 379%) and 233% (2020: 125%) respectively. SIL has been compliant with both the MCR and the SCR throughout the reporting period.

## Directors' Report

The Directors of SFHL and SIL during the financial year are listed below and all appointments were for the full period unless otherwise stated.

**SFHL**

**Non-Executive Directors:**

Keith Barber

John Pantekidis

Sharon Ludlow

John Hastings-Bass

Kathryn Morgan

Barnabas Hurst-Bannister

Alex Howell

**SIL**

**Non-Executive Directors:**

Ewen Gilmour

Kathryn Morgan

Oliver Peterken

**Executive Directors:**

Mark Summerfield

Grant Mitchell

## Statement of Directors' Responsibilities

The Directors of SFHL and SIL as applicable are responsible for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Prudential Regulation Authority Rules and the Solvency II Regulations.

Each of the Directors of SFHL and SIL confirms that, to the best of their knowledge:

a) throughout the financial period in question, the Group and SIL have complied in all material respects with the requirements of the Prudential Regulation Authority Rules and the Solvency II Regulations as applicable to the Group and SIL; and

b) it is reasonable to believe that the Group and SIL have continued so to comply subsequently and will continue to comply in future.

By order of the Board:

John Hastings-Bass

Director

8 April 2022

## Independent Auditor’s Report

### Report of the independent external auditor to the Directors of Soteria Finance Holdings Limited (‘the Group’) 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 Group Solvency and Financial Condition Report

### Opinion

Except as stated below, we have audited the following documents prepared by Soteria Finance Holdings Limited (‘the Group’), comprising of Soteria Finance Holdings Limited and the authorised insurance entity Soteria Insurance Limited (‘the Company’) as at 31 December 2021:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Group Solvency and Financial Condition Report of the Group as at 31 December 2021, (‘the Narrative Disclosures subject to audit’); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22, S.25.01.22 and S.32.01.22 (‘the Group Templates subject to audit’); and
- Company templates of Soteria Insurance Limited S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01 (‘the Company Templates subject to audit’).

The Narrative Disclosures subject to audit and the Group and Company Templates subject to audit are collectively referred to as the ‘relevant elements of the Group 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’ elements of the Group Solvency and Financial Condition Report;
- Group template S.05.01.02;
- Company templates of Soteria Insurance Limited S.05.01.02 and S.19.01.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report (‘the Responsibility Statement’).

To the extent the information subject to audit in the relevant elements of the Group 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 Group Solvency and Financial Condition Report of Soteria Finance Holdings Limited as at 31 December 2021 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 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks’ and ‘ISA (UK) 805(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement’, 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 Group Solvency and Financial Condition Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Group 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.

### Conclusions relating to going concern

In auditing the relevant elements of the Group Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included;

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period to 31 December 2023;
- evaluating the solvency and liquidity position of the Group and Company by reviewing base case solvency and liquidity projections. We agreed the starting position of the projections, where applicable, to the audited financial information;
- understanding how severe the downside solvency and liquidity scenarios would have to be to result in the elimination of available headroom and concluded them to be remote;
- assessing management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and their impact on the going concern assessment;
- reviewing the Company's Scheme of Operations submitted to the Prudential Regulatory Authority (PRA) to obtain an understanding of the Company's run-off strategy and consider the impact on the Company's ability to continue operating as a going concern;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Group and Company's ability to continue as a going concern. We also reviewed minutes of meetings of the Board and its committees to assess whether there were any other matters discussed that may have an impact on the Group and Company's ability to continue as a going concern; and
- assessing the appropriateness of the going concern disclosures by comparing them for consistency with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for the period to 31 December 2023.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and Company's ability to continue as a going concern.

## Emphasis of matter – basis of accounting and restriction on use

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group 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 Group 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.

This report is made solely to the Directors of the Group and Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

## Other information

The Directors are responsible for the Other Information contained within the Group Solvency and Financial Condition Report.

Our opinion on the relevant elements of the Group Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

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 Group Solvency and Financial Condition Report or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the relevant elements of the Group Solvency and Financial Condition Report themselves. 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 Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group 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 the Financial Services and Markets Act 2000, the PRA Rules and the Solvency II Regulations 2015.

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

In preparing the Group Solvency and Financial Condition Report, the Directors are responsible for assessing the Group and Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Group and Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

## Auditor’s responsibilities for the audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group 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 Group Solvency and Financial Condition Report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Company, and determined that the most significant are company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).
- We understood how the Group and Company are complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also, reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and its committees; and gained an understanding of the Group and Company’s approach to governance.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Group and Company’s

methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the PRA and FCA.

- We assessed the susceptibility of the Group's Solvency and Financial Condition Report to material misstatement, including how fraud might occur by considering the controls that the Group and Company have established to address risks identified by the Group and Company, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, including performance targets, external pressures and the impact these have on the control environment. The fraud risk, including management override, was considered to be higher in respect of the setting of Technical Provisions (TPs), and we performed audit procedures to address the risk as detailed in our communication to the Audit Committee.
- We also performed journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.

The Group and Company operate in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team and concluded that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's Report on the Group Solvency and Financial Condition Report.

## Report on Other Legal and Regulatory Requirements

### Other information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Soteria Finance Holdings Limited and Soteria Insurance Limited 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.

Ernst & Young LLP

Ernst & Young LLP

London

8 April 2022

The maintenance and integrity of the Soteria Finance Holdings Limited 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 web site.

## A. Business and Performance

## A.1 Business

### A.1.1 Legal Form, Ownership and Registered Address

Soteria Finance Holdings Limited (SFHL) is a Company registered in England under the Companies Act 2006. The registered office is 40 Berkeley Square, London, W1J 5AL and the registered number is 12629263. SFHL was incorporated on 28 May 2020.

SFHL is a holding company and has one subsidiary, Soteria Insurance Limited (SIL). SIL underwrote insurance risk predominantly within the personal lines segment of the Motor and Home insurance markets. The SIL Board made the decision to place SIL into run-off in February 2021 and its last insurance policies will expire in March 2022 (see Section A.1.6). Since this date the Group has continued to administer existing policies in force and settle outstanding claims.

### A.1.2 Simplified Group Structure, Description of Holders of Qualifying Holdings in the Company and Material Related Undertakings

SFHL acquired SIL on 2 December 2020. SFHL owns 100% of the Ordinary Shares in SIL. The share capital of SFHL is owned by:

| Name | Legal form | Country of incorporation | Proportion of ownership interest and voting rights |
|---|---|---|---|
| GSO Capital Opportunities Fund III (Luxembourg) Sarl | Private Limited Company | Luxembourg | 43.2% |
| TF Special Opportunities – Fricso Ltd | Private Limited Company | Gibraltar | 47.3% |
| Markerstudy (Affinity) Holdings Limited | Private Limited Company | England and Wales | 9.5% |

SFHL is an Insurance Holding Company whose only subsidiary undertaking is SIL. Together they form an Insurance Group. The group structure is shown below:


### A.1.3 Employees

The Group employs a small number of colleagues to oversee the key functions of the business, with additional services provided by Markerstudy Insurance Services Limited (MISL).

### A.1.4 Name and Contact Details of External Auditors

The Company's auditors are Ernst & Young LLP (registered no. OC300001), whose registered office is 1 More London Place, London SE1 2AF.

## A.1.5 Name and Contact Details of Supervisory Authority and Regulator

SFHL's trading subsidiary, SIL, is authorised and regulated by the Prudential Regulatory Authority (PRA) in the United Kingdom, whose offices are at 20 Moorgate, London, EC2R 6DA and regulated by the Financial Conduct Authority (FCA), whose head office is at 12 Endeavour Square, London, E20 1JN. The Group is supervised by the PRA.

## A.1.6 Significant Business or Other Events

### Run-off

On 11 February 2021, the SIL Board, in line with the strategy of SFHL, made the decision to place SIL into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021. SIL's last new insurance policy was entered into with effect from March 2021. The Group continues to administer existing policies in force and settle outstanding claims. The focus of the Directors is to ensure that SIL meets all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Group has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its investors.

### Impact of war in Ukraine

As the Group trades solely in the UK, there is little direct exposure and so the impact is expected to be minimal.

#### Investments

The Russian invasion of Ukraine has had a significant impact on global investment markets, with prices falling significantly since the start of the war. As at the end of March 2022, unrealised losses of £3.9m were incurred, compared with the valuation of investments as at 31 December 2021.

The Group had an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian entity. This was sold on 9 March 2022, realising a loss of £1.8m. This is the only Russian or Ukrainian investment which was held by the Group.

Other investments in corporate bonds are expected to perform poorly in the short term. This performance is being closely monitored by the Investment Committee and mitigating action will be taken if required, for example, by moving investments into better performing asset classes. However, due to the longer term nature of the majority of investment holdings and close matching by duration of short-dated assets to liabilities, it is considered that there is no requirement for immediate changes to be made.

The investment committee are monitoring the situation on a regular basis to ensure that appropriate action can be taken as required.

#### Policyholders

As standard, policyholder screening procedures are in place to ensure no policies are held by sanctioned individuals.

### UK storms impact

In recent weeks, the UK has seen significant storm impact, with five storms in total occurring to date in 2022, the most notable being storms Dudley, Eunice and Franklin, which all occurred in a matter of days during February. Claims levels for the storms are not material, as few policies remained on cover at the time.

### Coronavirus (Covid-19) impact

Actions taken during 2020 meant that the Group was well prepared, both operationally and financially, for the impact of the pandemic in 2021. The primary impact has been to slow claims and reduce loss ratios at the start of the year, owing to there being fewer cars on the road, leading to fewer accidents and fewer claims, countered by upward pressure on average costs for some claims types.

## A.2 Underwriting Performance

## A.2.1 Business Performance

The table below shows the performance of the Group over the year to 31 December 2021.

From 1 January 2021, for statutory reporting purposes, the Group has chosen to adopt United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), the Companies Act 2006 and the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies in the preparation and presentation of its results. Prior to this date, the annual report and accounts were presented under International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). This decision has led to some changes in accounting policies, with the most significant being the decision to recognise all unrealised gains and losses on investments directly in the income statement. Where comparative figures are shown which previously were reported under IFRS, these have been restated to UK GAAP.

| | Solo £000 | Group £000 |
|---|---|---|
| Net earned premiums | 165,339 | 165,339 |
| Net policyholder claims and benefits | (152,535) | (152,535) |
| Fee and commission income | 4,763 | 4,763 |
| Fee and commission expenses | (775) | (775) |
| Acquisition and administrative expenses | (49,915) | (35,572) |
| Underwriting result | (33,123) | (18,780) |
| Net investment income | 3,983 | 3,983 |
| Investment expenses and charges | (3,168) | (13,126) |
| Loss on ordinary activities before tax | (32,308) | (27,923) |

Differences between Solo and Group figures are as follows:

- £14,950k of acquisition costs included in Solo, which relate to the unwind of deferred acquisition costs. These were expensed at the point of sale for Group.
- £10,133k of finance costs, primarily relating to interest charges on the £60m subordinated loan issued in December 2020, and £606k of administrative expenses incurred by SFHL.

A more detailed analysis of the performance of SIL and the Group, including comparatives against the prior year, can be found in the Annual Report and Accounts which are available at www.soteriainsurance.co.uk.

The underwriting result is described in more detail in Section A.2.2.

Investment income and net unrealised losses on investments reflect income on corporate bonds, gilts and collective investments held by the Group during the year. The change in accounting policy to FRS 102 means that all unrealised gains and losses are now included in the income statement. During the year, a change in asset manager led to a significantly higher than usual level of sales and purchases of investments. Realised gains represent total gains made on assets which were sold in the year, and the net unrealised losses includes a reversal of the prior period's gains on these investments. Investments have performed less strongly in the year than in the previous period, following lower market performance.

Finance costs predominantly relate to interest on subordinated debt issued by SFHL.

## A.2.2 Underwriting Performance

Analysis of SIL's and the Group's underwriting performance for the year to 31 December 2021, by line of business, is presented below. As part of the purchase agreement in 2020, deferred acquisition costs on consolidation were expensed prior to purchase, therefore there are no acquisition expenses included in the Group's underwriting result.

No geographic segmental reporting analysis is presented as all business is conducted in the UK, Isle of Man and the Channel Islands.

2020 comparatives are only shown for Solo, as these represent a full year of trading and are therefore a more useful indicator of the change in trading than the 2020 Group figures which only included SIL from 2 December.

Changes in the underwriting performance are mainly due to SIL entering run-off in 2021, with the final policies having expired in March 2022. As a result, 2021 saw significantly reduced premium earnings which is only partially offset by an immediate reduction in claims.

The Group costs include £432k of administrative expenses relating to SFHL and exclude £14,950k of deferred acquisition costs which were expensed at the point of sale for the Group.

### Motor Vehicle Liability Insurance (Motor)

| | **2021 Solo £000** | **2021 Group £000** | **2020 Solo £000** |
|---|---|---|---|
| Net earned premiums | 85,942 | 85,942 | 166,777 |
| Net policyholder claims and benefits | (91,106) | (91,106) | (124,753) |
| Acquisition, administrative and commission expenses | (31,523) | (23,043) | (66,462) |
| Fee and commission income | 2,771 | 2,771 | 30,630 |
| Underwriting result | (33,916) | (25,436) | 6,192 |
| Claims ratio | 106.0% | 106.0% | 74.8% |

## Other Motor Insurance (Other Motor)

| | 2021 Solo £000 | 2021 Group £000 | 2020 Solo £000 |
|---|---|---|---|
| Net earned premiums | 36,832 | 36,832 | 67,731 |
| Net policyholder claims and benefits | (41,565) | (41,565) | (50,011) |
| Acquisition, administrative and commission expenses | (13,051) | (9,157) | (25,323) |
| Fee and commission income | 1,187 | 1,187 | 13,075) |
| Underwriting result | (16,597) | (12,703) | 5,472 |
| | | | |
| Claims ratio | 112.9% | 112.9% | 73.8% |

## Fire and Other Damage to Property Insurance (Home)

| | 2021 Solo £000 | 2021 Group £000 | 2020 Solo £000 |
|---|---|---|---|
| Net earned premiums | 42,565 | 42,565 | 57,312 |
| Net policyholder claims and benefits | (19,834) | (19,834) | (34,306) |
| Acquisition, administrative and commission expenses | (6,116) | (4,148) | (38,851) |
| Fee and commission income | 805 | 805 | 8,543 |
| Underwriting result | 17,420 | 19,388 | (7,302) |
| | | | |
| Claims ratio | 46.6% | 46.6% | 59.9% |

## Other

| | 2021 Solo £000 | 2021 Group £000 | 2020 Solo £000 |
|---|---|---|---|
| Net earned premiums | - | - | - |
| Net policyholder claims and benefits | (30) | (30) | (6,183) |
| Acquisition, administrative and commission expenses | - | - | - |
| Fee and commission income | - | - | - |
| Underwriting result | (30) | (30) | (6,183) |

This category includes the aggregate of all other lines of business which are not material to disclose separately.

## A.3 Investment Performance

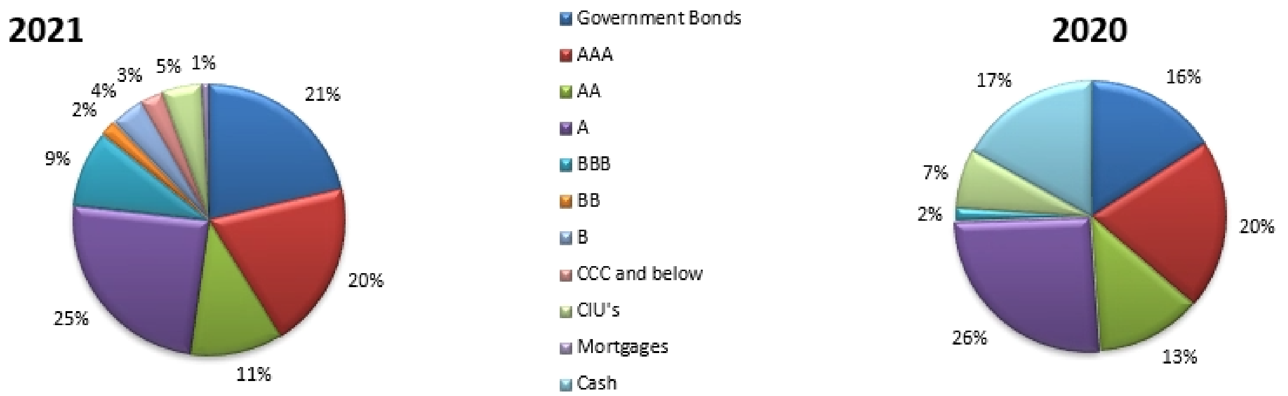
### A.3.1 Investment Income and Expenses

The table below analyses the Group's investment income and expenses. The investment return is solely attributable to the Group's trading subsidiary, SIL.

| | **Year ended 31 December 2021 £000** |
|---|---|
| Investment income from cash deposits | 198 |
| Investment income from government bonds | 1,357 |
| Investment income from corporate products | 3,235 |
| Investment income from collective undertakings | 198 |
| Investment income from mortgages and loans made | 74 |
| **Investment income** | **5,062** |
| | |
| Unrealised losses arising from financial instruments | (3,206) |
| Realised gains arising from financial instruments | 2,126 |
| Investment expenses | (1,765) |
| **Investment return** | **2,217** |

The Group has a portfolio of investments in corporate bonds, gilts, cash, collective investments and real-estate backed lending. Collective investments include funds of European asset-backed credit and global credit. Investments are denominated in sterling, US Dollars and Euros, with currency hedges held against foreign exchange fluctuations.

All Group investments are held within SIL.




The investment return achieved in the period of £2,217k has been impacted by the decision to change investment managers during the year. This has led to high levels of sales and purchases as well as temporary holdings of assets in lower performing asset classes in order to ease transition and sale of the investments. Realised gains made in the year were offset by unrealised losses. This is mainly due to the crystallisation of previously recognised unrealised gains on those assets which were sold as part of a decision to change investment manager. Investments have performed less strongly in the year than in the previous period, following lower market performance.

A change in investment strategy means that more assets are now being held in higher risk assets than in the prior year. The main portfolio, which is designed to meet the requirements of the short tail claims, is invested in government bonds and corporate bonds, down to BB rating. Other assets, which are to meet the demands of the longer term PPO portfolio, as well as provide additional income, are invested in corporate bonds rated BB and below, as well as collective investments and real-estate backed lending. Cash balances in 2021 are mainly held in money market funds, and are shown within cash on the balance sheet.

### A.3.2 Investment Gains and Losses Recognised Directly in Equity

Following a change in accounting treatment in 2021 and the transition from IFRS to UK GAAP, all investment gains and losses are recognised in the income statement and brought forward amounts previously recognised directly in equity have been transferred to retained earnings.

### A.3.3 Investments in Securitisations

The Group had no investments in securitisations at December 2021.

## A.4 Performance of Other Activities

### A.4.1 Leasing Arrangements

The Group has operating lease arrangements relating to occupied property. In accordance with UK GAAP, lease costs are expensed as they become due and no assets or liabilities relating to the property are held on the balance sheet.

## A.5 Any Other Information

### A.5.1 Related Party Transactions

Information relating to related party transactions, including key management compensation, can be found in Note 32 to the Group's Annual Report and Accounts.

# B. System of Governance

## B.1 General Information on the System of Governance

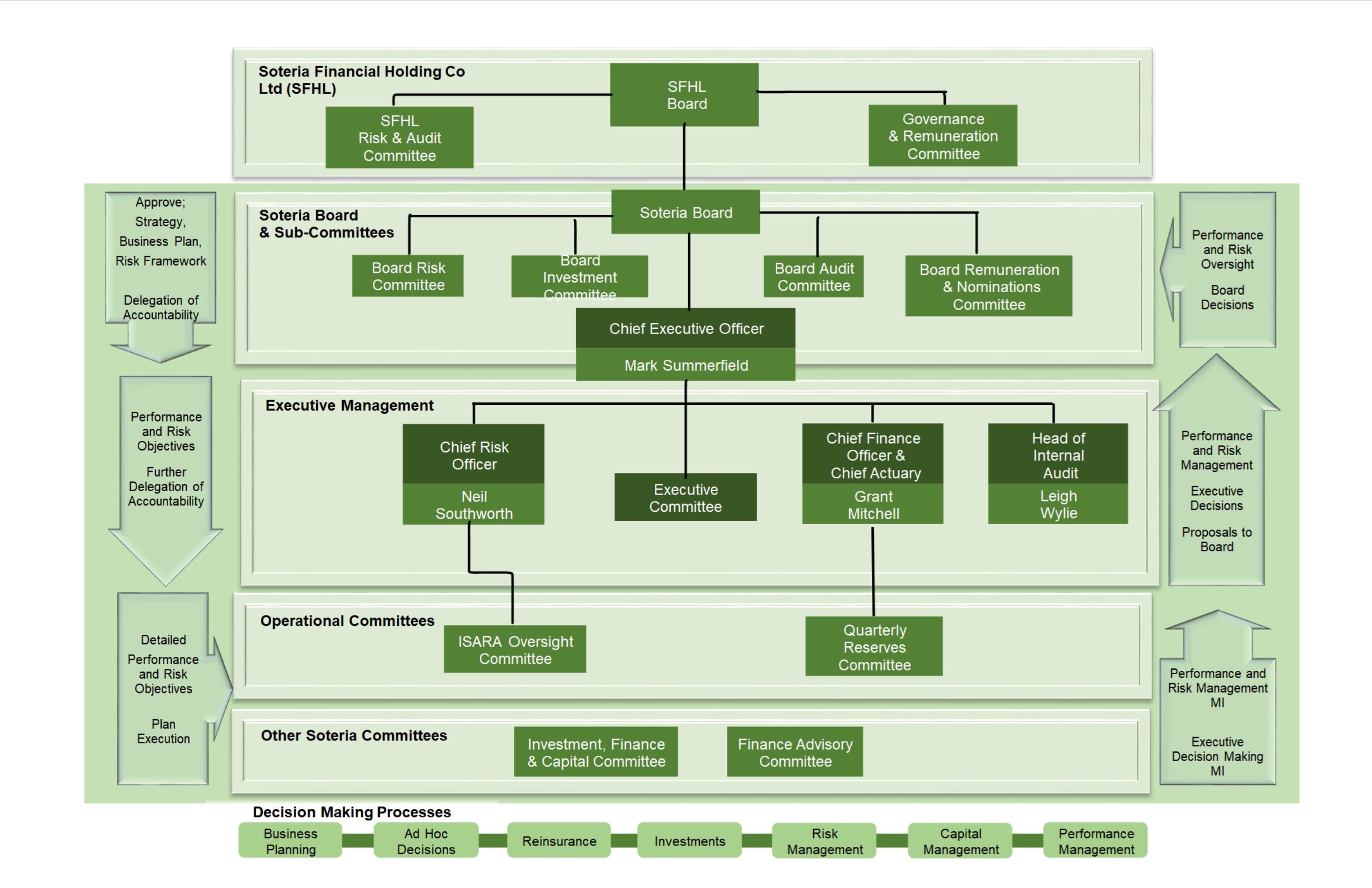
### B.1.1 Governance Structure

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

The Group's governance structure is focused on the trading subsidiary, SIL. SIL has established a strong governance framework and ensured that the accountability and responsibility of individual Senior Managers and directors is clearly defined and documented. This enables the Board, Executive and associated committees to interact effectively to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business.

The governance framework includes a formal committee structure, consisting of the SIL Board (which reports to the SFHL Board) and its sub-committees (shown in the diagram below), Executive Management committees and Advisory committees. The governance framework is managed using a 'Three Lines of Defence Model' (see Section B.3.1.3). Material changes to the governance framework over the year are described in Section B.1.3.

The diagram below illustrates how the Board and its sub-committees operate within the governance structure.




The sections below outline the main roles and responsibilities of the SFHL Board, the SIL Board and their sub-committees.

| Committee | Overview | Responsibilities |
|---|---|---|
| SFHL Board | The SFHL Board is responsible for organising and directing the affairs of the Group in a manner that is most likely to promote the success of the business for the benefit of its investors and is consistent with its purpose, regulatory and statutory requirements and corporate governance best practice. | See Note 29 of the Group's Annual Report and Accounts. |
| SFHL Risk and Audit Committee (BRAC) | The purpose of the BRAC is to oversee and advise the SFHL Board on current and potential risks and the overall risk framework. The committee also oversees SFHL's risk management arrangements, ensuring that Risk Appetite is appropriate | See Note 29 of the Group's Annual Report and Accounts. |

| Committee | Overview | Responsibilities |
|---|---|---|
| | and adhered to and that key risks are identified and managed. It also assists the SFHL Board in discharging its responsibilities for the integrity of SFHL's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors. | |
| SFHL Governance and Remuneration Committee | The purpose is to ensure the overall Governance is adequate for the SFHL Group and is the Nominations Committee for SFHL Board membership. | See Note 29 of the Group's Annual Report and Accounts. |
| SIL Board | The SIL Board is responsible for organising and directing the affairs of the company in a manner that is most likely to promote the success of the business for the benefit of its shareholders and is consistent with its purpose, regulatory and statutory requirements and corporate governance best practice. | See Note 29 of the Group's Annual Report and Accounts. |
| SIL Board Risk Committee (BRC) | The purpose of the BRC is to oversee and advise the SIL Board on current and potential risks and the overall risk framework. The committee also oversees SIL's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed. | See Note 29 of the Group's Annual Report and Accounts. |
| SIL Board Audit Committee (BAC) | The purpose of the BAC is to assist the SIL Board in discharging its responsibilities for the integrity of SIL's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors. | See Note 29 of the Group's Annual Report and Accounts. |
| SIL Board Investment Committee (BIC) | The purpose of the Committee is to assist the SIL Board in discharging its responsibilities in relation to the Prudent Person Principle by overseeing the Company's out-sourced investment activities and to ensure investments are made in line with the approved strategy and mandate. | See Note 29 of the Group's Annual Report and Accounts. |

| Committee | Overview | Responsibilities |
|---|---|---|
| SIL Board Remuneration Committee (REMCO) | The purpose of the Remuneration Committee is to determine the Remuneration Policy for SIL in respect of its Executive and set/approve remuneration. | See Note 29 of the Group's Annual Report and Accounts. |

## B.1.2 Key Functions

As a regulated company all accountabilities within the Group's trading subsidiary, SIL, are allocated as part of The Senior Manager and Certification Regime (SM&CR).

The SIL Management Responsibilities Map describes and documents SIL's overall governance arrangements. It demonstrates that there are no gaps in the allocation of responsibilities amongst its management.

Senior Manager Functions are roles the regulators deem 'critical' within a firm. They are occupied by individuals who have significant influence over the firm's business strategy, culture and compliance with regulatory requirements. Individuals who are appointed to perform a Senior Manager function must be approved by the FCA and/or PRA.

Key Functions, as defined by Solvency II regulation, are those functions which, if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm's system of governance has identified those persons who are responsible for the Key Functions, known as Key Function Holders (KFHs), along with their lines of accountability.

The table below summarises the four Key Functions:

| Key Function | Key Function Holder | Section Reference |
|---|---|---|
| Risk management function | Chief Risk Officer | B.3 |
| Compliance function | Chief Risk Officer | B.4.2 |
| Internal Audit | Head of Internal Audit | B.5 |
| Actuarial function | Chief Actuary | B.6 |

Details on how each Key Function has the necessary authority, independence and resources needed to carry out tasks and report to the SIL Board are located under the section references noted in the above table.

## B.1.3 Material Changes

As described in Section A.1.6 SFHL acquired SIL on 2 December 2020, following approval by the Prudential Regulation Authority (PRA). The Board composition of SIL changed on this date but there were no material changes to the governance structure.

Following the change in control, a transitional services agreement with the Co-op Group was entered into to provide IT and other services, and a committee was set up to monitor the overall performance and service levels provided; the Migration and Transitional Services Agreement (MTSA) oversight committee. Following successful migration, this committee was no longer required and therefore it has now ceased.

As noted in Section A.1.6, during 2021, SIL ceased underwriting and has gone into run-off. Whilst this is a significant change to the business model and impacts the risk framework, it did not lead to any changes to the above Governance Structure.

## B.1.4 Remuneration

The SIL Pay Policy documents the remuneration principles of Executives within the trading subsidiary, SIL. The holding company, SFHL, does not have any Executive Directors. The policy is governed by the SIL Remuneration Committee (REMCO) and reviewed by the SFHL Governance and Remuneration Committee.

The SIL Pay Policy promotes a competitive but not excessive employment offer which achieves an appropriate balance between fixed and variable pay and which promotes sound and sustainable decision-making through effective risk management.

In determining SIL Executive remuneration, the Policy takes into account a number of principles which reflect the regulatory responsibilities of SIL, including the following:

- The Policy has been designed to ensure that overall levels of remuneration are sufficient to attract, retain and motivate individuals of the quality necessary to manage SIL effectively and successfully, but are not excessive in comparison to the relevant external market.
- The Policy aims to align the remuneration of SIL Executives with balanced business judgement, in order to ensure that customers are placed first, and sustainable decisions and actions are taken in their best interests. Therefore, SIL Executives are not remunerated solely on the basis of the sales and profits of SIL, but on a balanced scorecard including both customer and colleague measures.
- REMCO will seek to maintain a market-aligned and sustainable remuneration structure for SIL Executives.
- Any performance conditions attached to incentive awards will be appropriate, stretching and support the strategy and purpose of SIL.
- REMCO should ensure that performance conditions do not encourage excessive risk taking and protect the delivery of fair customer outcomes.
- Variable remuneration will be subject to appropriate claw-back and, where appropriate, malus arrangements.
- Remuneration for new hires should be sufficient to attract Executives of the required calibre using the same policies that apply to current SIL Executives.
- If SIL Executives depart SIL, REMCO will aim to ensure colleagues are treated fairly whilst minimising the cost to SIL.

### Long term incentive awards and supplementary pension and early retirement schemes

The Group does not directly issue any long term incentive awards. No supplementary pension or early retirement schemes are offered.

### Remuneration paid to Non-Executive Directors

The SIL Board delegated responsibility for determining the Non-Executive Directors' (NED) fees, to the Chair and the Chief Executive Officer (CEO). A review of NED fees includes a benchmarking exercise conducted by a specialist external consultancy, which was last conducted prior to acquisition by SFHL, in March 2016.

The SIL Remuneration Committee is responsible for determining the fees payable to the Board Chair. The fees were last considered by the Committee prior to acquisition by SFHL, in 2018 following a review of External Market Data and in the context of the strategic landscape. The SFHL Governance and Remuneration Committee recommends the fees policy for all SFHL Directors.

Further information relating to remuneration including compensation paid to key management and Non-Executive Directors is included in Note 31 of the Group's Annual Report and Accounts.

### B.1.5 Material Transactions

SFHL's ownership structure is detailed in Section A.1.1 and A.1.2 above. As explained in Section A.5, information relating to transactions with related companies, including key management compensation, can be found in Note 31 to the Group's Annual Report and Accounts.

## B.2 'Fit and Proper' Requirements

Persons who effectively run the business or who are responsible for other Key Functions within the business must be 'fit and proper' at all times. This means that these persons must have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity.

The Group's trading subsidiary, SIL, has established a fit and proper policy and processes which comply with the Senior Managers and Certification Regime (SM&CR). SIL has identified Certified Employees (the next tier of management below Senior Managers where the role has a risk of significant harm to the firm or any of its customers) to which the requirements will also apply. SIL will ensure that Senior Managers and Certified Employees are at all times fit and proper persons.

### B.2.1 Process for Assessing Fitness and Propriety

The process for assessing fitness and propriety comprises of two stages:

**1. Pre-appointment**

To assess an individual's fitness and propriety to perform a role the following steps are undertaken:

- Executive search consultancy utilised to identify the best candidates for the role.
- Request a formal application along with a full and comprehensive CV.
- Request and review evidence of relevant qualifications, where appropriate.
- Interviews conducted by individuals with appropriate expertise and seniority within the firm.
- Obtain regulatory references from previous employers. These must include the minimum information as prescribed by our regulators. Personal references may also be obtained.
- Criminal records checks.
- Credit checks to establish an individual's financial soundness.
- Other due diligence from other publicly available sources, for example Financial Services Register, Companies House (to establish any conflicts of interest) and media searches.

The Group will only recruit individuals to a position of significant influence who have the appropriate skills, knowledge and experience. Where any minor development needs are identified these will be addressed as part of a development plan and the individual will be provided with appropriate support.

The Group will also ensure that any appointments to the Board contain an appropriate mix of skills and experience, and the right mix of both financial industry capability and critical perspective from high-level experience in other major businesses.

**2. On-going (post appointment)**

The Group monitors an individual's fitness and propriety on an on-going basis via regular performance appraisals. In addition, an assessment is conducted and documented on an annual basis using the following information:

- Results of performance appraisals, including adherence to the conduct rules outlined by SM&CR.
- Progress against development plans, where appropriate.
- Self-certification by the individual as to their fitness and propriety.
- Other relevant supporting documentation, for example an assessment of their risk performance over the year, Internal Audit Summary, role profiles & Continuous Professional Development logs.
- An up to date version of their handover pack – Senior Managers only.

## B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

### B.3.1 Risk Management System

The Risk Management Framework (RMF) identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across the business.

Effective Risk Management is essential for the achievement of business success and is everyone's responsibility. Customers, members, regulators and other stakeholders expect the Group to manage risk effectively.

#### B.3.1.1 Risk Vision & Appetite

The Group's Risk Vision is set by the SFHL Board and supported by a capital coverage risk appetite requirement of 120%. As the material risks arising occur within SIL, the Group's Risk vision and appetite is then set and managed within the SIL Risk Vision and Appetite. SIL's capital coverage to meet appetite was reviewed by its Board in September 2021 and set at the greater of 140% SCR coverage and 130% ECR coverage.

SIL's Risk Vision is set by the SIL Board and overarches the risk appetite statements.

Risk Appetite is the expression of how much risk SIL would be prepared to accept in pursuit of its vision. The elements are:

- Overarching Risk appetite statements
- One or more metrics that underpin each of the risk appetite statements, along with 'red', 'amber' and 'green' thresholds for monitoring and reporting exposure against each metric.

The detailed statements and their supporting metrics are contained within Risk Vision and Appetite documents for both SFHL and SIL which are maintained by the Chief Risk Officer (CRO) of SIL.

The SFHL Board owns and approves the Group Risk Appetite and delegates the setting of more detailed risk limits to SIL with formal assignment of Risk Framework Owner (RFO) accountabilities.

### B.3.1.2 Risk Management Process

The risk management process outlines the key requirements including roles and responsibilities for the way in which risk management is conducted across the business. The risk management process consists of five stages:

1. Identification.
2. Measurement.
3. Management.
4. Monitoring.
5. Reporting.


The purpose and requirements for each stage of the risk management process are outlined in the section below.

| Stage | Purpose | Requirement |
|---|---|---|
| Risk Identification | To identify the current and emerging risks that may impact the Group. | The process requires in-depth knowledge of the Group's strategic and operational objectives, business, markets and structure. |
| Risk Measurement | To quantify the risks to the Group in a consistent manner. | Risks within the Group are assessed by considering the 'likelihood' of the risk materialising and the 'impact' should it materialise.<br>Risks within the Group are assessed using a 5 x 5 Risk Assessment Matrix. |
| Risk Management | To carry out an appropriate strategy to address the risk in question. | Risk mitigation by the use of well documented and robust controls will be the most appropriate approach for the majority of risks. |
| Risk Monitoring | To ensure that the selected risk management approach is effective, and to keep track of any changes which may impact the risk environment and the level of exposure over time. | Exposure by risk type is monitored on a regular basis. The frequency will depend upon the materiality of the risk. |
| Risk Reporting | To provide the SFHL Board and SIL Board, Executive and senior management with an accurate, timely and clear account of the current risk exposure and to highlight any risks to achievement of business objectives. | The aim is to provide the SFHL Board and SIL Board, Executive and senior management with an accurate, timely and clear account of the current risk profile. This is achieved by taking the most material outputs from the above processes and presenting them to the Board. Ultimately the SIL |

| Stage | Purpose | Requirement |
|---|---|---|
| | | CRO is responsible for ensuring that this aim is met. |

### B.3.1.3 Three Lines of Defence

The RMF has been built around the 'Three Lines of Defence' model as follows:

- 1st line: manage risk in day to day operations.
- 2nd line: provide oversight and challenge of first line activities; establish and oversee the risk management framework.
- 3rd line (Internal Audit): provide assurance that the RMF is being executed as intended and functioning correctly (see Section B.5 for further details of the Audit function).

As the Group has only one trading subsidiary, SIL, and SIL is largely an outsourced model, much of 1st line work is carried out by third parties. 2nd line activities do not aim to repeat the independent checks and controls of the work produced by Markerstudy Group (MSG) on behalf of SIL. The 2nd line will separately review based on a 1st line residual risk prioritisation to provide proportionate assurance of the Risk profile and control status.

### B.3.1.4 Policies and Controls

#### Policies

The majority of policies and controls in the Group apply directly to SIL due to the company undertaking regulated activities. SIL has a set of risk policies in place to manage risk across the business. Each risk policy is owned by a designated RFO. These policies outline the principles that the RFO expects the business to follow.

The individual policies are reviewed and updated by the RFO annually, as a minimum, to ensure on-going relevance and effectiveness against business strategy and organisational design, or any changes in external regulatory requirements.

#### Controls

Each risk identified in the risk register has one or more controls appended to it. Each of the controls is owned and approved by the relevant RFO, however they may choose to delegate the management and testing of the controls to a subject matter expert within their area. The RFO must attest that all controls are operating effectively every 6 months, and call out areas of control weakness.

### B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA is the totality of all processes used to identify, measure, manage, monitor and report the short term and long term risks the Group faces or may face and the Own Funds necessary to ensure solvency requirements are met on a continuous basis. The PRA has granted a modification of the rules such that SFHL will produce a single Group ORSA for SFHL and SIL.

The Group has a governance structure to ensure the necessary technical expertise to provide input to and challenge the ORSA:

- The SFHL Board has ultimate responsibility and accountability for the Group ORSA, after approval by the SIL Board, including providing direction for the overall approach.

- The overall responsibility for the conduct and documentation of the ORSA lies with the SIL CRO and the Risk function. The SIL CRO will provide oversight across the overall RMF for all known risks and related processes and controls.
- Business areas are responsible for providing requested documentation in support of the underlying ORSA process and production of reports.

### B.3.2.1 ORSA Policy

The ORSA policy sets out the Group's approach to the conduct of the ORSA and its reporting. The policy outlines the framework approved by the SIL and SFHL Boards to ensure that the ORSA is an integral part of business planning, strategy and decision making; and the SIL Board has an active role in directing the ORSA process and challenging the output.

All employees are required to comply with the requirements of the ORSA Policy and to report any breaches in accordance with the guidance contained within the RMF Policy.

### B.3.2.2 ORSA Principles

The ORSA policy is founded on the following principles:

| | |
|---|---|
| Process | 1. The ORSA is forward-looking and closely related to business planning.<br>2. The ORSA considers the link between the risk profile, approved risk appetite limits and overall solvency needs.<br>3. The ORSA encompasses all material quantitative and qualitative risks that may impact SFHL.<br>4. The ORSA includes stress tests, sensitivity analyses and reverse stress tests. |
| Report and Documentation | 5. The full ORSA report documents the ORSA process, conclusions and implications, providing links to further evidence.<br>6. A full ORSA report is to be produced annually alongside the Group's Strategic Plan.<br>7. Ad hoc updates to the ORSA report are produced following material changes to SFHL's current and/or projected risk profile, business model or solvency position.<br>8. The risk team will produce and maintain an ORSA record document. |

### B.3.2.3 ORSA Process

The ORSA process is the on-going process by which SFHL manages and assesses its risk and solvency (both regulatory and internal) within its decision-making processes.

#### ORSA Methodology & Assumptions

- The ORSA considers all known risks to which the Group is exposed in both qualitative and quantitative terms. The ORSA will assess exposure to these risks against the risk appetite limits set by SFHL and SIL Boards.
- Risk and solvency is considered and projected over (at least) SFHL's medium-term planning horizon. The ORSA considers emerging risks, the impact of the business plan on its risk profile, and the extent to which the strategic plan aligns with risk appetite.

- The internal economic view of SFHL's risks is calculated based upon the Standard Formula, which is adjusted appropriately.
- The ORSA considers capital and solvency on all relevant regulatory and internal bases, including reconciliations and explanation for differences.
- The ORSA includes an analysis of the Standard Formula against SFHL's risk-profile.
- The ORSA documents and explains the change in the risk profile, capital and solvency from the previous exercise. This assessment includes confirmation of continuous solvency over the period from the previous ORSA report.
- The ORSA considers the quantity and quality of Own Funds over the business planning period and the composition of Own Funds across tiers.
- Stress and scenario tests (SSTs) are to be performed at least annually, normally as part of the Strategic Planning process, and additionally on an ad hoc basis if appropriate. These include economic scenarios, individual stress events and sensitivities to key assumptions. The SSTs include reverse stress tests which are events or a combination of events that would lead to business failure. The SST analysis includes the impact upon solvency, which provides management with information on the potential vulnerabilities faced by SIL so that they can identify appropriate management actions.

### Key Activities

| Process | Key activities that form part of the ORSA process |
|---|---|
| Business Planning | • Reviewing and updating risk appetite.<br>• Setting and quantifying stresses and scenarios.<br>• Projections of risk, capital and solvency.<br>• Assessment against risk appetite.<br>• Production of full ORSA report. |
| Ad Hoc Strategic Processes | • Reviewing risk, capital and solvency implications of mergers, acquisitions, further reinsurance purchase and other strategic activity.<br>• Production of ad hoc ORSA reports. |
| Investment | • Market, Credit and Liquidity risk management. |
| Risk Management | • Maintenance of risk register and RCSA process.<br>• Risk Management Framework<br>• Risk reporting. |
| Capital Management | • Solvency management actions and contingency plans.<br>• Regulatory and internal solvency reporting.<br>• Calculation of capital requirements<br>• SF Appropriateness |

| Process | Key activities that form part of the ORSA process |
|---|---|
| Performance Management | • Profitability of business and how this impacts risks and future solvency. |

### Production and Review Frequency

An annual frequency is considered appropriate to update the full ORSA report in normal circumstances, alongside the annual strategic plan, given the Group's business model and risk profile. The first full ORSA was approved by the SFHL and SIL Boards in Q2 2021.

The Group's current and projected risk profile and solvency position is monitored continuously with reporting provided on a quarterly basis to the SFHL and SIL Boards. An 'ad hoc ORSA' is principally required where there is a significant change to the business model or risk profile. The CRO is responsible for recommending to the SFHL and SIL Boards when an ad hoc ORSA assessment and report should be carried out, which may also be carried out upon request by the SIL Board or the PRA. There were no ad-hoc ORSAs produced in 2021.

The table below shows drivers and triggers that are likely to result in an ad hoc ORSA.

| Change driving ad hoc ORSA | | Trigger |
|---|---|---|
| Business Model | • A significant change to SFHL's strategy or medium-term plan.<br>• A merger, acquisition or divestiture. | • Board-approved change to the strategic plan. |
| Risk Profile and Solvency | • An event that significantly impacts the current/projected risk profile or solvency, including:<br>- Market stress.<br>- Catastrophe or cluster of large claims.<br>- Change in liability portfolio and reserves.<br>- Failure of key 3rd party.<br>- Regulatory breach resulting in disciplinary measures and/or sanctions. | • Risk Appetite status for solvency becoming red. |

## B.4 Internal Control System

Section C.2.3 of the UK Corporate Governance Code has a requirement that companies carry out a review of their risk management and internal control systems.

Whilst the requirements apply to listed companies, the Group views this as good practice, and an important part of demonstrating the embedding of the RMF and control as an on-going discipline.

The controls operating in a business area include all measures and practices used to reduce exposures for all types of risk that could prevent an organisation from achieving its objectives. A strong and effective control framework is fundamental to effective management of risk, allowing management to reduce risks to acceptable levels.

Each control must be assessed in terms of its design and performance. Such assessment is required to determine how effective the control is in reducing either the impact or likelihood of each risk, and to enable the determination of the residual risk, after taking into account the operation of all controls.

As part of the Group's RMF the following internal processes are performed by members of SIL's Executive Team:

- They understand the risks and controls in their area of accountability.
- They have assessed the risk and controls where they are a RFO and completed attestations to this effect.
- They have implemented and embedded the requirements of the Risk Policies and associated Control Standards within their business area/function.
- They have undertaken a Risk and Control Self-Assessment process, including assessments of control effectiveness with suitable evidence having been retained to support test results (see Section B.4.1).
- Material risks have been reported through appropriate governance, and are being mitigated or have been formally recorded as risk exceptions.
- All material risk events within their area of accountability have been reported and are being managed through to achieve closure, understand the root cause and improve controls.
- There are no further risk management or internal control matters that require disclosure.

### B.4.1 Risk and Control Self-Assessment (RCSA)

Each SIL Executive is required to undertake an RCSA, which identifies the risks to the achievement of their key objectives and the controls against these risks, together with an assessment of the effectiveness of the controls (Design and Performance) with appropriate testing of control performance.

The RCSAs cover all material controls.

The SIL CRO ensures that RCSAs are reviewed and challenged by the 2nd Line Risk function to ensure these provide reasonable assurance over the material accuracy of the Executive and RFO assurances.

SIL also operates a risk exception process to ensure that there is a consistent procedure to provide transparency, challenge and oversight of risks where no further mitigation action is being taken. The processes for capturing and assessing the impact of risk events has been outsourced to MISL and is monitored via the ISARA oversight committee.

In addition to this, on behalf of the Group, SIL maintains regular dialogue with both the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) to ensure that they are updated on any material control issues.

Risk and control assessments must be provided by each SIL Executive for all of their areas of accountability. This procedure of producing assessments is required on a six monthly cycle.

## B.4.2 Compliance

The SIL CRO holds compliance officer responsibilities and is supported in this by a small team. Independent audits in all areas of the business against FCA requirements and other guidance, together with Financial Crime oversight, have been outsourced to MSG via the ISARA, with ownership by the SIL CRO.

### Accountability

The SIL CRO is accountable to the SIL Board for SIL and SFHL Board regarding SFHL.

### Authority and Independence

The CRO reports to and receives authority from the SIL BRC and SFHL Risk and Audit Committee. The Soteria Risk team are accountable to the CRO and propose the risk framework for SIL BRC/SFHL BRAC approval.

Implementing and reporting on the Risk according to the Framework is supported by the MSG Risk and Compliance team which acts independently from Soteria but performs its activities objectively according to the agreed Risk Framework requirements. The MSG Risk and Compliance team reports to Soteria through the ISARA Oversight Committee and therefore has direct access to persons with sufficient authority to be in a position to intervene if Soteria’s regulatory status or risk appetite are at stake.

The Soteria Risk team has wide ranging access to information that the Board or Risk Team considers necessary to enable the team to meet its responsibilities.

### Resources

The Soteria Risk team reports to the SIL CRO and is supported by the MSG Risk and Compliance team which is outsourced with its output monitored by the ISARA Oversight Committee, thus ensuring that service level requirements are met.

### Reporting

The Risk team is required to report findings to the Boards and relevant executives in such a way that allows them to understand their possible exposures to Regulatory & Conduct Risks.

## B.5 Internal Audit function

The role of Internal Audit is established by the SIL BAC and SFHL BRAC on behalf of the Boards of Directors.

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Group’s governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation’s stated goals and objectives.

In setting its scope, Internal Audit takes into account business strategy, forming an independent view as to whether the key risks to the Group have been identified and assessing how effectively these risks are being managed. Internal Audit assesses whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assesses whether they are adequately controlled; and challenges management to improve the effectiveness of governance, risk management and internal controls. All of the Group’s activities (including outsourced activities) are within the scope of Internal Audit. There is no aspect of the Group from which Internal Audit is restricted as it delivers its mandate.

Internal Audit determines which areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit plan is developed to reflect Internal Audit's view of the risk profile of the organisation and its control environment. The audit programme includes obtaining an understanding of the processes and systems under review, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit will only seek to rely on the work of other assurance providers following a review to evaluate the effectiveness of their work.

The Head of Internal Audit is responsible for preparing the annual audit plan (in consultation with the SFHL BRAC, SIL BAC and senior management), submitting the audit plan and Internal Audit budget for review and approval by the SFHL BRAC and SIL BAC, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the SFHL BRAC, SIL BAC and senior management. Internal Audit provides assurance over specific areas as requested by Regulators. The Head of Internal Audit reviews the audit plan regularly in light of Internal Audit's on-going assessment of risk. Any material changes to the audit plan proposed by the Head of Internal Audit are submitted for approval by the SFHL BRAC / SIL BAC, including any impact on resource requirements.

### B.5.1 Rights and Authority

The Internal Audit function derives its authority from the Board through the SIL BAC and SFHL BRAC. The Head of Internal Audit is authorised by the SIL BAC and SFHL BRAC to have full and complete access to any of the organisation's records, properties and personnel.

The Head of Internal Audit attends Executive Committee meetings and has the right to attend other management committees, with full access to all related papers and minutes. The Head of Internal Audit has full access to all Board and Board Committee papers and minutes and attends SIL BAC, SIL BRC and SFHL BRAC meetings.

The Head of Internal Audit has access to the SIL BAC and SFHL BRAC, without the presence of Executive Management, at any time and meets periodically with the Chairs of the SIL BAC and SFHL BRAC.

### B.5.2 Roles and responsibilities in the Risk Management Framework

The 'three lines of defence' governance model operated by SIL ensures appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management, the 1st line of defence, is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. As the Group is largely an outsourced model, much of 1st line work is carried out by third parties.

2nd line oversight activities are not necessarily carried out by the Risk team and can be carried out by anyone working in or for Soteria, as long as they are independent from whoever carried out the work. The Risk function owns the Risk Management Framework, oversees and challenges its implementation and operation by the 1st line of defence, and considers current and emerging risks across SIL.

The 3rd line of defence, Internal Audit, independently challenges the overall design and operation of the Risk Management Framework and provides assurance to the SFHL BRAC, SIL BAC and senior management on the adequacy of both the 1st and 2nd lines of defence, including the quality of their work.

## B.5.3 Independence and Objectivity

The Head of Internal Audit reports to the Chair of the SIL BAC and does not hold any management responsibility outside of the Internal Audit function.

The Internal Audit function operates a co-source model; audit work is performed by third party firms as requested by the Head of Internal Audit. The Head of Internal Audit will ensure the adequate rotation of staff on repeated audit assignments, to ensure independence and judgement are not impaired. A paper confirming there are no conflicts of interest is included on each audit file.

Internal Audit governs itself by adherence to the mandatory elements of the Institute of Internal Auditors' Professional Practices Framework (including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing) and the Institute of Internal Auditors' Code for Effective Internal Audit in Financial Services.

## B.6 Actuarial Function

SFHL has an Actuarial function within its subsidiary, SIL. The SIL CEO has delegated the accountability for the Actuarial Function to the Chief Actuary of SIL, who also fulfils the SIL Chief Financial Officer (CFO) role, as a key component of the SIL governance framework. To avoid any conflicts, as the Chief Actuary also fulfils the CFO role, certain responsibilities have been further delegated to a senior member of the Actuarial team, the Actuarial Function Actuary within SIL, to ensure independence.

The Chief Actuary is approved by the PRA as the Actuarial Function Holder (SMF20) under the Senior Managers' and Certification Regime. He holds a Practising Certificate issued by the Institute and Faculty of Actuaries as a Chief Actuary (Non-Life without Lloyd's).

As SIL is largely an outsourced model, having entered into the outsourcing agreement with Markerstudy Group in December 2020, much of 1st line work is carried out by third parties, with finance and risk accountability being assumed by the Soteria management team.

Independence is essential for the effectiveness of the Actuarial Function. The apportionment of the CEO's accountability to the Chief Actuary or Actuarial Function Actuary demonstrates that these individuals are assigned accountabilities which do not compromise independence. In addition, the Chief Actuary has authority and independence through unfettered access to the Board and to any Functions, and the Actuarial Function has the freedom to remain objective in performing its work.

Resourcing requirements are regularly reviewed to ensure the department is adequately resourced.

The Actuarial Function is one of the four key defined functions under Pillar II of the Solvency II regulations as defined in the Level 1 framework directive text Article 48.

As such the Actuarial Function is responsible for:

- Ensuring calculation of Technical Provisions (TPs) is undertaken using appropriate actuarial techniques.
- Validation of the calculation process and outputs (comparing expected experience against emerging experience).
- Providing opinion on the availability and suitability of data for the calculation of TPs.
- Communicating the results of the TP exercise to Management and the SIL Board.
- Expressing an opinion on the overall underwriting policy.
- Expressing an opinion on the adequacy of reinsurance arrangements.

- Contributing to the effective implementation of the risk-management system (in particular with respect to the risk modelling underlying the calculation of the capital requirements).
- Preparing (at least) an annual report to be submitted to the BRC stating how the requirements of the Actuarial Function have been discharged.

## B.7 Outsourcing

SIL's approach to its outsourcing activity is documented within its Third Party Supplier Risk Policy, which is also adopted by SFHL. Where the Group outsources critical or important operational functions, services and activities it remains fully responsible for discharging all of its regulatory obligations. To do this SIL sets the following high level principles:

- SIL management will exercise due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing of an activity to a third party supplier. This is governed through a Supplier Management Framework which sets out a specific set of principles by which SIL manages Third Party Service Provider Risk in a way that is consistent with its overall risk appetite and aligns with its purpose, values and vision.
- Any outsourcing must not result in the delegation of responsibility by senior SIL management.
- Any third party service provider must protect any confidential information relating to SIL or its customers and comply with the relevant GDPR legislation.
- SIL's relationship with and obligations to its customers must not be altered.
- The conditions for the authorisation of the regulated entities within SIL must not be undermined.

Key activities outsourced are:

- Claims handling & loss adjusting (for example; Motor, Home & Personal Injury).
- Claims supply chain (for example; building, car and car windscreen repairs).
- Distribution and associated activities (for example; Retail pricing and administration).
- IT, Finance and HR Services.
- Banking activities.
- Investment Management.
- Internal Audit

All key activities listed above fall within UK regulated jurisdiction.

## B.8 Any Other Information

### B.8.1 Adequacy of the System of Governance

The system of governance is adequate based on the nature, scale and complexity of the risks inherent in the business.

## C. Risk Profile

Within the Group the vast majority of risks arise within SIL.

Risks are classified into Level 1 and Level 2 categories. The Level 1 risks are the highest category of inherent financial and non-financial risks to which the Group is exposed. This section explains these risks, including how each of these risks is covered within the Standard Formula Solvency Capital Requirement (SF SCR). Further details of the impact of these risks on the SF SCR are shown in Section E.2. Business activity can be exposed to one or a combination of the following risk types.

| Level 1 Risks | Definition | SF SCR Section Reference |
|---|---|---|
| Insurance (Premium) Risk | The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure. | See Sections E.2.3.1 (Premium), E.2.3.2 (Reserve), E.2.3.3 (Catastrophe), E.2.3.4 (Lapse). |
| Insurance (Reserving) Risk | The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements. | |
| Market Risk, including climate change risk | The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.<br>Included within market risk is climate change risk; the risks that arise from the adjustment to a low-carbon economy which could impact a firm's assets, in particular the value of investments[2] | See Section E.2.3.5 (Market). |
| Credit Risk | The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. | See Section E.2.3.6 (Counterparty Default). |
| Liquidity Risk | The current and prospective risk to earnings or solvency arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses. | Risk is explicitly excluded within SF SCR. |
| Operational Risk | The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. | See Section E.2.3.8 (Operational). |
| Strategic & Business Risk | The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other | Risk is explicitly excluded within SF SCR. |

[2] Climate change can also impact other level 1 risks, however, given the long-term nature of climate change, the PPO assets are the biggest area of concern for Soteria.

| Level 1 Risks | Definition | SF SCR Section Reference |
|---|---|---|
| | environmental factors resulting in lost earnings and capital. | |
| Conduct Risk | The risk that the Group's processes, behaviours, offerings or interactions will result in unfair outcomes for customers. | Risk is allowed for in the SF SCR within operational risk. See Section E.2.3.8. |
| Regulatory Risk | The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation the Group may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities. | Risk is allowed for in the SF SCR within operational risk. See Section E.2.3.8. |

## C.1 Insurance Risk

### Description

Insurance risk comprises the risk of loss resulting from future claims events other than catastrophes (Premium Risk), adverse change in the value of insurance liabilities (Reserve Risk), natural or man-made catastrophe events (Catastrophe Risk) and the risk that assumptions underlying expenses are not borne out in practice (Expense Risk).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The Group manages this risk through SIL's Reserving Committee which supports SIL's Chief Financial Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

### Risk Management Objective

The Group manages insurance risk in accordance with its overall aims to achieve stable insurance earnings, a fair customer experience and to meet all regulatory requirements.

### Risk Exposure

- Key risks under Motor policies are bodily injury to third parties, accidental damage to property and theft of or from policyholders' vehicles.
- The most significant factors affecting the frequency and severity of Motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims.
- Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.
- Risks exist with respect to historical classes of business, in particular the liability class which is long tailed and exposed to latent claims.
- SIL is exposed to the risk that expenses are worse than expected.

As described in Section A.1.6, on 11 February 2021 the SIL Board made the decision to put SIL into run-off. As the Group has now ceased underwriting, the risk exposure for premium and catastrophe risk will fall until there is no exposure remaining 12 months post run-off. The main classes of business written were UK Private Motor and Home business, either written directly or through brokers, all of which cover a 12-month duration. SIL's last insurance policies will expire in March 2022.

The Group remains exposed to reserve risk while there are still outstanding claims. The exposure is for Motor and Home business, together with other classes of business, mainly comprising employer's liability and commercial motor business, which were underwritten historically and are now already in run-off.

### Risk Mitigation

| Mitigation technique | Explanation |
|---|---|
| Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with underwriting strategy and priced to reflect the underlying risk. | The Group's strategy to cease underwriting has naturally led to a reduction in insurance risk over time as policies come to the end of their live exposure.<br><br>Prior to the decision to go into run off, the Group outsourced its underwriting to Affinity Insurance Solutions Limited (AISL). Oversight of these processes was maintained by the outsourcing agreement in place, the BUA (Binding Underwriting Agreement), which was monitored on a monthly basis. |
| Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches. | The Group outsources its underwriting, claims handling and reserving processes to Markerstudy Insurance Services Limited (MISL). Oversight of these processes is maintained by the outsourcing agreement in place, the ISARA, which is monitored on a monthly basis. |
| Mitigating risk through the use of appropriate reinsurance arrangements. | Reinsurance is used to manage insurance risk and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within SIL's Motor account. The appropriate level of reinsurance is proposed by Management and approved by the Board.<br><br>In 2021, the Group had two main reinsurance programmes in place: catastrophe excess of loss cover and motor excess of loss cover. For the years 2017-2020 a quota share arrangement of both Motor and Home business was in place. |

The Group does not use Special Purpose Vehicles (SPVs) as a means of mitigating risk.

### Risk Concentration

At the statement of financial position date there were no significant concentrations of insurance risk.

## C.2 Market Risk

### Description

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

### Risk Management Objective

The Group's objective is to deliver stable investment return. It achieves this through the use of highly rated UK government and corporate bonds while limiting exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

### Risk Exposure

- The value of, or income from, investments held is subject to volatility from changes in both market interest rates and additional spreads related to the specific credit-worthiness of the issuer ("credit spreads").
- Proceeds from maturing investments are subject to risk over the future return on reinvestment.
- Exposure to market interest rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and regulatory basis.
- The Group wrote contracts of insurance in the United Kingdom, and both insurance liabilities and borrowings are denominated in sterling. Funds include investments denominated in Euros and US Dollars as well as sterling and consequently there is an exposure to currency risk, however this is minimised through the use of currency hedges.
- The value of investment funds is subject to volatility with the resulting movements in the market values directly affecting Group solvency.
- The Group is not exposed to any market risks in respect of pension schemes.

### Risk Mitigation

| Mitigation technique | Explanation |
|---|---|
| Management of risk through governance and the investment mandate. | Investments are all within SIL. The investment mandate is approved by the SIL Board and sets strategic asset allocation and limits of investment types and durations.<br><br>The mandate is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business. |
| Management of credit spread and default risks from corporate bonds. | Through setting limits for exposure to credit ratings and individual counterparties and transacting only through a diversified range of authorised counterparties.<br><br>Ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis.<br><br>The Investments, Finance and Capital Committee supports the SIL CFO in overseeing the monitoring and management of these risks and exposures against limits. |
| Management of interest rate risk through investing in fixed | The Group seeks to match the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of |

| Mitigation technique | Explanation |
|---|---|
| interest securities with a similar duration profile to the liabilities under the general insurance contracts. | financial assets is measured against the Investment mandate and remained within these boundaries during the period.<br><br>The SIL investment mandate allows investment in a mixture of assets including index linked bonds, equity, global high yielding bonds and property to match, by amount and duration, periodic payment orders (PPOs) and provisions relating to historic liability claims from the electric industry. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings inflation. |

## Risk Concentration

The investment mandate controls the exposure to concentration risk via limits on individual counterparties and credit ratings, as described above. Mean durations for these exposures are:

| **Duration in years** | **2021** (years) | **2020** (years) |
|---|---|---|
| Insurance liabilities | 4.8 | 2.4 |
| Financial assets | 1.3 | 3.3 |

**Periodical payments (PPO) & historic liability claims from the electric industry (EIROS)**

| | **Amount** £000 | **Duration** (years) |
|---|---|---|
| Insurance liabilities | 25.2 | 16.6 |
| Financial assets | | |
| Cash | 27.6 | n/a |
| Government bonds | 27.5 | 8.8 |
| Real-estate backed lending | 3.5 | 1.5 |
| Collective investment undertakings | 18.6 | 2.5 |

## Sensitivity Analysis

The most significant aspects of market risk to which SIL is exposed are changes in value of investments and the effect of changes in credit spreads on corporate bonds. The resulting movements in the market values directly affect SIL's solvency. The SFHL Group risk is the same as SFHL only hold cash in addition to its holding of SIL.

An increase of 100 basis points in credit spreads would reduce the value of the Group's assets at the end of the financial year by £3,100k. This would reduce the Group's solvency by £2,500k net of tax, although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment to value claims provisions. The impact of a decrease of 100 basis points in credit spreads would have similar but opposite effects. Changes in the market value of investment undertakings also affects the Group's solvency. Every £1,000k reduction in value of these assets impacts the overall value of the Group's assets held, net of tax, by £810k, with a corresponding reduction in solvency offset in part by a reduction in the SCR.

## Climate Change

The Group has incorporated Climate Change into its Risk Management Framework and Investment Mandate and has assigned an owner who is responsible for the management and reporting of climate change.

The Group has considered its exposure to climate change risk as at the end of December 2021. The Group will have no live policies on risk after March 2022, meaning the exposure to climate change in the short term is limited. It is anticipated that the majority of the short tail claims will be settled within 12 to 18 months after the last policy expires. There will remain some longer tail claims, predominantly bodily injury, which are not expected to settle for a number of years. Climate change is not expected to have a material impact on the cost of these claims.

The Group does have an exposure to climate risk in its investment portfolio and, therefore, in market risk. The risks include a fall in the value of corporate bonds in carbon intensive companies due to stranded assets or legislation to deal with climate change. Furthermore, as more investors move to sustainable investment strategies there is the risk that investments that fall outside these criteria fall in price as a result.

A review of the Group's investment portfolio has concluded that there is not an undue level of risk. Most of the Group's investment portfolio is held in corporate bonds and gilts, which are intended to closely align with the projected claims settlement patterns and, as such, are heavily weighted to mature within the next few years.

Many of the global climate reforms are targeting tangible change from the mid-point of this decade through to 2050. As the Group's outstanding claims and investment portfolio will be significantly reduced by the end of 2025, the Group considers that there is limited impact, particularly in the short to medium term, from climate change on its current business model and liabilities.

It is incumbent on the Group's management, Board and investment partners to ensure that the longer term investment strategy, albeit notably limited in size, is managed effectively and minimises the risk of excessive exposure to climate affected sectors.

## Prudent Person Principle

In accordance with Solvency II, the PRA rules require that all Insurance undertakings should invest their assets in line with the Prudent Person Principle. The requirements specified in Article 132 that are relevant to the Group are summarised below:

- All assets shall be invested in such a manner to ensure the security, quality, liquidity and profitability of the portfolio.
- Only invest in assets whose risks can be properly identified, measured and monitored.
- Assets should be held in a manner appropriate in nature and duration for the insurance liabilities.
- Investments in assets should not expose the undertaking to excessive concentration.

The current portfolio is monitored against the Board approved mandate. Any breaches of the mandate or other issues with the portfolio are reported to the Investment, Finance and Capital Committee in the first instance and potentially escalated.

## C.3 Credit Risk

### Description

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.

### Risk Management Objective

The Group's objective is to achieve stable insurance earnings. This objective can best be met by minimising potential losses arising from credit risk. The Group does not aim to earn a return from credit risk, hence its credit risk appetite is very low.

### Risk Exposure

The Group is exposed to credit risk from the following:

- Insurance receivables (e.g. AISL fail to collect policy premiums and administration charges that are payable to SIL, or fail to pass them on).
- Reinsurance (e.g. counterparties failing to meet financial obligations).
- Insurers (e.g. insurance counterparties failing to meet financial obligations).

The Group manages credit risks associated with cash and corporate bonds as part of market risk (see Section C.2).

### Risk Mitigation

| Mitigation technique | Explanation |
|---|---|
| The Group manages credit risk through setting limits for exposure to credit ratings and individual counterparties. | Operationally, credit risk is managed by setting robust contract terms and having in place cashflow management processes with all counterparties.<br><br>The Investment, Finance and Capital Committee supports the SIL CFO in overseeing the monitoring and management of credit risk and exposures against limits. |
| The Group places limits over exposure to a single reinsurance counterparty or counterparty group, based upon their credit-worthiness. | Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. These limits apply when reinsurance is initially placed, usually annually, and are then regularly monitored by the Investment, Finance and Capital Committee.<br><br>Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action. |

### Risk Concentration

Insurance receivables and other assets held are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with SIL's Credit risk framework.

At the start of 2021, the Group had a credit exposure with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance was purchased to mitigate against this exposure to bring it within risk appetite. This expired at end May 2021 and was not renewed as it was no longer required due to falling underlying exposures as the business was in run off.

### Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

## C.4 Liquidity Risk

### Description

Liquidity risk is the current and prospective risk to earnings or solvency arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses.

### Risk Management Objective

The Group's objective is to maintain adequate liquidity at all times. This means the Group needs resources which are adequate to meet all policyholder and other funding obligations as they fall due, and achieves this primarily through the use of cash and highly liquid UK government and corporate bonds.

### Risk Exposure

The model to assess liquidity takes into account the change to the business during run-off. Liquidity is assessed against minimum requirements for stressed investments and liquid investments. The values of stressed investments are the market values of the investments less haircuts which are based on the credit rating of the investment. Liquid investments are cash and gilts. Both are assessed against forecast cash flows that would be required under stress scenarios.

The haircuts applied to stressed investments are:

| **Credit Rating** | **Maturity** | **Government %** | **Corporate %** |
|---|---|---|---|
| AAA to AA | ≤ 1 year | 0.5 | 1.5 |
| AAA to AA | > 1 ≤ 5 years | 1.5 | 5.5 |
| AAA to AA | > 5 years | 3 | 11 |
| A+ to BBB | ≤ 1 year | 1.5 | 2.5 |
| A+ to BBB | > 1 ≤ 5 years | 4 | 8.5 |
| A+ to BBB | > 5 years | 6 | 17 |
| BB+ and lower | ≤ 1 year | 100 | 100 |
| BB+ and lower | > 1 ≤ 5 years | 100 | 100 |
| BB+ and lower | > 5 years | 100 | 100 |
| Equity funds, Bond OEICs, Asset-backed credit & Real-estate backed lending | N/A | 100 | 100 |
| Cash | N/A | 0 | 0 |

### Risk Mitigation

| Mitigation technique | Explanation |
|---|---|
| Governance structure to monitor liquidity. | The level of cash and other assets held are monitored regularly and managed through Investments, Finance and Capital Committee, with oversight by the BRC and Board.<br>This includes monthly monitoring of liquid investments and stressed investments against risk appetite limits including forecasts for 2022 and beyond. |
| The investment mandate controls the exposure to concentration risk. | By setting limits on individual counterparties and credit ratings. |

### Risk Concentration

A table indicating the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity) and insurance liabilities (based upon estimated timing of amounts recognised in the statement of financial position) can be found in the liquidity risk section of Note 30 of the Annual Report and Accounts.

### Expected Profits Included in Future Premiums

Solvency II regulations require the calculation of "Expected profits included in future premiums" (EPIFP). EPIFP are profits which result from the inclusion in Technical Provisions of premiums on existing (in force) business that will be received in the future, but that have not yet been received. They can be considered as the future premium receivable less the anticipated gross claims and expenses, related to this future premium only, and are calculated at Solvency II segment level for those classes producing a profit. The value of EPIFP is estimated at £nil.

### Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

## C.5 Operational Risk

### Description

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

### Risk Management Objective

The Group's objective is to maintain business confidence and to provide resilient business processes. Operational risk is minimised through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people, technology and due to external events.

Since acquisition by SFHL, SIL operations have been migrated from outdated IT systems used within Co-op to more modern Markerstudy systems. This has significantly improved SIL's operational risk profile.

### Risk Exposure

The Group can divide the operational risk into two categories; risks that are managed by SIL and risks that are outsourced to MISL to manage. Each sub-category has its own risk appetite metrics and thresholds, approved by the Risk Framework Owner (RFO).

| Risks managed by MISL on behalf of the Group: | Risks managed internally - by SIL: |
|---|---|
| • Financial Reporting Risk | |
| • Technology Risk | • Technology - SIL Services |
| • Third Party Supplier Risk | • Internal Financial Crime |
| • Change Risk | • Physical Risk |
| • Financial Crime Risk | • People Risk |
| • Information Risk | • Health & Safety Risk |

### Risk Mitigation

| Mitigation technique | Explanation |
|---|---|
| Operational risks are identified, managed and mitigated through on-going risk management practices including appetite review and RCSA process. | Operational risks and key controls are regularly reviewed by the Executive Team.<br>Significant operational risks are reported to the Board Risk Committee (BRC) and Board. |
| Transfer of Risk | The Group has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which in 2021 included employer's liability and Directors and Officers. |

### Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

## C.6 Other Significant Risks

## C.6.1 Strategic & Business Risk

### Description

Strategic & Business risk is the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.

### Risk Management Objective

The Group's financial objective in managing these risks is to maintain capital adequacy.

### Risk Exposure/Mitigation

The Group's Risk Vision is set by the SFHL Board and supported by a capital coverage risk appetite requirement of 120%. As the material risks arising occur within SIL the Group's Risk vision and appetite is then set and managed within the SIL Risk Vision and Appetite, underpinning this risk management objective. This is measured, monitored and reported regularly to the Executive, SIL BRC, SFHL BRAC and Boards.

### C.6.2 Conduct Risk

#### Description

Conduct risk is the risk that the Group's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.

#### Risk Management Objective

The Group’s objective is to offer a fair customer outcome and to meet all regulatory requirements.

#### Risk Exposure/Mitigation

Conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with close scrutiny from the FCA. Although all underwriting and claims handling has been outsourced to AISL and MISL, respectively, the Group retains ownership of this risk, and ensures it receives the appropriate MI to enable the Group to perform the required oversight.

### C.6.3 Regulatory Risk

#### Description

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation the Group may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities.

#### Risk Management Objective

The Group’s objective is to be compliant with all relevant regulatory requirements.

#### Risk Exposure/Mitigation

Regulatory risks are regularly monitored and reported to the SIL Executive, BRC and Board and the SFHL BRAC.

## C.7 Any Other Information

### C.7.1 Stress Tests and Sensitivity Analysis

The Group uses Scenario Analysis, Sensitivity Analysis and Reverse Stress-Testing to analyse the impact of scenarios and changes in assumptions on Solvency, as well as understanding the events that would have to occur to cause Solvency Coverage to fall below the Company’s risk appetite.

The table below shows the scenarios considered, which risks each scenario takes into account, the assumptions used and the impact on capital if the stressed scenario were to occur. It states the estimated (increase)/decrease on surplus capital and the impact on the solvency ratio as at December 2021.

| Description | | Primary Risk type impacted | Key Assumptions | Probability | Amount | Amount |
|---|---|---|---|---|---|---|
| | | | | | £000 | % of SCR |
| 1. | Recession | Market risk | Increase in interest rates<br>Widening of credit spreads<br>Inflation of above expected on all liabilities | Medium | <5,000 | <5% |
| 2. | A) Large bodily injury increase | Reserve risk | Uplift in BI claims | Medium | 5,000-10,000 | 5%-10% |
| | B) PPO propensity | Reserve risk | PPO propensity increases | Medium | 10,000-15,000 | 10%-15% |
| | C) PPO Longevity | Reserve risk | PPO life impairment reduced | Medium | 10,000-15,000 | 10%-15% |
| | D) Latent Claims | Reserve risk | In respect of General Liability | Medium | 5,000-10,000 | 10%-15% |
| 3. | RI default | Credit risk | Largest reinsurer fails | Very Low | 5,000-10,000 | 5%-10% |
| 4. | MSG failure | Operational risk | Soteria requires a new outsource partner | Low | <5,000 | 5%-10% |

Note that the impacts on the SF SCR will be second order and are not deemed material for this high level exercise. The table demonstrates that SIL is able to withstand any of the above stresses and remain within risk appetite. Note that an interest rate increase is beneficial for SIL as the liabilities have a much longer duration than the assets. Ultimately, the discount benefit unwinds and there will be a long term impact largely as a result of inflationary effects on the liabilities and defaults of the assets.

Reverse stresses consider what event(s) could occur that would lead to a "breaking" of the business model, where the business model is to run-off internally with dividends being paid to SFHL. Even in the worst case stress, which involves all of stresses 1, 2a, 2b, 2d, and 3 happening concurrently, and is estimated as less than 1 in a million probability, the Group would still be expected to be able to meet all of its liabilities as they fall due, although in this scenario it is unlikely that any dividends would be paid.

## D. Valuation for Solvency Purposes

The table below shows the balance sheet at the end of the reporting period calculated under both a Solvency II and a statutory basis. A description of the differences between the two valuation methods is included in Section D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities) below.

Valuation methods used by the Group for assets and liabilities under Solvency II are consistent with those of its insurance subsidiary, SIL.

A description of the bases, methods and main assumptions used for valuation of each material class of:

- Asset is included in Section D.1.
- Technical Provision is included in Section D.2.
- Other Liability is included in Section D.3.

| | SIL UK GAAP (A) £000 | Consolidated UK GAAP (B) £000 | Reclassifications (C) £000 | Restatements (D) £000 | Solo Solvency II (A)+(C)+(D) £000 | Group Solvency II (B)+(C)+(D) £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Deferred acquisition costs | **56** | **-** | - | (56)[1] | **-** | **-** |
| Investments | **394,981** | **394,981** | 3,433 | - | **398,414** | **398,414** |
| Mortgages and loans made | **3,500** | **3,500** | - | - | **3,500** | **3,500** |
| Reinsurance recoverables | **64,992** | **64,992** | - | 58,399 | **123,391** | **123,391** |
| Insurance and intermediaries receivables | **18,268** | **18,268** | 474 | (18,134) | **608** | **608** |
| Receivables (trade, not insurance) | **7,997** | **9,623** | (3,913) | 212 | **4,296** | **5,922** |
| Cash and cash equivalents | **151,067** | **151,124** | - | - | **151,067** | **151,124** |
| **Total assets** | **640,861** | **642,488** | (6) | 40,421[1] | **681,276** | **682,959** |
| **Liabilities** | | | | | | |
| Total technical provisions/ UK GAAP insurer contract liabilities | **393,517** | **393,517** | - | 56,777 | **450,294** | **450,294** |
| Deferred tax liabilities | **508** | **508** | - | (508) | **-** | **-** |
| Insurance and intermediaries payables | **-** | **-** | 680 | - | **680** | **680** |
| Reinsurance payables | **218** | **218** | - | 44,573 | **44,791** | **44,791** |
| Payables (trade, not insurance) | **7,232** | **7,232** | (694) | - | **6,538** | **6,538** |
| Subordinated liabilities | **-** | **70,015** | - | (1,025)[2] | **-** | **68,990** |
| Any other liabilities, not elsewhere shown | **2,950** | **14,080** | 8 | - | **2,958** | **14,088** |
| **Total liabilities** | **404,425** | **485,570** | (6) | 99,817[2] | **505,261** | **585,381** |
| **Excess of assets over liabilities** | **236,436** | **156,918** | - | (59,396)[1,2] | **176,015** | **97,578** |

1 The deferred acquisition costs adjustment of £56k applies only to Solo

2 The adjustment of £1,025k on subordinated liabilities applies only to Group

# D.1 Assets

## D.1.1 Valuation Bases and Assumptions

### Deferred Acquisition Costs

Deferred acquisition costs are costs relating to the acquisition of insurance contracts in force at the balance sheet date, which are carried forward from one reporting period to subsequent reporting periods because they relate to the unexpired periods of risks. Under UK GAAP they are initially valued at cost and amortised over the period to which they relate. Under Solvency II the cashflows relating to acquisition costs are taken into account within Technical Provisions.

### Investments

The Group holds a portfolio of investments, being holdings in debt securities (government bonds and corporate bonds), real-estate backed lending and collective investments, which include funds of European asset-backed credit and global credit. Investments are denominated in sterling, US Dollars and Euros, with currency hedges held against foreign exchange fluctuations.

#### Debt securities

Initial measurement is at fair value, being purchase price upon the date on which the Group commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value. Fair value measurements are those derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) as found in note 30 to SIL's Annual Report and Accounts. Where there is evidence of impairment, the extent of any impairment loss is recognised. No impairment loss has been recognised during the year.

In the Solvency II balance sheet the value of the investment includes accrued interest, which is classified within receivables under UK GAAP.

### Real-estate backed lending and collective investment undertakings

Initial measurement is at fair value, being purchase price on the date on which SIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition. Subsequent valuation is at fair value, using the effective interest rate method. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

## Deferred Tax Assets and liabilities

Deferred tax assets and liabilities are recognised and valued in accordance with UK GAAP (FRS 102), except that deferred tax assets and liabilities in respect of temporary differences are valued based upon the difference between the values ascribed to assets and liabilities on the Solvency II balance sheet (recognised and valued in accordance with the Valuation and Technical Provisions parts of the PRA Rulebook for Solvency II firms) and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

In accordance with FRS 102 principles, the amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that:

- there are appropriate deferred tax liabilities against which the asset can be net against; or
- it is considered probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The assessment as to whether future taxable profits are available uses future profits from the Group's Strategic Plan as its basis. Based on forecast profits, the Group recognises the element of the deferred tax asset that it believes will be utilised within the planning horizon. At 31 December 2021 the Group had UK GAAP to SII temporary differences of £58,888k which were not recognised for deferred tax purposes as they are not forecast to be utilised within the planning horizon.

The net £nil deferred tax asset on the Solvency II balance sheet is comprised as shown in the table below:

| Item | Solo Solvency II £000 | SIL UK GAAP £000 | Group Solvency II £000 | Consolidated UK GAAP £000 |
|---|---|---|---|---|
| **Recognised deferred tax (assets)/ liabilities** | | | | |
| **Capital allowances and other UK GAAP temporary differences** This deferred tax asset principally comprises expected future tax depreciation in excess of accounting depreciation in relation to fixed assets. | (218) | (218) | (218) | (218) |
| **Tax on unrealised gains and losses** This deferred tax amount relates to a transitional arrangement from the IFRS to UK GAAP translation, requiring that previously recognised deferred tax liabilities on unrealised gains on investments are brought into tax over a 10 year period from 1 January 2022. | 4,491 | 4,491 | 4,491 | 4,491 |
| **Tax on losses** This deferred tax asset related to carried forward UK GAAP tax losses which may be utilised against the above unrealised gains and losses when they are brought into tax over the next 10 years. | (3,765) | (3,765) | (3,765) | (3,765) |
| **Fair value adjustments on business combinations** Deferred acquisition costs within the balance sheet of SIL on acquisition had no future value to the Group. Deferred tax reflects the timing difference between tax value and value held in the Group balance sheet. | - | - | (10) | (10) |
| **UK GAAP to SII temporary differences** This deferred tax asset relates to differences between the value of assets and liabilities on the Solvency II balance sheet and their value on the UK GAAP balance sheet (see section D1.4 for further details). The deferred tax asset has been capped at the level of UK GAAP deferred tax liabilities available to offset. | (508) | - | (498) | - |
| **Net deferred tax (asset)/liability** | **-** | **508** | - | 498 |

### Reinsurance Recoverables

This balance represents contracts with reinsurers that give rise to a significant transfer of insurance risk. The value of such items is calculated alongside the value of Technical Provisions (see Section D.2). Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the balance sheet.

The reinsurance recoveries balance incorporates the quota share arrangement. Under FRS 102 the recoveries, and amounts payable to the reinsurer, are not recognised as the contract contains rights of set off. A withheld funds account is used to record the balance held on behalf of the reinsurer (See Section D.3.1), and at the commutation of the contract any remaining amounts within the account would be settled.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable.

### Insurance and Intermediary Receivables

This balance relates to amounts due and past-due for payment by policyholders, insurers, and others linked to insurance business, that are not included in cash-in flows of Technical Provisions. All insurance and intermediary receivables are annual and therefore, as they are recoverable within one year, are deemed to be short term in nature. The valuation is based on the outstanding amount owed to the business at the end of the reporting period, less appropriate allowance for estimated irrecoverable amounts.

### Receivables (Trade, not Insurance)

This category includes any non-insurance amounts that are receivable from business partners. This includes commissions due from aggregators, brokers and other outsourcing partners. For Solvency II purposes fair value is deemed to be aligned to the UK GAAP valuation, as these receivables are short term in nature.

### Cash and Cash Equivalents

This category includes cash held in bank accounts to meet short-term cash commitments, and cash held within the investment accounts. There are no valuation differences for cash between Solvency II and UK GAAP.

## D.1.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

There are no changes to the recognition and valuation bases used or estimations from the previous period to report.

## D.1.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of assets.

## D.1.4 Analysis of Differences Between the Valuation of Assets on a Financial Statements Basis (UK GAAP) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of assets on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to assets are described below:

- The value of investments under Solvency II includes the value of interest earned but not received (accrued interest). Under UK GAAP the valuation of accrued interest is the same but this is categorised under 'receivables (trade, not insurance)'.
- Deferred tax is recognised under both UK GAAP and Solvency II, however the value of the balance is different owing to the differences in values of the assets and liabilities to which the deferred tax balance relates. Deferred tax is calculated on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Solvency II (or UK GAAP for Financial Reporting purposes) and the values ascribed to assets and liabilities as recognised and valued for tax purposes (see Section D.1.1).
- Insurance and intermediaries receivables recognised on an accruals basis under UK GAAP, are not recognisable as assets under Solvency II. The balance is replaced, within Technical Provisions, by future

premiums receivable calculated on a cash flow basis, relating to amounts not yet due at the balance sheet date.

- Reinsurance recoverables incorporate the quota share reinsurance arrangement. Within the reinsurance agreement, monies due to or from the reinsurer under the 'Right of Offset' are reported within a withheld funds balance with any remaining balances settled at commutation of the contract. Under UK GAAP, the quota share withheld funds balance held on behalf of the reinsurer is recognised on an accruals basis and reported net of the associated reinsurance liability. Under Solvency II, the withheld funds are deemed a non-insurance cashflow and therefore recognised as a Reinsurance Payable (see Section D.3.1).

## D.2 Technical Provisions

### D.2.1 Value of Technical Provisions

Technical Provisions (TPs), represented by the sum of Best Estimate liabilities and Risk Margin, are held within SFHL's subsidiary SIL. SFHL does not contain any additional TPs on top of those within SIL, and therefore the figures mentioned below are the same for solo and group level.

The value of Best Estimate liabilities equates to the estimated net outwards cash flows in respect of business earned to date (Claim Provisions) and business to be earned in future but for which SIL has entered into a legal obligation with the customer (Premium Provisions).

The Risk Margin is an additional provision prescribed by the regulator which insurance companies are required to hold in addition to the Best Estimate liabilities.

The table below shows a summary of the level of TPs by line of business at the end of 2021. TPs are shown on a run-off basis owing to the decision of the SIL Board on 11 February 2021 to put SIL into run-off.

| | Motor liability | Motor other | Fire & other damage | General liability | Legal expenses | Miscell-aneous | Non-life annuities | Non proportional inwards reinsurance | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Casualty | Property | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Claims provision (net) | 216,518 | (2,038) | 30,791 | 19,522 | - | - | 45,879 | - | - | 310,672 |
| Premium provision (net) | (2,283) | (1,016) | (741) | - | - | - | - | - | - | (4,041) |
| Best estimate liabilities (net) | 214,235 | (3,054) | 30,049 | 19,522 | - | - | 45,879 | - | - | 306,631 |
| Risk margin | 15,827 | 9 | 2,451 | 1,664 | - | - | 321 | - | - | 20,272 |
| Total technical provision (net) | 230,062 | (3,045) | 32,500 | 21,186 | - | - | 46,200 | - | - | 326,903 |
| Reinsurance recoverables | 69,498 | (1,566) | 6,406 | 620 | - | - | 48,433 | - | - | 123,391 |
| Total technical provision (gross) | 299,560 | (4,611) | 38,906 | 21,805 | - | - | 94,633 | - | - | 450,294 |

A description of the bases, methods and main assumptions used to calculate the Claims Provisions, Premium Provisions and Risk Margin is included below.

#### D.2.1.1 Claims Provisions

Claims Provisions relate to events that occurred on or before the reporting date and comprise all material future in and out going cash flows.

Claims Provisions are calculated by line of business and key claim type, by suitably qualified personnel, using a combination of recognised actuarial and statistical techniques in order to calculate the total cost of claims, which then form the main part of the provision.

These techniques include:

- Projecting historic numbers of claims, claims payments, recoveries and incurred data – Chain Ladder technique.

- Average cost per claim methods are used for additional insight in certain areas.
- Bornhuetter-Ferguson/Cape Cod techniques based on cost per policy, cost per claim and loss ratio.
- Large value Motor claims are projected on an individual basis in order to calculate expected reinsurance recoveries.

Extensive analysis of detailed claims data, including individual case estimates, is undertaken to derive patterns in claims costs (for example, the accuracy of an initial estimate for the claim at different points throughout its lifetime). The most common method used to derive patterns is called the Chain Ladder method.

A degree of judgement is required in selecting the most suitable trends to apply, which has been particularly important recently owing to the impact of Covid-19 and associated restrictions on the number of claims, the average cost of claims, and the development of incurred costs. Where it is not deemed suitable to use the Chain Ladder method, for example for claims reported in recent months/years (which require a greater degree of judgement), an alternative method is used. These methods may use some prior expectation of the ultimate claims cost (such as percentage of premium) or expected average cost of claims (based on past experience).

Once an estimate of the future claims cost has been calculated, the timing of future cash payments is estimated. This is based on past claims payment experience. These future payments are then discounted using a discount rate prescribed by the PRA and adjusted to take into account the following items which are described in more detail below:

- Reinsurance claims.
- Expenses.
- Events not in data (ENID). For example, Latent claims.

Reinsurance – A provision is included to allow for the expected amount of reinsurance premium payable and is dependent upon the volumes of business written during the year of cover. The estimated premium will be in respect of exposure to claim events occurring on or before the balance sheet date. This provision is offset by the expected claims costs to be paid by the reinsurer.

Expenses – A provision is held for the expected expenses associated with settling the existing claims. These are made up of claims handling expenses and an allocation of other management and administration costs relating to the settlement of the outstanding claims costs using figures from the business plan on a run-off approach.

ENID – There is a possibility that claims could arise in future from causes which are not yet known about. Scenarios have been created of possible events leading to ENID latent claims. Past examples are Asbestosis or Industrial deafness claims, where claims were made several years after the events.

High level assumptions underlying the Claims Provisions are agreed and signed off by senior management.

These include:

- In respect of existing Periodic Payment Order (PPO) cases it is assumed that care costs will increase in line with expected earnings or price inflation as appropriate for each case and that an individual’s life expectancy is in line with expert opinions (or the general population where these are not available). In addition, allowance is made for possible future PPO cases by assessing which claims are likely to result in PPO settlement and what would be the associated costs. Such costs are then discounted at the Risk Free Rate in line with known PPO claims. The assumed probability of settling on a PPO basis makes allowance for the level of the Ogden discount rate.

- Inflation – in respect of calculating Gross Reserves, judgement is required as to whether future inflation of claims costs is in line with that implicit in the base data. Any difference is allowed for explicitly in the calculation of the undiscounted reserves. Likewise, explicit inflation is allowed for in deriving the reinsurance recoveries for Motor claims by indexing both the claims cost and reinsurance retention until settlement.
- Expenses – The level of expenses to be incurred in respect of the business included within the Claims Provisions needs to be allowed for until all such liabilities have been settled.
- Future Mesothelioma Notification Pattern - The reserve amount within the legacy liability business, particularly in respect of Mesothelioma, is highly sensitive to the assumptions made. One of the most material assumptions is how the number of new claims notified will reduce over time. A methodology change to the run off pattern for mesothelioma was made at Q3 '21. The use of more prudent decay curves based on industry data which are produced by the IFoA have become a market standard approach recently, therefore this is the approach now being used.

The Key Assumptions in the projection analysis carried out are as follows:

- The development factors selected for the Best Estimate projections reflect the mean expectation of future development.
- The groupings chosen by product and claims description code/payment code/peril code are broadly homogeneous.
- The development ratios in the data, after making appropriate allowance for known trends, will be repeated in future. Due to the impact of Covid-19 and associated restrictions, this assumption is currently not likely to hold so additional judgement has been applied to allow for expected delays in recognising incurred claim cost.
- No significant events occurring after the cut-off point of data being used were missed.

### D.2.1.2 Premium Provisions

Premium Provisions are associated with events occurring after the valuation date for policies that are legally bound as at the valuation date.

A TP is required to be calculated in respect of business written prior to the balance sheet date but earned after that date and any legally obliged business. The calculation approach is based on the same principles discussed in the Claims Provisions.

Significant items that form the Premium Provision are:

- Future Best Estimate Claims – The claims cost expected to arise in respect of future earned business relating to written and legally obliged business at the balance sheet date is derived by applying an agreed assumed loss ratio to the Unearned Premium Reserve and future projected premium respectively.
- Future Premiums – Allowance is made in the cash flows for future premiums in respect of business already written and legally obliged business. In respect of business already incepted, these premiums relate to business which is written by direct debits and are paid on a monthly basis. In respect of legally obliged business the future premium cash flow allows for the total premium of such policies.
- Reinsurance – Allowance is made in respect of the reinsurance premium which will be payable in respect of unexpired period of risk for business written prior to the balance sheet date and for the legally obliged business. Associated costs relating to reinsurance are also taken into account. Allowance is also made for the expected claims to arise on the business included within the Premium Provision and consequential reinsurance recoveries.

- Expenses – Expected administration, claims handling expenses and associated costs of settling these claims, calculated using figures from the business plan on a run-off basis, are applied to the future expected claims costs.

As SIL is a run off entity with its last policies due to expire in March 2022, premium provisions have reduced significantly over 2021 and will very shortly become nil.

#### D.2.1.3 Risk Margin

Risk Margin is the additional amount of provision prescribed by the regulator which insurers are required to hold over and above the value of the Best Estimate liabilities. The Risk Margin is described in more detail in Section D.2.2.

### D.2.2 Simplifications

A simplified approach has been taken to the calculation of the Risk Margin.

The Risk Margin is set to the cost of holding regulatory capital while liabilities run off with the purpose of making the overall TPs equal to the amount that another company would require to take over and meet the insurance liabilities.

Following a change in the software being used to calculate the risk margin, we are now apportioning the risk margin to Solvency II class of business according to the standalone SCR at t=0.

The Risk Margin is based on existing commitments (policies that are already written or quoted), like the rest of the TPs.

The calculation depends heavily on the mix of business. Higher risk business segments require a larger SCR, and this directly increases the Risk Margin. In addition, longer-tailed classes of business need to be supported by capital for longer and tend to add more to the Risk Margin. Consequently, the calculation is sensitive to the assumed run-off pattern for each segment of the business. The calculation includes an allowance for discounting, and so is sensitive to the risk-free rate.

### D.2.3 Uncertainty

The uncertainty existing within TPs is primarily due to the random nature of how claims develop and is impacted by both external and internal factors. For example, inflation may be higher or lower than expected or claims may be settled more quickly or slowly than anticipated.

Assessment of the uncertainty of key assumptions through sensitivity testing of plausible alternative views gives management a clearer understanding of the key risks and provides an indication of the level of confidence in the reported reserves. Sensitivity analysis is performed to understand the effect of key inputs which include the most material assumptions.

The results of the sensitivity analysis on the value of the TPs are shown below:

| Uncertainty | Alternative view | Impact on net TPs £000 |
|---|---|---|
| ASHE Index | Increase in the ASHE Index of 0.5% for both (a) known PPOs and (b) the impact on potential future PPO settlements. | 3,200 |
| Future claim notifications from past liability business | Mesothelioma future years run off start from a figure of 2 notifications more than the chosen assumption | 3,700 |
| Ogden discount rate | Decrease in Ogden rate to -0.75% | 4,000 |

## D.2.4 Analysis of Differences Between the Valuation of Technical Provisions on a Financial Reporting Basis (UK GAAP) and Valuation on a Solvency II Basis

The SII claims provisions are closely aligned to the UK GAAP best estimate reserves, with the main exception being the change in discounting basis.

All provisions are discounted under SII whereas under UK GAAP, most of the claims reserves are not discounted. PPO claims are discounted at a higher rate under UK GAAP than under SII, based on the investment return expected from assets backing these liabilities. The impact of discounting under SII on non-PPO reserves is less material given the shorter duration of the expected claims payments.

Premium provisions under SII are similar to the UK GAAP provisions for unearned premiums, plus the additional unexpired reserve risk (AURR).

The following explains the movements between TPs held for UK GAAP reporting purposes and those for Solvency II purposes, as at the end of the reporting period. Where appropriate, values are shown for Motor (including the Motor liability, PPOs and Other motor insurance lines of business) and Non-Motor (mainly the Fire and other damage to property insurance and General Liability lines of business).

Net UK GAAP reserves are the UK GAAP Insurer Contract Liabilities as shown in the balance sheet at the beginning of Section D (£393,517k), less reinsurance recoverables (£64,992k) and less £12,752k (£11,817k in motor and £935k in Home) for Salvage and Subrogation reserves which are included in 'Insurance and intermediaries receivables' on the UK GAAP balance sheet.

The following adjustments are then made to move to a SII basis:

1 – £5,375k (£4,032k Motor, £1,343k Non-Motor) of future premiums receivable is recognised.

2 – Removal of UK GAAP discounting in respect of PPOs and potential PPOs causes an increase of £44,550k.

3 – A reduction of £22,954k (Motor £20,755k, Non-Motor £2,199k) from discounting at the risk free rates and volatility adjustment.

4 – Additional expenses cause an increase of £33,007k, where c.75% of this amount is allocated to Motor lines of business.

5 – The difference in Margins results in an increase of £3,402k (Motor increase of £5,374k, Non-Motor decrease of £1,972k).

6 – Quota share benefit of £41,497k (Motor £38,958k, Non-Motor £2,539k).

SII Net TPs are as shown in Section D.2.1.

### D.2.5 Matching Adjustment

SIL does not apply a Matching Adjustment.

### D.2.6 Volatility Adjustment

A Volatility Adjustment has been used (as approved by the PRA) to discount all future cash flows in respect of the Claims Provisions. The Volatility Adjustment reduces Best Estimate TPs, net of reinsurance, by £2,940k (2020: £2,345k), reduces the Standard Formula Solvency Capital Requirement (SF SCR) by £283k and leads to an increase in solvency coverage of £3,223k (4.1%).

The table below sets out the impact on Own Funds, Risk Margin and SF SCR, further information on which is included in Section E.2.2.

| | **Impact of VA** |
|---|---|
| | **£000** |
| Best Estimate Technical Provisions (gross) | 4,738 |
| Effect of reinsurance | (1,820) |
| Risk margin | 22 |
| **Own Funds** | 2,940 |
| SF SCR | 283 |
| **Capital surplus (Own Funds – SCR)** | 3,223 |

The impact on the Minimum Consolidated Group SCR is a reduction of £283k.

### D.2.7 Transitional Interest Rate

SIL has not applied the transitional risk-free interest rate.

### D.2.8 Transitional Deduction

SIL has not applied the transitional deduction to the TPs.

### D.2.9 Impact of Reinsurance and Special Purpose Vehicles

SIL has a number of different reinsurance arrangements in place in relation to both existing claims and business that is still to be earned. The main ones are:

- The Motor XoL Risk programme covers large individual motor losses.
- The Catastrophe XoL programme provides coverage for combined Home and Motor losses due to major weather events.
- There is a quota share arrangement whereby a proportion of the net premium earned during 2017, 2018, 2019 and 2020 on the combined motor and home business is ceded. The quota share arrangement applies after the catastrophe, motor excess of loss and outsourced reinsurance covers.

SIL does not use Special Purpose Vehicles.

## D.2.10 Material Changes in Assumptions from Previous Reporting Period

This is the second report by the Group since becoming an Insurance Group on 2 December 2020. The key assumption changes affecting the TPs from the end of 2020 to the end of 2021 are as follows:

- Adoption of the IFoA asbestos working party reporting decay for mesothelioma claims.
- Change in PPO methodology to use a probabilistic method. Previously, the PPO model being used was a simplification method, whereas now it has been amended to use an explicit calculation, made possible by the probabilistic mortality assumption – i.e. an 80% mortality sensitivity can be used within the SCR calculation, rather than having to make an allowed simplification.

## D.3 Other Liabilities

## D.3.1 Valuation Bases and Assumptions

Details of SIL's and the Group's liabilities, other than Technical Provisions (see Section D.2), including the valuation bases and main assumptions used (where applicable) are shown below by material class of liability.

#### Contingent Liabilities

Contingent liabilities and contingent contract obligations in existence at 31 December 2021 are detailed in Notes 25 and 26, and Notes 28 and 29 of SIL's and the Group's Annual Report and Accounts respectively.

The expected value of each contingent liability and contingent contract obligation reflects all expectations of possible cash flows and not the single most likely or the expected maximum or minimum cash flow. However, the more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the expected value (probability weighted cash flow method).

The Group reviews all contingent liabilities and contract obligations using the following definition of materiality; "contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities."

The contingent liabilities and contract obligations in existence at 31 December 2021 are immaterial, as calculated using the probability weighted cash flow method.

#### Provisions Other Than Technical Provisions

This category relates to liabilities of uncertain timing or amount. Provisions are recognised when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Valuation is at fair value based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

#### Insurance and Intermediaries Payable

This balance comprises commission payable on premiums not yet received and premiums collected in advance of the due date. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

#### Reinsurance Payables

As explained in Section D.1.1 above, contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. The Group has three main reinsurance arrangements: Motor and Catastrophe Excess of Loss (XoL) programmes and, for accident years from 2017 to 2020, a quota share. Under UK GAAP the reinsurance payables and receivables under XoL are recognised on the balance sheet gross while the quota share is presented net.

The Technical Provisions in the Solvency II balance sheet include all amounts payable and receivable under the XoL programme, however the quota share funds withheld balance is not included as a component of those provisions. It is recognised as a separate liability (£59,523k (2020: £97,122k)), outside of the Technical Provisions, as it is not expected to be paid to the reinsurer. The amounts are recorded at their contractual value.

### Payables (Trade, not Insurance)

This balance relates to liabilities due to suppliers which are not insurance related. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

### Deferred Tax Liabilities

Details regarding deferred tax liabilities are set out in Section D.1.1.

### Subordinated liabilities

Subordinated liabilities relate to a £12,000k subordinated perpetual loan, charged at 17.5% interest per annum and a £60,000k subordinated term loan due 2030, both issued on 2 December 2020. The value has been calculated using a cashflow model (see Section D.4). The subordinated liabilities meet the requirements for classification as Tier 1 Restricted and Tier 2 instruments respectively (see Section E.1.2).

### Other Liabilities not shown elsewhere

This is a category for all liabilities not captured elsewhere. The balance is predominantly UK GAAP expense accruals, which are short term in nature and therefore reflect a market price valuation in line with the Solvency II valuation hierarchy. This balance also includes contributions to defined contribution pension schemes totalling £12k (2020: £8k).

## D.3.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

There are no changes to the recognition and valuation bases used or estimations from the previous period to report.

## D.3.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of other liabilities.

## D.3.4 Expected Timing of any Outflows of Economic Benefits

The expected timing of cash outflows relating to contingent liabilities is unknown, owing to their nature. However, there are currently no material contingent liabilities. £60,000k of the subordinated liabilities are due to be repaid in 2030, with the remaining £12,000k being a perpetual loan. Debts owed to credit institutions, insurance and intermediaries payable and other liabilities are settled throughout the year with all such balances due in less than one year.

## D.3.5 Analysis of Differences Between the Valuation of Other Liabilities on a Financial Reporting Basis (UK GAAP) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of other liabilities on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to other liabilities are described below:

- Subordinated liabilities - recognised initially at fair value under UK GAAP, which equates to issue proceeds net of transaction costs incurred. Borrowings are then subsequently stated at amortised cost. In line with

Solvency II guidance, a 'bottom up' approach has been adopted to value the subordinated liability (see Section D.4).

- Reinsurance payables – the withheld funds balance arising from the 'Right of Offset' within the quota share reinsurance arrangement is recognised on an accruals basis and reported within Reinsurance Recoverables under UK GAAP. On a Solvency II basis, the withheld funds are deemed to be a non-insurance cashflow and are reported within Reinsurance Payables on the balance sheet.

## D.4 Alternative Methods for Valuation

Subordinated liabilities are valued using a market approach consistent with Article 10(7) of the Solvency II Delegated Regulation. The value is calculated using a cashflow model which seeks to estimate the market value, adjusting for changes in SFHL's own credit standing in the period between date of issue and the reporting date.

Some of the Group's collective investment undertakings and the real-estate backed lending cannot be valued at prices derived from inputs that are observable for the asset, as disclosed in note 30 to SIL's Annual Report and Accounts. Where this is the case, these are valued initially at fair value, being purchase price on the date on which SIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition. Subsequent valuation is fair value, using the effective interest rate method, which is considered the most appropriate approach for these asset types.

Managers may use the following valuation techniques to calculate the fair value of credit assets:

- Contractual cashflows from the credit asset are projected forwards to their expected payment date;
- The probability of default, loss given default and exposure at default are used to project expected credit losses; and
- The cash flows, net of expected credit losses, are discounted back to their present value using the appropriate market discount rate at the reporting date.

The discount rate can depend on the following factors:

- Risk free interest rates and other similar benchmark interest rates;
- Prevailing credit spreads for the given type of asset;
- Currency; and
- Duration

The selection of discount rate needs to be considered carefully because some of the above items are easily observable (e.g. the risk free rate) and others are unobservable (e.g. prevailing credit spreads). In some case the observable and unobservable factors are inversely correlated so as one increases the other reduces. Managers may generally calculate the implied discount rate at initial recognition and make adjustment to this for known changes at the reporting date. A Valuation Committee at each of the sub-fund managers holding the investments is responsible for approving the appropriate discount rate to use in the fair value calculations and will take into consideration the above requirements along with any changes in reference rates that are deemed material. The valuations are subject to regular independent review.

## D.5 Any Other Information

### Going concern – solo

The solo SIL SFCR is prepared on a going concern basis and the Directors are satisfied that SIL has the resources to continue in business for at least 12 months from the date of approval of the financial statements. In making this assessment, the Directors have performed a detailed analysis of future capital and liquidity.

The going concern assessment performed takes into account that SIL has ceased to write insurance business, with the last policies having expired in March 2022, and continues as a going concern as, during the run-off period, SIL operates its business of administration of existing policies in force and the settlement of outstanding claims. Projections take into account the recognition of all future expenses within technical provisions at the point SIL went into run-off. SIL's ability to continue as a going concern has been considered by reference to its projected coverage of regulatory and economic capital requirements, its liquidity and its resilience to withstand foreseeable stress scenarios.

In the central forecast case, solvency projections show a low point in the Economic Capital Requirement (ECR) coverage of 150% in June 2022, assuming the earliest possible payment of dividends. (This will require PRA approval and thus in reality only expected later in 2022.) Liquidity projections assess expected liquid assets (cash, money market funds and UK gilts) and stressed investments (the value of investments in a stressed scenario after applying a haircut, which considers the type of asset and maturity). Both projected liquid investments and stressed investments are expected to be in excess of the Board's risk appetite throughout the period of review.

The Directors have then considered the potential impact of various stresses including, but not limited to, adverse claims experience and a fall in the market value of assets. In all cases, solvency coverage remains above 100%. In each scenario, SIL has sufficient liquidity to pay liabilities as they fall due. Even in the event of an extreme stress scenario, it is projected that SIL would be able to meet the majority of payments solely from existing cash holdings and investment maturities, with only modest reliance on additional income from the sale of highly liquid gilts or highly rated corporate bonds.

The Directors have also considered a reverse stress test, which involves several of the stress scenarios happening concurrently, and is therefore extremely unlikely. In this scenario, the ECR and SCR coverage ratio is projected to fall below 100% if dividends are paid as planned but would remain in green status if future dividends were cancelled. In this scenario, SIL would still be expected to be able to meet all of its liabilities as they fall due through the sale of corporate bonds.

### Going concern – Group

The Group SFCR is prepared on a going concern basis and the Directors are satisfied that the Group and Company have the resources to continue in business for at least 12 months from the date of approval of the financial statements. In making this assessment, the Directors have performed a detailed analysis of future capital and liquidity.

The going concern assessment performed takes into account that SIL has ceased to write insurance business, with the last policies having expired in March 2022 and continues as a going concern as, during the run-off period, the Group operates its business of administration of existing policies in force and the settlement of outstanding claims. Projections take into account the recognition of all future expenses within technical provisions at the point SIL went into run-off. They also take into account the option to cancel or defer, respectively, the interest payments on the Tier 1 and Tier 2 loan instruments in the event that SFHL has insufficient solvency or liquidity. The Group and Company's ability to continue as a going concern has been considered by reference to its projected coverage of regulatory and economic capital requirements (for the Group), its liquidity and its resilience to withstand foreseeable stress scenarios.

In the central forecast case, solvency projections show a low point in the Solvency Capital Requirement (SCR) coverage of around 187% in March 2022. Liquidity projections assess expected liquid assets (cash, money market funds and UK gilts) and stressed investments (the value of investments in a stressed scenario after applying a haircut, which considers the type of asset and maturity). Both projected liquid investments and stressed investments are expected to be in excess of the Board's risk appetite throughout the period of review.

The Directors have then considered the potential impact of various stresses including, but not limited to, an adverse claims experience and a fall in the market value of assets. In all cases, solvency coverage remains above 120%. In each scenario, the Group or Company has sufficient liquidity to pay liabilities as they fall due. Even in the event of an extreme stress scenario, it is projected that SIL would be able to meet the majority of payments solely from existing cash holdings and investment maturities, with only modest reliance on additional income from the sale of highly liquid gilts or highly rated corporate bonds. SIL will also allow SFHL to defer reimbursement of expenses incurred on its behalf until SFHL has the cash to reimburse SIL.

The Directors have also considered a reverse stress test, which involves several of the stress scenarios happening concurrently, and is therefore extremely unlikely. In this scenario, solvency coverage remains at over 120%. In this scenario, the Group would still be expected to be able to meet all of its liabilities as they fall due through the sale of corporate bonds. If required, SIL will allow SFHL to defer reimbursement of expenses incurred on its behalf until SFHL has the cash to reimburse SIL and interest payments on the Tier 1 and Tier 2 loan instruments could be cancelled or deferred, respectively.

# E. Capital Management

## E.1 Own Funds

### E.1.1 Objectives, Policies and Processes for Managing Own Funds

#### E.1.1.1 Background and Objectives

Own Funds correspond to SIL's and the Group's available financial resources (capital) which can serve as a buffer against risks and absorb financial losses.

SIL's and the Group's strategy in respect of capital management is to maintain financial strength by ensuring that the following objectives are met:

- There is sufficient capital to meet all regulatory requirements – i.e. the value of Own Funds is greater than the Solvency Capital Requirement (see Section E.2) and will continue to be so throughout the business planning period.
- There is additional capital ("solvency coverage") to meet internal Board agreed thresholds which are above regulatory requirements. This ensures that policyholders are protected and also that the Board's risk appetite is met.
- Subject to the above objectives being met, capital is distributed to its investors.

The policies and processes employed by SIL and the Group are designed to benefit policyholder protection by giving management an accurate understanding of the amount and quality of SIL's and the Group's Own Funds. This helps SIL and the Group to ensure that sufficient Own Funds are held to absorb unexpected losses and maintain solvency. This is a key focus in SIL's and the Group's business planning.

#### E.1.1.2 Policies and Processes

The Board sets capital risk appetite, which defines how much additional capital the Company should hold over and above its regulatory capital requirement. This coverage in excess of 100% provides an additional cushion well beyond the regulatory capital requirement, providing additional security for policyholders by ensuring that SIL and the Group can survive even the most severe unexpected losses.

SIL and the Group have maintained capital above all their regulatory requirements throughout the period. They have also maintained sufficient capital to meet the Boards' capital risk appetite that was in force.

SIL and the Group review solvency regularly, with reports provided to the Board periodically, and more frequent monitoring of key components. In the event that SIL or the Group fall below their risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk albeit often resulting in reduced returns.

### E.1.2 Analysis of Own Funds by Tier

Under Solvency II regulations the excess of assets (other than deferred tax assets) over liabilities is classified as Tier 1 capital. Deferred tax assets, to the extent they are recognised, are classified as Tier 3 capital.

In addition, the Group holds:

- Tier 1 Restricted Own Funds in the form of £12,000k of a subordinated perpetual loan, charged at 17.5% interest per annum, from GSO Capital Opportunities Fund III (Luxembourg) S.à r.l. (£11,000k) and TF Special Opportunities – Frisco Limited (£1,000k).

- Tier 2 Own Funds in the form of £60,000k of a subordinated term loan due 2030 at par, charged at 16.875% interest per annum, from GSO Capital Opportunities Fund III (Luxembourg) S.à r.l. (£56,000k) and TF Special Opportunities – Frisco Limited (£4,000k).
- Ancillary Own Funds in the form of cash held in escrow of £25,000k which can be drawn upon by SIL as required. The agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to the funding was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. SAOFS is a company related to SFHL through having the same shareholders. SIL did not draw upon this funding in the period. This Ancillary Own Funds capital is no longer required and the PRA approved the cessation of this facility with effect from 10 February 2022.

The table below shows Own Funds by tier and amount of eligible Own Funds versus the SCR and MCG SCR at the end of the reporting period.

| Group | 2021 | | | | | 2020 | |
|---|---|---|---|---|---|---|---|
| | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 | Total | Movement |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Ordinary share capital | 100 | 100 | - | - | - | 100 | - |
| Share premium account | 36,900 | 36,900 | - | - | - | 36,900 | - |
| Reconciliation reserve | 60,577 | 60,577 | - | - | - | 76,437 | (15,860) |
| Subordinated liabilities | 68,990 | - | 11,443 | 57,547 | - | 72,000 | (3,010) |
| Total basic own funds after deductions | 166,567 | 97,577 | 11,443 | 57,547 | - | 185,437 | (18,870) |
| Ancillary own funds | 25,000 | - | - | 25,000 | - | 25,000 | - |
| Total available own funds to meet the consolidated group SCR | 191,567 | 97,577 | 11,443 | 82,547 | - | 210,437 | (18,870) |
| Total available own funds to meet the MCG SCR | 166,567 | 97,577 | 11,443 | 57,547 | - | 185,437 | (18,870) |
| Total eligible own funds to meet the consolidated group SCR | 152,131 | 97,577 | 11,443 | 43,111 | - | 209,052 | (56,921) |
| Total eligible own funds to meet the MCG SCR | 113,822 | 97,577 | 11,443 | 4,802 | - | 135,159 | (21,337) |
| Consolidated group SCR | 86,223 | | | | | 167,230 | (81,007) |
| Consolidated group MCG SCR | 24,295 | | | | | 48,610 | (24,315) |

100% of Tier 1 Basic Own Funds held at the end of the reporting period were available to meet the SCR. In line with Solvency II regulations, all Tier 1 unrestricted items are eligible to meet the SCR, whilst the value of Tier 2 and Tier 3 items is not permitted to exceed 50% of the value of own funds eligible to meet the SCR. Restricted Tier 1 items must form less than 20% of total Tier 1 items.

100% of Tier 1 Basic Own Funds held at the end of the reporting period were available to meet the MCG SCR, whilst the Ancillary Own Funds are not available to meet the MCG SCR. In line with Solvency II regulations, all Tier 1 items are eligible to meet the MCG SCR, whilst Tier 2 basic Own Funds are eligible as long as they are less than 20% of the MCG SCR. Restricted Tier 1 items must form less than 20% of total Tier 1 items.

| Solo | Total | Tier 1 unrestricted | 2021 Tier 1 restricted | Tier 2 | Tier 3 | 2020 Total | Movement |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Ordinary share capital | 208,000 | 208,000 | - | - | - | 208,000 | - |
| Reconciliation reserve | (31,986) | (31,986) | - | - | - | (23,578) | (8,408) |
| Total basic own funds after deductions | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Ancillary own funds | 25,000 | - | - | 25,000 | - | 25,000 | - |
| Total available own funds to meet the SCR | 201,014 | 176,014 | - | 25,000 | - | 209,422 | (8,408) |
| Total available own funds to meet the MCR | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Total eligible own funds to meet the SCR | 201,014 | 176,014 | - | 25,000 | - | 209,422 | (8,408) |
| Total eligible own funds to meet the MCR | 176,014 | 176,014 | - | - | - | 184,422 | (8,408) |
| Solo SCR | 86,222 | | | | | 167,230 | (81,008) |
| Solo MCR | 24,295 | | | | | 48,610 | (24,315) |

## E.1.2.1 Tier 1

### Share Capital

SFHL has issued 10,000,000 ordinary shares of £0.01 each giving share capital of £100k. SIL has issued 208,000,000 ordinary shares of £1 each. The ordinary shares have attached to them full voting, dividend and capital distribution rights. The ordinary shares do not confer any rights of redemption. All SIL shares are held by SFHL.

All the shares constitute a single class of ordinary share.

### Share Premium

SFHL has share premium of £36,900k, relating to 9,999,999 ordinary shares of £0.01 each which were issued for £37,000,000.

### Reconciliation Reserve

The reconciliation reserve is derived by taking the excess of assets over liabilities from the balance sheet and reducing it by the value of ordinary share capital, share premium and deferred tax assets. As such it represents both the changes resulting from valuation differences (UK GAAP versus Solvency II), but also retained earnings and other reserves.

The reconciliation reserve is calculated as follows:

| | Solo | Group |
|---|---|---|
| | £000 | £000 |
| Excess of assets over liabilities | 176,014 | 166,567 |
| Less: | | |
| Share capital | (208,000) | (100) |
| Share premium | - | (36,900) |
| Subordinated liabilities | - | (68,990) |
| Reconciliation reserve | (31,986) | 60,577 |

The value of the reconciliation reserve is directly related to the value of the excess of assets over liabilities and is therefore subject to potential volatility of those assets and liabilities. Regular Solvency II balance sheet forecasting is undertaken to monitor the expected future value of assets and liabilities. Where risks are identified, management actions are undertaken to mitigate any impact on solvency coverage.

#### Subordinated Debt

On 2nd December 2020, the Group issued £12,000k of a subordinated perpetual loan, charged at 17.5% interest per annum, to GSO Capital Opportunities Fund III (Luxembourg) S.à r.l. (£11,000k) and TF Special Opportunities – Frisco Limited (£1,000k). This loan is classified as Tier 1 Restricted Own Funds.

### E.1.2.2 Tier 2

#### Ancillary Own Funds

Throughout the year, Sil and the Group had an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. This Ancillary Own Funds capital is no longer required and the PRA approved the cessation of this facility with effect from February 2022.

#### Subordinated Debt

On 2nd December 2020, the Group issued £60,000k of a subordinated term loan due 2030 at par, charged at 16.875% interest per annum, to GSO Capital Opportunities Fund III (Luxembourg) S.à r.l. (£56,000k) and TF Special Opportunities – Frisco Limited (£4,000k).

### E.1.2.3 Tier 3

#### Deferred Tax

A deferred tax asset is recognised when future taxable profits are deemed available within the planning horizon to utilise the asset. The deferred tax asset recognised by SIL as detailed in Section D.1.1 is offset by the deferred tax liability and therefore a net nil deferred tax asset is reported at 31 December 2021.

### E.1.2.4 Changes in Own Funds by Tier Over the Reporting Period

| Group | Total £000 | Tier 1 unrestricted £000 | Tier 1 restricted £000 | Tier 2 £000 | Tier 3 £000 |
|---|---|---|---|---|---|
| Available own funds in previous year | 210,437 | 113,437 | 12,000 | 85,000 | - |
| Movement in reconciliation reserve: | | | | | |
| Movement in UK GAAP reserves | (25,439) | (25,439) | - | - | - |
| Change in valuation differences between UK GAAP and Solvency II | 9,579 | 9,579 | - | - | - |
| Change in market value of subordinated debt | (3,010) | - | (557) | (2,453) | - |
| Available own funds in current year | 191,567 | 97,577 | 11,443 | 82,547 | - |

| Solo | Total<br>£000 | Tier 1 unrestricted<br>£000 | Tier 1 restricted<br>£000 | Tier 2<br>£000 | Tier 3<br>£000 |
|---|---|---|---|---|---|
| Available own funds in previous year | 209,422 | 184,422 | - | 25,000 | - |
| Movement in reconciliation reserve: | | | | | |
| Movement in UK GAAP reserves | (26,902) | (26,902) | - | - | - |
| Change in valuation differences between UK GAAP and Solvency II | 18,494 | 18,494 | - | - | - |
| Available own funds in current year | 201,014 | 176,014 | - | 25,000 | - |

Group available own funds have reduced by £18,870k between 31 December 2020 and 31 December 2021.

Tier 1 unrestricted own funds have reduced by £16,860k, largely owing to losses incurred for the year of £28,162k (described in Section A.2), which has been offset by the sum of valuation differences between UK GAAP and Solvency II.

### E.1.2.5 Development of Own Funds Over the Business Planning Period

The strategic direction over the business planning period is determined by SFHL's directors.

On 11 February 2021, as part of SFHL's strategy, the SIL Board made the decision to put SIL into run-off. As a result Own Funds at December 2021 have been calculated on a run-off basis.

The Group will continue to administer existing policies in force and settle outstanding claims. As SIL is now in run-off, the Group's Own Funds are expected to reduce over time as assets are used to pay liabilities as they fall due. The focus of the Directors is to meet all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Group has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its investors.

In February 2022, the PRA approved the cessation of the £25m Ancillary Own Funds capital on the basis that it is no longer required.

## E.1.3 Other Information in Relation to Own Funds

### E.1.3.1 Loss Absorbency Mechanisms

SIL does not have any Own Funds relating to paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account or paid-in subordinated liabilities included in Tier 1 capital, and therefore disclosure of loss absorbency mechanisms to comply with Article 71 (1)(e) of the Solvency II Delegated Regulation is not relevant.

The Group has £11.4m Tier 1 restricted capital relating to subordinated liabilities which can be converted to equity at a specified rate in the event of a Principal Loss Absorbency Event, which is defined as any of the following:

- The Group SCR coverage falls to 75% or below; or
- The SCR is breached for three months; or
- The Group MCG SCR falls to 100% or below.

### E.1.3.2 Total Equity Under UK GAAP versus Basic Own Funds Under Solvency II

| | Solo £000 | Group £000 |
|---|---|---|
| Total equity per Annual Report and Accounts | 236,437 | 156,919 |
| Difference in valuation of assets and liabilities | (60,423) | (59,342) |
| Subordinated debt | - | 68,990 |
| **Basic Own Funds** | **176,014** | **166,567** |

Differences in valuation of assets and liabilities between UK GAAP and Solvency II are described in Sections D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities). The adjustments described have the effect of reducing the value of Own Funds by the same value as the reduction in net assets, being £59,353k for Group and £60,422k for solo. Overall, for Group, Basic Own Funds are £9,638k higher than Equity under UK GAAP owing to Tier 1 Restricted and Tier 2 subordinated debt of £68,990k which is added back to Basic Own Funds but remains a liability under UK GAAP.

### E.1.3.3 Transitional Arrangements

Transitional arrangements, lasting a maximum of ten years from 1 January 2016, have been introduced to the Solvency II regime to provide a smooth transition between Solvency I and Solvency II requirements. The Group does not have any Basic Own Fund items that are subject to transitional arrangements.

### E.1.3.4 Ancillary Own Funds

Throughout the year, the Group had an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The available funds were held in an escrow account which SIL could draw down on at its discretion. In the event that these ancillary funds were utilised, shares would be issued in SIL which would be classified as Tier 1 Basic Own Funds. There was no availability restriction at group level in relation to the AOF as the value of the AOF is lower than SIL's share of the group SCR. This Ancillary Own Funds capital is no longer required and the PRA approved the cessation of this facility with effect from 10 February 2022.

### E.1.3.5 Items Deducted from Own Funds

No items have been deducted from Own Funds.

## E.2 Solvency Capital Requirement and Minimum Consolidated Group SCR

Under the Solvency II regime, an insurance group is required to hold sufficient capital to cover unexpected losses. These additional funds held reduce the chance of insurers running out of funds, thus protecting policyholders. There are two capital requirements: the Solvency Capital Requirement and the Minimum Consolidated Group SCR. The Group uses Method 1, as referred to in Articles 230 and 233 of Directive 2009/138/EC, to calculate group solvency.

### E.2.1 Minimum SCR (MCR) and Minimum Consolidated Group SCR (MCG SCR)

The MCR (for solo purposes) and MCG SCR (for Group purposes) are calculated using a prescribed formula using the value of Best Estimate Technical Provisions split by Solvency II line of business and the value of net written premium, including bound but not incepted business, over a rolling 12-month period up to the reporting date, also split by Solvency II line of business. The MCR and MCG SCR are then subject to a minimum value (floor), which is equal to 25% of the relevant SCR (either solo or Group), and maximum value (ceiling), which is equal to 45% of the relevant SCR. The MCR and MCG SCR also have an absolute floor, set at €3,700k and converted to pounds sterling. The calculation results in the MCG SCR being equal to the solo MCR.

### E.2.2 Solvency Capital Requirement (SCR)

The SCR should be sufficient to protect the group from unexpected losses over the following year – losses that are not expected more often than once every 200 years – and still be able to honour its claims. There are two ways of calculating the SCR. Insurers can use their own model (Internal Model) with approval from the PRA. Otherwise, they can use a standard approach (Standard Formula) defined by the regulations. However, even when using the Standard Formula, the standard approach must be appropriate for the Insurer. When the regulator believes the standard approach does not adequately capture the risk of the particular business, the regulator can approve a 'capital add-on' to be included within the Standard Formula SCR (SF SCR).

The Group uses the standard approach defined by the regulations, i.e. the SF SCR. Until December 2021, as part of the use of the standard approach, the Group held a Capital Add On (CAO) to reflect that the Standard Formula did not adequately capture all risks. Following agreement by the PRA, this was removed in December 2021. Further information is provided in E.2.5. The table below shows the SF SCR as at 31 December 2021. Section E.2.3 below explains each risk. Note that the 31 December 2021 SCR is still subject to supervisory assessment by the PRA.

With the exception of £1k of counterparty default risk relating to the cash assets held by SFHL (2020: £nil), all risk charges relate to SIL.

| SF SCR | At 31 December 2021 £000 | At 31 December 2020 £000 | Movement £000 |
|---|---|---|---|
| *Premium risk* | *171* | *28,400* | *(28,229)* |
| *Reserve risk* | *64,967* | *68,605* | *(3,638)* |
| *Diversification* | *(86)* | *(9,716)* | *9,630* |
| Total Premium & Reserve risk after diversification | 65,052 | 87,289 | (22,237) |
| Catastrophe risk | 13,415 | 22,960 | (9,545) |
| Lapse risk | - | 17,570 | (17,570) |
| Diversification | (8,839) | (30,570) | 21,731 |
| **Non-life underwriting risk** | **69,628** | **97,249** | **(27,621)** |
| Market risk | 12,799 | 32,006 | (19,207) |
| Counterparty default risk | 3,043 | 6,026 | (2,983) |
| Life underwriting risk | 3,271 | 4,552 | (1,281) |
| Operational risk | 10,496 | 13,810 | (3,314) |
| Diversification | (13,014) | (26,413) | 13,399 |
| **SCR excluding add-ons** | **86,223** | **127,230** | **(41,007)** |
| Operational risk loading | - | 40,000 | (40,000) |
| **SCR including add-ons** | **86,223** | **167,230** | **(81,007)** |

The table shows that the Group's key financial risks are insurance-related, being mainly due to reserve risk, following a significant reduction in premium risk in 2021 due to the run-off.

## E.2.3 Material Change to the MCG SCR and to the SCR over the Reporting Period

At the end of the reporting period the Group's SCR is £86,223 (2020: £167,230k), a decrease of £81,007k since 31 December 2020, reflecting a significant decrease in non-life underwriting risk. The Group SCR, with the exception of £1k of counterparty risk which relates to the SFHL cash balance, is entirely driven by SIL. More detailed explanations of the change in SCR over the year are described below.

At the end of the reporting period, the Group's MCG SCR and the solo MCR is £24,295k (2020: £48,467k), a decrease of £24,172k since 31 December 2020.

### E.2.3.1 Premium Risk

Premium risk relates to policies that will be earned over the coming 12 months. At 31 December 2021, this includes policies which will earn over 2022, and the claims that may be incurred on these policies. The risk is that expenses and losses for these claims are higher than expected.

The SF SCR uses the net earned premium (NEP) expected over the coming 12 months as a driver for the premium risk, but normally also uses the previous 12 months NEP to set a minimum level of premium risk. Under certain conditions, however, the standard formula permits this prior year minimum to be waived. SIL's decision during February 2021 to enter run-off meets these conditions, and consequently the premium risk calculation for the Group as at 31 December 2021 has been determined on the basis of future expected NEP only. Further, as a direct consequence of the entry into run-off, the expected NEP during 2022 is materially lower than the actual NEP during 2021.

### E.2.3.2 Reserve Risk

Reserve risk arises from losses from the past. Insurers hold reserves to cover these losses (claims provisions), but the amount that claims will eventually settle for, and how many more claims are still to be reported, are uncertain. The risk is that claims payments exceed the current level of reserves, so the claims provisions (net of reinsurance) are used as a key input for the reserve risk.

### E.2.3.3 Catastrophe Risk

Catastrophe risk arises from extreme events such as major windstorms and large fires. It is divided into natural and man-made catastrophe risks:

- Natural catastrophe events such as windstorms which result in home damage and floods which cause both home and motor damage.
- Man-made catastrophe events arise from motor liability and fire risks.

### E.2.3.4 Lapse Risk

Lapse risk is the risk that the Group makes less profit because of customers cancelling existing policies or not taking out policies that the Company has committed to write. As the small amount of business to be earned over the coming 12 months is expected to be loss-making, the Group does not hold any capital in respect of lapse risk.

### E.2.3.5 Market Risk

The Group is exposed to the following Standard Formula market risks based on the portfolio at end 2021:

- Interest rate risk, which is the risk that the value of an asset or liability will change owing to a change in interest rates. Interest rate risk is calculated by determining the impact on the balance sheet of either increasing or decreasing interest rates. The higher of the two impacts is the interest rate risk.
- Spread risk, which is the risk that a widening of credit-spreads reduces the value of assets.

The Group's investment portfolio is mostly focused on higher rated corporate bonds, gilts and cash. However it does invest in some higher-yielding assets to back long-tailed liabilities (primarily those arising from Periodical Payment Orders (PPOs)). In particular, the Group invests in collective investments, which include funds of European asset-backed credit, global credit and real-estate backed lending. Investments are denominated in sterling, US Dollars and Euros, with currency hedges held against foreign exchange fluctuations.

### E.2.3.6 Counterparty Default Risk

Counterparty default risk relates to the losses arising when reinsurers and other debtors (counterparties) fail to pay what they owe (default). These counterparties include reinsurers, banks with which cash is deposited and trade receivables.

### E.2.3.7 Life Underwriting Risk

Life risk is the risk associated with life insurance obligations. In the case of the Group, this relates to annuities stemming from the non-life insurance obligations, i.e. PPOs. The most material risk is longevity risk where payments may be paid for a longer period than previously expected. Longevity risk has remained broadly level over the period.

#### E.2.3.8 Operational Risk

Operational risk is the risk of loss arising from inadequate and failed internal processes, or from people and systems, or from external events. This is basically the risk of operating a company. Operational risk is based on gross TPs and gross earned premiums in the last 24 months. These are used to measure the size of the business because the greater the size of the business, the more operational risk it is exposed to. Until December 2021, operational risk also included a capital add-on of £40,000k.

### E.2.4 Simplifications and Undertaking-specific Parameters

Solvency II regulations allow some specified simplifications to be used as part of the standard approach, where this is proportionate. Proportionality takes into account the potential impact of the risk should it occur and the complexity of the full calculation to decide whether the full calculation would be an undue burden.

The Group does not use any undertaking-specific parameters in the calculation of its SF SCR.

### E.2.5 Capital Add-ons

Until December 2021, a capital add-on of £40,000k was in place. This was due to additional operational risk being identified that was not adequately captured by the SF SCR calculations. The Group had calculated the additional capital required to cover this risk and proposed an add-on to the SCR, which had been approved by the PRA. The operational risk add-on was established to reflect the legacy Co-op systems used by SIL and the risks associated with the migration to Markerstudy systems. In December 2021, the add-on was removed following agreement by the PRA.

The Standard Formula appropriateness assessment, including any potential add-ons will be recalculated annually.

## E.3 Use of the Duration-based Equity Risk Sub-module in the Calculation of the SCR

The PRA does not permit the use of this module.

## E.4 Differences Between the Standard Formula and any Internal Model Used

The Group uses the Standard Formula to calculate the SCR.

## E.5 Non-compliance with the MCG SCR and Non-compliance with the SCR

### E.5.1. Non-compliance with the MCG SCR

Non-compliance with the MCG SCR occurs when the value of eligible Own Funds falls below the MCG SCR. As at 31 December 2021, the Group is in compliance with the MCG SCR with coverage of 468% (2020: 278%) of the MCG SCR. The Group has been compliant with the MCG SCR throughout the reporting period. SIL is in compliance with MCR coverage of 724% (2020: 379%).

### E.5.2. Non-compliance with the SCR

Non-compliance with the SF SCR occurs when the value of eligible own funds falls below the SF SCR. As at 31 December 2021, the Group is in compliance with the SF SCR with coverage of 176% (2020: 125%) of the SCR. The Group has been compliant with the SCR throughout the reporting period. SIL is in compliance with SCR coverage of 233% (2020: 125%).

## E.6 Any Other Information

No additional information is required to be disclosed.

## Appendix 1: Public Quantitative Reporting Templates (QRTs) – Solo

## General information

| | |
|---|---|
| Undertaking name | Soteria Insurance Limited |
| Undertaking identification code | 213800239LP2JJ1CF649 |
| Type of code of undertaking | LEI |
| Type of undertaking | Non-life undertakings |
| Country of authorisation | GB |
| Language of reporting | en |
| Reporting reference date | 31 December 2021 |
| Currency used for reporting | GBP |
| Accounting standards | Local GAAP |
| Method of Calculation of the SCR | Standard formula |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | Use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

## List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.12.01.02 - Life and Health SLT Technical Provisions
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.22.01.21 - Impact of long term guarantees measures and transitionals
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | 0 |
| R0040 | Deferred tax assets | 0 |
| R0050 | Pension benefit surplus | 0 |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 398,414 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 0 |
| R0110 | *Equities - listed* | 0 |
| R0120 | *Equities - unlisted* | 0 |
| R0130 | *Bonds* | 379,777 |
| R0140 | *Government Bonds* | 85,797 |
| R0150 | *Corporate Bonds* | 293,979 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 18,638 |
| R0190 | *Derivatives* | 0 |
| R0200 | *Deposits other than cash equivalents* | 0 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | 0 |
| R0230 | Loans and mortgages | 3,500 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | 0 |
| R0260 | *Other loans and mortgages* | 3,500 |
| R0270 | Reinsurance recoverables from: | 123,391 |
| R0280 | *Non-life and health similar to non-life* | 74,958 |
| R0290 | *Non-life excluding health* | 74,958 |
| R0300 | *Health similar to non-life* | 0 |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 48,433 |
| R0320 | *Health similar to life* | 0 |
| R0330 | *Life excluding health and index-linked and unit-linked* | 48,433 |
| R0340 | *Life index-linked and unit-linked* | 0 |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 608 |
| R0370 | Reinsurance receivables | 0 |
| R0380 | Receivables (trade, not insurance) | 4,296 |
| R0390 | Own shares (held directly) | 0 |
| 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 | 151,067 |
| R0420 | Any other assets, not elsewhere shown | 0 |
| R0500 | **Total assets** | 681,276 |

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 355,661 |
| R0520 | *Technical provisions - non-life (excluding health)* | 355,661 |
| R0530 | *TP calculated as a whole* | 0 |
| R0540 | *Best Estimate* | 335,710 |
| R0550 | *Risk margin* | 19,951 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | 0 |
| R0580 | *Best Estimate* | 0 |
| R0590 | *Risk margin* | 0 |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 94,633 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | 0 |
| R0630 | *Best Estimate* | 0 |
| R0640 | *Risk margin* | 0 |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 94,633 |
| R0660 | *TP calculated as a whole* | 0 |
| R0670 | *Best Estimate* | 94,312 |
| R0680 | *Risk margin* | 321 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | 0 |
| R0710 | *Best Estimate* | 0 |
| R0720 | *Risk margin* | 0 |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | 0 |
| R0760 | Pension benefit obligations | 0 |
| R0770 | Deposits from reinsurers | 0 |
| R0780 | Deferred tax liabilities | 0 |
| R0790 | Derivatives | 0 |
| R0800 | Debts owed to credit institutions | 0 |
| R0810 | Financial liabilities other than debts owed to credit institutions | 0 |
| R0820 | Insurance & intermediaries payables | 680 |
| R0830 | Reinsurance payables | 44,791 |
| R0840 | Payables (trade, not insurance) | 6,538 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | 0 |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 2,958 |
| R0900 | **Total liabilities** | 505,262 |
| | | |
| R1000 | **Excess of assets over liabilities** | 176,014 |

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) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | 1,175 | 504 | | 8,206 | 0 | | | | | | | | | 9,884 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | 1,076 | 461 | | 4,555 | 0 | | | | | | | | | 6,093 |
| R0200 | Net | | | | 99 | 42 | | 3,650 | 0 | | 0 | 0 | 0 | | 0 | | 0 | 3,791 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | 90,747 | 38,891 | | 47,406 | 0 | | | | | | | | | 177,044 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | 4,805 | 2,059 | | 4,841 | 0 | | | | | | | | | 11,705 |
| R0300 | Net | | | | 85,942 | 36,832 | | 42,565 | 0 | | 0 | 0 | 0 | | 0 | | 0 | 165,339 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | 71,022 | 34,107 | | 20,644 | 1,539 | | | | | | | | | 127,312 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | 2,141 | 180 | | 794 | 1,509 | | | | | | | | | 4,624 |
| R0400 | Net | | | | 68,880 | 33,927 | | 19,850 | 30 | | 0 | 0 | 0 | | 0 | | 0 | 122,688 |
| | **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 | 0 | 0 | | 0 | | 0 | 0 |
| R0550 | **Expenses incurred** | | | | 50,406 | 21,113 | | 6,382 | 0 | | 0 | 0 | 0 | | 0 | | 0 | 77,901 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 77,901 |

S.05.01.02

## Premiums, claims and expenses by line of business

### Life

| | | Line of Business for: life insurance obligations | | | | | | Life reinsurance obligations | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| | **Premiums written** | | | | | | | | | |
| R1410 | Gross | | | | | | | | | 0 |
| R1420 | Reinsurers' share | | | | | | | | | 0 |
| R1500 | Net | | | | 0 | | 0 | | 0 | 0 |
| | **Premiums earned** | | | | | | | | | |
| R1510 | Gross | | | | | | | | | 0 |
| R1520 | Reinsurers' share | | | | | | | | | 0 |
| R1600 | Net | | | | 0 | | 0 | | 0 | 0 |
| | **Claims incurred** | | | | | | | | | |
| R1610 | Gross | | | | | | 8,561 | | | 8,561 |
| R1620 | Reinsurers' share | | | | | | 4,159 | | | 4,159 |
| R1700 | Net | | | | 0 | | 4,402 | | 0 | 4,402 |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | Gross | | | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | | | 0 |
| R1800 | Net | | | | 0 | | 0 | | 0 | 0 |
| R1900 | **Expenses incurred** | | | | 0 | | 0 | | 0 | 0 |
| R2500 | **Other expenses** | | | | | | | | | |
| R2600 | **Total expenses** | | | | | | | | | 0 |

S.12.01.02

## Life and Health SLT Technical Provisions

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | Total (Life other than health insurance, including Unit-Linked) | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R0010 | **Technical provisions calculated as a whole** | | | | | | | | | 0 | 0 | | | | | | |
| R0020 | 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 | | | | | | | | | 0 | 0 | | | | | | |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | |
| | **Best estimate** | | | | | | | | | | | | | | | | |
| R0030 | **Gross Best Estimate** | | | | | | | | 94,312 | 0 | 94,312 | | | | | | |
| R0080 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | 48,433 | 0 | 48,433 | | | | | | |
| R0090 | Best estimate minus recoverables from reinsurance/SPV and Finite Re | | | | | | 0 | 0 | 45,879 | 0 | 45,879 | | | | | | |
| R0100 | **Risk margin** | | | | | | | | 321 | 0 | 321 | | | | | | |
| | **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | |
| R0110 | Technical Provisions calculated as a whole | | | | | | | | | | 0 | | | | | | |
| R0120 | Best estimate | | | | | | | | | | 0 | | | | | | |
| R0130 | Risk margin | | | | | | | | | | 0 | | | | | | |
| R0200 | **Technical provisions - total** | | | | | 0 | | | 94,633 | 0 | 94,633 | | | | | | |

S.17.01.02

## Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| R0010 | **Technical provisions calculated as a whole** | | | | 0 | 0 | | 0 | 0 | | 0 | 0 | 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 | | | | | | | | | | | | | | | | | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| | **Best estimate** | | | | | | | | | | | | | | | | | |
| | **Premium provisions** | | | | | | | | | | | | | | | | | |
| R0060 | Gross | | | | -2,363 | -1,016 | | -691 | 0 | | 0 | 0 | 0 | | 0 | | 0 | -4,069 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | -79 | 0 | | 51 | 0 | | 0 | 0 | 0 | | 0 | | 0 | -28 |
| R0150 | **Net Best Estimate of Premium Provisions** | | | | -2,283 | -1,016 | | -741 | 0 | | 0 | 0 | 0 | | 0 | | 0 | -4,041 |
| | **Claims provisions** | | | | | | | | | | | | | | | | | |
| R0160 | Gross | | | | 286,096 | -3,604 | | 37,146 | 20,141 | | 0 | 0 | 0 | | 0 | | 0 | 339,779 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | 69,578 | -1,566 | | 6,355 | 620 | | 0 | 0 | 0 | | 0 | | 0 | 74,986 |
| R0250 | **Net Best Estimate of Claims Provisions** | | | | 216,518 | -2,038 | | 30,791 | 19,522 | | 0 | 0 | 0 | | 0 | | 0 | 264,792 |
| R0260 | **Total best estimate - gross** | | | | 283,733 | -4,620 | | 36,455 | 20,141 | | 0 | 0 | 0 | | 0 | | 0 | 335,710 |
| R0270 | **Total best estimate - net** | | | | 214,235 | -3,054 | | 30,049 | 19,522 | | 0 | 0 | 0 | | 0 | | 0 | 260,752 |
| R0280 | **Risk margin** | | | | 15,827 | 9 | | 2,451 | 1,664 | | 0 | 0 | 0 | | 0 | | 0 | 19,951 |
| | **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| R0290 | Technical Provisions calculated as a whole | | | | | | | | | | | | | | | | | 0 |
| R0300 | Best estimate | | | | | | | | | | | | | | | | | 0 |
| R0310 | Risk margin | | | | | | | | | | | | | | | | | 0 |
| R0320 | **Technical provisions - total** | | | | 299,560 | -4,611 | | 38,906 | 21,805 | | 0 | 0 | 0 | | 0 | | 0 | 355,661 |
| R0330 | **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | | | | 69,498 | -1,566 | | 6,406 | 620 | | 0 | 0 | 0 | | 0 | | 0 | 74,958 |
| R0340 | **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total** | | | | 230,062 | -3,045 | | 32,500 | 21,186 | | 0 | 0 | 0 | | 0 | | 0 | 280,703 |

**S.19.01.21**

## Non-Life insurance claims

### Total Non-life business

| Z0020 | Accident year / underwriting year | Accident Year |
|---|---|---|

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

(absolute amount)

| | Year | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0170 | C0180 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Development year | | | | | | | | | | | In Current year | Sum of years (cumulative) |
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | |
| R0100 | Prior | | | | | | | | | | | 2,238 | 2,238 | 2,238 |
| R0160 | 2012 | 179,700 | 125,331 | 50,014 | 34,298 | 17,137 | 6,960 | 2,528 | 1,296 | 2,336 | 58 | | 58 | 419,659 |
| R0170 | 2013 | 135,724 | 92,531 | 29,057 | 19,181 | 14,599 | 8,119 | 5,028 | 2,990 | 157 | | | 157 | 307,387 |
| R0180 | 2014 | 118,585 | 64,817 | 20,588 | 11,457 | 14,587 | 5,505 | 537 | 514 | | | | 514 | 236,591 |
| R0190 | 2015 | 107,605 | 77,618 | 22,894 | 11,952 | 8,494 | 2,294 | 3,606 | | | | | 3,606 | 234,463 |
| R0200 | 2016 | 141,052 | 87,433 | 29,400 | 17,218 | 15,651 | 4,262 | | | | | | 4,262 | 295,015 |
| R0210 | 2017 | 154,212 | 82,926 | 22,769 | 15,685 | 14,635 | | | | | | | 14,635 | 290,228 |
| R0220 | 2018 | 180,619 | 86,225 | 28,322 | 22,360 | | | | | | | | 22,360 | 317,527 |
| R0230 | 2019 | 186,532 | 83,961 | 24,431 | | | | | | | | | 24,431 | 294,924 |
| R0240 | 2020 | 135,799 | 55,135 | | | | | | | | | | 55,135 | 190,934 |
| R0250 | 2021 | 55,129 | | | | | | | | | | | 55,129 | 55,129 |
| R0260 | | | | | | | | | | | | Total | 182,526 | 2,644,095 |

**Gross Undiscounted Best Estimate Claims Provisions**

(absolute amount)

| | Year | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | C0360 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Development year | | | | | | | | | | | Year end (discounted data) |
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | |
| R0100 | Prior | | | | | | | | | | | 52,754 | 47,237 |
| R0160 | 2012 | 0 | 0 | 0 | 0 | 19,445 | 6,748 | 4,341 | 3,091 | 280 | 384 | | 380 |
| R0170 | 2013 | 0 | 0 | 0 | 34,301 | 28,671 | 6,971 | 3,201 | 577 | 133 | | | 161 |
| R0180 | 2014 | 0 | 0 | 39,076 | 25,552 | 8,357 | 1,280 | 1,281 | 849 | | | | 853 |
| R0190 | 2015 | 0 | 65,332 | 30,236 | 17,920 | 6,313 | 4,332 | 2,463 | | | | | 2,434 |
| R0200 | 2016 | 194,065 | 129,147 | 77,566 | 47,412 | 38,269 | 22,149 | | | | | | 19,304 |
| R0210 | 2017 | 176,067 | 76,673 | 48,856 | 35,388 | 21,602 | | | | | | | 20,878 |
| R0220 | 2018 | 178,883 | 75,939 | 49,625 | 37,486 | | | | | | | | 36,497 |
| R0230 | 2019 | 182,368 | 95,430 | 79,728 | | | | | | | | | 77,743 |
| R0240 | 2020 | 139,860 | 76,131 | | | | | | | | | | 74,055 |
| R0250 | 2021 | 61,247 | | | | | | | | | | | 60,237 |
| R0260 | | | | | | | | | | | | Total | 339,779 |

**S.22.01.21**

## Impact of long term guarantees measures and transitionals

| | | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| R0010 | Technical provisions | 450,294 | 0 | 0 | 4,760 | 0 |
| R0020 | Basic own funds | 176,014 | 0 | 0 | -2,940 | 0 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 201,014 | 0 | 0 | -2,940 | 0 |
| R0090 | Solvency Capital Requirement | 86,222 | 0 | 0 | 283 | 0 |
| R0100 | Eligible own funds to meet Minimum Capital Requirement | 176,014 | 0 | 0 | -2,940 | 0 |
| R0110 | Minimum Capital Requirement | 24,295 | 0 | 0 | -141 | 0 |

**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) | 208,000 | 208,000 | | 0 | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 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 | -31,986 | -31,986 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| 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 | | | | |
| R0230 | **Deductions for participations in financial and credit institutions** | 0 | | | | |
| R0290 | **Total basic own funds after deductions** | 176,014 | 176,014 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 25,000 | | | 25,000 | |
| 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** | 25,000 | | | 25,000 | 0 |
| | **Available and eligible own funds** | | | | | |
| R0500 | Total available own funds to meet the SCR | 201,014 | 176,014 | 0 | 25,000 | 0 |
| R0510 | Total available own funds to meet the MCR | 176,014 | 176,014 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 201,014 | 176,014 | 0 | 25,000 | 0 |
| R0550 | Total eligible own funds to meet the MCR | 176,014 | 176,014 | 0 | 0 | |
| R0580 | **SCR** | 86,222 | | | | |
| R0600 | **MCR** | 24,295 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 233.13% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 724.49% | | | | |

| | **Reconcilliation reserve** | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 176,014 |
| R0710 | Own shares (held directly and indirectly) | 0 |
| R0720 | Foreseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 208,000 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0760 | **Reconciliation reserve** | -31,986 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | 0 |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

**S.25.01.21**

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 12,799 | | |
| R0020 | Counterparty default risk | 3,042 | | |
| R0030 | Life underwriting risk | 3,271 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 69,627 | | |
| R0060 | Diversification | -13,013 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 75,727 | | |

**USP Key**

**For life underwriting risk:**
1 - Increase in the amount of annuity benefits
9 - None

**For health underwriting risk:**
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

**For non-life underwriting risk:**
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

| | **Calculation of Solvency Capital Requirement** | C0100 |
|---|---|---|
| R0130 | Operational risk | 10,496 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency Capital Requirement excluding capital add-on** | 86,222 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement** | 86,222 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

| | **Approach to tax rate** | C0109 |
|---|---|---|
| R0590 | Approach based on average tax rate | 0 |

| | **Calculation of loss absorbing capacity of deferred taxes** | LAC DT |
|---|---|---|
| | | C0130 |
| R0640 | LAC DT | |
| R0650 | LAC DT justified by reversion of deferred tax liabilities | 0 |
| R0660 | LAC DT justified by reference to probable future taxable economic profit | 0 |
| R0670 | LAC DT justified by carry back, current year | 0 |
| R0680 | LAC DT justified by carry back, future years | 0 |
| R0690 | Maximum LAC DT | 0 |

**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 | $MCR_{NL}$ Result | 23,332 |

| | | 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 | 0 | |
| R0040 | Workers' compensation insurance and proportional reinsurance | 0 | |
| R0050 | Motor vehicle liability insurance and proportional reinsurance | 214,235 | 99 |
| R0060 | Other motor insurance and proportional reinsurance | 0 | 42 |
| R0070 | Marine, aviation and transport insurance and proportional reinsurance | 0 | |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | 30,049 | 3,650 |
| R0090 | General liability insurance and proportional reinsurance | 19,522 | 0 |
| R0100 | Credit and suretyship insurance and proportional reinsurance | 0 | |
| R0110 | Legal expenses insurance and proportional reinsurance | 0 | 0 |
| R0120 | Assistance and proportional reinsurance | 0 | |
| R0130 | Miscellaneous financial loss insurance and proportional reinsurance | 0 | |
| 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 | $MCR_L$ Result | 963 |

| | | 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 | 45,879 | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | |

| | Overall MCR calculation | C0070 |
|---|---|---|
| R0300 | Linear MCR | 24,295 |
| R0310 | SCR | 86,222 |
| R0320 | MCR cap | 38,800 |
| R0330 | MCR floor | 21,556 |
| R0340 | Combined MCR | 24,295 |
| R0350 | Absolute floor of the MCR | 3,126 |
| R0400 | **Minimum Capital Requirement** | 24,295 |

## Appendix 2: Public Quantitative Reporting Templates (QRTs) – Group

## General information

| | |
|---|---|
| Participating undertaking name | Soteria Finance Holdings Limited |
| Group identification code | 254900DQJVOGCLPQ7264 |
| Type of code of group | LEI |
| Country of the group supervisor | GB |
| Language of reporting | en |
| Reporting reference date | 31 December 2021 |
| Currency used for reporting | GBP |
| Accounting standards | The group is using local GAAP (other than IFRS) |
| Method of Calculation of the group SCR | Standard formula |
| Method of group solvency calculation | Method 1 is used exclusively |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | Use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

## List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.05.02.01 - Premiums, claims and expenses by country
S.22.01.22 - Impact of long term guarantees measures and transitionals
S.23.01.22 - Own Funds
S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
S.32.01.22 - Undertakings in the scope of the group

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | 0 |
| R0040 | Deferred tax assets | 0 |
| R0050 | Pension benefit surplus | 0 |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 398,414 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 0 |
| R0110 | *Equities - listed* | 0 |
| R0120 | *Equities - unlisted* | 0 |
| R0130 | *Bonds* | 379,777 |
| R0140 | *Government Bonds* | 85,797 |
| R0150 | *Corporate Bonds* | 293,979 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 18,638 |
| R0190 | *Derivatives* | 0 |
| R0200 | *Deposits other than cash equivalents* | 0 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | 0 |
| R0230 | Loans and mortgages | 3,500 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | 0 |
| R0260 | *Other loans and mortgages* | 3,500 |
| R0270 | Reinsurance recoverables from: | 123,391 |
| R0280 | *Non-life and health similar to non-life* | 74,958 |
| R0290 | *Non-life excluding health* | 74,958 |
| R0300 | *Health similar to non-life* | 0 |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 48,433 |
| R0320 | *Health similar to life* | 0 |
| R0330 | *Life excluding health and index-linked and unit-linked* | 48,433 |
| R0340 | *Life index-linked and unit-linked* | 0 |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 608 |
| R0370 | Reinsurance receivables | 0 |
| R0380 | Receivables (trade, not insurance) | 5,922 |
| R0390 | Own shares (held directly) | 0 |
| 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 | 151,124 |
| R0420 | Any other assets, not elsewhere shown | 0 |
| R0500 | **Total assets** | 682,959 |

S.02.01.02
## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 355,661 |
| R0520 | *Technical provisions - non-life (excluding health)* | 355,661 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | 335,710 |
| R0550 | *Risk margin* | 19,951 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 94,633 |
| 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)* | 94,633 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | 94,312 |
| R0680 | *Risk margin* | 321 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | 0 |
| R0760 | Pension benefit obligations | 0 |
| R0770 | Deposits from reinsurers | 0 |
| R0780 | Deferred tax liabilities | 0 |
| R0790 | Derivatives | 0 |
| R0800 | Debts owed to credit institutions | 0 |
| R0810 | Financial liabilities other than debts owed to credit institutions | 0 |
| R0820 | Insurance & intermediaries payables | 680 |
| R0830 | Reinsurance payables | 44,791 |
| R0840 | Payables (trade, not insurance) | 6,538 |
| R0850 | Subordinated liabilities | 68,990 |
| R0860 | *Subordinated liabilities not in BOF* | 0 |
| R0870 | *Subordinated liabilities in BOF* | 68,990 |
| R0880 | Any other liabilities, not elsewhere shown | 14,089 |
| R0900 | **Total liabilities** | 585,382 |
| | | |
| R1000 | **Excess of assets over liabilities** | 97,577 |

**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) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | 1,175 | 504 | | 8,206 | 0 | | | | | | | | | 9,884 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | 1,076 | 461 | | 4,555 | 0 | | 0 | | | | | | | 6,093 |
| R0200 | Net | | | | 99 | 42 | | 3,650 | 0 | | 0 | | | | | | | 3,791 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | 90,747 | 38,891 | | 47,406 | 0 | | | | | | | | | 177,044 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | 4,805 | 2,059 | | 4,841 | 0 | | 0 | | | | | | | 11,705 |
| R0300 | Net | | | | 85,942 | 36,832 | | 42,565 | 0 | | 0 | | | | | | | 165,339 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | 71,022 | 34,107 | | 20,644 | 1,539 | | | | | | | | | 127,312 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | 2,141 | 180 | | 794 | 1,509 | | | | | | | | | 4,624 |
| R0400 | Net | | | | 68,880 | 33,927 | | 19,850 | 30 | | 0 | | | | | | | 122,688 |
| | **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 | | | | | | | 0 |
| R0550 | **Expenses incurred** | | | | 53,171 | 10,367 | | -155 | 0 | | 0 | | | | | | | 63,383 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 63,383 |

S.05.01.02

## Premiums, claims and expenses by line of business

### Life

| | | Line of Business for: life insurance obligations | | | | | | Life reinsurance obligations | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| | **Premiums written** | | | | | | | | | |
| R1410 | Gross | | | | | | | | | 0 |
| R1420 | Reinsurers' share | | | | | | | | | 0 |
| R1500 | Net | | | | | | 0 | | | 0 |
| | **Premiums earned** | | | | | | | | | |
| R1510 | Gross | | | | | | | | | 0 |
| R1520 | Reinsurers' share | | | | | | | | | 0 |
| R1600 | Net | | | | | | 0 | | | 0 |
| | **Claims incurred** | | | | | | | | | |
| R1610 | Gross | | | | | | 8,561 | | | 8,561 |
| R1620 | Reinsurers' share | | | | | | 4,159 | | | 4,159 |
| R1700 | Net | | | | | | 4,402 | | | 4,402 |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | Gross | | | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | | | 0 |
| R1800 | Net | | | | | | 0 | | | 0 |
| R1900 | **Expenses incurred** | | | | | | 0 | | | 0 |
| R2500 | **Other expenses** | | | | | | | | | |
| R2600 | **Total expenses** | | | | | | | | | 0 |

**S.22.01.22**

## Impact of long term guarantees measures and transitionals

| | | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| R0010 | Technical provisions | 450,294 | 0 | 0 | 4,760 | 0 |
| R0020 | Basic own funds | 166,567 | 0 | 0 | -2,940 | 0 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 152,131 | 0 | 0 | -2,940 | 0 |
| R0090 | Solvency Capital Requirement | 86,223 | 0 | 0 | 283 | 0 |

**S.23.01.22**

**Own Funds**

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | **Basic own funds before deduction for participations in other financial sector** | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 100 | 100 | | 0 | |
| R0020 | *Non-available called but not paid in ordinary share capital at group level* | 0 | | | | |
| R0030 | Share premium account related to ordinary share capital | 36,900 | 36,900 | | 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 |
| R0060 | *Non-available subordinated mutual member accounts at group level* | 0 | | | | |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0080 | *Non-available surplus funds at group level* | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0100 | *Non-available preference shares at group level* | 0 | | | | |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0120 | *Non-available share premium account related to preference shares at group level* | 0 | | | | |
| R0130 | Reconciliation reserve | 60,577 | 60,577 | | | |
| R0140 | Subordinated liabilities | 68,990 | | 11,443 | 57,547 | 0 |
| R0150 | *Non-available subordinated liabilities at group level* | 0 | | | | |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0170 | *The amount equal to the value of net deferred tax assets not available at the group level* | 0 | | | | 0 |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests (if not reported as part of a specific own fund item) | 0 | | | | |
| R0210 | *Non-available minority interests at group level* | 0 | | | | |
| 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** | | | | | |
| R0230 | **Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities** | 0 | | | | |
| R0240 | *whereof deducted according to art 228 of the Directive 2009/138/EC* | 0 | | | | |
| R0250 | Deductions for participations where there is non-availability of information (Article 229) | 0 | | | | |
| R0260 | Deduction for participations included by using D&A when a combination of methods is used | 0 | | | | |
| R0270 | **Total of non-available own fund items** | 0 | 0 | 0 | 0 | 0 |
| R0280 | **Total deductions** | 0 | 0 | 0 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 166,567 | 97,577 | 11,443 | 57,547 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 25,000 | | | 25,000 | |
| 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 | | | | |
| R0380 | Non available ancillary own funds at group level | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 25,000 | | | 25,000 | 0 |
| | **Own funds of other financial sectors** | | | | | |
| R0410 | Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies | 0 | | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| R0430 | Non regulated entities carrying out financial activities | 0 | | | | |
| R0440 | **Total own funds of other financial sectors** | 0 | 0 | 0 | 0 | 0 |

S.23.01.22

## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | **Basic own funds before deduction for participations in other financial sector** | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Own funds when using the D&A, exclusively or in combination of method 1** | | | | | |
| R0450 | Own funds aggregated when using the D&A and combination of method | 0 | | | | |
| R0460 | Own funds aggregated when using the D&A and combination of method net of IGT | 0 | | | | |
| R0520 | Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 191,567 | 97,577 | 11,443 | 82,547 | 0 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 166,567 | 97,577 | 11,443 | 57,547 | |
| R0560 | Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 152,131 | 97,577 | 11,443 | 43,111 | 0 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 113,879 | 97,577 | 11,443 | 4,859 | |
| R0610 | **Minimum consolidated Group SCR** | 24,295 | | | | |
| R0650 | **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | 468.73% | | | | |
| R0660 | **Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )** | 152,131 | 97,577 | 11,443 | 43,111 | 0 |
| R0680 | **Group SCR** | 86,223 | | | | |
| R0690 | **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A** | 176.44% | | | | |

| | | |
|---|---|---|
| | **Reconcilliation reserve** | C0060 |
| R0700 | Excess of assets over liabilities | 97,577 |
| R0710 | Own shares (held directly and indirectly) | |
| R0720 | Forseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 37,000 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | |
| R0750 | Other non available own funds | |
| R0760 | **Reconciliation reserve** | 60,577 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

**S.25.01.22**

## Solvency Capital Requirement - for groups on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 12,799 | | |
| R0020 | Counterparty default risk | 3,043 | | |
| R0030 | Life underwriting risk | 3,271 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 69,627 | | |
| R0060 | Diversification | -13,014 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 75,727 | | |

**USP Key**

**For life underwriting risk:**
1 - Increase in the amount of annuity benefits
9 - None

**For health underwriting risk:**
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

**For non-life underwriting risk:**
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross

| | | C0100 |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | |
| R0130 | Operational risk | 10,496 |
| 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 | 0 |
| R0200 | **Solvency Capital Requirement excluding capital add-on** | 86,223 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement for undertakings under consolidated method** | 86,223 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |
| R0470 | Minimum consolidated group solvency capital requirement | 24,295 |
| | **Information on other entities** | |
| R0500 | Capital requirement for other financial sectors (Non-insurance capital requirements) | 0 |
| R0510 | *Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies* | 0 |
| R0520 | *Institutions for occupational retirement provisions* | 0 |
| R0530 | *Capital requirement for non- regulated entities carrying out financial activities* | 0 |
| R0540 | Capital requirement for non-controlled participation requirements | 0 |
| R0550 | Capital requirement for residual undertakings | 0 |
| | **Overall SCR** | |
| R0560 | SCR for undertakings included via D&A | 0 |
| R0570 | **Solvency capital requirement** | 86,223 |

**S.32.01.22**

## Undertakings in the scope of the group

| Row | Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal Name of the undertaking | Type of undertaking | Legal form | Category (mutual/ non mutual) | Supervisory Authority |
|---|---|---|---|---|---|---|---|---|
| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 |
| 1 | GB | 254900DQJVOGCLPQ7264 | LEI | Soteria Finance Holdings Limited | Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC | Companies Limited By Shares Or By Guarantee Or Unlimited | Non-mutual | |
| 2 | GB | 213800239LP2JJ1CF649 | LEI | Soteria Insurance Limited | Non life insurance undertaking | Companies Limited By Shares Or By Guarantee Or Unlimited | Non-mutual | Prudential Regulation Authority (PRA) |

S.32.01.22

## Undertakings in the scope of the group

| | | | | | Criteria of influence | | | | | | Inclusion in the scope of Group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal Name of the undertaking | % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | YES/NO | Date of decision if art. 214 is applied | Method used and under method 1, treatment of the undertaking |
| Row | C0010 | C0020 | C0030 | C0040 | C0180 | C0190 | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 |
| 1 | GB | 254900DQJVOGCLPQ7264 | LEI | Soteria Finance Holdings Limited | | | | | | | Included in the scope | | Method 1: Full consolidation |
| 2 | GB | 213800239LP2JJ1CF649 | LEI | Soteria Insurance Limited | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |