Folgate Insurance Company Ltd

Solvency and Financial Condition

Report

As at 31 December 2017

Contents

Solvency Financial Condition Report

Introduction and Summary

Folgate Insurance Company Limited ("the Company") is a wholly owned subsidiary of Anglo London Limited. Anglo London Limited is an insurance group where the principal and only insurance risk carrying entity is Folgate Insurance Company Limited (FICL) an insurer regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

This is the Solvency Financial Condition Report (SFCR) for FICL based on the financial position as at 31 December 2017. The purpose of this report is to satisfy the disclosure requirements under the Solvency II Directive.

FICL recommenced active underwriting in September 2015 as a reinsurer following a period (since 30 June 2002) where it was in run off status.

FICL underwrites a reinsurance portfolio of Property, Liability and Professional Indemnity business.

The Company has performed well in 2017 and the financial statements for the year ended 31 December 2017 show a positive result for the company. FICL has seen a steady growth in written premiums since recommencing underwriting in September 2015, with a total written premium of £4.1m in 2017 compared to £2.6m in 2016.

Outward Reinsurance costs have increased by £89k over the past 12 months consistent with the growth in the portfolio.

The investment income & net losses/gains in the financial year were £234k, which represents a reduction of £43k from the previous year. This was on an average invested capital amount of £5.4m.

Gross claims payments in the year for the new active business were £1,063k compared to £393k in 2016, due to the maturing of the business. The claims performance of the legacy run-off portfolio incurred £4k due to new claims notified.

The company maintains a separate claims reserve for the run-off portfolio.

Operating costs have increased compared to 2016 by £45k.

The actual investment return achieved for the year, at £234k, was lower than the previous year, largely due to change in the investment strategy. More detailed commentary on the investment performance is set out in the investment report below. During the year £2.1 million of additional funds was transferred into the portfolio.

FICL has resources in excess of the regulatory capital requirements as defined under the Solvency II Directive.

Where reference is made to "financial statements", these are audited, statutory accounts.

Directors' Responsibilities Statement

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) rules and SII Regulations.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the firm must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report & Accounts, confirm that, to the best of their knowledge: (a) Throughout the financial year in question, the Company have complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and (b) It is reasonable to believe that, at the date of the publication of the SFCR, the Company continue so to comply, and will continue so to comply in future.

By Order of the Board

Jonathan Bates
Director
03/05/18

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

Opinion

Except as stated below, we have audited the following documents prepared by Folgate Insurance Company Limited as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Folgate Insurance Company Limited as at 31 December 2017, ('**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 Folgate Insurance Company Limited as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. 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 Company 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' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

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.

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/

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 Folgate Insurance Company Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

David Roberts
For and on behalf of BDO LLP
London, UK

Date: 3 May 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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

Business and performance

Business

FICL is a wholly owned subsidiary of Anglo London Limited. Anglo London Limited is a private company limited by shares and is incorporated in England. The address of its registered office is 80 Leadenhall Street, London, EC3A 3DH. FICL transacts general reinsurance business.

On the 6 August 2015 FICL was approved by the Prudential Regulation Authority ('PRA') to underwrite reinsurance business. On 1 September 2015 the Company commenced underwriting reinsurance business.

The reinsurance business emanates from Tokio Marine Kiln (TMK) who are the primary insurers for the business originally underwritten by the Anglo London Limited's underwriting agency subsidiary, Anglo Pacific Consultants (London) Limited trading as APC Underwriting (APC), and connected Company Heparo BV trading as APC Holland. Since 1 September 2015, the Company has underwritten quota share reinsurance contracts in support of this business. Premiums and claims arising on this business have been categorised as the 'Reinsurance account'.

Prior to 1 September 2015 the Company had written a general insurance account which was placed in run off on the 30 June 2002. Premiums and claims arising on this business have been categorised as the 'Run-off account'.

FICL has been established since 1877 and was placed into runoff in 2002. Anglo London Ltd acquired the Company in August 2014 and on the 6 August 2015 the Company was authorised to underwrite reinsurance business, it commenced underwriting on 1 September 2015.

FICL's administration is handled under a service level agreement by APC.

The Principal activity of the Company is the transaction of reinsurance on general insurance business, underwriting a niche portfolio of SME commercial lines business on a quota share basis in the United Kingdom and Holland, with business written in the UK comprising approximately 90% of the overall portfolio of business.

FICL via APC continues to administer the legacy run-off of its business (principally Household, Motor, Commercial and Travel).

Regulation

FICL is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks. The PRA is the lead supervisor for the purposes of Solvency II regulation.

Contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pra and www.fca.org.uk

FICL's external auditor is BDO LLP, whose address is 55 Baker Street, London W1U 7EU.

Underwriting performance

Table 1: Summary Profit & Loss – Technical Underwriting Account- General Business for the year ended 31 December 2017 (based on UK GAAP) shown net of Investment fees

	£'000
Net Premiums Written	4,102
Change in gross provision for unearned premium	(831)
Reinsurers Share	(465)
Claims Incurred	(2,256)
Net operating & investment expenses	(194)
Balance on the technical account	**(356)**

FICL currently purchases market excess of loss (XOL) and catastrophe (CAT) reinsurance. The market excess of loss programme reduces the impact of individual large losses on FICL. FICL retains the first £250k of every claim (FICL's retention), above which the market excess of loss reinsurance arrangements respond up to the maximum limit of cover. These risk tolerances are set by the Board based on the detailed analysis of risk and geographical catastrophe exposure accumulations.

Claims

With FICL recommencing its underwriting activity in September 2015, FICL's claims experience is limited and therefore FICL relies on other collateral information from APC for the purposes of its reserving analysis. The legacy run-off business has a low claims activity as expected.

FICL has access to 15 years of historical data from APC, the Managing Agent who underwrite the primary insurance through TMK a London Company Insurer. Detailed analysis of this data and the associated claims patterns, has enabled FICL, in association with its actuarial consultants, to develop models and forecasts of future claims experience that are used within the reserving and capital assessment processes of the business.

Claim volumes and incurred costs at this time are in line with the historic development of the business.

Investment

Over the course of 2017, FICL undertook a detailed review of its investment portfolio and rebalanced the portfolio to move from equity and bond funds to individual asset holdings. This has resulted in a positive impact on the company's regulatory capital position.

FICL's portfolio returned +3.7% for the year to 31 December 2017 compared to the benchmark return of +2% net of investment fees. FICL has an investment strategy which is regularly reviewed by the investment committee. The aim of the strategy is to invest excess funds in low risk corporate/government bonds and a small proportion of rated equities, without taking undue risk.

Table 2: FICL's investment portfolio asset classes as at 31 December 2017

Asset Class	% of portfolio
Equities	15.52%
Bonds	81.30%
Property	0.00%
Cash	3.18%
	100%

The above split is based on a look-through analysis of FICL's investment fund holdings and may be different to the presentation in the statutory accounts, which is based on a high-level split between equities and fixed-interest investments.

Overall business performance

In the year ended 31 December 2017, FICL produced a profit after tax of £492k (£220K 2016) and the UK GAAP balance sheet assets increased to £8.6m (£6m 2016). Own funds for Solvency II proposes, measured on a best estimate basis, stood at £3.7m (£3.4M 2016).

The overall solvency position of FICL at 31 December 2017 is set out in more detail in Table 11 of this report.

System of governance

General information on the system of governance

The FICL Board retains the ultimate responsibility for the governance of itself. The board has in place processes which are proportionate to the nature, scale and complexity of the risks inherent in the business.

Chart 1: Board and Committee Structure

The terms of reference describe the purpose, responsibilities, membership and authority delegated from the Board for each Sub-Committee. All relevant attendees are invited to the committee meetings as determined by the committee itself for example the Audit Committee will invite external parties such as any Actuarial experts or external auditors.

The Sub-Committees of the Board have the responsibility for the detailed review of published financial reports, liaison with auditors (responsibility of the audit committee) and scrutiny of the fees/remuneration paid to the Directors.

FICL has no employees and is managed on a day to day basis under a Service Level Agreement with APC (the Managers). APC is a private company owned principally by Anglo London Ltd, the parent company of FICL.

Fit and proper requirements

FICL recognises the value of the fit and proper requirementthat a company is run in a fit and proper manner, by directors and other individuals holding key positions or roles that will be responsible and more likely to be successful.

FICL has a Senior Insurance Managers Regime (SIMR) compliant policy which sets out the procedures in place to ensure that all those undertaking controlled functions on behalf of FICL are and remain fit and proper to carry out those functions.

These procedures ensure that all those holding controlled functions

- meet the requirements of the Regulators' 'fit and proper' test and follow its principles;
- comply with the Statement of Responsibilities; and
- report anything that could affect their ongoing suitability.

Whilst there is no definition of 'fit and proper' the following factors are taken into account when deciding whether an individual is fit and proper:

- their honesty, integrity and reputation (e.g. treating customers fairly, proper respect of legal, regulatory and professional obligations, prudent approach to business);
- their competence and capability (e.g. adherence to the 'four-eyes' principle, having a robust attitude towards supporting a sound corporate governance structure, declaring conflicts of interest, having the appropriate skills, knowledge and experience); and
- their financial acumen (e.g. ensuring the Company has sufficient financial resources to meet commitments on a continuous basis and is robust enough to withstand business risks).

Fitness and propriety checks are made before an individual is appointed to carry out a controlled function and also periodically thereafter.

Risk management system including the ORSA

FICL has a fully documented risk management strategy which includes the ORSA policy.

The Risk Register is a central log of all risks identified in the business. It is owned by and managed by the Corporate Governance and Risk Strategy Committee (CGRSC) where this is maintained managed and reviewed. The committee will review this quarterly and make recommendations to the Board for approval.

Risk Appetite

Risk appetite is the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

The Board's risk appetite for the areas of risk within the business are stated in the Risk Register. The Board delegates review of these to the CGRSC, who undertake reviews of these at each Committee meeting and record the results in the minutes of such meetings.

Risk Tolerances

Risk tolerance is the boundary of risk-taking outside of which the Company is not prepared to venture. Risk tolerances are expressed in absolute terms which the Company will not exceed without Board approval. It is not necessarily appropriate or possible to attribute a risk tolerance to all risks.

In the event that a tolerance has been or is near to being exceeded, the CGRSC will alert the Board who will make the necessary decisions to either apply additional mitigating measures, reduce the risks back to that prescribed in the risk appetite or to review the Company's stated risk appetite.

Risk Reporting

The CGRSC discusses existing risks and reviews the Risk Register at each meeting. Any new or emerging risks that have been identified by the business or Directors and reported to the CGRSC for consideration and possible inclusion on the risk register, will be escalated to the Board for consideration where deemed necessary.

The CGRSC provides a report to the Board at each meeting highlighting any areas for particular attention. This includes adherence to risk appetite and tolerances.

Own Risk Solvency Assessment (ORSA)

FICL is responsible for completing an Own Risk Solvency Assessment (ORSA).

The ORSA's main purpose is to ensure that FICL assesses all the risks inherent to the business to determine the corresponding capital needs or identifies other means needed to mitigate these risks.

When determining appropriate stress or scenario testing to be applied, the Board will take the approach of plausible worst case as well as reverse stress testing.

The FICL Board carries out the ORSA at least annually on the basis that its solvency needs and capital positions are not volatile and that the business's risk profile is stable. However, it will also carry out additional ORSAs as a result of specific triggers which are set out in the ORSA Policy.

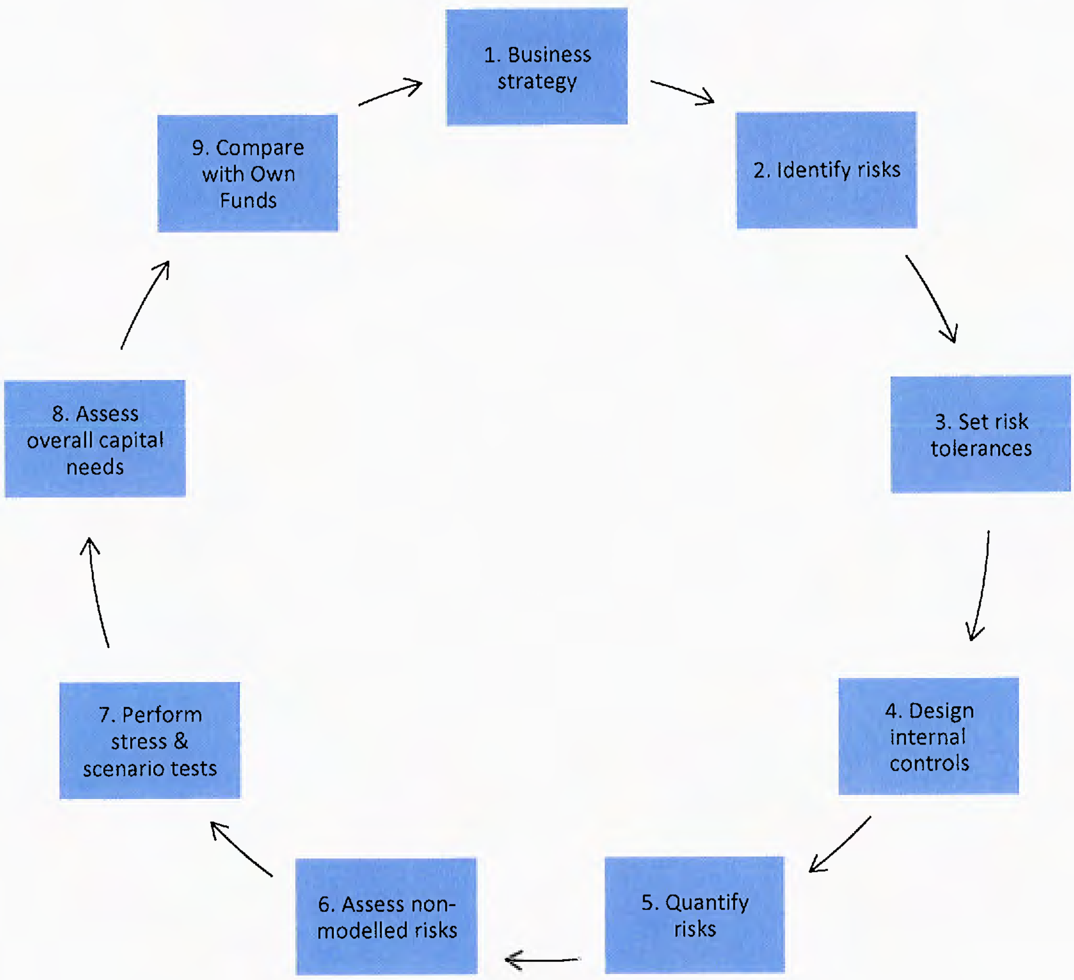
ORSA governance

Overall responsibility for the ORSA rests with the Board.

The ORSA process

The Policy defines a number of steps that make up the overall ORSA process, which are summarised in Chart 2 below.

Chart 2: Summary of ORSA process



The ORSA includes both the economic capital position of FICL and its regulatory capital position, by reference to the Solvency Capital Requirement (SCR) and the Absolute Minimum Capital Requirement (AMCR), as at 31 December 2017.

FICL's economic capital strategy defines the amount of capital that must be held to cover the risk of losses occurring that exceed FICL's risk appetite. It sets an overall benchmark (the economic capital benchmark or ECB) for the total resources of FICL, defined as an amount sufficient to absorb losses up to the 99.5% level of confidence over a three-year time period. The ORSA capital requirement is calculated using an internal model which FICL has developed specifically for the purposes of Economic Capital Assessment (ECA).

The SCR defines the amount of capital that FICL must hold in order to satisfy regulatory requirements and is calculated using the Standard Formula. The benchmark set for the SCR is also at the 99.5% level of confidence, but measured over a one-year time period.

The AMCR, which represents the absolute minimum level of capital that FICL must hold to avoid regulatory action, is measured over a one-year period.

Internal control system

FICL has established a system of internal controls, consistent with the requirements of Solvency II, which are used to manage the risks faced by FICL to remain within the documented risk appetite. These internal controls are documented in FICL's Compliance Monitoring Plan, Risk

Register and the Procedures Manual, which sets out the detailed processes for all aspects of the management of FICL on a day to day basis.

Compliance function

The Compliance function's aim is to

- ensure the Company's continuing compliance in relation to its regulatory and legal obligations assessing potential impacts of legislative changes and monitoring the appropriateness of the compliance procedures
- ensuring the Company's arrangements in relation to compliance are sufficiently robust, proportionate, efficient and effective
- ensuring the Company's compliance arrangements are subject to review at the appropriate intervals to ensure their ongoing and continual fitness for purpose
- in conjunction with the Board ensure that the organizational structure in place is one that promotes a high standard of business integrity and regulatory compliance.

The Chief Finance Officer is responsible for reporting to the Board on all compliance related matters.

Risk function

The Risk Function is responsible for:

- identifying, managing, monitoring and reporting on current and emerging risks;
- setting the overall risk management and strategic framework; and
- monitoring and assisting in the effective operation of FICL's risk- management framework and maintaining an accurate view of FICL's risk profile.

Jonathan Bates acts as Chief Risk Officer to FICL and manages the day to day risk monitoring, and is responsible for reporting to the Board.

Internal audit function

FICL supports Internal Audit as an independent and objective activity designed to add value and improve the Company's operations.

Internal audit exists to provide the Company with an independent assessment of the quality of internal controls and processes providing recommendations and suggestions for their continual improvement.

FICL outsource the internal audit function to Magi Associates, under an outsourcing agreement.

The Audit Committee reviews the Internal Audit Plan annually revising as appropriately to take account of business priorities and risk areas. The extent and frequency of the audits are risk based depending on various factors including the results from previous audits, risk activity and adequacy of internal control systems.

The Internal Audit Plan is presented to the Board annually for approval.

Actuarial function

FICL's actuarial function is the responsibility of the Chief Finance Officer. The tasks of the actuarial function for day to day activity (including claims reserving and the maintenance of the Company's internal models) are outsourced to APC.

The company has appointed external actuarial consultants Moore Stephens LLP ("MS"), previously James, Brennan & Associates Ltd ("JBA") to provide actuarial and analytical support to the actuarial function with regards to calculation of technical provisions, risk management, reinsurance and underwriting policy under an outsourcing agreement.

Outsourcing

FICL is reliant on the outsourcing of its operational day to day functions to APC. APC is an Anglo London Limited Group company and supports FICL under a Service Level Agreement. In addition, FICL utilises the services of specialist companies for Audit and Actuarial activities.

Risk profile

Non-Life Underwriting risk

FICL writes reinsurance business and takes a prudent approach to non-life underwriting risk prioritising financial security of the company, adherence to regulatory requirements and the protection of its policyholders.

Non-life underwriting risk is identified and assessed using management information including gross written premium, claims reserves, loss ratio, large claims details, market distribution models and risk pricing.

The Underwriting Committee will utilise this information in decision making to monitor, manage and mitigate underwriting risk, ensuring that this is consistent with FICL's risk appetite.

During this reporting period the reinsurance written by FICL emanates from Tokio Marine Kiln, who are the primary insurers of APC's and Heparo BV, trading as APC Holland, the former being an underwriting agency subsidiary of Anglo London Limited and the latter being a related company of Anglo London Limited.

FICL's main underwriting risks are

- The rating adequacy of the primary risk
- The exposure to catastrophic loss
- Reserving – the risk that claims reserves are not sufficient to meet insurance liabilities

These are mitigated by

- The underwriting committee regularly reviewing risk performance data – e.g. loss ratios, claims frequency, average premiums and rate movements
- Natural peril and accumulation exposure monitoring by geographic region
- The underwriting and Claims Committees regularly reviewing claims reserves, and large loss claims to ensure they are appropriate
- The company taking a prudent approach towards establishing provisions
- Assessing the data quality and methodology used to calculate reserves
- The engagement of external actuaries to independently review claims reserves at least annually
- Using reinsurance to mitigate individual large risk exposure, individual large losses and catastrophic events

The volume of business written by FICL has increased compared to that considered as at the last reporting date (31 December 2016), as FICL took a greater share of the Kiln business in 2017 compared to 2016. The resulting effect is a significant increase in the level of exposure to non-life underwriting risk, proportionate to the growth of the business. Based on the current risk profile of the company, it has assessed that excess of loss reinsurance is the most appropriate form of risk mitigation.

Market risk

Market risk refers to the risk of losses due to fluctuations in the level and in the volatility of market prices of assets and liabilities.

Investments are held in British Sterling (GBP) and therefore present a low currency risk to the company. The company is exposed to a minimal amount of currency risk in relation to the premiums and claims funds held for a segment of business written in Europe.

FICL has a clear investment strategy which is reviewed regularly and as a minimum quarterly by the Investment Committee and provided to the third party investment manager. The investment strategy has a number of objectives – to match investments to the company's claims liabilities, to hold a diversified portfolio of investment types and within that context maximise the return generated at an agreed level of risk.

The risks that the Company faces due to the nature of its investment and liabilities are interest rate risk and equity price risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

FICL invests in individual fixed & floating interest securities and equity stocks, comprised of a diverse set of underlying investments. For this reason, the level of exposure to concentration risk is low. The treatment of concentration risk within the capital calculations is explained in further detail in the "Capital Management" section.

FICL's main source of interest rate risk is the cash flows arising from investments in interest bearing securities, and liability cash flows in the form of claim payments. Interest rate risk is assessed and monitored by the investment committee which considers how the mitigating factors to achieve the necessary objectives could be improved and makes recommendations to the Board. Investments comprise of 73.22% (2016: 79%) fixed interest securities and 10.76% (2016: 0%) floating rate securities. There have been no material changes to the exposure to interest rate risk over the reporting period.

Overall, the investment policy is consistent with the requirements of the Prudent Person Principle, set out in the Solvency II Directive.

Credit risk

Credit risk is the risk that a counterparty fails to meet their contractual obligations as they fall due. Key areas where FICL is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders; and
- Counterparty risk with respect to investment.

The Company monitors the levels of credit risk it accepts through the monthly financial reporting process which is reviewed at each quarterly Board meeting.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the primary insurer & ultimately the policyholder. The Underwriting Committee will review the creditworthiness of reinsurers on an annual basis by reviewing their financial strength prior to finalisation of any contract with the objective of using "A" rated reinsurers or better wherever possible. Management processes are embedded in the business to assess the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The appropriateness of the risk mitigation techniques is regularly reviewed by the underwriting committee and through its reinsurance brokers, the company ensures that adequate risk mitigation is in place.

The table below provides information regarding the credit risk exposure of the Company at 31 December 2017 by classifying assets according to the credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB (including captives) are classified as not rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. We have used AM best ratings for classification of investments/bank balances into respective rating categories.

Table 3: Credit Exposure as at 31 December 2017

31 December 2017	AAA	AA	A	BBB	Not Rated	Total
	£000	£000	£000	£000	£000	£000
Other Financial investments – debt securities	405	2,451	1,639	990	-	5,485
Other Financial investments – Equities	-	45	209	253	540	1,047
Debtors arising out of reinsurance operations	-	-	1,343	-	-	1,343
Cash at bank and in hand	-	-	-	710	-	710
	405	**2,496**	**3,191**	**1,953**	**540**	**8,585**

31 December 2016	AAA	AA	A	BBB	Not Rated	Total
	£000	£000	£000	£000	£000	£000
Other Financial investments – debt securities	-	1,369	-	-	1,976	3,345
Other Financial investments – Equities	-	-	-	-	875 -	875 -
Debtors arising out of reinsurance operations	-	-	632	-	-	632
Cash at bank and in hand	-	-	-	1,161	-	1,161
	-	**1,369**	**632**	**1,161**	**2,851**	**6,013**

Credit risk is also identified, assessed and monitored through the Risk Register on which key market risks are recorded.

Credit risk mitigation measures are reviewed at least annually by the Underwriting Committee and/or Board to ensure they are still effective and appropriate for the Company and the risk environment it operates in.

There have been improvements to the exposure to credit risk over the reporting period with a lower proportion of the exposure being not rated.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The projected settlement of these liabilities to claimants and policyholders is reviewed on a regular basis and the Company holds liquid cash deposits to cover these.

Operational risk

Operational risk is identified, assessed and monitored by the Corporate Governance and Risk Strategy Committee (CGRSC) with oversight from the Board, and recorded on the Risk Register. The CGRSC will review the Risk Register quarterly at the appropriate committee meetings.

Mitigating measures are also recoded on the Risk Register and are monitored on a risk based frequency. Should the risk assessment score increase, the CGRSC will consider if the controls and mitigation for that risk should be improved or augmented and make the necessary recommendations to the board for action.

Key Operational Risks are

- Material Service Provider
  FICL is reliant on the outsourcing of its operational day to day functions to APC. APC is an Anglo London Limited Group company and supports FICL under a Service Level Agreement. There would be a material impact on the business in the medium to long term if APC could not operate. This risk is mitigated to the extent that APC and FICL are owned and operated under the same group company Anglo London Limited.

- IT Systems
  Systems are provided and supported as part of the Material Service Provider outsourcing SLA with APC (as detailed above). Mitigating the risks of failure and dependency is supported within the APC SLA where a Business Continuity Plan (BCP) has been implemented and includes the support of FICL. APC have implemented the necessary stress testing of systems to include the impact of cyber-attacks. FICL Board reviews the BCP plan in association with the SLA documents.

- Regulatory and legal risk
  The risk is mitigated using sound corporate governance and internal controls, with a strong compliance structure. Controls are monitored regularly through the Compliance and Conduct Committee.

- Reputation risk
  Maintaining the position of FICL as a partner of choice for the delivery of good customer service and claims experience. FICL mitigates the risk by ensuring that all parties are

regulated by the appropriate body, the monitoring of any complaint and implementing any changes that maybe required to processes and controls either within its own company or other service and business providers.
Whilst FICL operates as a reinsurer for the reporting period, it still manages a run-off portfolio for business written prior to June 2002. This is monitored and reported on separately to the Board via the Underwriting, Claims and Compliance and Conduct Committees on any activity or complaints that may arise.

Other Material Risks

The UK voted to leave the EU in the referendum which took place on the 23rd June 2016. The terms of the exit and arrangements for continued trade with the EU are not known at this stage. The impact to FICL is minimal at this stage based on the information available. The Board continue to review the possible implications of Brexit as and when additional information becomes available.

Stress and sensitivity tests

FICL work with external actuaries and has developed a suite of stress and sensitivity tests, including reverse stress tests, which are used to measure the robustness of FICL's capital position.

Valuation of assets and liabilities for solvency purposes

Assets

Table 4: Valuation of FICL's assets as at 31 December 2017

	Assets per GAAP £'000	**Assets per Solvency II £'000**
Financial investments	6,532	6,532
Bonds	5,359	5,359
Equities	507	507
Collective Investment Undertakings	666	666
Insurance Receivable	1,343	0
Reinsurers' Share of Technical Provisions	0	(215)
Deferred Tax Asset	6	11
Cash	710	710
Other assets	10	0
Total assets	**8,601**	**7,037**

FICL's investments are valued for Solvency II purposes on the same basis as the annual financial statements, which follow UK GAAP. All of FICL's investments are traded on mainstream exchanges. All assets are valued on a market bases using the market value as at 31st December 2017. The market value was provided by Coutts bank in their role as asset manager. No assumptions were made in carrying out this valuation. The difference in valuation of assets between GAAP and Solvency II relates to:

- Reinsurers' Share of Technical Provisions: For FICL, this is a net liability and represents a specific provision in respect of the minimum reinsurance premiums payable for the 2018 year.
- Deferred Tax Asset: Change arising from changes in valuation basis between GAAP and Solvency II
- Insurance receivables represent premiums due from Kiln to FICL under the quota share reinsurance arrangement. Under Solvency II these are reclassified and considered as part of the technical provision calculations as set out in the *"Technical Provisions (TP)"* section below.
- Other assets under GAAP represent anticipated reinsurance recoveries in respect of FICL's legacy portfolio. These are reclassified under Reinsurers' Share of Technical Provisions for Solvency II purposes.

All other assets are valued for Solvency II purposes on the same basis as the financial statements. There were no changes to any of the recognition criteria or valuation methods during the year.

Neither the matching adjustment nor the volatility adjustment were used during this assessment.

Neither the transitional deduction nor the transitional risk-free interest rate term-structure were applied.

Technical provisions (TP)

At 31 December 2017, FICL held technical provisions, valued for Solvency II purposes, of £3.46m (2016 £2.37m).

The table below shows the analysis of these provisions between best estimate and risk margin.

Table 5: Analysis of net technical provisions at 31 December 2017

	Technical provisions per GAAP £'000	Technical provisions per Solvency II £'000
Best Estimate	4,788	3,200
Risk margin	0	256
Total	**4,788**	**3,456**

FICL values technical provisions in compliance with the Solvency II Directive.

The table below breaks down the technical provisions by Solvency II segmentation.

Table 6: Breakdown of net technical provisions at 31 December 2017

	Fire and other damage to property insurance £'000	General Liability Insurance £'000	Total £'000
Gross Premium Provision	180	158	338
Recoverables from Reinsurance	(139)	(86)	(225)
Net Premium Provision	319	244	563
Gross Claims Provision	1,005	1,642	2,647
Recoverables from reinsurance	0	10	10
Net Claims Provision	1,005	1,632	2,637
Total Best Estimate – Gross	**1,185**	**1,800**	**2,985**
Total Best Estimate – Net	**1,324**	**1,876**	**3,200**
Risk Margin	**105**	**151**	**256**
Total	**1,429**	**2,027**	**3,456**

Actuarial reserving

The ultimate responsibility for setting Technical provisions lies with the Board. The Company engages external actuarial consultants MS to perform a full actuarial study of the reserves at year-end. Based on the recommendations made by the external actuaries, the company makes claims provisions in its year-end accounts.

The actuarial projections are carried out using standard actuarial techniques such as the chain ladder and Bornhuetter-Ferguson methods. Expert judgement is used within the reserving process, in particular to set the a-priori loss ratios for each policy year, to select the claims development patterns and to identify the need for tail factors.

FICL has only written business since the last quarter of 2015 and therefore relies on data from its cedant TMK, ultimately from APCs data, in order to perform its actuarial analysis. However, the nature of the quota share arrangement between FICL and APC/TMK means that the claims experience at the direct insurer level, which consists of more than 15 years of data, can be used to derive the reserving development patterns. Given that the business written has been stable and there have been no material changes in the way claims are handled, the application of these reserving methodologies is considered to be appropriate.

The reserving exercise was carried out in such a way as to present an undiscounted "actuarial best estimate". An assessment of the variability of this estimate was also carried out. The coefficient of variation was calculated as 17% of the expected value of the ultimate loss ratio (ratio of incurred claims to earned premium) at an overall business portfolio level.

The actuarial reserving includes an explicit IBNR provision (expressed as a percentage of written premium) as a latency loading in respect of the EL and PL portfolios. This additional provision is made to allow for the long-tailed nature of the business and the potential for future latent claims.

There are no material reinsurance recoveries expected on the claims reserves.

Solvency II Technical Provisions (TP) methodology

The calculation of technical provisions under Solvency II is based on discounted cash-flows with respect to premium provisions and claims provisions. The following financial items are taken into consideration for the calculation:

- Claims provisions – Gross and RI
    - Best Estimate
    - Expense provision
    - Events Not in Data(ENIDs)
    - RI Bad Debt adjustment
- Premium provisions – Gross and RI
    - Best Estimate
    - Un-incepted, legally obliged business
    - RI Bad Debt adjustment
- Risk Margin

The conversion of the Technical provisions from the statutory accounting basis to Solvency II basis considers the adjustments set out below. These are described at a high level, as there is no difference in the treatment of technical provisions between different classes of business. For each section, the overall quantitative impact on the balance sheet surplus is provided.

- **Gross claims provisions** – Solvency II requires technical provisions to be reserved on a best estimate basis with no implicit margins. The company considers its statutory reserves to be on a best estimate basis and therefore no adjustments are necessary.

The latency loading within the statutory reserves is considered to be adequate for ENIDS provisions required under Solvency II.

No explicit claims-handling provision or other run-off expense provision is held. This is because the contractual arrangements between APC, TMK and FICL's reinsurance of TMK are such that APC is obligated to handle all claims on behalf of TMK, and by extension, those of FICL, to expiry.

Impact of Change: NIL

- **Gross Premium provisions** – For calculating premium provisions, a loss ratio is applied to the unearned premium reserve on the statutory accounting basis to reflect the expected claims outgo on the UPR. Insurance premiums which represent premium cash-inflows are included within this calculation.

  Impact of Change: +£422k

- **Reinsurer's share of Technical Provisions** – There are no material recoveries on the claims provisions and therefore there is no reinsurance bad debt provision necessary. With regards to the premium provisions, specific provision is made for future reinsurance premium payable in respect of the renewal of reinsurance cover for the 2018 calendar year. A judgemental recovery rate of 25% is assumed on this premium.

  Impact of Change: -£225k

- **Cash-flows and Discounting** – The claims cash-flow patterns are derived from the actuarial reserving analysis and the provisions on the Solvency II balance sheet are held on a discounted basis. The discount rate used is the prescribed risk-free rate. Given the short-tailed nature of the portfolio, the overall discounting credit is minimal.

  Impact of Change: +£38k

- **Risk Margin**

  An additional risk margin is calculated in line with the methodology described within the directive. This involves assuming a wind-up basis where FICL is taken over by another (re)insurance undertaking, which:

  - Does not assume any new reinsurance obligations
  - Selects assets with the aim of minimising market risk

  The risk margin represents the return that would be expected by the undertaking in order support the business with capital equal to the regulatory requirement, the SCR, for the duration of the run-off of the portfolio.

  For the first time period, market risk is set to 0 under the assumption that all investments are made in risk-free government bonds. No further business is assumed to be written.

  A prescribed simplification is used to calculate the SCR for future time-periods, which is based on the SCR reducing in line with the Technical provisions.

  The cost-of-capital rate of 6% is applied to the calculated future SCRs and discounted using the risk-free rate to calculate the risk margin.

Impact of Change: -£256k

The table below shows the impact of the above major changes on the eligible GAAP Assets vs. Solvency II Own Funds

Table 7: UK GAAP Assets vs Solvency II Own Funds

	£ 000's
Total Available Capital GAAP Q4 2017	3,695
Solvency II Adjustments	
Assets	
RI Technical Provisions (Decrease in Surplus)	-225
Technical Provisions	
Gross TP (Increase in Surplus)	460
Risk Margin (Decrease in Surplus)	-256
Deferred Tax Liability (Increase in Surplus)	4
Own Funds Solvency II Q4 2017	3,679

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was necessary.

Changes since the last reporting period

The table below shows the technical provisions for Dec 2016 and Dec 2017. The increase in the best estimate is due to the growth in the business.

Table 8: Technical Provisions as at Dec 2016 vs Dec 2017

	Technical provisions as at Dec 2016 £'000	**Technical provisions as at Dec 2017 £'000**
Best Estimate	2,311	3,200
Risk margin	249	256
Total	**2,560**	**3,456**

Other liabilities

The table below sets out the value of FICL's other liabilities at 31 December 2017.

Table 9: Valuation of FICL's other liabilities

	Liabilities per GAAP	Liabilities per Solvency II
	£'000	**£'000**
Other creditors	118	118
Reinsurance creditors	0	0
Other liabilities	**118**	**118**

The company's other liabilities are recognised and valued for Solvency II purposes on the same basis as the annual financial statements, which are based on UK GAAP.

Off-Balance Sheet Items
FICL does not have any off-balance sheet items.

Alternative methods of valuation

FICL does not use any alternative valuation methods.

Capital management

Own funds

FICL has a simple capital structure, with balance sheet reserves comprising a single item: tier 1 capital derived from past underwriting and investment surpluses. There were no restrictions on the availability of FICL's own funds to support the SCR and MCR. Therefore, all own funds are eligible.

At 31 December 2017 and 2016, FICL held the following own funds.

Table 10: Solvency II Own funds as at 31 December 2017

	31-Dec 2017	31-Dec 2016	Movement
	£'000	**£'000**	**£'000**
Share Capital	3406	3,406	0
Net Deferred Tax Asset	11	(37)	48
Reconciliation Reserve	262	8	254
Total adjusted resources	**3679**	**3,377**	**302**

FICL have a proportionate business plan for the management of their Own Funds, which involves increasing them in line with retained profits. This does not involve any specific time horizon. There were no material changes to Own Funds over the reporting period. In the event that the level of Own Funds drops below an acceptable tolerance level, then additional measures will be taken to raise additional capital and restore adequate levels of buffer over the SCR.

Solvency Capital Requirement (SCR)

FICL's SCR was calculated using the Standard Formula. FICL is not using undertaking-specific parameters as described within the directive, and no simplified calculations are used. The final amount of the SCR is subject to supervisory assessment.

The PRA has made use of the option not to require the entities in its jurisdiction to disclose the capital add-on (if any) during a transitional period.

The table below shows an analysis of FICL's SCR split by risk modules.

Table 11: FICL SCR as at 31 December 2017 and Forecast

Net capital required (Solvency II best estimate basis)

Heads of risk	**31 Dec 2017 £'000**	**31 Dec 2018 (unaudited) £'000**	**31 Dec 2019 (unaudited) £'000**
Non-Life Underwriting risk	2,267	2,885	3,453
Market risk	656	1,140	1,405
Counterparty default risk	323	270	735
Sum of Risk Components	**3,246**	**4,295**	**5,593**
Diversification Effects	(552)	(792)	(1,130)
BSCR	2,694	3,503	4,463
Operational Risk	128	168	858
Adjustment for effect of deferred	(86)	(10)	0
Solvency Capital Requirement	**2,736**	**3,661**	**5,321**
Minimum Capital Requirement	**3,167**	**3,167**	**3,167**

Minimum Capital Requirement (MCR)

The MCR calculation is based on the value of technical provisions, net of risk margin and reinsurance recoveries, and the expected level of net written premiums over the last 12 months, net of reinsurance premiums. This calculation was carried out for Segments 7 and 8 as set out in Annex XIX of the Delegated Acts.

The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. As at both 31 December 2016 and 31 December 2017, the calculated value of the combined MCR has been lower than the 25% floor of the SCR. In addition, the combined MCR falls below the Absolute Minimum Capital Requirement (AMCR) and therefore the MCR has been set at the AMCR.

The AMCR represents the floor below which FICL's capital requirement cannot fall. FICL's calculated SCR and MCR are both below the AMCR as at 31 December 2017 and therefore FICL's regulatory capital requirement as at year-end 2017 is the AMCR £3.6m euros (£3.167) at a 1.136622 Conversion rate (1.11 rate 2016).

The table below shows a comparison of the SCR calculated at 31 December 2017 with that at 31 December 2016.

Table 12: Comparison of SCR as at 31 Dec 2017 with that as at 31 Dec 2016

Net capital required (Solvency II best estimate basis)

Heads of risk	**31-Dec-17** **£'000**	**31-Dec-16** **£'000**	**Change** **£'000**
Non-Life Underwriting risk	2,267	2,120	147
Market risk	656	1,639	(983)
Counterparty default risk	323	254	69
Sum of Risk Components	3,246	4,012	(766)
Diversification effects	-552	-894	342
BSCR	2,694	3,119	(425)
Operational Risk	128	108	21
Adjustment for the effect of deferred taxes	(86)	(37)	(49)
Solvency Capital Requirement	**2,736**	**3,190**	**(454)**

The main changes in the SCR since 31 December 2016 reflect the following factors.

Non-Life Underwriting risk

The non-life underwriting risk component is made up of four elements; premium risk, reserve risk, lapse risk and catastrophe (CAT) risk. The capital requirement for non-life underwriting risk has increased by £0.148m over the last 12 months.

The main driver behind the increase in the capital requirement is the growth in premium volumes and exposures since the previous reporting date.

The premium risk for Solvency II is driven by the greater of the premiums for the next 12 months and that for the previous 12 months. Due to the growing portfolio, FICL's premium risk is currently driven by the premium for the next 12 months (i.e. 2018). The forecast earned premiums for 2018 are higher than 2017 and consequently the premium risk is higher.

As FICL's portfolio grows, reserve risk forms a more significant part of the underwriting risk.

Market risk

One of the major drivers for a difference in the market risk module from last year is a change in FICL's investment portfolio. The concentration risk sub-module of the Standard Formula drove last years' market risk, as FICL's investment data did not provide detailed information of the underlying investments. A change in FICL's investment strategy in the last 12 months with detailed look-through information has been the main factor for a reduced market risk charge.

Counterparty default risk

The counterparty default risk capital requirement has seen a modest increase of £0.069m over the last 12 months. The main driver behind this increase was the growth in the level of Type 1 counterparty exposure relating to cash-holdings and reinsurance risk mitigation.

Operational risk

The operational risk capital requirement has seen a small increase of £0.021m over the last 12 months. Under the Standard Formula, operational risk is calculated as the maximum of a proportion of either the gross technical provisions (excluding risk margin) or gross earned premium (the greater of the amounts in the last 12 or 24 months), subject to a maximum of 30% of the calculated basic SCR.

The increase in capital requirement for operational risk is due to the increase in earned premium over the last 12 months.

FICL's overall capital position

The table below shows FICL's capital position in relation to the SCR and the MCR.

Table 13: Summary of FICL's capital position at 31 December 2017

	SCR £'000	MCR £'000
Capital requirement	2,736	3,167
Own funds eligible	3,679	3,679
Headroom	**943**	**512**
Solvency ratio	134%	116%

By reference to the SCR and MCR, the Solvency II own funds exceed the capital requirements.

By these measures, FICL remains in a satisfactory capital position and the Board will therefore have some flexibility in some of the key decisions to be made over the next 12 months.

Risk Management Areas

- In order to manage the risk to the business from inadequate pricing and provisioning assumptions, FICL takes a prudent approach, prioritising financial security of the company, adherence to regulatory requirements and the protection of its policyholders. FICL oversees the claims management procedures outsourced to APC and ensures that provisioning is carried out in a prudent manner. This is set out under Section "Risk Profile – Non-Life Underwriting Risk".

- FICL has actively written business only since September 2015 and therefore does not have access to a full history of data in order to enable it to carry out pricing and provisioning activities using its own data. It therefore relies on its cedant, TMK, and APC, to provide data which covers the past 15 years. This data is considered to be of a suitable quality and appropriate to FICL.

- The company aims to ensure that the investment assets that it holds ensure sufficient matching, in terms of both currency and duration of its liabilities, whilst maintaining sufficient liquidity to ensure timely payment of claims. On its investment portfolio, the company is exposed to systemic risks such as market-wide downturns, however the company aims to manage this risk through ensuring a well-diversified portfolio of well-rated securities.

- FICL does not have any off-balance sheet exposures.

- Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. Based on the current risk profile of the company, it has assessed that excess of loss reinsurance is the most appropriate form of risk mitigation. The appropriateness of the risk mitigation techniques is regularly reviewed by the underwriting committee and through its reinsurance brokers, the company ensures that adequate risk mitigation is in place. This is explained in further detail in the Section "Risk Profile – Credit Risk".

Appendices

<u>Folgate Insurance Company Limited – Overview (Governance Map)</u>

Brian Russell BPR01021	• SIMF1 - Chief Executive Function • SIMF20 - Chief Actuary Function • Chairman of CGRS Committee • Chairman of Investment Committee
Ian Russell IPR01016	• SIMF22 - Chief Underwriting Officer Function • Responsible for Insurance Mediation • Chairman of Underwriting Committee
Jon Bates JPB01182	• SIMF4 - Chief Risk Function • SIMF5 - Head of Internal Audit Function • CF10- Compliance Oversight • Chairman of Claims Committee • Chairman Compliance & Conduct Committee
Zoe Spicer Application in progress	• SIMF2- Chief Finance Function • CF11- Money Laundering Reporting • CF28- Systems & Controls
Adrian Harris ACH01051	• SIMF14 Senior Independent Director Function
Stephen Mathers SDM01057	• SIMF9 - Chairman Function • SIMF11 - Chair of the audit committee
Charles Earle CHE01002	• SIMF14 Senior Independent Director Function • Whistleblower's Champion

Folgate Insurance Company Limited – Organisation Chart 3: (Governance Map)

1. *Claims Committee (Meet Quarterly)*

Jon Bates (Chairman)
Ian Russell
Scott Dickenson
Zoe Spicer

2. *Underwriting Committee (Meet Quarterly)*

Ian Russell (Chairman)
Jon Bates
Robert Henniker Heaton (Kiln)
Adrian Harris

3. *Corporate Governance/ ORSA & Risk Strategy Committee (Meet Quarterly)*

Brian Russell (Chairman)
Stephen Mathers
Adrian Harris
Charles Earle
Jon Bates
Ian Russell
Zoe Spicer

4. *Compliance & Conduct Committee (Meet Quarterly)*

Jon Bates (Chairman)
Jerry Sole
Clare Bates
Zoe Spicer

5. *Investment Committee (Meet Quarterly)*

Brian Russell (Chairman)
Zoe Spicer
Stephen Mathers

6. *Audit Committee- Non-executive (Meet Quarterly)*

Stephen Mathers (Chairman)
Adrian Harris
Charles Earle

Board Structure
Stephen Mathers (NE Chairman)
Brian Russell
Jon Bates
Ian Russell
Stephen Mathers (NED)
Adrian Harris (NED)
Charles Earle (NED)
Zoe Spicer (Company Secretary)

Folgate Insurance Company Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(Monetary amounts in GBP thousands)

General information

Undertaking name	Folgate Insurance Company Limited
Undertaking identification code	213800KLCFTTGHFID336
Type of code of undertaking	LEI
Type of undertaking	Reinsurance undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2017
Currency used for reporting	GBP
Accounting standards	IFRS
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.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
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	11
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	6,532
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	507
R0110	*Equities - listed*	507
R0120	*Equities - unlisted*	
R0130	*Bonds*	5,359
R0140	*Government Bonds*	648
R0150	*Corporate Bonds*	4,711
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	666
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-215
R0280	*Non-life and health similar to non-life*	-215
R0290	*Non-life excluding health*	-215
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*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
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	710
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	7,037

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	3,240
R0520	*Technical provisions - non-life (excluding health)*	3,240
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	2,984
R0550	*Risk margin*	256
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*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	98
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	20
R0900	**Total liabilities**	3,358
R1000	**Excess of assets over liabilities**	3,679

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business																	0
R0120	Gross - Proportional reinsurance accepted							2,457	1,645									4,102
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							270	194									465
R0200	Net	0	0	0	0	0	0	2,187	1,450	0	0	0	0	0	0	0	0	3,637
	Premiums earned																	
R0210	Gross - Direct Business																	0
R0220	Gross - Proportional reinsurance accepted							1,890	1,377									3,267
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							270	194									465
R0300	Net	0	0	0	0	0	0	1,619	1,183	0	0	0	0	0	0	0	0	2,802
	Claims incurred																	
R0310	Gross - Direct Business							1	17									18
R0320	Gross - Proportional reinsurance accepted							1,372	880									2,252
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share																	0
R0400	Net	0	0	0	0	0	0	1,373	897	0	0	0	0	0	0	0	0	2,270
	Changes in other technical provisions																	
R0410	Gross - Direct Business								-14									-14
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0	0	0	0	0	0	-14	0	0	0	0	0	0	0	0	-14
R0550	**Expenses incurred**	0	0	0	0	0	0	116	78	0	0	0	0	0	0	0	0	194
R1200	**Other expenses**																	
R1300	**Total expenses**																	194

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								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business							0
R0120	Gross - Proportional reinsurance accepted	3,304	799					4,102
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	374	90					465
R0200	Net	2,929	708	0	0	0	0	3,637
	Premiums earned							
R0210	Gross - Direct Business							0
R0220	Gross - Proportional reinsurance accepted	2,751	515					3,267
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	391	73					464
R0300	Net	2,360	442	0	0	0	0	2,803
	Claims incurred							
R0310	Gross - Direct Business	18						18
R0320	Gross - Proportional reinsurance accepted	1,794	458					2,252
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	1,812	458	0	0	0	0	2,270
	Changes in other technical provisions							
R0410	Gross - Direct Business	-14						-14
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	-14	0	0	0	0	0	-14
R0550	**Expenses incurred**	194						194
R1200	**Other expenses**							
R1300	**Total expenses**							194

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**							0	0				0					0
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							180	158				0					338
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							-139	-86									-225
R0150	**Net Best Estimate of Premium Provisions**							319	244				0					563
	Claims provisions																	
R0160	Gross							1,005	1,642				0					2,646
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								10									10
R0250	**Net Best Estimate of Claims Provisions**							1,005	1,632				0					2,637
R0260	**Total best estimate - gross**							1,185	1,799				0					2,984
R0270	**Total best estimate - net**							1,324	1,876				0					3,200
R0280	**Risk margin**							105	151									256
	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**							1,290	1,950				0					3,240
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**							-139	-77				0					-215
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**							1,429	2,027				0					3,456

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
R0100	Prior													
R0160	2008													
R0170	2009													
R0180	2010													
R0190	2011													
R0200	2012													
R0210	2013													
R0220	2014													
R0230	2015													
R0240	2016													
R0250	2017													
R0260												Total		

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
R0100	Prior												
R0160	2008												
R0170	2009												
R0180	2010												
R0190	2011												
R0200	2012												
R0210	2013												
R0220	2014												
R0230	2015												
R0240	2016												
R0250	2017												
R0260												Total	

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)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											18	18	18
R0160	2008	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2009	0	0	0	0	0	0	0	0	0			0	0
R0180	2010	0	0	0	0	0	0	0	0				0	0
R0190	2011	0	0	0	0	0	0	0					0	0
R0200	2012	0	0	0	0	0	0						0	0
R0210	2013	0	0	0	0	0							0	0
R0220	2014	0	0	0	0								0	0
R0230	2015	2	200	166									166	369
R0240	2016	191	680										680	872
R0250	2017	217											217	217
R0260												Total	1,082	1,476

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											194	191
R0160	2008	0	0	0	0	0	0	0	0	0	0		0
R0170	2009	0	0	0	0	0	0	0	0	0			0
R0180	2010	0	0	0	0	0	0	0	0				0
R0190	2011	0	0	0	0	0	0	0					0
R0200	2012	0	0	0	0	0	0						0
R0210	2013	0	0	0	0	0							0
R0220	2014	0	0	0	0								0
R0230	2015	0	415	213									211
R0240	2016	864	1,137										1,127
R0250	2017	1,126											1,117
R0260												Total	2,646

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	3,406	3,406		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	263	263			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	11				11
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	0	0	0	
R0290	**Total basic own funds after deductions**	3,679	3,668	0	0	11
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	3,679	3,668	0	0	11
R0510	Total available own funds to meet the MCR	3,668	3,668	0	0	
R0540	Total eligible own funds to meet the SCR	3,679	3,668	0	0	11
R0550	Total eligible own funds to meet the MCR	3,668	3,668	0	0	
R0580	**SCR**	2,736				
R0600	**MCR**	3,167				
R0620	**Ratio of Eligible own funds to SCR**	134.44%				
R0640	**Ratio of Eligible own funds to MCR**	115.81%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	3,679
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	3,416
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	263
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	656		0
R0020	Counterparty default risk	323		
R0030	Life underwriting risk	0		0
R0040	Health underwriting risk	0		0
R0050	Non-life underwriting risk	2,267		0
R0060	Diversification	-552		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	2,694		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	129
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-86
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**	2,736
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	2,736
	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

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	672

		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	1,324	2,179
R0090	General liability insurance and proportional reinsurance	1,876	1,459
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
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	672
R0310	SCR	2,736
R0320	MCR cap	1,231
R0330	MCR floor	684
R0340	Combined MCR	684
R0350	Absolute floor of the MCR	3,167
R0400	**Minimum Capital Requirement**	3,167