UK DEFENCE CLUB

Solvency and Financial Condition Report

For the year ended 20 February 2020

UKDC
IS MANAGED
BY **THOMAS MILLER**

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Summary

This report covers the Business and Performance of the Association, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management under the requirements of the Solvency 2 regime. The ultimate Administrative Body that has the responsibility for all of these matters is the Association's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

The Association's financial year runs to 20 February each year and it reports its results in Pounds Sterling.

For solvency purposes the Association uses the standard formula to calculate its Solvency Capital Requirement ("SCR") and as a mutual insurer of the marine legal expense risks of its Members, the Association's insurance business is classified as legal expenses insurance for Solvency 2 purposes. All business is underwritten from the United Kingdom, however Members are dispersed internationally.

During the year under review the Association has shown a surplus for the year of £0.15 million (2019: £0.3 million) as reported in its annual financial statements under UK GAAP. The surplus for the year was mainly the result of reduced reinsurance premium and a favourable investment return for the year. The surplus for the year resulted in a free reserve of £4.79 million (2019: £4.64 million) which is further reduced by £0.5 million (2019: reduced by £0.45 million) as a result of unmatured forward currency contracts that are included in the Association's hedging reserve and forms part of the Association's capital reserves.

This is the fifth year that the Association has returned premium to its Membership by way of a continuity credit scheme. During the year under review the Association has seen stable premium levels driven in part by a weakening in Sterling. To manage this risk the Association hedges its US Dollar premium income through the use of forward currency.

For solvency purposes the Association's total own funds stood at £10.7 million (2019: £10.9 million) which are supported by and include ancillary own funds, as approved by the Association's regulator and represent the capital benefit associated with the Association's ability to make a contingency call on its mutual Members. This resulted in eligible own funds of £10.7 million (2019: £9.5 million) against an SCR of £5.8 million (2019: £3.3 million) and eligible own funds of £7.8 million (2019: £7.8 million) against an Minimum Capital Requirement ("MCR") of £2.2 million (2019: £2.2 million). Since the Association's MCR is based on the absolute floor as set by EIOPA, the coverage is impacted by Sterling relative to Euro. Were it not for the absolute floor, the Association's MCR would have been £1.5 million.

Summary (continued)

During the year the Association incorporated the United Kingdom Freight Demurrage and Defence Insurance (Europe) Limited ("UKDE"). UKDE is a Cypriot company that has been established as part of the Association's contingency planning for Brexit. Currently UKDE is in the final stages of obtaining an insurance license from the Cyprus Ministry of Finance and as such is a non-trading company.

The emergence and spread of COVID-19, or the so-called Coronavirus, could have an impact on the Association. As a service organisation, the Association is able to continue to service its Members remotely, and therefore the disruption caused by COVID-19 has not materially impacted the Association's ability to operate on an ongoing basis. Further details can be found in section A.5 of the Solvency and Financial Condition Report.

A. Business and Performance

A.1. Business

Regulation
The Association’s regulators are:

- Prudential Regulation Authority (“PRA”): 20 Moorgate, London, EC2R 6DA, United Kingdom
- Financial Conduct Authority (“FCA”): 25 the North Colonnade, London, E14 5HS, United Kingdom.

External auditors
The Association’s external auditors are BDO LLP: 150 Aldersgate Street, London, EC1A 4AB.

Overview
The Association is incorporated in England as a company limited by guarantee and not having share capital. In the event of the company's liquidation the net assets of the Association are to be distributed in proportion to the amount of contributions paid by Members during the preceding six years.

The Association carries on the business of mutual insurance of its Members against legal costs and expenses as defined in the Rules of the Association. The Association reinsures 90 per cent of its business with The United Kingdom Defence Insurance Association (Isle of Man) Limited (“UKDIA”). This SFCR presents only the results of the Association, and excludes the results of UKDIA.

For Solvency 2 purposes the Association’s business is classified as legal expense insurance.

The number of ships entered in the Association at the year-end was 3,721 (3,043 owned and 678 chartered).

A. Business and Performance (continued)

A.2. Underwriting Performance

All of the Association's business is underwritten from the UK, although Members are internationally dispersed. The Association writes the insurance of legal expenses. Because the Association covers movable risk, geographical analysis of location of risk is not feasible. For information on underwriting performance by material geographical area refer to Quantitative Reporting Template ("QRT") s.05.02.01 which shows a geographical analysis by Member location and forms part of the Association's annual regulatory reporting requirement.

For the year ended 20 February 2020, the Association produced an underwriting profit of £0.1 million (2019: loss of £0.86 million) as detailed further in the table below which is a summary of the Association's technical account reported on a UK GAAP basis.

Summary of technical account as at 20 February 2020:

	2020	**2019**
	£000s	**£000s**
Income and expenditure		
Gross written premium	16,835	16,732
Outward reinsurance premium	(14,471)	(14,401)
Agreed discount on reinsurance premium	7,641	6,316
Claims incurred, net of reinsurance	(5,270)	(5,126)
Net operating expenses	(4,634)	(4,379)
Balance on the technical account	101	(858)

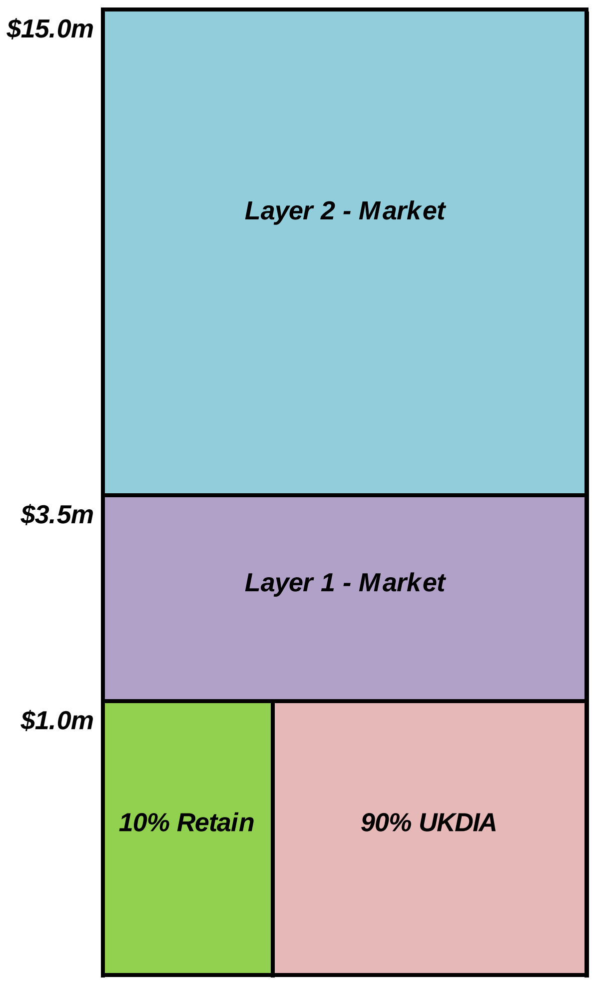
The underwriting profit stems from an increase in the Association's agreed discount on reinsurance premium partly offset by an increase in claims incurred and operating expenses.

A. Business and Performance (continued)

Risk mitigation

The Association writes policies with a maximum policy limit of $15 million. The first $1.0 million of claims is retained by the Association after which claims of $14.0 million excess of the $1.0 million retention are reinsured on an excess of loss basis. All retained claims are further ceded to the Association's quota share reinsurer UKDIA on a 90% quota share basis. This arrangement is consistent with the prior year.

The below table illustrates the reinsurance programme of the Association:



Exposure to reinsurance counterparties within layers 1 and 2 is mitigated by the Association placing its external reinsurances with counterparties rated A- or better.

On its 90% reinsurance programme, the Association has the benefit of a legal charge in the form of a fixed charge debenture over UKDIA's assets which mitigate the Association's exposure to Reinsurers' share of technical provisions.

A. Business and Performance (continued)

In addition, and as further discussed in the risk management section, the Association has continued the practice of hedging its future premium income received in USD against fluctuations in the GBP / USD exchange rate. Counterparties on hedging contracts are reputable banking institutions.

Other than the above, there have been no changes to the Association's underwriting risk mitigation programme during the current year.

A.3. Investment Performance

In accordance with the investment policy, the investment mandate is updated on a regular basis. The table below shows the Association's invested assets split by asset class as reported in the Association's UK GAAP financial statements:

Invested assets split by asset class as at 20 February 2020

	2020	**2019**
	£000s	**£000s**
Asset class		
Short term deposit funds	746	1,645
Foreign exchange security deposit	3,795	3,592
Cash and cash equivalents	4,045	3,802
Derivative financial instruments	(494)	(449)
	8,092	8,590

The following table details the Association's investment income by asset class as reported in the Association's UK GAAP financial statements:

Investment return split by asset class as at 20 February 2020

	2020	**2019**
	£000s	**£000s**
Asset class		
Bank deposits	47	16
Short term deposit funds	33	22
	80	38

Expenses related to the management of these investments were £18,000 for the year (2019: £20,000).

A. Business and Performance (continued)

As previously mentioned, the Association uses forward currency contracts to hedge the foreign exchange risks that it is exposed to as a result of future income being received in US Dollars. Future premium income is regarded as a highly probable forecast transaction and is designated as a hedged item. Forward currency contracts in relation to the hedged item are designated as a hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges of a highly probable forecast transaction is recognised directly within equity as other comprehensive income in the UK GAAP financial statements. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated income and expenditure account.

A.4. Performance from other Activities

The Association has no activities other than its main insurance activities as presented in A2 – Underwriting performance.

A.5. Any other Information

Overall the Association produced a surplus of £152,000 (2019: £30,000) for the year resulting in an accumulated surplus of £4,793,000 (2019: £4,638,000) in the UK GAAP financial statements. The UK GAAP financial statements additionally showed a negative cash flow hedging reserve of £502,000 (2019: negative cash flow hedging reserve of £449,000) which is the value attributed to derivatives designated as cash flow hedges. This resulted in total comprehensive income for the year of £99,000 (2019: total comprehensive loss of £1,966,000).

Impact of COVID-19 on the Association

The emergence and spread of COVID-19, or the so-called Coronavirus, could have an impact on the Association. As a service organisation, the Association is able to continue to service its Members remotely, and therefore the disruption caused by COVID-19 has not materially impacted the Association’s ability to operate on an ongoing basis. COVID-19 is considered to be a non-adjusting post balance sheet event.

The impact of COVID-19 on the Association is considered in more detail below:

A. Business and Performance (continued)

Impact on insurance operations

COVID-19 emerged in December 2019, and was classified as a global pandemic in March 2020. With the Association's year-end being 20 February, 2020, it is expected to have a very limited impact on the 2019/20 policy year and therefore the 20 February 2020 year end, given that COVID-19 was at a relatively early stage at the time that the year ended. Claims provisions which form part of technical provisions in the Solvency II balance sheet is therefore not considered to be impacted by COVID-19 for claims provisions.

Looking past the 20 February 2020 year-end, the Association has seen a small number of cases opened of which the vast majority relate to provision of general advice which, usually, do not carry any material value. All cases opened are currently at a very early stage and therefore difficult to determine what the final outcome may be.

Whilst COVID-19 will most likely impact the Association's premium provisions, that forms part of technical provisions on the Solvency II balance sheet, for the 2020/21 policy year, it is not considered that it will be of the magnitude to materially impair the Association's robust capital position and strong risk mitigation. The Association continues to receive the benefit of a comprehensive reinsurance programme, with only 10% of risk being retained within the Association. Future claims included in premium provisions have been increased by 20% to allow for potential COVID-19 and IMO sulphur claims.

Regarding the reinsurance programme, the Association places an excess of loss programme, predominantly in the Lloyd's market. Under the Association's risk appetite, all excess of loss reinsurances are required to be rated A- or better. The Association's 90% quota share reinsurance arrangement with UKDIA benefits from a fixed charge debenture over the assets of UKDIA. With UKDIA in a strong net assets position the Association's reinsurance programme is expected to continue to effectively mitigate the Association's insurance risk.

In terms of the Association's Membership and its obligation to pay premium debt to the Association, there has been no indication of any material default in Membership obligations. The 2019/20 policy year is substantially collected, whilst satisfactory progress is being made on collection of the first instalment of the 2020/21 policy year premium. The risk of default is mitigated by the fact that claims may be cancelled along with the outstanding premium of any defaulting Member.

A. Business and Performance (continued)

Impact on investment operations

The Association's financial assets are mostly held in short term deposits and cash and cash equivalents. As a result the Association has not been exposed to the global decline in investment markets as a result of COVID-19.

The Association hedges the currency risk of US Dollar premium receipts through the use of forward currency contracts with maturities of up to three years. These contracts are accounted for as cash flow hedges. Any fluctuation in Sterling, relative to US Dollar will result in fluctuations in the Association's derivative financial instruments. Given that these instruments qualify as cash flow hedges, any fluctuation on the hedging instrument will be offset by an opposite move on the hedged item. Significant fluctuations in currencies are therefore not considered to materially impact the Association's ability to continue as a going concern.

Regarding cash flow risk, as mentioned above, the Association has not identified any immediate creditworthiness issues in Membership, and therefore does not consider there to be a material cash flow risk, as a result of COVID-19, at present. Furthermore, the Association's cash flow is implicitly supported by the Association's reinsurance contract with UKDIA.

Impact on Solvency II capital coverage

Given the Association's robust position as further discussed above, and following stress and scenario testing performed, the Association is expected to continue to meet all Solvency II capital requirements. The Association furthermore benefits from an Ancillary Own Funds allowance which bolsters the Association's own funds position from a regulatory perspective.

Impact on going concern

The Directors have performed an assessment of the expected impact of COVID-19. As mentioned above, and following initial stress and scenario analysis performed, COVID-19 is not expected to materially impair the Association's ability to continue as a going concern.

B. System of Governance

B.1. General Information on the System of Governance

The Board of Directors
Ultimate responsibility for the governance of the Association rests with the Board of Directors. The Association's Directors are generally drawn from senior individuals within the Membership. In practice the Board of Directors comprises individuals who are figures of standing within the shipping industry, are equity principals or main board directors of the organisations which they represent which in turn are Members of the Association. The Directors meet five times a year.

The Board of Directors may delegate any of its powers, duties or discretions to committees consisting of such Directors as it sees fit. The Board of Directors is informed of the main issues discussed as all minutes of the meetings of the committees are distributed to the Board of Directors.

Committees
The following committees aid the Board of Directors in its duties:

Audit, Regulatory & Risk Committee
The Audit, Regulatory & Risk Committee ("AR&R") considers various issues relating to the sound and prudent management of the Association.

Management Fee Committee
The Management Fee Committee meets periodically/ad hoc and its main role is to negotiate with the Managers the management fee arrangements of the Association on behalf of the Board of Directors.

Strategy Committee
The Strategy Committee is an ad-hoc committee that considers the Association's future strategy.

Key functions

The Managers
The Association has no employees and as such the Board of Directors relies on the Managers for the day-to-day management duties of the Association. The Management function is performed by Thomas Miller Defence Limited. The functions and responsibilities of the Managers are set out in the Management Agreement between the Managers and the Association.

B. System of Governance (continued)

The Board of Directors may delegate a wide range of powers, duties and discretions to the Managers on such terms as it sees fit. Under the Articles of Association the Managers are entitled to attend all meetings of the Board of Directors and of committees of the Board of Directors and all general meetings of the Association and have a representative on the Board of Directors.

The Investment Managers
Investment of the Association's funds is conducted by the Investment Managers in accordance with the Board of Directors' Investment Policy and is subject to internal compliance procedures.

The functions and responsibilities of the Investment Managers are set out in the Management Agreement between the Investment Managers and the Association.

Governance Map
The Association maintains a governance map that details the key Senior Manager Functions and Key Functions. The following functions are maintained through the governance map with a prescribed set of responsibilities:

- Chairman (Board)
- Chief Executive Officer (Board / Managers)
- Chief Operating Officer (Manager)
- Chief Financial Officer (Managers)
- Chief Risk Officer (Managers)
- Head of Internal Audit (Managers)
- Chair of Audit, Regulatory and Risk Committee (Board)
- Chief Actuary (Managers)
- Chief Underwriting Officer (Managers)
- Claims Function (Managers)
- Investment Manager (Managers)
- Compliance Officer (Managers)

Remuneration

Directors receive an attendance fee for each meeting and an annual fee. Directors' fees are not subject to pension or early retirement schemes and there are no variable components to the Directors' remuneration.

The Association has no internal executive function and its management is wholly performed by companies within the Thomas Miller Holdings Ltd group of companies. The Managers are responsible for recruitment in line with the Thomas Miller Group Recruitment Policy and performance management, ensuring that all staff have and maintain the relevant skills, knowledge and expertise necessary to perform their roles and responsibilities.

B. System of Governance (continued)

Related party transactions

The Association has no share capital and is controlled by the Members who are also the insureds. The subsequent insurance transactions are consequently deemed to be between related parties, but these are the only transactions between the Association and the Members.

All, but one, of the Directors are current representatives of Member companies and other than the insurance, which is arranged on an arm's length basis, and Member interests of these companies, the Directors have no financial interests in the Association. Directors' fees are disclosed in note 9.

The Association reinsures with UKDIA on a 90% quota share basis. All Members of the Association are automatically also Members of UKDIA. However, none of the Directors of the Association are Directors of UKDIA. Additionally, UKDIA operates under a separate governance and operational structure, has its own rulebook, and is therefore not considered to be a related party of the Association.

B.2. Fit and Proper Requirements

The Association has in place a Fit & Proper policy that sets out its approach to the fitness and propriety of the persons responsible for running the Association, including executive senior management and key function holders.

All persons within the scope of the Association's Fit and Proper policy must have the professional qualifications, knowledge and experience and demonstrate the sound judgement necessary to discharge their areas of responsibility competently, both at the time of their appointment or employment and on a continuous basis to meet the changing or increasing requirements of their particular responsibilities and the business in general. They must be of good repute and demonstrate in their personal behaviour and business conduct character, integrity and honesty. As part of the assessment consideration will be given to potential conflicts of interest and financial soundness. The level of fitness must be appropriate and proportionate to each person's role, tasks and responsibilities.

The Board of Directors must be composed in a way to ensure that its members collectively possess sufficient knowledge, competence and experience to direct and oversee the Association's affairs effectively.

B. System of Governance (continued)

B.2. Fit and Proper Requirements

The Fit and Proper policy applies to:

- All Directors of the Association;
- All employees of the Managers who are members of the Thomas Miller Defence Ltd's senior management; and
- Persons within the Managers responsible for key functions, being function holders for Risk Management, Regulatory Compliance, Actuarial and Internal Audit.

All persons within the scope of the policy are assessed against the requirements of the Senior Managers Certification Regime ("SMCR"). Fitness will include an assessment of the person's management and/or technical competencies required for the role based on qualifications, knowledge, experience and the demonstration of due skill, care, diligence and compliance with relevant standards (as applicable). Propriety will include an assessment of the person's reputation and past conduct.

Fit and proper assessments are carried out by the Chairman, the Association Manager or the Compliance Officer. No person is permitted to undertake their own assessment.

B.3. Risk Management System

Overview

The Association uses a Risk Management Framework to design an effective risk management system with an integrated approach to risk management and the application of the three lines of defence:

- 1st line of defence: business units, process and risk owners
- 2nd line of defence: risk management and compliance functions
- 3rd line of defence: internal and external audit

B. System of Governance (continued)

The risk management system includes:

- a clearly defined and well-documented risk management strategy;
- appropriate processes and procedures;
- appropriate reporting procedures;
- reports on the material risks faced by the Association and on the effectiveness of the risk management system;
- policies or frameworks; and
- a suitable Own Risk and Solvency Assessment ("ORSA") process.

The risk management system has a coherent focus on data and IT infrastructure governance and appropriate policies and standards to outline the framework within which responsibilities will be exercised. It is supported by a robust internal control system and is designed to manage significant risks to the achievement of the Association's business objectives. The core elements of the risk management framework are as follows:

Risk Management Strategy
The objectives of the Association's risk management strategy are to identify, measure, monitor, manage, and report in a consistent, continuous and timely fashion, on the basis of the Association's risk appetite as set by the Board of Directors.

Forecasts and long-term projections of how the business needs to develop and which internal and/or external factors might affect or impede such development are considered when carrying out business strategy reviews. Risk related to initiatives and objectives adopted in the business plan are added to the Business Risk Log.

Business Risk Log:
Risks to the business that could inhibit the Association achieving its business plan objectives are described in the Business Risk Log, together with the consequences should the risk materialise. The risks are categorised and assessed and monitored on an ongoing basis.

Each risk in the Business Risk Log is assigned a Risk Owner and an accountable person. Risk Owners are required to report on their owned risks as part of a twice-yearly reporting process. Key themes are reported to the Audit, Regulatory & Risk Committee. The reporting process also includes potential emerging risks identified during the reporting period which are recorded in an Emerging Risk Log, and loss and near miss events

A rating for each risk is determined by assessing its probability and impact. The assessment of each risk is on the basis of Inherent Risk and Residual Risk which is the risk that remains after taking into account the strength of current risk management procedures that are in place.

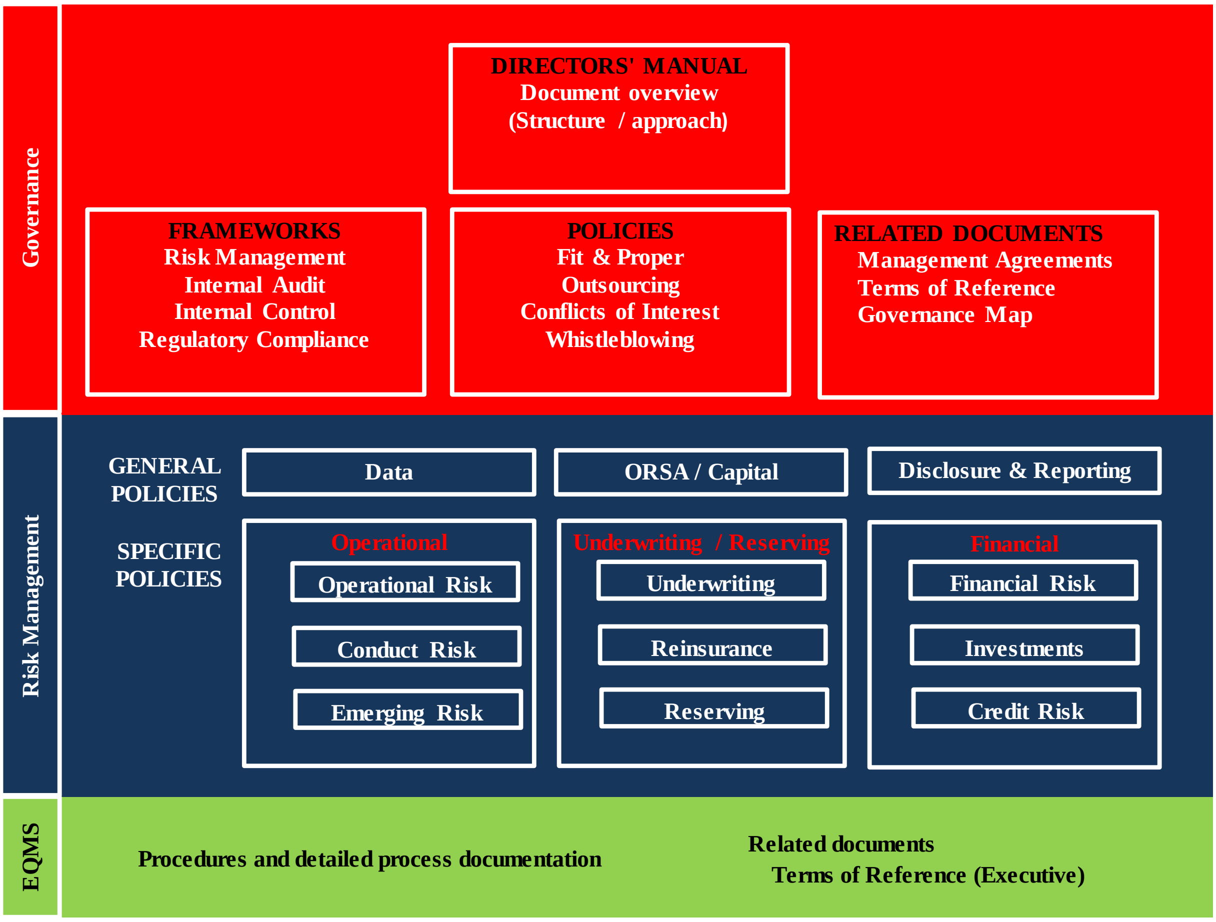
B. System of Governance (continued)

Risk Policies and Procedures

The Association's strategy is specified in more detail through its policies and business plan which underpin its day-to-day business. Policies define the Association's approach to risk management overall and more specifically the risk for which the policy has been written. The policies establish the controls, procedures, limits and escalation to ensure that the risks are managed in line with risk appetite. Specific procedures, where appropriate, have been developed to provide full understanding of the means by which the first and second lines of defence will implement the strategy.

The policies include appropriate reporting procedures to ensure that information relating to the component elements of the risk management is routinely reported to the Audit, Regulatory & Risk Committee and to the Board of Directors.

The Association's governance and risk documentation includes the following:



B. System of Governance (continued)

Risk Appetite

The Association's Risk Appetite is articulated in the statement of risk appetite, which is a document owned by the Board of Directors and reviewed on a regular basis as new risks emerge, or at least annually. The Association's business strategy is aligned to the Corporate Plan and focuses on three critical areas:

- Strong independent financial position
- Sound underwriting and claim management
- Enhanced market share

The Board of Directors determines the appropriate risk appetite and sets the Association's risk strategy. It has developed high-level risk appetites that are used by the Board of Directors to monitor the implementation of the risk strategy.

The Board of Directors bears ultimate responsibility for the management of risk and for maintaining a sound system of internal control that supports the achievement of the business strategy, policies, aims and objectives of the Association. The Audit, Regulatory & Risk Committee supports the Board of Directors by providing oversight of the Risk Management Function.

Key risks

A list of key risks has been compiled by the Association's Board of Directors and senior management of the Association based on their experience and expert judgement in running the business. This list provides a high-level overview of the principal risks faced by the business which, individually or in combination, may have a significant, substantial or catastrophic impact on the Association. The key risks affecting the Association are agreed by the Audit, Regulatory & Risk Committee each year.

Own Risk and Solvency Assessment ("ORSA")

Every year, and on an ad hoc basis, if circumstances materially change, the Association prepares an ORSA overview report. The ORSA is the process used by the Association to manage its financial and solvency position over the period of its Corporate Plan and the ORSA overview report is the culmination of this process into a report reviewed by the Board of Directors. As such, it is an intrinsic part of the Association's Corporate Planning Process.

The key elements of the ORSA process are:

- An analysis of the Association's recent performance
- Assessment of the Association's risk profile
- Consideration of business planning and stress scenarios

B. System of Governance (continued)

The Audit, Regulatory and Risk Committee reviews the ORSA and recommends it for approval and use by the Board of Directors.

The Board of Directors reviews the ORSA and considers appropriate action for the Association such as:

- Capital related decisions
- General Increase considerations
- Reassessment of risk profile and risk appetite
- Additional risk mitigating actions

The Assessments to date indicate that the Association is adequately capitalised.

Risk Controls

The Association's Risk Management Framework has been developed to manage risks across the business, using internal control policies, procedures and processes to control risks.

Whereas ultimate control for each risk rests with the Board of Directors, day-to-day control is exercised by the Risk Owners unless otherwise stated, as set out in the Business Risk Log. Further information on the Association's Internal Control Framework may be found in B.4 – Internal Control System.

Risk Reporting Procedures

Risk Owners identify operational risk loss or near miss events which are reviewed by the Thomas Miller Defence ("TMD") Board and then recorded on the Association's operational risk database with remedial actions identified for which a completion date is set.

Implementation of the Risk Management system

The Risk Management Function is fulfilled by the Association's Risk Officer who oversees risk management; provides independent challenge; and has direct access to the Chairman of the Audit, Regulatory & Risk Committee. The Risk Management Function maintains an organisation-wide and aggregated view of the risk profile of the Association, including monitoring risk tolerances against appetite, and advising on how risks might impact the business singly and in combination.

The integration of risk management processes with business activities is performed through the requirement for business function heads who are also risk owners on the Business Risk Log to focus on risk management on an ongoing basis whilst ensuring that the risks for which they are responsible remain within risk tolerance. This demonstrates the proactive application of risk management techniques to support the business processes and decision-making for which they are also responsible in their day-to-day insurance business activities.

B. System of Governance (continued)

B.4. Internal Control System

Internal control is defined as a continually operating process effected by the Association's Board of Directors, its Audit, Regulatory & Risk Committee, the Managers, all staff and systems and designed to support the Association in achieving its business plan objectives through efficient and effective operations and to protect its resources. Each Risk Owner, as named in the Business Risk Log, is responsible for the application of the Internal Control Framework and the design, development, implementation, documentation and maintenance of effective internal control processes in their area and reporting thereon.

The Managers are responsible for establishing and maintaining an effective control environment throughout the organisation. In furtherance of that, there is a culture which values the highest levels of integrity in the staff, together with openness and honesty in relation to the conduct and reporting of all activities. Policies, procedures and processes are designed to define and support effective, efficient and appropriate activities at every level of the business.

Control activities
These activities are embedded into plans, policies, procedures, systems and business processes. Their effectiveness relies on the level of compliance by management and staff.

The nature of the controls implemented and the level of control exercised are based on the assessment of frequency and impact of the risk, the Association's risk appetite and the cost of implementing controls relative to the significance of the risk.

The Internal Control Framework as a whole and internal control processes individually are monitored on an ongoing basis through the following mechanisms:

- Performance indicators
- External data
- Analyses and reconciliations
- Regulatory compliance monitoring audits
- Internal audits
- Procedure monitoring audits

B. System of Governance (continued)

The Risk Function is authorised to: investigate and challenge any actions or concerns without influence from the business; be independent of operational business functions and without undue influence from the Board of Directors or other functions/management; have unfettered and direct access to all activities in its area of responsibility, including all documentation, systems, staff, Management, executive and non-executive Board members; and have direct access to the Chairman of the Audit, Regulatory & Risk Committee.

The Risk Management Framework encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Association to respond to a variety of risks.

Compliance function

The Association takes a risk-based approach to regulatory compliance, focussing on preventing breaches to regulatory principles and other rules and informing the relevant regulators of any that are material, or must be reported to regulators on a mandatory basis.

In all cases of a regulatory breach, the Compliance Function investigates the cause and effect of breach and recommends remedies to the Managers' Management Board for approval.

The Board of Directors bears ultimate responsibility for Regulatory Compliance, and is supported by the Audit, Regulatory & Risk Committee.

The Compliance Function advises on and promotes compliance with applicable laws, regulatory requirements and administrative provisions and coordinates and monitors implementation of policies, processes and procedures to achieve compliance across the business, and manages regulatory compliance risk.

B.5. Internal Audit Function

The internal audit relationship is regulated by an Internal Audit Framework. Internal Audit is the "third line of defence" in the Association's internal control framework, established to provide independent assurance that the systems of internal control established by management ("first line") and the monitoring and oversight provided by the Risk Management and Compliance Functions ("second line") are fit for purpose and operating effectively.

The objectives of the Internal Audit Function are to provide independent assurance that business risks are identified and are being well managed and controlled by effective systems of internal control.

B. System of Governance (continued)

The Internal Audit function of the Association is provided by the Managers who employ an independent Head of Internal Audit ("HIA") who in turn reports to the Chair of the Audit, Regulatory and Risk Committee. The HIA may engage third parties to conduct some Audits under his/her management if it is felt that specific technical skills are required or where insufficient general audit resource is available.

Independence
The Internal Audit Function is independent from the organisational activities audited and free to exercise its assignments without impairment and on its own initiative in all areas. It is not authorised to carry out any operational work on behalf of any area of any business. The Head of Internal Audit reports directly to the Chair of the Audit, Regulatory and Risk Committee.

Development of plans
Audit Plans are developed by the Internal Audit Function on a rolling three year basis, subject to annual review and approval by the Audit, Regulatory and Risk Committee. The plan is designed to provide for all significant areas of the business to be audited during each three year period.

Planning
The Internal Audit Function will prepare an Audit Planning Memorandum ("APM") for each audit, which describes the scope of the Audit and the key risks to be addressed. There will be a formal opening meeting at which the appointed audit team will meet relevant line management to discuss the planned audit and agree the scope of work.

The finalised APM will be sent to relevant line management and copied to appropriate business executives who have an interest in the outcome of the Audit.

Execution
The audit team is responsible for conducting the fieldwork including performing whatever control evaluation, substantive and compliance testing is deemed necessary. The Internal Auditor leading the assignment will discuss any findings as they arise with appropriate management to ensure that any misunderstandings or queries are dealt with as soon as possible.

An 'end of fieldwork' meeting will be held to confirm the factual accuracy of any control weaknesses identified during the course of the fieldwork and the recommended remedial action will be discussed at this meeting.

Reporting
A comprehensive Internal Audit report will be produced following completion of every Audit engagement. This report will include a description of any control deficiencies identified as well as the actions that have been agreed will be implemented to remedy these.

B. System of Governance (continued)

The report will include the names of the individuals responsible for remedial action and the date by which such actions will be completed.

All Internal Audit reports will be given an overall control rating which will be based on the severity of any individual control deficiencies identified.

The method of determining an overall control rating for Audit reports and for individual control weaknesses is described in the 'TMIA Framework' which is the methodology used by the Internal Audit function.

B.6. Actuarial Function

The Association's Board of Directors are ultimately responsible for ensuring an effective Actuarial Function. This function is performed by the TM Actuarial Team, led by its Chief Actuary.

The Actuarial Function is independent of the Association's management team and therefore able to undertake its duties in an objective, fair and independent manner. However, for operational purposes, the Actuarial Function is integrated into the Association's internal control system through its role on the Managers' committees and attendance at Board meetings.

The Actuarial Function undertakes all responsibilities as required by Solvency 2, including:

- coordinating and overseeing the calculation of technical provisions;
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- informing the Board of Directors of the reliability and adequacy of the calculation of technical provisions;
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of reinsurance arrangements; and
- contributing to the effective implementation of the risk management system including capital requirements and the ORSA process.

B. System of Governance (continued)

B.7. Outsourcing

The Association has in place an outsourcing policy which is directed at services or activities which are particularly important or critical to the Association's business (material business activities).

Material business activities include the key functions of the Association's system of governance such as Risk Management, Compliance, Actuarial and Internal Audit as applicable, and all functions or activities that are fundamental to enable it to carry out its core business, including underwriting, claims handling and investments.

Management outsourcing
The Association has no internal executive function and its management is wholly outsourced to Thomas Miller Defence Limited (the "Managers") under a management agreement. In order to comply with its regulatory obligations, the Board of Directors has developed monitoring and reporting procedures and has delegated to the Audit, Regulatory and Risk Committee the monitoring of internal controls and risk. The risk control and reporting procedures to be followed by the Managers form part of their obligations under the Management Agreement. The Committee reports to the Board of Directors.

Investment management outsourcing
Management of the Association's investments is outsourced to Thomas Miller Investment Limited, part of the Thomas Miller group of companies, under an investment Management Agreement.

The performance of the investment managers is monitored and supervised by the Board of Directors.

Internal audit outsourcing
The Association's internal audit function is outsourced to Thomas Miller Internal Audit. Internal Audit is supervised by the Audit, Regulatory and Risk Committee and the Board of Directors.

Oversight
The Board of Directors bears ultimate responsibility for outsourced functions, services, or activities and related governance. The Board of Directors is supported by the Audit, Regulatory and Risk Committee which reviews outsourcing arrangements and the Managers' Management Board which monitors the activities of the Association, including outsourcing.

B. System of Governance (continued)

B.8. Any Other Information

The Association considers no other information material to be disclosed.

C. Risk Profile

The Association has set out a number of risk appetite statements which guide the implementation of its business plan. Currently the Association is operating in line with its risk appetite.

The following sections consider each of the Association's risk categories. The key risks are Underwriting Risk and Market Risk.

C.1. Underwriting Risk

The Association is a mono-line insurer, underwriting only legal expense insurance for ship owners or operators.

Underwriting risk is the risk that the Association's net insurance obligations (i.e. claims less premiums) are different to expectations. The Association considers the risk of existing obligations (Reserve Risk) separately to the risk of future obligations (Premium Risk).

Reserve risk is managed by the Association's reserving policy. The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by management.

Premium risk is managed by an underwriting policy which establishes robust underwriting practices in order to meet business needs and satisfy regulatory control. These are supplemented with a robust forecasting approach undertaken as part of the Association's ORSA process.

Underwriting Risk is mitigated via the Association's reinsurance programme which covers claims in excess of $1.0 million. Of the $1.0 million per claim retained by the Association, 90% of the risk is covered by the Association's quota share reinsurer, UKDIA.

Underwriting Risk is most sensitive to an increase in expected claims costs. For example, a 5% increase in the Association's gross loss ratio will reduce the gross accounting surplus for the Association by £0.84 million (£0.084 million net of the quota share reinsurance). A 5% decrease to the loss ratio will have an equal, but opposite effect.

C. Risk Profile (continued)

C.2. Market Risk

Market risk arises through fluctuations in interest rates, corporate bond spreads and foreign currency exchange rates (the Association does not hold equities). Such movements will affect not only the Association's investments, but also the value of other assets and liabilities such as premium income, claims payments and reinsurance recoveries.

The Association has an investment policy in place to manage exposure to its investments, and this is monitored by regular reports from the investment managers. Further discussion of this arrangement is provided below under the "prudent person principle".

Currency risk is a key risk for the Association as it primarily receives its premium income in US Dollars, but much of its outgoings are in Sterling or Euros. The Association uses forward contracts to mitigate this risk. In addition, the Association utilises an investment mandate that matches the currency of its assets and liabilities.

The following table details the Association's exposure to currency risk by each underlying currency as reported in the Association's annual Financial Statements:

As at 20 February 2020	**Sterling**	**US Dollar**	**Euro**	**Total**
	£'000	£'000	£'000	£'000
Short term deposit funds	745	1	-	746
Foreign exchange security deposit	3,795	-	-	3,795
Derivative financial instruments	31,631	(32,125)	-	(494)
Reinsurers' share of technical provisions	18,802	4,376	3,282	26,460
Debtors	98	304	10	412
Cash and cash equivalents	3,366	622	57	4,045
Technical provisions	(20,801)	(4,834)	(3,626)	(29,261)
Creditors	(1,259)	(90)	(66)	(1,415)
	36,377	(31,746)	(343)	4,288

C. Risk Profile (continued)

The prudent person principle
Under the Association's investment policy, all of the Association's investments are invested and managed in accordance with the 'prudent person principle', meaning that duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically:

- to invest in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- to ensure the security, quality and liquidity of the portfolio as a whole;
- appropriate to the nature and duration of the Association's insurance liabilities;
- derivative instruments are possible if they contribute to a reduction of risks or efficient portfolio management;
- unlisted investments and assets are kept to prudent levels; and
- properly diversified to avoid excessive reliance on any asset, issuer or group, or geographical area.

The Association's funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the Association's investment assets in conformity with the business and investment objectives and sets the parameters within which the Association's assets may be invested. It is considered and approved by the Board of Directors on an annual basis and ad hoc as required and is subject to the Association's Investment Policy. The Investment Managers report to the Board of Directors at each meeting.

C.3. Credit Risk

Credit risk is the risk of loss in the value of the above financial assets due to counterparties failing to meet all or part of their obligations. The following table illustrates aggregate credit risk exposure for financial assets as reported in the Association's annual financial statements. The credit rating bands are provided by independent ratings agencies:

C. Risk Profile (continued)

As at 20 February 2020	AAA	AA - A	BBB	Not rated / not readily available	Total
	£'000	£'000	£'000	£'000	£'000
Short term deposit funds	746	-	-	-	746
Foreign exchange security deposit	-	1,260	2,535	-	3,795
Derivative financial instruments	-	(345)	(149)	-	(494)
Reinsurers' share of technical provisions	-	-	-	26,460	26,460
Debtors	-	-	-	412	412
Cash and cash equivalents	-	4,045	-	-	4,045
Total assets subject to credit risk	746	4,960	2,386	26,872	34,964

The Association's objective is to reduce credit risk through the risk management techniques discussed below.

The Association's exposure primarily relates to its 90% quota share arrangement with UKDIA. The Association benefits from debentures over UKDIA's assets, which mitigates the risk substantially. Exposure to other reinsurance counterparties is mitigated by the Association placing such reinsurances with counterparties rated A- or better.

Exposure to debtors is mainly in respect of calls and premium contributions. This is spread over a large number of Members and counterparties, which mitigates the risk. In addition, the Association carries out financial checks on existing and potential Members. Exposure to bank balances, however, is more concentrated, with two main counterparties and the risk is mitigated by placing funds surplus to normal operational requirements in money market funds and other investments.

C.4. Liquidity Risk

Liquidity risk is the risk that the Association is unable to make payments as they become due. This is managed by the use of liquid investments and under the terms of the reinsurance agreement to call upon the Association's quota share reinsurer, UKDIA, in the event of a significant outflow of funds. The Association also has the benefit of a legal charge in the form of debentures over UKDIA's investments and other assets.

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost as reported in the Association's annual financial statements:

C. Risk Profile (continued)

As at 20 February 2020	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Assets and liabilities	£'000	£'000	£'000	£'000
Short term deposit funds	746	-	-	746
Foreign exchange security deposit	3,795	-	-	3,795
Derivative financial instruments	(507)	13	-	(494)
Reinsurers' share of technical provisions	7,802	14,856	3,802	26,460
Debtors	412	-	-	412
Cash and cash equivalents	4,045	-	-	4,045
Technical provisions	(8,627)	(16,429)	(4,205)	(29,261)
Creditors	(1,415)	-	-	(1,415)
Total	**6,251**	**(1,560)**	**(403)**	**4,288**

The amount of gross expected profits included in future premium is as per the Solvency 2 balance sheet is £112,000. However, it should be noted that the Solvency 2 balance sheet does not reflect all future expense cash flows and the actual expected profit over the year would be lower than this.

C.5. Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. In order to mitigate such risks the Association has engaged Thomas Miller Defence Limited as managers to document all key processes and controls in a document management system. This system is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the system is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Audit, Regulatory & Risk Committee.

C.6. Other Material Risks

As mentioned previously, COVID-19 poses some risk to the Association. The impact of COVID-19 is further discussed in section A.5.

C. Risk Profile (continued)

C.7. Stress and scenario testing

The Association carries out stress and scenario testing as part of its risk management and ORSA process. For management purposes stress and scenario testing are carried out including the results of UKDIA.

The base case business plan forecast for the next 3 years is used as the starting point for scenarios testing. The impacts of adverse scenarios are then evaluated. The following scenarios are included in the Association’s latest ORSA and assessed against the Association’s risk corridor:

- Weaker than- and stronger than forecast GBP relative to USD
- Below- and above forecast investment return
- Adverse and favourable claims inflation
- Significant adverse claims development as a result of a large number consecutive insolvencies
- Cyber risk
- Major currency movement

Most materially, a reverse stress test of extreme adverse claims development as a result of a large number of simultaneous consecutive insolvencies across the industry that leads to a large claims exposure and bad debts see the Association’s capital fall below its risk corridor and fall below its 1-in-200 VaR Capital requirement. Equally, a major currency movement of 50% could cause the Association’s capital resources to fall below its suggested risk corridor.

C.8. Any Other Information

The Association has not identified any other material information that is considered to be required to be disclosed.

D. Valuation for Solvency Purposes

D.1. Assets

A basic principle of Solvency 2 is that assets and liabilities are valued on the basis of their economic value. This is the price which an independent party would pay or receive for acquiring the assets or liabilities. The value of the assets less the value of the liabilities is then taken as the starting point for determining the available own funds.

Materially all of the valuation differences between the Solvency 2 balance sheet and the current accounting balance sheet relate to the valuation of insurance liabilities ("technical provisions") which is further discussed in D.2 – Technical Provisions. The Association prepares its financial statements under UK GAAP and FRS 102 and 103.

The Solvency 2 balance sheet is presented in S.02.01.02. A summary of assets is shown in the table below.

Valuation of the Association's assets as at 20 February 2020:

	2020		2019	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2* £000s	UK GAAP £000s
Investments	6,444	6,444	4,163	4,164
Derivatives	153	153	161	161
Reinsurance share of technical provisions	25,293	26,460	24,270	27,803
Insurance receivables	240	275	143	179
Receivables, trade not insurance	109	109	190	190
Cash and cash equivalents	2,142	2,142	4,878	4,878
Any other assets not elsewhere shown	25	25	28	28
	34,407	35,608	33,833	37,404

* 2019 Solvency 2 amounts unaudited

The above table presents amounts at Solvency 2 and UK GAAP valuation bases respectively. For classification purposes the Solvency 2 classification of amounts has been used. Most notably, certain amounts recognised as investments under Solvency 2 would be recognised as cash and cash equivalents under UK GAAP.

The Association's assets are valued using the following principles:

D. Valuation for Solvency Purposes (continued)

Investments

Investments are carried at market value. Market value is calculated using the bid price at the close of business on the balance sheet date. The market value of foreign currency investments is translated at the rate of exchange ruling at the balance sheet date.

Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Association's financial statements.

Derivatives – forward currency contracts

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of foreign exchange forward contracts is based on current forward exchange rates.

The Association currently has a number of forward currency contracts that relate to hedging the currency exposure on future premiums that are not recognised on the GAAP balance sheet. These are recognised on the Solvency 2 balance sheet.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Association's financial statements.

Reinsurer's share of technical provisions

Reinsurer's share of technical provisions is treated consistently to gross technical provisions. Technical provisions is further discussed in D.2.

Deposits other than Cash equivalents

These amounts represent foreign exchange security deposits and are carried at market value in accordance with the valuation methodology of investments noted above.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Association's financial statements.

D. Valuation for Solvency Purposes (continued)

Receivables, trade not insurance

This balance includes sundry, short term receivable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Association's financial statements.

Insurance receivables

These represent balances that are due for existing insurance contracts. Due to the short term nature of these balances, the carrying amount is considered to be a suitable proxy for its fair value. These amounts are reviewed annually for impairment.

When these amounts are not yet due, they are included as a future cash flow in the calculation of technical provisions for Solvency 2 purposes as further detailed in D.2. This is materially different to statutory account requirements which require these balances to be presented separately on the face of the balance sheet whether they are due or not yet due.

Cash and cash equivalents

Cash and cash equivalents include cash at bank or in hand, deposits held at call with banks and other short term highly liquid investments. The carrying value of these balances is considered to be a suitable proxy for fair value.

There are no material differences between the valuation used for solvency purposes and the valuation used in the Association's financial statements.

Any other assets not elsewhere shown

These balances comprise sundry, short term receivables which are classified as sundry receivables in the statutory financial statements.

Due to the short term nature of these balances, their carrying amount is considered to be a reasonable approximation for fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Association's financial statements.

D. Valuation for Solvency Purposes (continued)

D.2.Technical Provisions

Net technical provisions as at 20 February 2020

	2020 £000s	2019* £000s
Gross best estimate	24,372	23,306
Risk margin	170	240
Reinsurance best estimate	(25,293)	(24,270)
Net technical provisions	(751)	(724)

* 2019 amounts unaudited

Refer to Appendices S.17.01.02 and S.19.01.21 for further details on technical provisions.

The Association's technical provisions are valued using the following principles:

Bases, methods and main assumptions
The technical provisions are valued using the methodology prescribed by the Solvency 2 Directive and associated regulations. They consist of a "best estimate" of future cash flows (claims, premiums and expenses), which are discounted in line with risk-free interest rates to give the "present value" of those cash flows. Finally, a (market value) "risk margin" is added to take the total to a notional market value (i.e. equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations).

Claims
As the Association only covers legal expenses, all claims are analysed together in one risk group. Standard actuarial techniques are used to project these cash flows including chain ladder and Bornhuetter-Ferguson methods. The key assumptions related to the initial expected claims cost for each policy year and the projected notified claims development pattern. These methods are considered appropriate given the longevity and stability of the Association and its claims handling processes.

Allowance is made for claims on contracts bound, but for which coverage has not yet incepted (corresponding to the premium provision). These are valued using an inflation assumption applied to the previous year ultimate.

The future claims cash flows are the most uncertain element of the technical provisions. The uncertainty involved was further discussed in Section C1 on Underwriting Risk.

D. Valuation for Solvency Purposes (continued)

Premiums

The premium cash flows in the technical provisions cover (i) the outstanding instalments of premium on expired business that are payable but not yet due on the valuation date (corresponding to the provision for claims outstanding); and (ii) the premium payable but not yet due on bound but not incepted business (corresponding to the premium provision).

Expenses

The Technical Provisions includes expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. The provision is calculated directly in respect of the provision for claims outstanding (for expired business) and a corresponding amount is derived in respect of the premium provision (for bound but not incepted and unexpired business).

Risk margin

The risk margin is calculated based on the requirement to hold capital to meet the SCR until all claims liabilities are settled and a prescribed cost-of-capital rate of 6% per annum. This calculation is based on the assumption that a “reference undertaking” takes on the insurance obligations (and associated reinsurance arrangements). The SCR in this context is made up of Underwriting Risk, Counterparty Default Risk and Operational Risk only; assets are assumed to be invested in such a way that Market Risk will be zero and the referencing undertaking does not take on any new insurance obligations. The SCRs in future time periods have been assumed to be directly proportional to the best estimate claims liabilities net of reinsurance recoverables at those points in time.

Sources of uncertainty

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments.

D. Valuation for Solvency Purposes (continued)

In particular the following represents the main sources of uncertainty that may impact the outcome of the Association's technical provisions:

- Certain claims may turn out to be significantly longer, or shorter tailed than the whole book leading to an over- / underestimation of claims reserves. There is also a uncertainty around numbers and average cost of these claims.
- There is potential for IBNER to deteriorate to a greater extent than allowed for in the projections.
- New and unexpected claims types could impact the reserving methodology. This is partly allowed for in the Association's provision for Events not in Data ("ENID").
- Uncertainty surrounding the development and cash flow patterns may impact the outcome of the Association's technical provisions.
- Currency and exchange rates are inherently uncertain and may impact the outcome of the final technical provisions amount.

Differences between GAAP and Solvency 2 technical provisions

A reconciliation of UK GAAP technical provisions to Solvency 2 technical provisions is shown in the table below:

	note	**Gross £000s**	**RI £000s**	**Net £000s**
UK GAAP technical provisions		**29,261**	**26,460**	**2,801**
Eliminate contingency margin	1	(5,079)	(4,571)	(508)
Reallocation of amounts not yet due	2	(34)	(30)	(4)
Adjustment to expense management reserve	3	306	275	31
Provision for contracts bound but not incepted	4	(11)	3,307	(3,318)
Reinsurance counterparty default adjustment	5	-	(1)	1
ENID adjustment	6	334	303	31
Effects of discounting	7	(405)	(450)	45
Solvency 2 technical provisions before risk margin		**24,372**	**25,293**	**(921)**
Risk Margin	1	170	-	170
Total Solvency 2 technical provisions		**24,542**	**25,293**	**(751)**

Notes

1. Contingency margin and Solvency 2 risk margin

Since the Solvency 2 technical provisions figure is a best estimate, margins for prudence are removed under the Solvency 2 valuation methodology. The Solvency 2 risk margin is intended to represent a notional market value adjustment as discussed above.

D. Valuation for Solvency Purposes (continued)

2. Reallocation of premiums not yet due
Under Solvency 2 valuation methodologies, all future cash flows are included in the calculation of technical provisions. More specifically, any amount not yet due shall be included as a future cash inflow under the calculation of Solvency 2 technical provisions. As a result, any amounts not yet due on the UK GAAP balance sheet is reallocated from receivable premium to technical provisions on the Solvency 2 balance sheet.

3. Adjustment to expense management reserve
Unlike UK GAAP, Solvency 2 recognises all expense cash flows incurred in servicing insurance obligations. This includes both direct and overhead expenses, as well as investment management expenses. As such, an adjustment is necessary.

4. Provision for contracts bound but not incepted
Solvency 2 valuation methodology requires contracts to be recognised when the insurer becomes party to the insurance contract. Usually, an undertaking becomes a party of the contract when the contract between undertaking and policyholder is legally formalised.

Nearly all of the Association's policies are coterminous with its financial year. The consequence is that nearly a full year's worth of business is recognised as Bound But Not Incepted ("BBNI") business. A provision on the Solvency 2 balance sheet, known as the "premium provision", is thus made for future premiums, claims and expenses that relate to BBNI business.

5. Reinsurance counterparty default adjustment
For the Solvency 2 balance sheet, amounts recoverable from reinsurance counterparties must be adjusted for the expected losses due to counterparty default. This adjustment approximates the expected present value of the losses in the event of default, weighted by the probability of default for each counterparty. Under current accounting bases a provision for bad debts is only made where there is objective evidence that a counterparty may default on its obligation.
There is no expected reinsurance default in respect of the amounts recoverable from the Association's quota share reinsurer, UKDIA, due to debentures which the Association has over UKDIA's assets.

6. Events not in data
Solvency 2 requires that all possible outcomes are allowed for when setting the technical provisions. Therefore, an additional provision needs to be made for "events not in data", i.e. potential adverse claims outcomes that have not been observed to date and hence are not taken into account in assessing the claims provisions.

7. Effects of discounting
Since Solvency 2 technical provisions take into account the time value of money, an adjustment is made for the discounting of all future cash flows, based on risk-free interest rates.

D. Valuation for Solvency Purposes (continued)

D.3. Other Liabilities

Valuation of the Association's liabilities as at 20 February 2020

	2020		2019	
	Solvency 2 £000s	UK GAAP £000s	Solvency 2* £000s	UK GAAP £000s
Derivatives	647	647	610	610
Technical provisions	24,542	29,261	23,546	30,742
Insurance & intermediaries payables	199	199	162	162
Reinsurance payables	956	986	1,509	1,509
Payables, trade not insurance	207	207	191	191
Any other liabilities, not elsewhere shown	20	20	0	0
	26,571	31,320	26,018	33,214

* 2019 Solvency 2 amounts unaudited

The above table presents amounts at Solvency 2 and UK GAAP valuation bases respectively. For classification purposes the Solvency 2 classification of amounts has been used.

The Association's liabilities are valued using the following principles:

Derivatives
Further detail on the Association's valuation policy for derivatives may be found in D.1.

Technical provisions
Further detail on the Association's valuation policy for technical provisions may be found in D.2.

Reinsurance payables
These represent balances that are due to be paid for existing reinsurance contracts. When these amounts are not yet due to be paid, they are included as a future cash flow in the calculation of reinsurance technical provisions.

Under statutory accounting requirements, these balances are presented separately on the face of the balance sheet whether they are due or not yet due.

D. Valuation for Solvency Purposes (continued)

Insurance & Intermediaries payables
These represent balances payable on insurance contracts. Due to the short term nature of these balances, its carrying amount is considered a suitable proxy for fair value. There is no difference between the valuation for Solvency purposes and the valuation used in the Association's financial statements

Payables, trade not insurance
These balances include sundry, short term payable balances the value and settlement of which contains little to no uncertainty. Due to the short-term nature of these items, the carrying amount is considered to be a suitable proxy for its fair value.

There are no material differences between the valuation used for Solvency purposes and the valuation used in the Association's financial statements.

Any other liabilities not elsewhere shown
These balances represent sundry short term payables the carrying amount of which is considered a suitable proxy for fair value. There are no material differences between the valuation used for solvency purposes and the valuation used in the Association's financial statements.

D.4. Alternative Methods of Valuation

The Association does not utilise any material alternative methods of valuation.

D.5. Any Other Information

The Association has not identified any other information that it considers material to be disclosed.

E. Capital Management

E.1 Own funds

All amounts are in thousands of pounds unless otherwise stated

	2020	2019*
SCR ratio	185%	286%
SCR	5,802	3,314
Eligible own funds	10,736	9,472
Excess	4,934	6,158
MCR ratio	364%	352%
MCR	2,153	2,222
Eligible own funds	7,835	7,815
Excess	5,682	5,593
Tier 1 basic own funds	7,835	7,815
Tier 2 ancillary own funds	2,901	3,065

* 2019 amounts unaudited

As a mutual insurer with no share capital the Association's capital structure consists of two types of own funds:

1. Accumulated income and expenditure account reserve and reconciliation reserve, which falls under Tier 1 and counts as Basic Own Funds ("BOF"). These funds may be fully utilised to meet both the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR").

   Tier 1 BOF are shown net of the Association's cash flow hedging reserve and contains no significant restrictions affecting the availability and transferability of these own funds.

2. The PRA has granted an approval for a method of calculation of ancillary own funds ("AOF") to the Association, by way of contingency calls. The method which results in AOFs of £2.9 million (2019: 3.1 million) has been approved for a period of 4 years.

   Under the Solvency 2 regulations, up to 50% of the SCR may be covered by these funds. This amounted to £2.9 million (2019: £1.7 million) counting towards eligible own funds for the SCR.

E. Capital Management (continued)

Information, objectives, policies and processes for managing own funds

The Association's objective is that capital resources should exceed the Association's regulatory requirements. The Association forecasts its capital over a 3 year planning horizon.

Material differences between equity as shown in the financial statements and the excess of assets over liabilities

The below table represents a reconciliation of UK GAAP equity reserves to Solvency 2 equity reserves.

	2020 £000s
UK GAAP reserves	**4,290**
Solvency 2 gross technical provisions adjustment	4,719
Of which amounts reallocated from UK GAAP balance sheet to technical provisions	(3)
Solvency 2 RI technical provisions adjustment	(1,167)
Total Solvency 2 basic own funds	**7,839**

The most material adjustment to reserves is as a result of the differences in valuation of technical provisions which has been further discussed in D.2.

E. Capital Management (continued)

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR and MCR

The below table summarises the capital requirements for the current period comparable to the previous period. Further details can be found in appendices S.25.01.

	2020 £000s	2019* £000s
SCR	**5,802**	**3,314**
Made up of		
Market risk	4,276	1,342
Underwriting & reserving risk	1,505	1,686
Counterparty default risk	474	387
Operational risk	731	699
Diversification benefit	(1,184)	(800)
MCR	**2,153**	**2,222**
MCR inputs		
Net written premium	10,005	8,647

* 2019 amounts unaudited

The SCR has been calculated using the Solvency 2 Standard Formula and is subject to supervisory assessment. The Association does not use any simplifications or undertaking specific parameters to calculate the SCR.

The main risks that drive the SCR are market risk and underwriting and reserving risk. Market risk arise mainly as a result of the Association's hedging programme on premium in future years where the hedge has been entered into, but no corresponding premium entry exist at present. Underwriting risk stems from the insurance risk that the Association assumes through the course of its normal business activities and is increased by lapse risk associated with future business.

Underwriting & reserving risk has decreased when compared to 2019 as a result of a change in the regulatory requirements of calculating this risk in the current year. Most notably, market risk has increased when compared to 2019 by £2.9 million. This is due to the Association having a larger forward currency contract exposure relating to its hedging programme than in previous years. As mentioned above, the Association has, in recent years, entered into forward currency contracts that mature up to three years in the future. Given that the premium that is being hedged has not yet been written, it creates additional currency risk for the Association.

E. Capital Management (continued)

The Association's MCR is subject to the absolute floor of €2.5 million as mandated by EIOPA which is the very minimum amount that an MCR may be regardless of the results of the MCR calculation. Absent the mandated absolute floor, the Association's MCR would have been £1.5 million.

Further details on the calculation of the Associations can be found in appendix S.28.01.

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

This sub-module is not used by the Association.

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

The Association uses only the standard formula.

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

The Association has fully complied with the SCR and MCR requirement during the period under review.

E.6 Any other information

The Association has not identified any other information that it considers material to be disclosed.

Directors' Statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency 2 Regulations.

We are satisfied that:

a) throughout the financial year in question, the Association has complied in all material respects with the requirements of the PRA Rules and the Solvency 2 Regulations as applicable to the insurer; and
b) it is reasonable to believe that the Association has continued to comply subsequently and will continue to comply in future.

C.R. Kendall

For and on behalf of The United Kingdom Freight Demurrage and Defence Association Limited
25 June 2020

Report of the external independent auditor to the Directors of The United Kingdom Freight Demurrage and Defence Association Limited

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by The United Kingdom Freight Demurrage and Defence Association Limited as at 20 February 2020:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of The United Kingdom Freight Demurrage and Defence Association Limited as at 20 February 2020, (‘**the Narrative Disclosures subject to audit**’); and

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

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the ‘relevant elements of the Solvency and Financial Condition Report’.

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

- The ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Solvency and Financial Condition Report;

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

- the written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report (‘**the Responsibility Statement**’).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of The United Kingdom Freight Demurrage and Defence Association Limited as at 20 February 2020 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 determination.

Report of the external independent auditor (continued)

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or

- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

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

Report of the external independent auditor (continued)

Other Information
The Directors are responsible for the Other Information.

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

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Report of the external independent auditor (continued)

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/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

Report on Other Legal and Regulatory Requirements.
In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The United Kingdom Freight Demurrage and Defence Association 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.

Alexander Barnes (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
150 Aldersgate Street,
London.
EC1A 4AB

26 June 2020

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

Solo standard formula
The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02
    - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The year end 20 February 2019 figures which are disclosed in Sections D and E of the Solvency and Financial Condition Report were not audited.

Appendices

General information

Undertaking name	The United Kingdom Freight Demurrage and Defence Association Limited
Undertaking identification code	2138003OSX6Y4JS3YP47
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	20 February 2020
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	No 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.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
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)	6,596
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	3,160
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	2,538
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	2,538
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	746
R0190	*Derivatives*	153
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	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	25,293
R0280	*Non-life and health similar to non-life*	25,293
R0290	*Non-life excluding health*	25,293
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	241
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	109
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	2,142
R0420	Any other assets, not elsewhere shown	26
R0500	**Total assets**	34,406

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	24,542
R0520	*Technical provisions - non-life (excluding health)*	24,542
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	24,372
R0550	*Risk margin*	170
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)	0
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)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
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	647
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	199
R0830	Reinsurance payables	956
R0840	Payables (trade, not insurance)	207
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	21
R0900	**Total liabilities**	26,571
R1000	**Excess of assets over liabilities**	7,835

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Legal expenses insurance	
		C0100	C0200
	Premiums written		
R0110	Gross - Direct Business	16,835	16,835
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	6,829	6,829
R0200	Net	10,005	10,005
	Premiums earned		
R0210	Gross - Direct Business	16,835	16,835
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	6,829	6,829
R0300	Net	10,005	10,005
	Claims incurred		
R0310	Gross - Direct Business	6,128	6,128
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	5,415	5,415
R0400	Net	713	713
	Changes in other technical provisions		
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non-proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0
R0550	**Expenses incurred**	9,188	9,188
R1200	**Other expenses**		-663
R1300	**Total expenses**		8,525

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			MH	LR	SG	CN	PA	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	119	4,475	2,851	1,535	834	777	10,591
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	48	1,815	1,157	623	338	315	4,296
R0200	Net	71	2,660	1,695	912	496	462	6,295
	Premiums earned							
R0210	Gross - Direct Business	119	4,475	2,851	1,535	834	777	10,591
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0240	Reinsurers' share	48	1,815	1,157	623	338	315	4,296
R0300	Net	71	2,660	1,695	912	496	462	6,295
	Claims incurred							
R0310	Gross - Direct Business	80	2,215	1,274	538	219	117	4,443
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	70	1,957	1,126	475	194	104	3,926
R0400	Net	9	258	148	63	25	14	517
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	65	2,442	1,556	838	455	424	5,780
R1200	**Other expenses**							-417
R1300	**Total expenses**							5,363

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Legal expenses insurance	
		C0110	C0180
R0010	**Technical provisions calculated as a whole**	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	-113	-113
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,131	3,131
R0150	**Net Best Estimate of Premium Provisions**	-3,244	-3,244
	Claims provisions		
R0160	Gross	24,485	24,485
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	22,161	22,161
R0250	**Net Best Estimate of Claims Provisions**	2,324	2,324
R0260	**Total best estimate - gross**	24,372	24,372
R0270	**Total best estimate - net**	-920	-920
R0280	**Risk margin**	170	170
	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**	24,542	24,542
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	25,293	25,293
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	-750	-750

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											359	359	359
R0160	2011	1,509	4,086	2,391	1,774	1,270	-314	546	197	317	51		51	11,827
R0170	2012	1,770	3,837	3,391	1,559	-69	388	427	126	103			103	11,531
R0180	2013	1,564	2,323	1,248	954	674	363	84	-114				-114	7,096
R0190	2014	1,939	2,804	2,101	700	220	252	99					99	8,115
R0200	2015	1,763	5,060	3,577	1,966	1,276	321						321	13,963
R0210	2016	1,883	2,672	1,356	1,347	244							244	7,503
R0220	2017	1,976	2,379	1,225	461								461	6,040
R0230	2018	1,415	2,123	1,218									1,218	4,756
R0240	2019	2,123	3,261										3,261	5,384
R0250	2020	1,447											1,447	1,447
R0260												Total	7,449	78,020

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											606	604
R0160	2011	0	0	0	0	0	0	624	375	384	349		348
R0170	2012	0	0	0	0	0	757	861	577	351			349
R0180	2013	0	0	0	0	968	632	462	214				213
R0190	2014	0	0	0	1,598	883	455	386					382
R0200	2015	0	0	7,148	4,358	2,879	1,803						1,781
R0210	2016	0	5,708	2,651	1,660	1,075							1,062
R0220	2017	11,232	5,034	2,772	1,565								1,545
R0230	2018	10,162	6,013	3,407									3,365
R0240	2019	10,135	5,972										5,896
R0250	2020	9,058											8,941
R0260												Total	24,485

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)	0	0		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	7,835	7,835			
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**	7,835	7,835	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	2,901			2,901	
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**	2,901			2,901	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	10,736	7,835	0	2,901	0
R0510	Total available own funds to meet the MCR	7,835	7,835	0	0	
R0540	Total eligible own funds to meet the SCR	10,736	7,835	0	2,901	0
R0550	Total eligible own funds to meet the MCR	7,835	7,835	0	0	
R0580	**SCR**	5,802				
R0600	**MCR**	2,153				
R0620	**Ratio of Eligible own funds to SCR**	185.03%				
R0640	**Ratio of Eligible own funds to MCR**	363.86%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	7,835
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	7,835
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	113
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	113

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	4,276		
R0020	Counterparty default risk	474		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	1,505		
R0060	Diversification	-1,184		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	5,071		

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	731
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**	5,802
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	5,802
	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	660

		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	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	10,005
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	0

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

Overall MCR calculation

		C0070
R0300	Linear MCR	660
R0310	SCR	5,802
R0320	MCR cap	2,611
R0330	MCR floor	1,451
R0340	Combined MCR	1,451
R0350	Absolute floor of the MCR	2,153
R0400	**Minimum Capital Requirement**	2,153