Skyfire Insurance Company Limited

Solvency and Financial Condition Report

For year ended 31st December 2017

Contents

Executive Summary

This document presents the view of Skyfire Insurance Company Limited ('SICL'), which is an insurance company based in Gibraltar. The purpose of this report is to satisfy the public disclosure requirements under the Financial Services (Insurance Companies) (Solvency II Directive) Act ('the Solvency II Act in Gibraltar') including the Delegated Regulations of the European Parliament. The elements of the disclosure relate to business performance, governance, risk profile, solvency and capital management.

SICL has continuously complied with its solvency capital requirement ('SCR') and minimum capital requirement ('MCR') during the course of the year. As at the 31st December 2017, SICL held own solvency funds of £40.4m compared to the SCR of £35.0m.

SICL performed well during the year, recording a profit before taxation of £11.6m (2016: £2.3m), and ending 2017 with equity shareholders' funds of £45.5m (2016: £34.9m). From 1st January 2017, SICL entered into additional Quota Share reinsurance arrangements with the intention of both further strengthening SICL's future capital position and reducing the concentration risk of having just two Quota Share partners. The new reinsurers are at least 'A' rated.

The governance and risk frameworks are detailed further in this report and there have been no significant changes in the reporting period. Assessment of SICL's risk profile identified that the principal risks to SICL are premium and reserve risk and reinsurance default risk. These risks are appropriately controlled, monitored and reported on within the business, being captured by the Risk Management Framework. SICL does not anticipate any future material changes in its business model that will impact the performance or underlying SCR requirements.

The Board of SICL is satisfied that the business is adequately prepared for, and robust enough to weather any plausible stress scenarios without detriment to stakeholders.

Stuart MacIntyre **Date: 13 July 2018**
Managing Director
Skyfire Insurance Company Limited

A. Business & Performance

1. Business

1.1. This report relates to Skyfire Insurance Company Limited (‘SICL’ or ‘the Company’), an insurance company licenced in Gibraltar and limited by shares.

1.2. SICL is 100% owned by First Central Group Limited (‘FCG’), a non-regulated holding company domiciled in Guernsey. Since Guernsey is not in the European Economic Area, nor is a Solvency II equivalent jurisdiction, Group supervision is carried out at the level of the insurance company.

1.3. SICL is regulated by:

Gibraltar Financial Services Commission
PO Box 940
Suite 3, Atlantic Suites
Gibraltar
Tel: +350 200 40283
www.fsc.gi

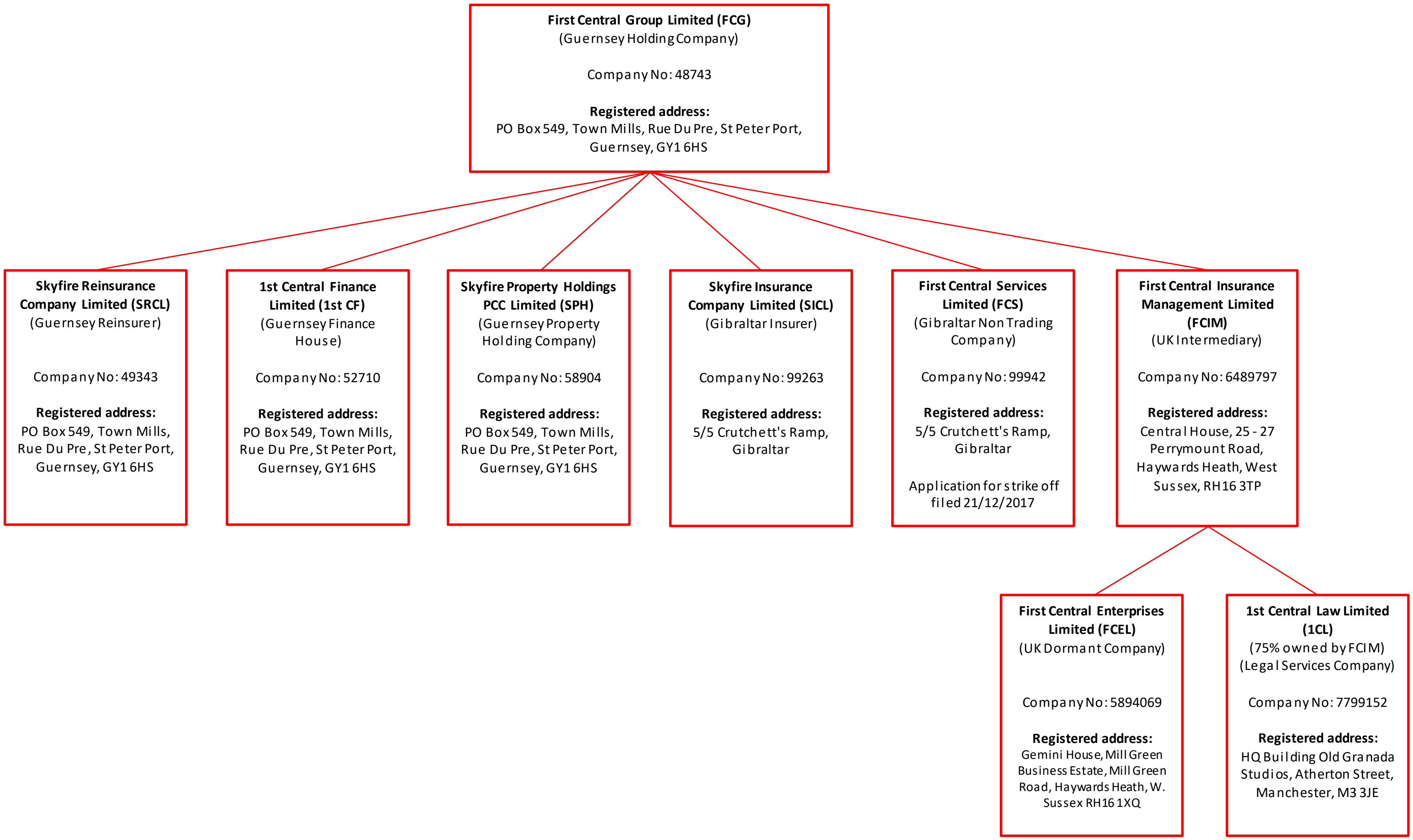
1.4. SICL’s external auditor is:
Deloitte Limited
Merchant House
22/24 John Mackintosh Square
Gibraltar
https://www2.deloitte.com/gi/en.html

1.5. FCG shareholders with qualifying holdings are:

Kenneth Acott
Patrick Tilley
Peter Creed

1.6. FCG owns a number of subsidiaries, forming the FCG Group of companies (‘the Group’); these are shown on page 5.

First Central Group Structure



SICL is authorised to carry out the following insurance business in the United Kingdom:

Class	Type of insurance business
3	Land vehicles
7	Goods in transit
10	Motor vehicle liability
16	Miscellaneous financial loss
17	Legal expenses
18	Assistance

1.7. There have been no significant business or other events during the reporting period.

2. Underwriting Performance

2.1. Motor premium written in the UK via freedom of services from Gibraltar, for the year ended 31 December 2017, is £215m (2016: £146m).

2.2. All premiums written are single premium policies (i.e. one single premium to cover the life of the policy).

2.3. SICL's profit has been derived primarily from its share of the Group's non-technical income, with the pure technical result reported in the management accounts being a loss of £11.7m for the year ended 31 December 2017.

3. Investment Performance

3.1. The Investment assets held by SICL are as follows:

Class	£m	%
Cash and cash equivalents	3.5	13.6%
Bond and debt instruments	67.2	52.3%
Property	0.5	0.4%
Collective investment schemes	46.5	25.3%
Secured loans	10.7	8.3%

3.2. The investment return recorded by SICL in the year ended 31 December 2017 was £1.4m.

4. Performance of Other Activities

4.1. There have been no other significant activities undertaken by SICL other than its insurance and reinsurance and related activities.

5. Any Other Information

5.1. There are no other material matters in respect of the business or performance of SICL.

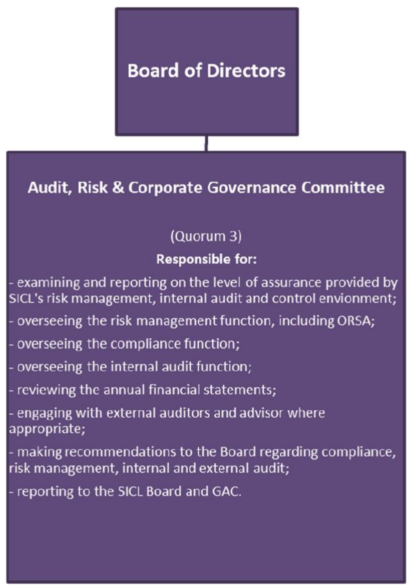
B. System of Governance

1. General Information on System of Governance

The SICL Board has responsibility for its governance, which must align with minimum expectations set by the FCG Board through FCG's Corporate Policies, Group Risk Management Target Operating Model, Group Compliance Minimum Requirements and the Group Internal Audit Framework, which are based on the 'Three Lines of Defence' model.

FCG monitors SICLs adherence to the above mentioned standards through the Group Audit Committee ('GAC'), a sub-committee of the FCG Board. The GAC also has responsibility for evaluating the performance of subsidiary Audit Committees.

Board and Committee Structure, Roles and Responsibilities at 31st December 2017



Board and Committee Membership at 31st December 2017

	Executive Directors	Non-Executive Directors	Managers
Board	3	4 (including Chair)	0
Audit, Risk and Corporate Governance Committee	1	3 (including Chair)	0

Terms of Reference describe the purpose, responsibilities, membership and authority delegated from the Board to the Committee. Relevant attendees are invited to Committee meetings as determined by the Committee.

On the 7th March 2017 the Chair resigned from the Board and a new Chair and Managing Director (MD) were appointed. The Chair is also the Chair of First Central Group. The MD was appointed from the existing Executive Directors.

On 5th September 2017 the Board resolved to disband the Underwriting, Claims and Burn Cost Committees. Following review of their responsibilities and authority it was identified that they were not acting as true sub-Committees of the Board and therefore, to more accurately reflect their function in the business, they were reclassified as management meetings. The Underwriting, Claims and Burn Cost Management Meetings continue to be held regularly under the authority of the attending Managing Director. The Audit, Risk and Corporate Governance Committee remains a sub-Committee of the Board.

The FCG Remuneration Committee has responsibility for reviewing and considering SICL's remuneration and advising on the specific remuneration structures of all SICL Executive Directors, and nominated senior members of the management team (collectively the 'Senior Management'), as well as all employees of SICL collectively so as to:

a) Ensure that all members of staff are fairly rewarded for their individual performance and contribution to the Group's overall performance; and
b) Demonstrate that the pay of Senior Management is objectively reviewed by a Committee that has no personal interest in the outcome of the decisions.

Remuneration includes salary, incentives (including share incentive plans), bonus, pension, benefits, terms and conditions and contract of employment, discretionary payments, compensatory or settlement terms on loss of office or payments to be made on retirement or resignation.

No director or manager shall be involved in any decisions as to their own remuneration. The remuneration of Non-Executive Directors is determined by the FCG Board with reference to the SICL Board.

Salaries were paid to three of the Executive Directors, including bonuses and employers pension contributions, and fees were paid to Non-Executive Directors, in the reporting period. The remaining Executive Director was remunerated through the insurance management contract that the Company has with Robus Risk Services (Gibraltar) Limited ('RRS').

There have been no dividends paid to the parent company during the reporting period.

2. Fit and Proper Requirements

SICL recognises the value of the fit and proper requirements in that a company run in a fit and proper manner, by fit and proper directors and other individuals holding key functions or roles, will benefit from the knowledge and experience brought to the company and is more likely to be successful. In addition, the risks associated with a badly run business (largely regulatory, financial or reputational risks) will be diminished.

There is no definition for 'fit and proper', however the term includes amongst other considerations the concepts of honesty, solvency and competence.

The basic elements of the fit and proper assessment are:

- honesty, integrity and reputation (e.g. prudent approach to business, good reputation, no convictions for fraud or dishonesty, no regulatory sanctions, regulatory approval);
- competence, ability to conduct business and organisation (e.g. experience, knowledge, no unacceptable conflicts of interest); and
- financial position (e.g. no history of personal bankruptcy, no history of association with corporate bankruptcy).

The SICL Board, in conjunction with the FCG Board, ensures that any candidate for a position on the Board, or for other key functions or roles, is assessed to ensure that they fulfil fit and proper requirements. This includes reviewing the CV of the candidate, an in-depth interview, obtaining references (both personal and professional), and carrying out due diligence checks. Due diligence checks include verification of identification and address, and searches on due diligence databases. The candidate is also asked to declare any interests so the Board can review whether they conflict with the Company's interests. All conflicts of Interest identified are recorded on a Log and reviewed at each board meeting.

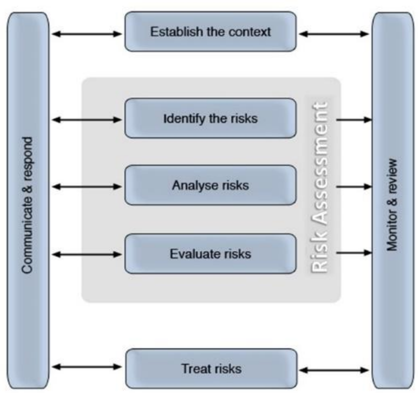
3. Risk Management System including ORSA

SICL has adopted the Group's Risk Management Target Operating Model, along with supporting policies and procedures which it has tailored for the Company. These constitute SICL's Risk Management Framework ('the Framework'). The Group Head of Risk liaises with SICL on a day-to-day basis to ensure that the Framework is implemented appropriately, and to provide support and training.

The purpose of the Framework is to provide a logical and systematic approach to risk identification and management. It is reviewed from time to time to take account of the changing environment in which SICL operates. The Framework revolves around the Risk Register which contains details of risks and controls, and includes a process for monitoring the implementation and efficacy of the controls.

Risk Management Process

The risk management process is consistent with ISO 31000, the Risk Management standard, and is shown below:

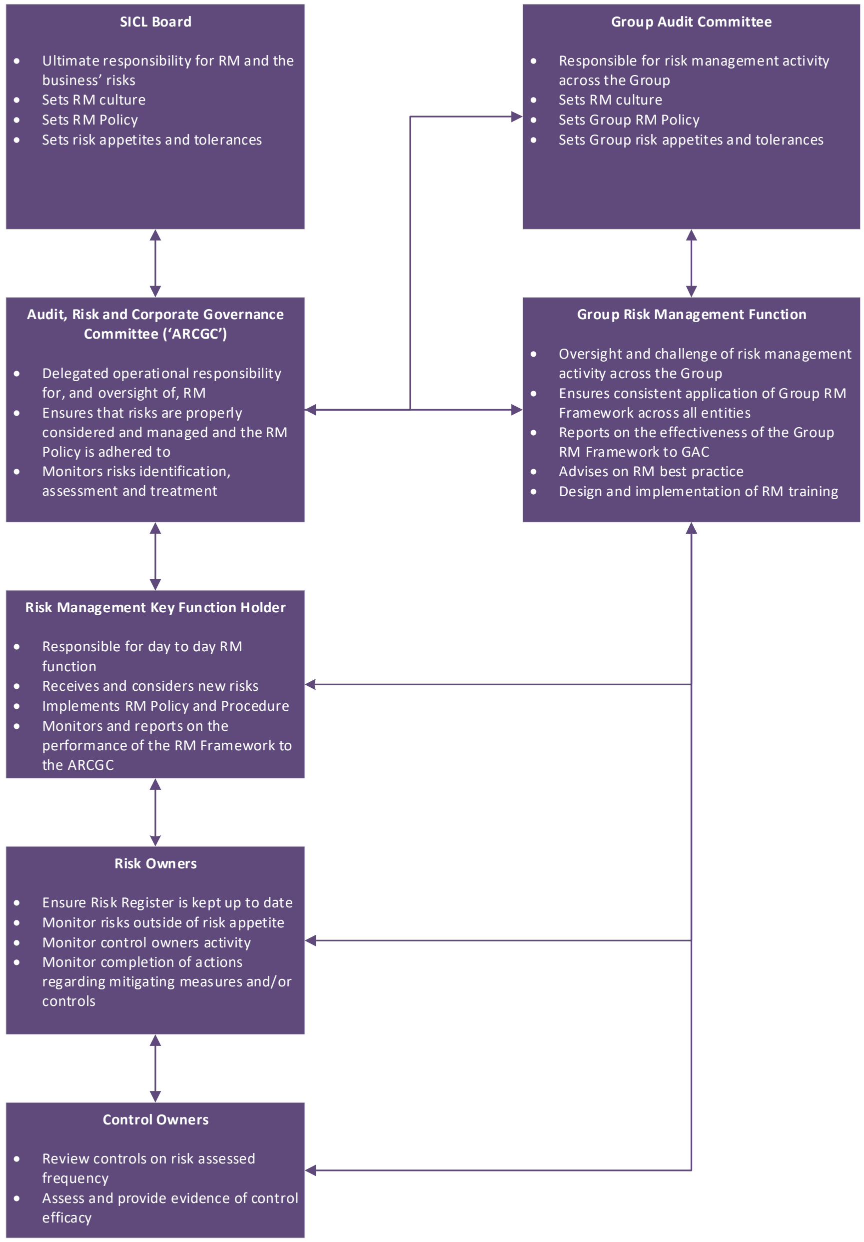


SICL completes the Group solvency calculation and monitors Group solvency on behalf of FCG and will liaise with the Group Board as necessary to ensure that the Group SCR is met, or that remedial action is taken as necessary, and that risks to Group solvency are monitored and managed.

SICL is responsible for completing an Own Risk Solvency Assessment ('ORSA') for the Group, incorporating FCG and a solo ORSA on SICL.

Risk Management ('RM') Roles and Responsibilities

Risk Management roles and responsibilities are shown in the diagram on the following page.



Own Risk Solvency Assessment ('ORSA' or 'the Assessment')

SICL is responsible for completing an Own Risk Solvency Assessment ('ORSA') for the Group, incorporating FCG. The Group ORSA includes a solo ORSA for SICL, as the insurance entity in the Group which is subject to Solvency II.

The ORSA's main purpose is to ensure that the Group and SICL assess all the risks inherent to their businesses and determine the corresponding capital needs, or identify other means needed to mitigate these risks.

It particularly considers situations in which the Group or SICL may be stressed, and the capital needs and mitigation measures necessary in these scenarios, to ensure that the business is prepared for, and robust enough to weather, adverse conditions without detriment to stakeholders. The capital need identified is termed the 'economic capital requirement'.

While the Risk Register focusses on risks from a bottom-up viewpoint, the ORSA takes a top-down approach, linking business objectives, business risks, risk appetites and tolerances, business planning and capital planning. The results of the ORSA also feed back into the risk management process, ensuring that all risks identified are incorporated into the assessment, management, monitoring and reporting cycle.

The ORSAs are carried out at least annually on the basis that solvency needs and capital position are not volatile, and the business' risk profile is stable. However, they will also be carried out in specific circumstances which include, but are not limited to:

- there is a material change to reinsurance arrangements;
- there is a variance to GWP in the business plan of >20%;
- there are new products or jurisdictions being considered;
- there is an adverse breach of risk tolerance threshold which is accepted rather than mitigated; and
- as required by the ARCGC and/or Executive.

The ORSA is embedded into the business and capital planning processes; the proposed business plan is used to calculate the regulatory capital requirement (from the SCR calculation) and the economic capital requirement (from the ORSA), both of which are considered by the relevant Board alongside the business plan. The business plan is then either approved, or amended and capital requirements recalculated.

4. Internal Control System

SICL's internal controls are part of its compliance framework, being the first line of defence in the 'three lines of defence' model it has implemented. FCG has also set out its requirements of SICL's Compliance Function through the Group Compliance Minimum Requirements, performance against which are regularly monitored.

SICL has implemented policies which describe the Boards approach to key areas of the business, and procedures, where appropriate, which describe how the Board fulfils its policies. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the internal control system, however day-to-day oversight is provided by the compliance key function holder ('CKFH') who is also the Compliance Officer. In practice, the Audit, Risk and Corporate Governance Committee ('ARCGC'), other Directors and key role holders also necessarily participate in the management of the system.

The CKFH is responsible for the completion of compliance tasks although these may be outsourced to the Company's insurance manager. The key function holder has direct access to both the Board and the ARCGC.

There is a risk based Compliance Monitoring Programme ('CMP') in place to review whether SICL fulfils all of its legislative and regulatory requirements. The CMP includes monitoring adherence to SICL's policies and procedures.

The CKFH is responsible for identifying and evaluating compliance risk, overseeing the implementation of controls for the risks identified, and monitoring their efficacy through the Compliance Monitoring Programme. The CKFH reports to the ARCGC at each meeting and will provide advice to the business when requested. The CKFH also has a 'dotted' reporting line to the Non-Executive Chair of the ARCGC, through which they can raise any material concerns, as well as to the Non-Executive Chair of the Group Audit Committee, through the Group Head of Compliance.

5. Internal Audit ('IA') Function

Internal Audit's primary role is to provide an assessment of risk management, governance and controls by evaluating the effectiveness of the frameworks in place in supporting the business in achieving its objectives (assurance). Where gaps in the frameworks are identified, recommendations are made to make improvements. Its secondary role is to provide advice to management in developing such frameworks (consultancy).

SICL adheres to the Group Internal Audit Framework ('GIAF') which outlines minimum requirements.

SICL's Board has appointed an Internal Audit key function holder who is responsible for the function and associated tasks. The Head of Internal Audit fulfils this role in addition to having operational responsibility for the delivery of the Internal Audit Programme and IA tasks.

The Internal Audit Policy is approved by the Board and outlines how the function will be performed, and this is summarised below.

Independence
IA reports to the ARCGC who is responsible for its effectiveness and efficiency. To carry out its work effectively and to retain the integrity of the function, IA acts independently of line management and has a direct reporting line to the ARCGC to raise any issues identified.

Audit Strategy
A rolling three-year Internal Audit Plan is established and maintained on an ongoing basis. This is reviewed by the ARCGC at least annually. This will be linked to the SICL Business Plan (where possible) to assist in the attainment of SICL's goals.

Annual Plan
Following a risk-based approach, the Head of Internal Audit prepares an annual operational plan based upon the Audit Strategy; this outlines the audits to be performed in the forthcoming year. The scope and frequency of audits included within the plan take into consideration results of previous audits, risk assessment of business activities, materiality and the adequacy of systems of internal control. This plan will include specific coverage of Finance, Operational Departments, Information Technology and Special Projects (at the request of the ARCGC).

The annual plan includes input from key stakeholders. The final annual plan is approved by the ARCGC, at the first meeting at the start of the relevant year.

Throughout the year, performance against the annual plan is monitored and reported on by the Head of Internal Audit and any significant deviations reported to the ARCGC as required. This reporting may also include proposed changes to the plan reflecting the need to address emerging risks and issues. Any changes to the plan are formally approved by the ARCGC.

Audit Recommendations Log
A log of all internal audit recommendations raised during audits completed is collated. This log contains the priority of the recommendations, the assigned recommendation owners and the proposed completion dates. IA reviews the log on an ongoing basis in order to ensure that all actions are addressed in a timely manner as agreed with management.

Progress against the agreed recommendations is reported to the ARCGC quarterly.

Reporting
The reports produced for each internal audit assignment undertaken are provided directly to the ARCGC and copied to the SICL Board. The ARCGC receive the executive summary and report recommendations, together with the relevant manager's comments.

IA also provides a summary report to the ARCGC on a quarterly basis, detailing work undertaken during that period and progress against the recommendation log.

6. Actuarial Function

SICL's actuarial function is the responsibility of the key function holder, who reports directly to the Board. The tasks of the actuarial function are outsourced to RRS, SICL's insurance manager. The key function holder is also responsible for overseeing this outsourced relationship including monitoring the scope of work, service levels and challenging the results.

The SICL actuarial function also supports Group activity where required, for example the Group Reserve Review Committee, and Group solvency calculation and ORSA.

The actuarial function is responsible for:
a) Coordination of the calculation of technical provisions;
b) ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
c) assessing the sufficiency and quality of the data used in the calculation of technical provisions;
d) comparing best estimates against experience;
e) informing the Board of the reliability and adequacy of the calculation of technical provisions;
f) expressing an opinion on the overall underwriting policy;
g) expressing an opinion on the adequacy of reinsurance arrangements; and
h) contributing to the effective implementation of the risk-management system.

Each of these activities is undertaken on an at least annual basis and the outcome reported to the Board in an internal actuarial report.

7. Outsourcing

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the company. The third party to whom an activity is outsourced is a 'service provider'.

SICL ensures that an outsourcing arrangement shall not diminish the Company's ability to fulfil its obligations to customers or its regulator, nor impede effective supervision by its regulator (should it be regulated).

Fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the Company's processes, and the final responsibility for customers, shall not be outsourced.

SICL considers outsourcing where it believes that there is an advantage to the Company and customer by using a service provider e.g. access to specialist resource, provision of services in the same jurisdiction as the customer, cost benefits.

SICL Outsourcing

SICL is reliant on a number of material service providers; due to the risk this presents, SICL has an outsourcing policy which describes how it takes the decision to outsource, how a service provider is selected, and how the relationship is defined, managed and monitored. SICL takes a risk based approach to all of these activities.

Material Service Providers in the Reporting Period:

Service Provider	Service Provided	Jurisdiction Located
Robus Risk Services (Gibraltar) Limited	Insurance Management (compliance tasks, risk management tasks, company secretarial, accounting, banking & investments, regulatory reporting, actuarial tasks)	Gibraltar
First Central Insurance Management Limited	Claims handling Counter fraud services Financial services IT support services HR services	UK
Chaffinch Management Services Limited	Claims supplier management	Ireland
Teleperformance Limited	Policy sales and administration (telephony)	UK
Vanguard Vehicle Services Limited	Vehicle salvage services	UK

FCG Limited	Trademark use Software licence (rating engine) Financial oversight Risk management framework Compliance framework Legal services Secretarial services Procurement and supplier management	Guernsey

8. Adequacy of the System of Governance

SICL aims to continuously improve its compliance and governance systems by ensuring that they are reviewed, evaluated, and recommendations are made to the Board regarding enhancing and developing the systems, including the outcomes from compliance monitoring programmes, root cause analysis from complaints, breaches and risk events, and incremental development as the systems mature. It also considers relevant industry advice and guidelines, for example the UK Financial Reporting Council's Corporate Governance Code, implementing these as appropriate for the size and complexity of the Company.

Internal audits and external audits provide independent evaluation of SICL's system of governance. Recommendations from these audits are considered by the Board and are implemented proportionate to the business' risks.

C. Risk Profile

1. Underwriting Risk

The use of quota share and excess of loss (‘XOL’) reinsurance is SICL’s primary method of mitigating underwriting risk. Underwriting risk is monitored by the Underwriting Management Meeting, the Burn Cost Management Meeting, and through the Risk Management Framework, and is reported to the Board.

As the primary insurer within the Group, SICL presents the key initial risk in terms of financial impact where the ultimate cost of claims for the risks underwritten is significantly in excess of the premiums collected for those risks and the regulatory solvency capital retained by SICL. Any shortfall in required regulatory solvency capital is mitigated through FCG’s ability to raise additional capital, or take alternative measures to mitigate risk profile or increase eligible capital as appropriate. There is also a smaller risk that investments made by SICL suffer capital loss that reduce the amount of capital available. SICL also faces a further risk of capital erosion where there is a failure of one of the reinsurers on its XOL programme, or that the programme to protect the payment required under any Periodic Payment Order (‘PPO’) might prove inadequate.

In respect of PPOs, SICL maintains a PPO propensity matrix and monitors the likelihood of each large claim developing into a settled PPO. Given the relatively low retention on the XOL programme, most identified large losses have claims paid up to the retention, or it is anticipated that the large loss will settle at an amount in excess of the retention, which leaves SICL little net exposure to annuity style settlements.

SICL has a mixture of capitalised and non-capitalised counterparty exposures in the reinsurance programme, which are considered under Credit Risk below.

Underwriting risk and the efficacy of risk mitigation techniques used are regularly evaluated by the SICL Underwriting and Burn Cost Management Meetings, and Group Reserve Review Committee. Efficacy of controls is monitored by conducting regular control reviews. Mitigating measures are adjusted in accordance with the findings.

SICL is exposed to underwriting concentration risk due to writing one line in one jurisdiction, however this is mitigated via reinsurance arrangements. Exposure, and whether further mitigating actions should be taken, is considered annually during the ORSA and strategic planning processes.

There has been no material change to the risks that the Company is exposed to in the reporting period.

2. Market Risk

Currency

SICL is chiefly exposed to one currency only, British Sterling (‘GBP’). Currency risk exposure is monitored by the Group Investment Committee (’GIC’) on behalf of the SICL Board, which would consider appropriate mitigation measures should currency risk increase over risk appetite.

Property

The Company has allocated a small amount of its total investment assets to property investments. These property investments present a liquidity risk in that it may take time to sell and realise cash.

The exposure to property risks has increased in the reporting period as the company has taken on additional property exposure.

The GIC assesses and monitors the risks presented by this asset class, ensuring that they lay within the Company's Investment Risk Appetite Statements. The Investment Risk Appetite Statements are reviewed regularly to ensure that the mitigating guidelines in place are still appropriate for the Company and the risk environment in which it operates.

Interest rate

Interest rate risk arises as a result of the impact of interest yield curves on future payments to be made in respect of claims and receipts from the Company's investments. The interest yield curves in the UK have increased in the reporting period which reflects the increases in base rates applied by the Bank of England and general increases in economic activity globally. However, continuing economic uncertainty in the UK and Europe around Brexit negotiations continue to keep rate expectations low in the UK.

The Company's exposure to interest rates arises primarily from bond portfolios (as bond values are susceptible to changes in interest rates), and the settlement of future claims (as the discount rates applied to claims settlement projections are impacted by interest yield curves).

Interest rate risk is assessed and monitored by the GIC. SICL considers the prudent person principle (see [4]) in considering the investment assets and how they match to the expected payment profile of SICL's technical liabilities. Maximum aggregate duration limits are also imposed on conventional fixed income assets in order to ensure that interest rate exposure on the bond portfolio is appropriate, while the property assists in hedging against longer term changes in the interest rate yield curve. The GIC reviews the effectiveness of the mitigating measures, considers how they could be improved, and makes recommendations as appropriate.

Concentration

Concentration risk exposure arises in respect of positions taken in SICL's bond portfolio, secured loans, property exposure and counterparties in respect of its cash holdings and reinsurance recoveries. Concentration exposure is assessed in respect to exposure to any single name. In respect to properties, concentration exposure is considered where the individual properties are part of the same building. Concentration exposure is calculated based on the proportion of the single name exposure (or grouped property exposure) relative to the investment assets as a whole.

Concentration risk has varied in the period following changes in asset allocations and the increase in the total available investment asset pool.

Concentration risk in the portfolio is mitigated by ensuring that investments are well diversified. Ongoing monitoring of the concentration risk is undertaken by the investment manager which monitors investment holdings against the Investment Risk Appetite Statements, which are reviewed regularly to ensure that the mitigating guidelines in place are still appropriate for the Company and the risk environment in which it operates.

Ongoing monitoring of concentration risk is undertaken by GIC and by the Risk Management Framework, including assessing the efficacy of controls and whether they require improvement or additional mitigating measures are required, to ensure the risk remains within risk appetite.

Concentration of counterparties in respect of cash and reinsurance exposures is considered with credit risk in section 3.

Spread

Spread risk is the sensitivity of the values of investments, primarily bonds and secured loans, to changes in the level or in the volatility of credit spreads. As credit spreads will typically be narrower for well rated securities than for poorly rated securities (and for short duration rather than long duration securities), SICL considers credit quality limits to the conventional fixed income assets in its Investment Risk Appetite Statements.

The Investment Risk Appetite Statements are reviewed regularly to ensure that the mitigating guidelines in place are appropriate for the Company and the risk environment in which it operates.

The GIC reviews the investment portfolio and assesses a value-at-risk ("VaR") metric, based on the expected loss with a 99.5% level of confidence. This is therefore considered the likely loss in the portfolio in a 1-in-200 year event. This assessment is undertaken in conjunction with the Company's investment advisors.

Ongoing monitoring of spread risk is undertaken by GIC and by the Risk Management Framework, including assessing the efficacy of controls and whether they require improvement or additional mitigating measures are required, to ensure the risk remains within risk appetite.

3. Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

Key areas where SICL is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts held with banks and other financial institutions; and
- amounts due from insurance intermediary.

Reinsurance and Financial Institutions

All reinsurance and financial counterparties used have a credit rating of at least 'A' with the exception of cash balances with the Royal Bank of Scotland for operational purposes, which is rated 'BBB'. The Company partners with a limited number of counterparties, reducing exposure and mitigating contagion risk.

The credit rating requirement, and use of capitalised exposures where possible, mitigates counterparty default risk. The exception is in relation to the exposure to its intragroup reinsurer, Skyfire Reinsurance Company Limited ('SRCL'); however, given the existence of collateral by funds withheld arrangements, and the close arrangements between SICL and SRCL, the risk lies within risk appetite.

Quota share reinsurance concentration risk is mitigated by using a number of quota share reinsurers.

The Company Board assesses reinsurance counterparty risk, including monitoring current and historic credit ratings. Should a reinsurer expose SICL to counterparty risk outside of its risk appetite, it's inclusion in future reinsurance programmes is reviewed.

Credit risk presented by premium owed by the insurance intermediary (First Central Insurance Management Limited – 'FCIM') is mitigated by a contractual requirement for FCIM to pay all premium due for the period policies are on risk to SICL, whether it has been collected from policyholders or not, and by FCIM being a connected party (interests being aligned across the Group).

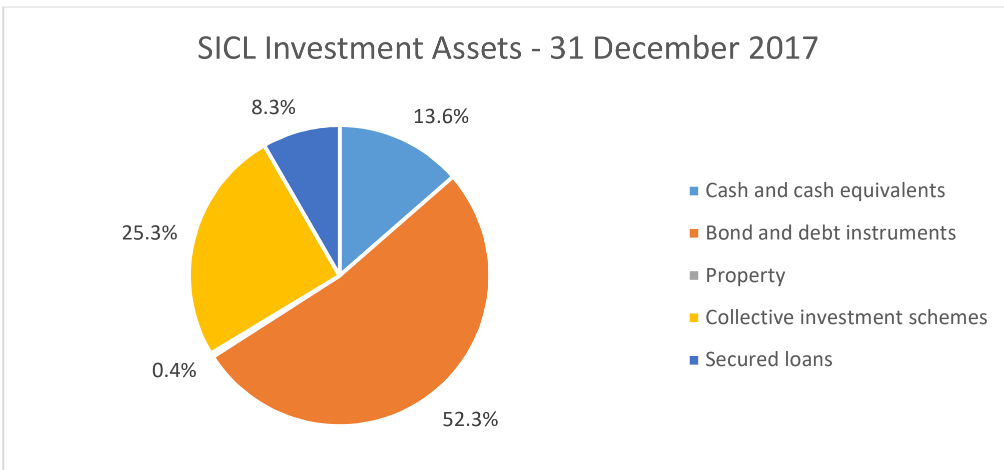
Credit risk is also identified, assessed and monitored through the Risk Management Framework (see above for further details), which also necessitates regular review and evaluation of the mitigation measures in place to ensure the risk remains within risk appetite.

4. Prudent Person Principle

SICL is required to invest the assets used to cover the minimum capital requirement and the solvency capital requirement in accordance with the 'prudent person principle'. The prudent person principle defines that the assets must be invested in a manner that a 'prudent person' would – that is that the decisions are generally accepted as being sound for the average person.

The Company forecasts the cash needed over a three year horizon based on the three-year business plan, taking into account liquidity of the assets. The bond portfolio in particular is invested in short dated instruments which, along with the cash and cash equivalents held, are designed to approximate the nature and duration of the insurance liabilities.

The assets of the Company are distributed as follows:



5. Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay the obligations when they are due.

Liquidity risk is assessed and monitored by FCIM on behalf of SICL on a day-to-day basis, ensuring that there are sufficient funds available to meet both immediate and foreseeable cash flow requirements. This is done by reviewing balances in bank accounts and investments against expected requirements, bearing in mind maturities of investments, notice periods for withdrawals, and known substantial expenses (e.g. reinsurance premium payments).

Investments and cash are reviewed by SICL quarterly. Any guidelines for the management of liquidity are incorporated into SICL's Investment Risk Appetite Statement and Investment Policy, and are reviewed regularly to ensure they reflect SICL's risk environment. The GIC monitors that the Risk Appetite Statements are being adhered to, reporting to SICL as appropriate.

Liquidity risk is also identified, assessed and monitored through the Risk Management Framework

SICL generates some of its profit from instalment income and therefore has a significant amount of future income due from policyholders and in relation to commissions due from reinsurers. The expected profit included in future premiums of the Company is £7.7m (2016: £13.4m).

6. Operational Risk

SICL's key operational risks are:

- Pricing risk: the potential loss of profit due to incorrect rate calculations being applied and not being identified for the longest possible time. All rate changes are rigorously tested before release and can be reversed post-release immediately if necessary, reverting to the previous rate set. Changes are released during core working hours so unusual sales activity can be identified and acted upon immediately. This risk is further mitigated by an own assessed capital allocation against potential loss of profit.
- Key person risk: the risk of losing knowledge, skills and leadership should a key person leave SICL. SICL has considered possible contingencies should any key members of staff leave and developed a succession plan to mitigate this risk. The risk is further mitigated by an own assessed capital allocation to cover the cost of recruiting a replacement CEO/Managing Director, by ensuring remuneration is in line with the market, and by providing an enjoyable and fulfilling work environment.
- Material service provider risk: the risk that a provider of key services is unable to operate, effecting SICL's ability to service customers and sell policies. This risk is mitigated by having robust due diligence and service provider monitoring processes, including reviewing the financial security and business contingency plans of service providers. It is further mitigated by an own assessed capital allocation against potential loss of profit;
- Reputation risk: damage to the 1st Central brand which is owned by FCG. Severe reputational damage could result in a loss of profit which is mitigated by an own assessed capital allocation.
- Availability of capital risk: the risk of capital not being available to fund the business plan. Although this is a risk to achieving the business plan, it presents no risk to the solvency of SICL. SICL accrues underwriting profit to provide capital for future growth. If FCG were unable to provide capital when required, SICL would reforecast its business plan to ensure solvency and minimum capital requirements are met without requiring additional funds, investigate sourcing additional capital elsewhere than FCG, or investigate other risk mitigation techniques (e.g. additional reinsurance).
- Expenses risk: due to overspending against budget. This is mitigated by having a robust business planning process, and an approval process for extra-budgetary expenses; it is further mitigated by an own assessed capital allocation based on historic experience of variance to budget.
- Distribution channel risk: loss of sales and therefore profit due to an aggregator website, or FCIM's website not operating. FCG's principal operational role and responsibility is to provide the IT systems which administer the entire insurance distribution, underwriting, processing and claims functions. The loss of these systems therefore present a risk to the Group as a whole. The risk is mitigated by having comprehensive disaster recovery plans which are regularly reviewed and tested, however has been further mitigated by an own assessed capital allocation against potential loss of profit. The failure of an aggregator website is mitigated by the use of a number of aggregators; if one were to fail, customers are likely to switch to another aggregator site. This is also mitigated by an own assessed capital allocation against potential loss of profit.
- Crime risk: fraud (claims or other typologies) or cyber-attack risk. FCIM has a specialist team dedicated to counter fraud services ('CFS'); the main risk is the cost arising between a new issue materialising and CFS understanding and putting in place measures to manage and mitigate the issue. FCG has purchased cyber-insurance, and invested in information security

infrastructure, to mitigate the risk of cyber-attack. However, some residual risk remains and penalties for data breaches can be substantial; the risk is therefore further mitigated by an own assessed capital allocation.

Operational risk within SICL is identified, assessed and monitored through the Risk Management Framework which is overseen by the ARCGC; this includes reviewing controls for appropriateness and efficacy.

There have been no material changes to the operational risks SICL is exposed to over the reporting period.

7. Other Material Risks

'Brexit'

The terms of the UK's exit from the EU, and arrangements for continued trade with the EU have still not been clarified. However, in March 2018, the UK government confirmed that Gibraltar would continue to have access for passporting financial services (including insurance) to the UK market on the same basis as currently until 2020. In the mean-time the governments of the UK and Gibraltar will work to design and implement a replacement framework for after 2020.

There is an additional associated risk in that a number of SICL's staff reside in Spain and cross the border into Gibraltar to work, and three are Spanish, working in Gibraltar under EU freedom of movement rules. The impact on the border and the ability of EU nationals to continue to work in Gibraltar is unknown at the time of publication.

The SICL Board continues to monitor the situation and consider whether contingency arrangements should be investigated to mitigate the potential risks.

The Civil Liability Bill

The Discount Rate, which is currently based on the returns available on inflation linked government securities, is intended to ensure that claimants receive '100% compensation' in respect of personal injury damages. Following consultation on the way the Discount Rate is set during 2017, the Ministry of Justice ('MOJ') announced the Civil Liability Bill in March 2018. This bill sets out a framework through which the rate will be set by reference to "low risk" rather than "very low risk" investments. The Company welcomes this development and although the Government did not announce a timeframe, reports are that they are hoping to have the legislation in force by April 2019.

The Civil Liability Bill also contains proposals intended to cut the number of whiplash claims, which have increased in value by 50% since 2006 to around £2 billion per year, despite decreases in the number of reported accidents. Fixed amounts will be set for compensating whiplash claims and offering to settle whiplash claims without medical evidence will be banned. These proposals follow on from the MOJ's consultation in November 2016.

D. Valuation for Solvency Purposes

1. Assets

1.1. As at 31 December 2017, SICL held the following assets:

Asset Class	GAAP (£m)	Look Through (£m)	Reclassification for Solvency purposes (£m)	Solvency Valuation Adj. (£m)	Solvency Value (£m)	Explanation of differences
Investments in property	0.5	5.4	-	-	5.9	No valuation differences
Corporate and government bonds	66.2	(39.4)	-	-	26.8	See [1.2.1]
Collective investment undertakings	46.5	(9.4)	-	-	37.1	No valuation differences
Collaterised securities	1.0	(0.6)	-	-	0.4	No valuation differences
Technical provisions – reinsurance share	300.8	50.5	(173.8)	(21.6)	155.9	See [1.2.2] and [1.2.3]
Insurance and reinsurance receivables	161.1	-	(161.1)	-	-	No valuation differences
Cash and equivalents	3.5	(0.8)	-	-	2.7	No valuation differences
Other loans	13.8	(5.3)	-	-	8.5	No valuation differences
Other assets	1.2	(0.4)	-	(0.4)	0.4	See [1.2.4]
Deferred acquisition costs	7.9			(7.9)	-	See [1.2.4]
Deferred tax asset	-	-	-	0.5	0.5	See [1.2.5]
Derivative assets	-	-	-	5.1	5.1	See [1.2.6]
TOTAL	**602.5**	**-**	**(334.9)**	**(24.3)**	**243.3**	

As at 31 December 2016, SICL held the following assets:

Asset Class	**GAAP (£m)**	**Look Through (£m)**	**Reclassification for Solvency purposes (£m)**	**Solvency Valuation Adj. (£m)**	**Solvency Value (£m)**	**Explanation of differences**
Property	0.5	-	-	-	0.5	No valuation differences
Bonds and loans	57.1	0.5	(1.2)	-	56.4	See [1.2.1]
Collective investment undertakings	16.7	-	(16.7)	-	-	No valuation differences
Intermediary receivables	117.6	-	(117.6)	-	-	No valuation differences
Reinsurers share of unearned premiums	68.8	-	-	(68.8)	-	See [1.2.2]
Reinsurance share of claims reserves / Reinsurance share of technical provisions	144.2	-	(85.2)	64.4	123.4	See [1.2.3]
Cash and equivalents	24.0	-	(13.5)	-	10.5	No valuation differences
Prepayments and accrued income	9.8	(0.3)	-	(9.5)	-	See [1.2.4]
Other assets	3.4	(0.1)	(3.1)	-	0.2	No valuation differences
Deferred tax asset	-	-	-	1.3	1.3	See [1.2.5]
Derivative assets	-	-	-	1.4	1.4	See [1.2.6]
TOTAL	**442.1**	**0.1**	**(237.3)**	**(11.2)**	**193.7**	

Reclassifications for solvency purposes are reclassifications to the technical provisions, whereas solvency valuation adjustments are valuation differences applied on a line-by-line basis.

1.2. The valuation principles applied to these assets are consistent with those used in the GAAP accounts, with the following exceptions:

1.2.1 Bonds and secured loans – these are quoted instruments in active markets and therefore the market price as at 31 December 2017 has been applied in the GAAP accounts, excluding accrued interest. On the Solvency II balance sheet these have been valued including accrued interest.

1.2.2 Reinsurance share of unearned premiums – the reinsurance share of unearned premiums reserve comprises the reinsurer's share of the proportion of gross premiums written which is to be earned in the following or subsequent financial years in the GAAP accounts. The unearned premiums are not recognised for solvency purposes, and instead the expected claims arising on the unearned premiums are recorded within the reinsurance share of technical provisions (see 2.5).

1.2.3 Reinsurance share of claims reserves/technical provisions - the reinsurance share of claims reserves comprises the reinsurer's share of the claims outstanding (including claims which are estimated to have been incurred but not reported) as at 31 December 2017. The adjustments from claims reserves in the GAAP accounts to technical provision in the Solvency II balance sheet are detailed in section 2.5).

1.2.4 Prepayments and deferred acquisition costs – on the Solvency II balance sheet these have been valued at nil.

1.2.5 Deferred tax asset/liability – valued based on the expected tax benefit or expense once the valuation adjustments to transition to solvency valuations unwind.

1.2.6 Derivative assets and liabilities – these are shown via linked presentation under GAAP, but shown gross on the Solvency II balance sheet

2. Technical Provisions

2.1 The GAAP accounts of SICL include provisions for claims incurred based on earned premiums which consider all reasonably foreseeable best estimates. This includes reserves for claims incurred plus a provision for claims Incurred But Not yet Reported ('IBNR'). SICL also considers any amounts recoverable from reinsurance contracts in respect of its claims reserves and IBNR.

2.2 The technical provisions by line of business are as follows:

31 December 2017:

Line of business	Technical provisions (excluding risk margin) (£m)	Risk margin (£m)	Technical provisions (£m)
Motor vehicle liability insurance	150.3	3.9	**154.2**
Other motor insurance	32.7	0.6	**33.3**
Total	**183.0**	**4.5**	**187.5**

31 December 2016:

Line of business	Technical provisions (excluding risk margin) (£m)	Risk margin (£m)	Technical provisions (£m)
Motor vehicle liability insurance	132.2	4.2	**136.4**
Other motor insurance	21.2	0.2	**21.4**
Total	**153.4**	**4.4**	**157.8**

2.3 The key areas of uncertainty around technical provisions are as follows:

2.3.1 Estimation of outstanding loss reserves ("OSLR") – while information about claims is generally available, assessing the cost of settling the claim is subject to some uncertainty.

2.3.2 Estimation of the losses relating to claims which have been incurred but not reported ("IBNR") – this is generally subject to a greater degree of uncertainty than estimating the OSLR since the nature of the claims is not known at the time of reserving.

2.3.3 Estimation of claims arising on business which has not yet expired ("unexpired risks") – this is uncertain as the claims have not yet been incurred, but are expected to be incurred on the business which the Company has written.

2.3.4 Market environment – changes in the market environment increase the inherent uncertainty affecting the business. In particular, claims inflation, propensity for UK motor claims to settle through periodic payment orders ("PPOs") and the Legal Aid, Sentencing and Punishment of Offenders ("LASPO") Act have all impacted the market environment in recent years. Much more recently, the change in the personal injury discount rate effective March 2017 has impacted technical provisions significantly, and the whiplash reforms expected in 2019 are also expected to impact technical provisions.

2.3.5 Events Not In Data ('ENID loading') – estimating a provision for events not in data is subject to considerable uncertainty as the events being reserved have not been observed.

2.3.6 Run-off expenses – the estimation of the change in expense base for run-off of the Company is inherently uncertain due to the estimations around the period of the run-off, base costs and inflation.

2.3.7 Risk margin – the risk margin, being the margin payable to transfer the business to another insurance carrier, is uncertain due to the requirement to forecast future solvency capital requirements over the period of a run-off. This therefore shares the same uncertainties of the run-off expenses provision considered at [2.3.6], as well as the inherent uncertainties around forecasting future solvency capital requirements.

2.4 SICL manages the risks around these uncertainties via the following actions:

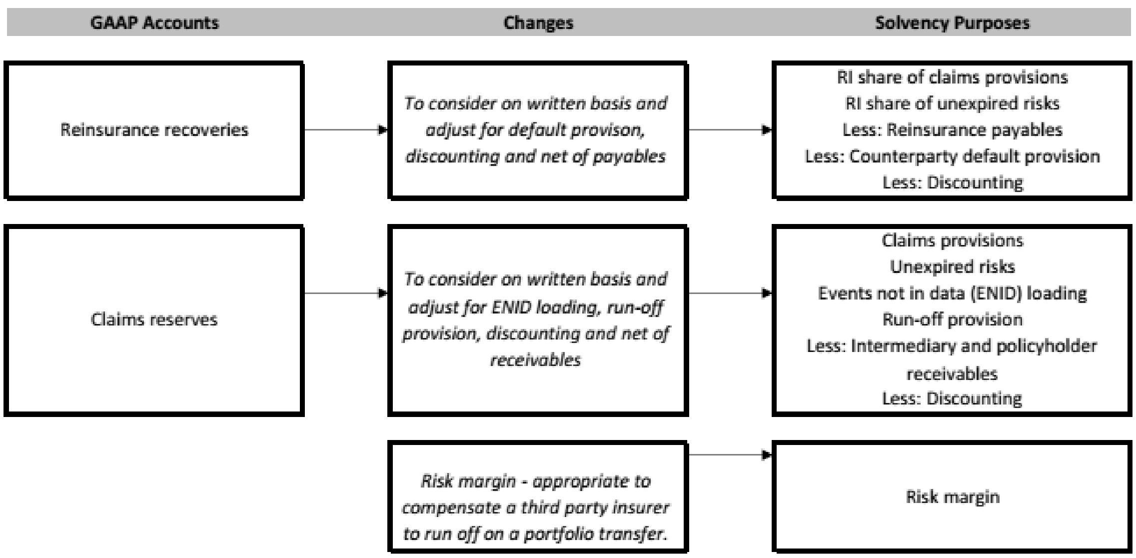
2.4.1 Ongoing monitoring of claims, including regular reviews of claims handling functions.

2.4.2 Maintaining a number of reinsurance arrangements to limit the impact of adverse claims development (see [2.8]).

2.4.3 Internal controls through the Underwriting Committee and Actuarial Function which monitor claims development and reinsurance arrangements.

2.4.4 Regular external actuarial reviews.

2.5 The changes required to transition from GAAP accounts to technical provisions for solvency purposes are consistent, and are noted below:



We shall consider each of these adjustments to transition from GAAP accounts to solvency technical provisions.

2.5.1 Claims provisions – The Company has made no adjustments to its claims provisions in its GAAP accounts in recording the claims provisions for solvency purposes. The Company has considered whether adjustments may be required as a result of contract boundaries and believe there are no such adjustments required. The claims provisions as at 31 December 2017 for the Company were £250.3m (2016: £188.1m).

2.5.2 Reinsurance share of claims provisions – The Company has made no adjustments to its reinsurance recoveries in its GAAP accounts in recording the reinsurance share of claims provisions for solvency purposes. The reinsurance share of claims provisions as at 31 December 2017 for the Company were £202.6 (2016: £147.9m).

2.5.3 Unexpired risks – The Company has estimated the claims which will be payable on unexpired risks (sometimes termed ‘premium provisions’) based on the ultimate loss ratios and large loss experience from the claims provisions. The gross premium provisions as at 31 December 2017 for the Company were £100.8 (2016: £91.9m).

2.5.4 Reinsurance share of unexpired risks – The Company has estimated the amounts recoverable on unexpired risks (sometimes termed 'premium provisions') based on the ultimate loss ratios and large loss experience from the claims provisions. The reinsurance share of gross premium provisions as at 31 December 2017 for the Company were £81.7m (2016: £68.0m).

2.5.5 Intermediary and policyholder receivables – Intermediary and policyholder receivables are netted off the technical provisions for solvency purposes. There are no valuation differences between GAAP accounts and intermediary and policyholder receivables for solvency purposes. The net insurance receivables as at 31 December 2017 for the Company were £161.1m (2016: £109.5m).

2.5.6 Other receivables – Other receivables, notably quota share commission and other technical income, are netted off the technical provisions for solvency purposes. The Company has estimated the other receivables which will be payable on premium provisions and added these to those recorded in the GAAP accounts in respect of the claims provisions. The other receivables as at 31 December 2017 for the Company were £4.7m (2016: £15.7m).

2.5.7 Reinsurance payables – Net amounts payable to reinsurers are netted off the reinsurance recoveries for solvency purposes. There are no valuation differences between GAAP accounts and net reinsurance payables for solvency purposes. The net reinsurance payables (being reinsurance payables less financial investments held for collateral arrangements) of the Company as at 31 December 2017 were £123.3m (2016: £89.0m).

2.5.8 Events Not In Data loading – Technical provisions for solvency purposes are required to allow for all possible events, including those that may not have been historically realised before. Such events not presented in a set of observable historical loss data are often called Events Not In Data ('ENID'). This is a difference in valuation methodology compared to the GAAP accounts which consider best estimates which can be reasonably foreseen, and therefore leads to a loading on the technical provisions to consider the probability weighted effect of events which have not previously been observed.

The Company has undertaken market analysis of the changes in net provisions of insurers and used this to make an assessment of previously unobserved events in the domestic UK motor market. This has then been adjusted following scenario analysis which considered both positive and negative outcomes. As such, the ENID loading applied by the Company as at 31 December 2017 was £0.9m (2016: £nil).

2.5.9 Counterparty default provision – The Company has considered a provision for default by one or more of its reinsurance providers. The provision is based on the total exposure to the counterparty, the rating of the counterparty and the existence of any collateral arrangements with the counterparty. The Company estimates the counterparty default provision and considers each of the exposures, net of collateral arrangements in existence, applies the estimated probability of default by rating, and derives a weighted average probability of default.

SICL has calculated the weighted average probability of default of reinsurers as 0.41% (2016: 0.54%), and thus the counterparty default adjustment is £1.1m (2016: £1.2m).

2.5.10 Run-off provision – Technical provisions for solvency purposes are required to take account of all expenses that will be incurred in servicing insurance obligations. This is commonly referred to as a 'run-off' provision as it therefore considers all future expenses which would be incurred to allow the existing obligations to run-off.

The Company has considered a run-off period of seven years and estimated the level of future expenses based on the anticipated expenses in the event of run-off, underlying expense inflation and an estimated minimum level of costs which would be incurred in any one year. The run-off provision applied by the Company as at 31 December 2017 was £1.6m (2016: £1.6m).

2.5.11 Discounting – Discounting has been applied in the technical provisions based on the sterling yield curve as at 31 December 2017 as issued by the European Insurance and Occupational Pensions Authority ("EIOPA"). In respect of the Company, the impact of discounting on the technical provisions is £4.8m (2016: £3.0m), and on the reinsurance share of technical provisions the impact of discounting is £4.0m (2016: £2.4m).

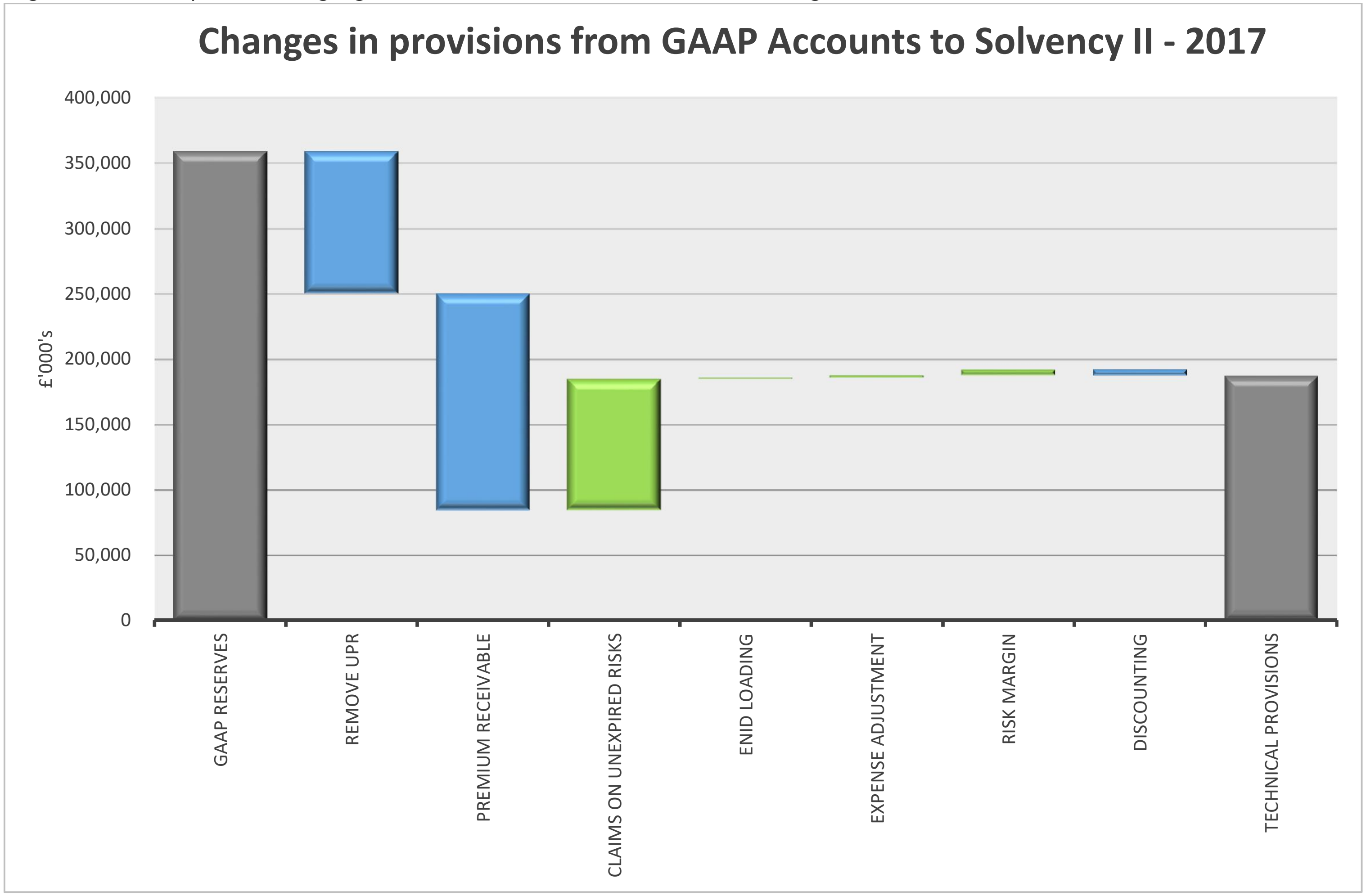
2.5.12 Risk Margin – The risk margin has been considered to ensure that the value of the technical provisions is equivalent to the amount that would be expected to have to be paid to a third-party insurance company in order to take over and meet the insurance obligations of the Company. The risk margin has been calculated based on the estimated capital requirements to run-off the Company's obligations, and applying a cost of capital of 6%.

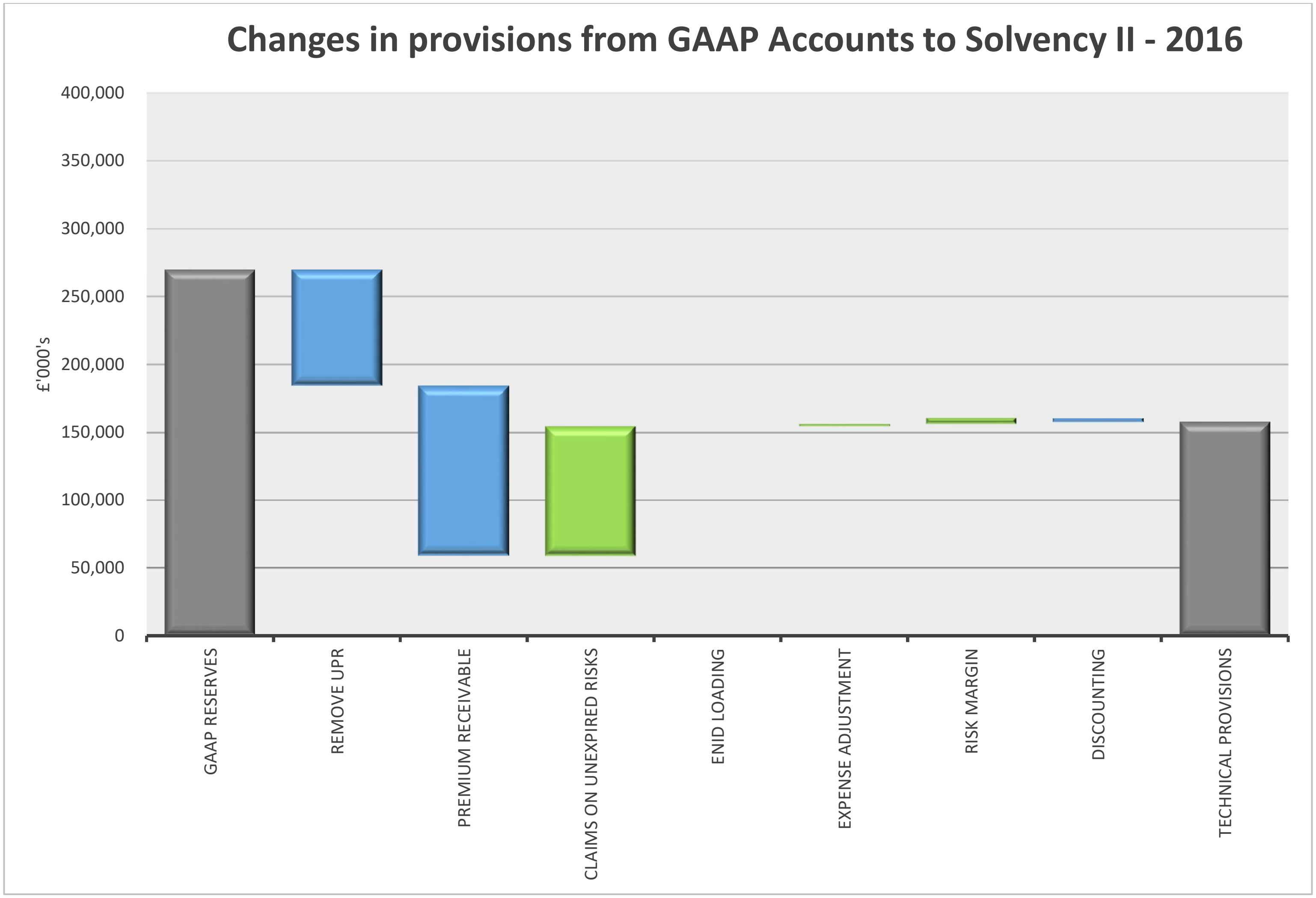
The capital required to run-off the portfolio is based on the future estimated SCRs, taking account of underwriting risk and reinsurance counterparty risk.

This results in a risk margin of £4.5m (2016: £4.4m) in respect of the Company.

2.6 SICL has not applied the matching adjustment, volatility adjustment, transitional risk-free interest term structure or the transitional deduction in calculating its technical provisions.

2.7 The changes to technical provisions highlighted above are reflected in the waterfall diagram below:





Changes in provisions from GAAP Accounts to Solvency II - 2016
£'000's
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
GAAP RESERVES
REMOVE UPR
PREMIUM RECEIVABLE
CLAIMS ON UNEXPIRED RISKS
ENID LOADING
EXPENSE ADJUSTMENT
RISK MARGIN
DISCOUNTING
TECHNICAL PROVISIONS

2.8 The Company has entered into various reinsurance arrangements to cap its underwriting risk.

2.8.1 In relation to the years ended 31 December 2017 and 31 December 2016, the Company capped its underwriting risk at £500k via non-proportional Excess of Loss ('XOL') treaties. The panel of reinsurers in the XOL treaties are predominately counterparties with good ratings from a well-known rating agency, with the exception of the exposure to SRCL which is unrated. The Company also had a number of proportional Quota Share treaties in relation to the 31 December 2017 year of account (2016: two), one of which being with SRCL (in relation to both 2017 and 2016 years of account) which is collaterised as a result of SRCL being an unrated carrier.

3. Other Liabilities

3.1 SICL recorded the following classes of liabilities for solvency purposes:

As at 31 December 2017:

Liability	GAAP Accounts Value (£'000)	Solvency Value (£'000)	Explanation of Differences
Accruals	0.5	0.5	None
Deferred income	14.0	-	Not recognised for solvency purposes
Reinsurance accounts payable	173.8	-	Reclassified to technical provisions (see [2.5.7])
Other creditors, including corporation tax and IPT	9.9	9.9	None
Derivative liabilities	-	5.0	See [1.3.6]

As at 31 December 2016:

Liability	GAAP Accounts Value (£'000)	Solvency Value (£'000)	Explanation of Differences
Accruals	0.9	0.9	None
Deferred income	2.8	-	Not recognised for solvency purposes
Reinsurance accounts payable	123.2	-	Reclassified to technical provisions (see [2.5.7])
Other creditors, including corporation tax and IPT	6.9	6.9	None
Derivative liabilities	-	1.4	See [1.3.6]

4. Alternative Methods for Valuation

Not applicable to the Company.

5. Any Other Information

Not applicable to the Company.

E. Capital Management

1. Own Funds

1.1. SICL undertakes an Own Risk and Solvency Assessment ('ORSA') exercise at least annually, or when its risk profile changes. The ORSA exercise incorporates the business planning process which is typically considered over a three-year time horizon. There have been no significant changes in the reporting period.

1.2. SICL classifies its own funds as tier 1, tier 2 or tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses.

SICL's own funds are as follows.

		31 December 2017		31 December 2016	
Own fund item	**Tier**	**£m**	**%**	**£m**	**%**
Share capital and share premium	1	19.3	48	19.3	72
Reconciliation reserve	1	20.6	51	6.2	23
Deferred tax asset	3	0.5	1	1.3	5
		40.4	100	26.8	100

The reconciliation reserve represents retained earnings and reconciliation adjustments from GAAP balance sheet to SII balance sheet.

1.3. Only SICL's tier 1 own funds may be used towards meeting the Minimum Capital Requirement.

2. Solvency Capital Requirements ('SCR') & Minimum Capital Requirements ('MCR')

2.1. The SCR of SICL as at 31 December 2017 was £35.0m (2016: £26.7m); its MCR as at 31 December 2017 was £9.5m (2016: £10.1m).

2.2. The SCR of SICL is made up as follows:

2.2.1. SICL is exposed to market risks derived predominately from the assets held by SICL to meet its insurance liabilities, although exposures to shocks in interest rates and currency rates also considered in the exposure from underwriting risks.

MARKET RISK	**31 December 2017 £m**	**31 December 2016 £m**
Interest rate risk	4.2	1.1
Spread risk	6.1	2.5
Equity risk	0.4	-
Currency risk	-	-
Property risk	1.5	0.1
Concentration risk	1.8	2.5
Market risk diversification	(5.4)	(2.5)
MARKET RISK TOTAL	**8.6**	**3.7**

2.2.2. SICL is exposed to counterparty risks in the form of cash deposits and recoveries from reinsurers (type 1) and from receivables from intermediaries, policyholders and other debtors (type 2).

COUNTERPARTY RISK	**31 December 2017 £m**	**31 December 2016 £m**
Type 1 risk	5.0	3.7
Type 2 risk	1.6	1.6
Market risk diversification	(0.3)	(0.2)
COUNTERPARTY RISK TOTAL	**6.3**	**5.1**

2.2.3. SICL is exposed to non-life underwriting risk as a result of the insurance policies it sells. The risks are based on volatility around earned premiums and claims reserves, and to catastrophe events to which the Company may be exposed.

NON-LIFE UNDERWRITING RISK	**31 December 2017 £m**	**31 December 2016 £m**
Premium and reserve risk	19.8	17.8
Catastrophe risk	1.6	0.4
Non-life diversification	(1.1)	(0.3)
NON-LIFE UNDERWRITING RISK TOTAL	**20.2**	**17.9**

2.2.4. SICL is exposed to life underwriting risk as a result of both the settled periodic payment orders (PPOs) and the propensity for other large claims to settle as PPOs. The life underwriting risk in respect of the Company is immaterial.

2.2.5. The final solvency capital requirement of SICL is the aggregation of the market, counterparty and non-life underwriting risks, less a credit for diversification, and then an additional charge to represent the operational risks faced by SICL.

SOLVENCY CAPITAL REQUIREMENT	**31 December 2017 £m**	**31 December 2016 £m**
Market risks	8.6	3.7
Counterparty risks	6.3	5.1
Non-life underwriting risks	20.2	17.9
Life underwriting risks	0.2	-
Basic SCR diversification	(7.6)	(4.5)
Operational risks	7.3	4.5
SOLVENCY CAPITAL REQUIREMENT	**35.0**	**26.7**

2.3. SICL has not utilised simplified calculations in applying the standard model and there has been no use of undertaking specific parameters in the non-life underwriting risk calculations.

2.4. The inputs used to calculate the MCR of SICL are as follows:

Line of business	Net (of reinsurance) best estimate and technical provisions calculated as a whole (£m)	Net (of reinsurance) written premiums in the last 12 months (£m)
Motor vehicle liability insurance	71.6 (2016: 78.7)	17.9 (2016: 25.6)
Other motor insurance	18.7 (2016: 7.1)	4.3 (2016: 6.8)

3. Non-Compliance with the MCR and Non-Compliance with the SCR

3.1. SICL has maintained capital sufficient to meet its minimum capital requirement throughout the period covered by this report.

3.2. SICL met its solvency capital requirement throughout the years ended 31 December 2017 and 31 December 2017.

4. Any Other Information

The Directors do not consider that there is any further information which should be disclosed regarding the capital management of SICL.

F. Quantitative Reporting Templates

S.02.01.02 - Balance Sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	537
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)	75,227
R0080	Property (other than for own use)	5,905
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	27,145
R0140	Government Bonds	11,709
R0150	Corporate Bonds	15,035
R0160	Structured notes	0
R0170	Collateralised securities	402
R0180	Collective Investments Undertakings	37,120
R0190	Derivatives	5,056
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	8,559
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	8,559
R0270	Reinsurance recoverables from:	155,867
R0280	Non-life and health similar to non-life	152,530
R0290	Non-life excluding health	152,530
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	3,338
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	3,338
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
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	2,681
R0420	Any other assets, not elsewhere shown	423
R0500	**Total assets**	243,294

S.02.01.02 - Balance Sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	183,820
R0520	Technical provisions – non-life (excluding health)	183,820
R0530	TP calculated as a whole	0
R0540	Best Estimate	179,509
R0550	Risk margin	4,311
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)	3,667
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)	3,667
R0660	TP calculated as a whole	0
R0670	Best Estimate	3,471
R0680	Risk margin	196
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	4,988
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	10,400
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	202,875
R1000	**Excess of assets over liabilities**	40,419

S.05.01.02 - Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Motor vehicle liability insurance	Other motor insurance	
		C0040	C0050	C0200
	Premiums written			
R0110	Gross - Direct Business	174,045	41,602	215,647
R0120	Gross - Proportional reinsurance accepted	0	0	0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share	156,097	37,312	193,408
R0200	Net	17,948	4,290	22,238
	Premiums earned			
R0210	Gross - Direct Business	155,330	37,128	192,458
R0220	Gross - Proportional reinsurance accepted	0	0	0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share	132,328	31,630	163,959
R0300	Net	23,001	5,498	28,499
	Claims incurred			
R0310	Gross - Direct Business	135,537	32,397	167,934
R0320	Gross - Proportional reinsurance accepted	0	0	0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share	100,691	24,068	124,759
R0400	Net	34,846	8,329	43,175
	Changes in other technical provisions			
R0410	Gross - Direct Business	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0
R0430	Gross - Non- proportional reinsurance accepted			0
R0440	Reinsurers'share	0	0	0
R0500	Net	0	0	0
R0550	**Expenses incurred**	-90	-21	-111
R1200	**Other expenses**			0
R1300	**Total expenses**			-111

S.05.02.01 - Premiums, claims and expenses by country

		Home Country	Top 5 countries (by	Total Top 5 and home country
		C0010	C0020	C0070
R0010			GB	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross - Direct Business	0	215,647	215,647
R0120	Gross - Proportional reinsurance accepted	0	0	0
R0130	Gross - Non-proportional reinsurance accepted	0	0	0
R0140	Reinsurers' share	0	193,408	193,408
R0200	Net	0	22,238	22,238
	Premiums earned			
R0210	Gross - Direct Business	0	192,458	192,458
R0220	Gross - Proportional reinsurance accepted	0	0	0
R0230	Gross - Non-proportional reinsurance accepted	0	0	0
R0240	Reinsurers' share	0	163,959	163,959
R0300	Net	0	28,499	28,499
	Claims incurred			
R0310	Gross - Direct Business	0	167,934	167,934
R0320	Gross - Proportional reinsurance accepted	0	0	0
R0330	Gross - Non-proportional reinsurance accepted	0	0	0
R0340	Reinsurers' share	0	124,759	124,759
R0400	Net	0	43,175	43,175
	Changes in other technical provisions			
R0410	Gross - Direct Business	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0
R0430	Gross - Non- proportional reinsurance accepted	0	0	0
R0440	Reinsurers'share	0	0	0
R0500	Net	0	0	0
R0550	**Expenses incurred**	0	-111	-111
R1200	**Other expenses**			0
R1300	**Total expenses**			-111

S.05.02.01 - Premiums, claims and expenses by country

		Home Country	Top 5 countries (by	Total Top 5 and home country
		C0150	C0160	C0210
R1400			0	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross	0	0	0
R1420	Reinsurers' share	0	0	0
R1500	Net	0	0	0
	Premiums earned			
R1510	Gross	0	0	0
R1520	Reinsurers' share	0	0	0
R1600	Net	0	0	0
	Claims incurred			
R1610	Gross	0	0	0
R1620	Reinsurers' share	0	0	0
R1700	Net	0	0	0
	Changes in other technical provisions			
R1710	Gross	0	0	0
R1720	Reinsurers' share	0	0	0
R1800	Net	0	0	0
R1900	**Expenses incurred**	0	0	0
R2500	**Other expenses**			0
R2600	**Total expenses**			0

S.12.01.02 - Life and Health SLT Technical Provisions

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, including Unit-Linked)**
		C0090	C0100	C0150
R0010	**Technical provisions calculated as a whole**	0	0	0
R0020	**Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0
	Technical provisions calculated as a sum of BE and RM			
	Best Estimate			
R0030	**Gross Best Estimate**	3,471	0	3,471
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,338	0	3,338
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	133	0	133
R0100	**Risk Margin**	196	0	196
	Amount of the transitional on Technical Provisions			
R0110	Technical Provisions calculated as a whole	0	0	0
R0120	Best estimate	0	0	0
R0130	Risk margin	0	0	0
R0200	**Technical provisions - total**	3,667	0	3,667

S.17.01.02 - Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance		
		Motor vehicle liability insurance	Other motor insurance	Total Non-Life obligation
		C0050	C0060	C0180
R0010	**Technical provisions calculated as a whole**	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 as a whole	0	0	0
	Technical provisions calculated as a sum of BE and RM			
	Best estimate			
	Premium provisions			
R0060	Gross	-54,424	-12,774	-67,198
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-37,148	-5,568	-42,716
R0150	Net Best Estimate of Premium Provisions	-17,277	-7,206	-24,482
	Claims provisions			
R0160	Gross	201,265	45,443	246,707
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	173,248	21,998	195,246
R0250	Net Best Estimate of Claims Provisions	28,017	23,445	51,462
R0260	**Total Best estimate - gross**	146,841	32,669	179,509
R0270	**Total Best estimate - net**	10,740	16,239	26,980
R0280	**Risk margin**	3,735	576	4,311
	Amount of the transitional on Technical Provisions			
R0290	Technical Provisions calculated as a whole	0	0	0
R0300	Best estimate	0	0	0
R0310	Risk margin	0	0	0
	Technical provisions - total			
R0320	Technical provisions - total	150,576	33,244	183,820
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	136,100	16,429	152,530
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - tota	14,476	16,815	31,290

S.19.01.21 - Non-life Insurance Claims Information

Total Non-Life Business

Z0020	Accident year / Underwriting year	**Z0020**	Underwriting year [UWY]

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

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**											0	0	0
R0160	**N-9**	1	248	204	88	32	7	16	0	0	0		0	595
R0170	**N-8**	1,554	8,125	2,868	1,244	697	937	159	-14	169			169	15,740
R0180	**N-7**	4,003	11,174	3,711	2,317	1,096	773	287	4				4	23,364
R0190	**N-6**	2,854	10,213	4,246	1,980	1,766	1,134	1,686					1,686	23,879
R0200	**N-5**	7,991	21,236	7,594	5,734	3,404	1,239						1,239	47,198
R0210	**N-4**	9,140	23,856	9,576	5,328	4,275							4,275	52,176
R0220	**N-3**	11,508	36,561	15,892	7,289								7,289	71,250
R0230	**N-2**	15,018	43,497	14,281									14,281	72,795
R0240	**N-1**	17,206	48,159										48,159	65,365
R0250	**N**	27,574											27,574	27,574
R0260												**Total**	104,676	399,936

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	**Prior**												0
R0160	**N-9**	0	0	0	0	0	0	0	0	0	0		0
R0170	**N-8**	0	0	0	0	0	0	0	126	14			14
R0180	**N-7**	0	0	0	0	0	0	8	310				309
R0190	**N-6**	0	0	0	0	0	2,671	627					849
R0200	**N-5**	0	0	0	0	2,378	1,992						2,207
R0210	**N-4**	0	0	0	8,056	6,630							6,810
R0220	**N-3**	0	0	32,802	24,274								24,326
R0230	**N-2**	0	60,657	53,250									52,943
R0240	**N-1**	55,909	88,475										87,634
R0250	**N**	72,374											71,614
R0260												**Total**	246,707

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					
R0010	Ordinary share capital (gross of own shares)	102	102		0	
R0030	Share premium account related to ordinary share capital	19,163	19,163		0	
R0040	Iinitial 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	20,617	20,617			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	537				537
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	**Total basic own funds after deductions**	40,419	39,882	0	0	537
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			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			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	40,419	39,882	0	0	537
R0510	Total available own funds to meet the MCR	39,882	39,882	0	0	
R0540	Total eligible own funds to meet the SCR	40,419	39,882	0	0	537
R0550	Total eligible own funds to meet the MCR	39,882	39,882	0	0	
R0580	**SCR**	35,030				
R0600	**MCR**	9,502				
R0620	**Ratio of Eligible own funds to SCR**	1.1538				
R0640	**Ratio of Eligible own funds to MCR**	4.1974				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	40,419
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	19,802
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	20,617
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.01 - Solvency Capital Requirement

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	8,565		
R0020	Counterparty default risk	6,271		
R0030	Life underwriting risk	190		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	20,220		
R0060	Diversification	-7,620		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	27,627		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	7,403
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	35,030
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	35,030
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01 - Minimum Capital Requirement

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	9,502

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0050	Motor vehicle liability insurance and proportional reinsurance	71,646	17,948
R0060	Other motor insurance and proportional reinsurance	18,706	4,290

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

Overall MCR calculation

		C0070
R0300	Linear MCR	9,502
R0310	SCR	35,030
R0320	MCR cap	15,763
R0330	MCR floor	8,757
R0340	Combined MCR	9,502
R0350	Absolute floor of the MCR	3,251

		C0070
R0400	**Minimum Capital Requirement**	9,502