UIA (Insurance) Ltd

Solvency and Financial Condition Report

As at 31 December 2016

Contents

Solvency and Financial Condition Report

1. Introduction and summary

Solvency II, the European Union regulatory regime for insurance companies, came into effect on 1 January 2016.

This is the first Solvency and Financial Condition Report and is required to be published on the Company's website by 20 May 2017 following review and approval by the Audit Committee and the Board.

UIA (Insurance) Ltd is a personal lines UK based mutual insurance Company. At the start of the year the Company wrote two lines of business; Fire & Property Damage (Household) and Legal (Before the Event and After the Event) Insurance. On 1 September 2016, the Company was given approval to underwrite Assistance (Home Emergency) insurance. With the exception of household business, other personal lines are 100% reinsured and all lines are underwritten in the UK.

The underwriting performance of the year returned a balance of £1.4m compared to £1.7m in 2015; this was primarily driven by the release of the equalisation reserve of £4.1m as this reserve was no longer required under the Solvency II regime. The underlying underwriting result for the year if you ignore the equalisation reserve was a loss of £2.7m. The investment return for the Company in the year was £4.7m, a significant improvement on 2015 which was a nil return. The 2016 investment result is driven by the equities holding which at the year-end held an unrealised gain of £3.2m. Combined underwriting and investment performance generated a total return after tax of £5.5m for our policy holders. However this was offset by an increase in our defined benefit pension scheme provision of £5.5m. This resulted in nil surplus being transferred to retained earnings for the year. Notwithstanding the result for the year the Company balance sheet remained strong with total assets of £79.4m and total GAAP equity of £36.5m.

The Company is governed by a Board comprised of twelve Directors; three executive Directors and nine non-executive Directors, three of whom are nominated by our trade union partners. All of the other six non-executive Directors are independent. The Company has an Audit Committee, a Risk Committee and a Nominations and Remuneration Committee.

The Company meets the requirements of the fit and proper regime by undertaking detailed background checks prior to recruitment on all individuals seeking approval under the Senior Insurance Managers Regime (SIMR). The Company is committed to the appropriate standards of risk management and internal control. The Board is accountable to the members of the Company for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss.

The main risks that the Board manages are underwriting, market risk and pension risk. The principal underwriting risk faced by the Company is that the actual claims and benefit payments exceed the carrying amount of the risk premium. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary year to year from the level established using estimation techniques. Market risk is the risk arising from fluctuations in the values of, or income from, the Company's assets due to fluctuations in equities, interest rates, and/or exchange rates. Market risk is managed through the Company's assets being diversified by type and class, daily monitoring of prices by the Finance Director and regular meetings with the Company's investment fund managers. The Company is part of a multi-employer defined benefit pension scheme and the risk is that it would have to step in and pay the benefits to members under a "Last Man Standing" arrangement which the Board is currently in the process of mitigating. The current employer pension scheme is in a deficit position.

The Company's solvency valuation is based on UKGAAP accounting standards and uses the Solvency II guidance and principles to translate the UKGAAP balance sheet into a Solvency II balance sheet. The main translation differences are the recalculation of the technical provisions using a best estimate approach as defined by the standard formula basis that we have adopted.

1. Introduction and summary (continued)

As a mutual entity, the Company's own funds are made up 100% of members' funds arising from retained profits, which have arisen from past underwriting and investment surpluses. As such all capital is Tier 1 and there are no restrictions on the availability of the Company's own funds to support the Minimum Capital Requirement (MCR) or Solvency Capital Requirement (SCR). The Company's SCR is calculated using the standard formula basis, having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm. The Company as at 31 December had a solvency ratio of 178%.

2. Statement of Directors’ Responsibilities

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 Company 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 has 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 to comply in future.

By Order of the Board

Jon Craven
Chief Executive Officer
19 May 2017

3. Auditors' Report and Opinion

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF UIA (INSURANCE) LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2016 ('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 SFCR'.

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 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S05.01.02, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), 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 SFCR in the UK, including the APB's Ethical Standards 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 are required by ISAs (UK) to report in respect of the following matters 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.

We have nothing to report in relation to these matters.

3. Auditors' Report and Opinion (continued)

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR, which describe the basis of accounting. The SFCR 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 SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR 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 SFCR 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 SFCR, 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 SFCR, 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 SFCR 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 SFCR 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 SFCR 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 SFCR 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 SFCR 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 and Ireland) 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 SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

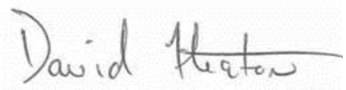
This report is made solely to the Directors of UIA (Insurance) Limited in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

3. Auditors' Report and Opinion (continued)

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 UIA (Insurance) 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 Heaton (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

19 May 2017

4. Business and performance (unaudited)

4.1 Business

UIA (Insurance) Ltd is a personal lines UK based mutual insurance Company. At the start of the year the Company wrote two lines of business; Fire & Property Damage (Household) and Legal (Before the Event and After the Event) Insurance. On 1 September 2016, Company was given approval to underwrite Assistance (Home Emergency) insurance. With the exception of household business, other personal lines are 100% reinsured and all lines are underwritten in the UK.

The day-to-day operations of the Company are managed by the executives. The Company is governed by a Board comprising of a non-executive chair, eight non-executive Directors and three executive Directors. There are 133 full time equivalent employees.

The Company is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. As a Category 5 firm the Company has no named supervisor and is managed by the smaller insurer regime. 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 purpose of Solvency II regulation.

The Company's external auditor is Deloitte LLP, 2 Hardman Street, Manchester, M3 3HF.

4.2 Performance

A description of the business of the Company is set out in the Report and Accounts on pages 4 to 8. Although the Company writes two lines of business, it is the Fire and property damage business that is the only material line. The basis for the materiality level of the company for the purpose of this regulatory return is its own funds.

Underwriting performance

The underwriting performance of the year returned a balance of £1.4m compared to £1.7m in 2015; this was primarily driven by the release of the equalisation reserve of £4.1m as this reserve was no longer required under the Solvency II regime. The underlying underwriting result for the year if you ignore the equalisation reserve was a loss of £2.7m. The underwriting loss for the year was driven by a small number of large coincidental fire losses totalling £1.3m, the write-off of costs incurred due to the cessation of implementation work of a new insurance administration system of £0.4m, and investment in marketing, pricing and system infrastructure of £1.0m.

Investment performance

The Company's investment strategy is to match household liabilities with a fund or funds which are relatively liquid, secure and match the cash flows associated with our obligations to our policyholders.

Funds which are genuinely classed as "free assets" are invested in assets that will produce a return for our policy holders without taking undue risk.

As at the end of December 2016 the Company's portfolio was comprised of the following asset classes measured at fair value:

Asset Type	31 December 2016	31 December 2015
	£'000	£'000
Shares and other variable securities in unit Trusts	32,686	35,413
Debt securities and other fixed income securities	11,928	7,220
Loans and receivables	2,885	2,173
Cash and cash equivalents	11,085	10,897
Total	**58,584**	**55,703**

4. Business and performance (continued)

4.2 Performance (continued)

Investment performance (continued)

The investment return for the Company in the year was £4.7m, a significant improvement on 2015 which was a nil return. The 2016 result is driven by the equities holding which at the year-end held an unrealised gain of £3.2m. High volatility was experienced during 2016 whilst holding equities which has led to the Risk Committee establishing an Investment working group to review the asset allocation of the investment portfolio held by the Company, with some movement out of equities in quarter 4 of 2016 and further movements planned for 2017 once the review has been finalised.

Overall performance

Combined underwriting and investment performance generated a total return after tax of £5.5m for our policy holders. However this was offset by an increase in our defined benefit pension scheme provision of £5.5m. This resulted in nil surplus being transferred to retained earnings for the year. Notwithstanding the result for the year the Company balance sheet remained strong with total assets of £79.4m and total GAAP equity of £36.5m.

5. System of Governance (unaudited)

5.1 General Information

The Company is governed by a Board comprised of twelve Directors; three executive Directors and nine non-executive Directors, three of whom are nominated by our trade union partners. All of the other six non-executive Directors, including the chair are independent. A governance map is included in the appendix.

The Board

The role of the Board is to set and manage the strategy for the Company and its wholly owned subsidiaries ([1]) in a manner that upholds the vision of the organisation. This is in addition to delivering the maximum value to the Company for the benefit of its members, whilst complying with the relevant regulatory requirements, the rules of the organisation and Company charter. The Board operates to a “Charter” which defines how it is comprised and the key roles and responsibilities of the Chief Executive Officer (CEO), Finance Director, Marketing Director, the Chairman, the Senior Independent Director and other non-executive Directors. The Board takes collective responsibility for setting and delivering against the Company’s corporate objectives and the long-term success of the organisation. The Board will:

- Ensure the necessary financial and human resources are in place to achieve the Company’s objectives;
- Provide direction and oversight to the Company’s compliance with its regulatory and legal obligations;
- Provide the necessary corporate and management resources;
- Determine the policies applicable to the Company as set out in the Matters Reserved;
- Determine the nature and extent of the significant risks it is willing to take in achieving the Company’s strategic objectives;
- Establish and maintain a framework of risk management and internal controls that enables the strategic financial and operational risks of the Company to be assessed and managed;
- Monitor progress by the Company towards the achievement of its objectives and compliance by the Company with approved plans and agreed policies;
- Report to the Members and relevant stakeholders on the Company’s activities, presenting a clear assessment of the Company’s position and prospects;
- Approve the appointment of Board Committees with the appropriate balance of skills, independence and knowledge to meet the Company’s requirements and relevant corporate governance standards;
- Delegate clearly defined responsibilities to the Chair, the Senior Independent Director, the Chief Executive Officer, Board Committees and otherwise as the Board may determine from time to time;
- Ensure effectiveness against collective performance measures, following an annual appraisal of Board performance; and
- To fulfil the specific responsibilities of the Board as set out in the Statement of Board Reserved Powers.

The Company has an Audit Committee, a Risk Committee and a Nominations and Remuneration Committee.

Audit Committee

It is the Board’s responsibility to develop and maintain appropriate systems of internal control.

The Board has delegated authority to the Audit Committee to establish and oversee the systems of internal control and how this is applied in order to generate the Company’s financial accounts on an annual basis.

The Audit Committee is formed of non-executive Directors, at least one of whom has recent and relevant financial experience. The Board will strive to ensure that at least two non-executive Directors on the Audit Committee should be independent. The Board carries out an annual review of the systems of internal control and the work of the Audit Committee, and reports the results to members of the Company within the financial statements.

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[1] The UIA subsidiary companies are UIA Insurance Services Limited, UIA Call Centres Limited and UIA Lottery Services Management Limited. The members of the subsidiary Boards consist of the Chair and Chief Executive Officer.

5. System of Governance (continued)

5.1 General Information (continued)

Risk Committee

It is the Board's responsibility to develop and maintain appropriate risk management systems.

The Board has delegated authority to the Risk Committee to establish, monitor and assess the effectiveness and proportionality of the Company's risk management strategy.

Through the Risk Committee, the Board is responsible for determining its risk appetite and assessing the risks the Board should take in order to achieve strategic objectives.

The Board carries out an annual review of the Company's risk management systems, assessing the effectiveness of the work of the Risk Committee and reports the results of the review to members within the financial statements.

Nominations and Remuneration Committee

It is the Board's responsibility to ensure that executive Directors are appropriately qualified and suitably rewarded for running the Company's operations.

The Nominations and Remuneration Committee recommend appointments to the Board, and it is the Committee's responsibility to identify Directors who promote the long term success of the Company.

The Nominations and Remuneration Committee has devolved responsibility for setting the remuneration for all executive Directors, the Chair and other members of the Board, in accordance with the Annotated Code of Corporate Governance. The Committee is responsible for setting a formal and transparent policy on executive remuneration, judging the compensation package relative to other companies while being sensitive to pay and conditions for other staff within the Company. The Committee ensures that a significant proportion of remuneration is structured so as to link rewards to corporate and individual performance.

The Board will ensure that the Nominations and Remuneration Committee is formed of at least two independent non-executive Directors. The independent chair of the Board will be a member of the Committee.

The policy is that the remuneration for executive Directors should reflect performance and enable the Company to attract, motivate, and retain suitably qualified individuals. The Nominations and Remuneration Committee uses an independent specialist advisor, Wolters Kluwer (Croner Reward Scheme), to provide survey data on remuneration levels in comparable companies. The policy for non-executive Directors' remuneration is reviewed annually by the Nominations and Remuneration Committee with changes normally effective from 1 January. They are designed to recognise their responsibilities and are benchmarked against the same role in other comparable organisations using information from Croner. The policy is to allow discretion to accommodate the need to attract different skills, experience and knowledge. Fees comprise a basic annual fee, paid in monthly instalments. Fees are neither pensionable nor performance-related and non-executive Directors do not participate in any bonus schemes.

Further details on remuneration can be found in the report and accounts in the Directors' remuneration report on pages 19 to 21

5.2 Fitness and Propriety

The Company is committed to ensuring that all members of its Board, the key function holders, and other senior individuals within the Company, behave with integrity, honesty and skill, and this commitment is documented in the Fitness and Propriety Policy. The Company has processes in place to ensure appropriate standards of fitness and propriety are met and maintained, both prior to appointment and on an ongoing basis thereafter.

5. System of Governance (continued)

5.2 Fitness and Propriety (continued)

The key elements within the fitness and propriety framework, which apply to each individual are:

• A pre-appointment assessment, including assessment of the individual’s knowledge, technical capability, business conduct, behavioural competencies, professional experience and qualifications, and receipt of satisfactory criminal record and credit checks;
• A skills gap analysis, including the transference of any gaps in ability to perform role to a learning and development plan;
• A probationary period and an appropriate induction programme;
• A job description, setting out the significant requirements of their role;
• The maintenance of a scope of responsibilities (SOR) document, listing the core governance and key functions applicable to the role;
• An annual assessment of the fitness and propriety of all key function holders, accompanied by a signed confirmation of the individual's understanding of their core governance responsibilities, their fitness and propriety requirements, and an understanding of their ongoing compliance;
• An annual review of performance against objectives and assessment of behaviour against regulatory conduct standards; and
• A review of their fitness and propriety, whenever they are impacted by a significant business change or there is a significant change in their responsibilities.

Where a key function is outsourced, the Company ensures that the outsourcing firm carries out appropriate assessments of fitness and propriety for those responsible for the provision of the function and provides evidence of this.

In addition, the Board’s Nomination and Remuneration Committee regularly reviews the structure, size and composition of the Board, including skills, knowledge and experience, and makes recommendations to the Board with regard to any changes. When a new appointment is required, the Nomination and Remuneration Committee evaluates the balance of knowledge, skills and experience of the Board members and uses this evaluation to inform the selection of a suitable candidate.

Records are maintained, and notifications made to the regulators, as and when required.

Further information about the effectiveness and performance of the Board is included on page 13 of the report and accounts.

5.3 Risk Management and Own Risk and Solvency Assessment (ORSA) process

The Company is committed to the appropriate standards of risk management and internal control, and as such being a non-complex category 5 firm writing predominately fire and damage insurance the Board effectively manage risk management and internal controls together as this is deemed the most effective approach for a Company of its size and complexity. The Board through the Risk Committee is accountable to the members of the Company for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Taking account of the limitations in any system of control, the system is designed to limit rather than eliminate the risk of failure and, as such, can only provide reasonable but not absolute assurance against material misstatement or loss. Further details on the role and responsibilities of the Risk Committee can be found in the Report and Accounts on pages 17 and 18.

During 2016 the Company has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls including financial and operational controls, and compliance with laws and regulations.

5. System of Governance (continued)

5.3 Risk Management and Own Risk and Solvency Assessment (ORSA) process (continued)

Processes are in place for identifying, evaluating and managing on an ongoing basis, through the systems of risk management and internal controls, the risks facing the Company which include:

- Board discussion and approval of the Company's strategic objectives and plans, and the risks to achieving them;
- Board review of performance and approval of budgets;
- Regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- Review by the Risk Committee of any incidents of fraud, suspected fraud, material error or misstatement, and the controls in place to protect the Company against these risks;
- Regular reviews by the Audit Committee of the scope and results of internal audit and compliance work, and of the implementation of recommendations;
- The Audit Committee reviews the scope of work undertaken by the external auditors and any significant issues arising from them;
- The Audit Committee reviews accounting policies and levels of delegated authorities; and
- The Board considers the key risks facing the Company, as documented in the risk register and of the effectiveness of the controls in place to mitigate their impacts.

The internal control system is monitored and supported by the Internal Audit function that reports to the Audit Committee on the Company's operations. During 2016, the information received and considered by the Audit Committee provided assurance that there were no material control failures and this is evidenced by the annual audit opinion as provided to us by our outsourced Internal Audit function, RSM.

The Board has put in place an organisational structure with formally defined roles and responsibilities. Operational responsibility rests with the CEO and devolves through the executive structure with clearly defined levels of authority. There are established procedures for planning, approval of capital expenditure, information and reporting systems, and for monitoring the Company's business and performance. These include:

- A governance framework including terms of reference for the Board and its committees;
- A clear organisational structure;
- Documented apportionment of responsibilities across the Company;
- Processes for assessing the adequacy and effectiveness of internal controls and for ensuring that these remain appropriate to the scale and complexity of activities;
- A detailed financial controls framework to safeguard assets from inappropriate use or loss;
- Monthly monitoring of key performance indicators against plans for the year;
- A detailed framework of operating policies and procedures including risk management and control standards;
- Recruitment policies to select employees of the necessary calibre and experience to fulfil their responsibilities;
- Clear roles and accountabilities with regular performance reviews; and
- A whistle blowing procedure to enable staff to raise concerns in confidence.

The Board actively encourages a culture of continuous improvement to ensure systems of control are maintained.

As part of this process, managers of the operational areas and of each major project are required to identify the risks, the probability of their occurrence, the impact if they occur and the actions being taken to manage these impacts to the desired level. Managers are required to monitor and report on the key risks in their areas, highlighting whether these are stable, increasing or decreasing, as well as maintaining a risk log providing details of significant incidents and loss events. A consolidated report is submitted to every meeting of the Risk Committee providing an analysis of risks reported in the period, together with all changes to the Company risk register.

5. System of Governance (continued)

5.3 Risk Management and Own Risk and Solvency Assessment (ORSA) process (continued)

The Board confirms that there has been in place for the year under review an ongoing process for identifying, evaluating and managing the risks faced by the Company that are significant to the achievement of its business objectives.

In light of the above, the Board has made an assessment of the effectiveness of its system of governance, risk management and internal control and concluded that it is appropriate for its size and complexity and no significant weaknesses have been identified.

The Company has an ORSA policy which has been approved by the Board. The ORSA process is run annually, but may be run more frequently if the Risk Committee, with devolved responsibility from the Board, considers that the risk profile of the Company has materially changed since the last iteration.

The ORSA is an iterative process that combines a review of strategy, strategic direction, and the risks the Company faces and the capital it needs to firstly meet the needs of existing policyholders but also to grow. It includes the results of stress and scenario testing based on a range of stresses and scenarios proposed by management and approved by the Risk Committee.

The ORSA includes an assessment of what capital the Company is required to hold under regulatory requirements with the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) calculated using the standard formula prescribed by the regulator.

5.4 Compliance function

The Compliance function is responsible for:

- Identifying, assessing, monitoring and reporting the Company's compliance risk exposure;
- Assessing possible impact and legislative change and monitoring the appropriateness of compliance procedures; and
- Assisting, supporting and advising the Company in fulfilling its responsibilities to manage compliance risk.

Compliance oversight is the responsibility of the Finance Director but Compliance auditing is carried out by an independent third party, Branko Limited, who has direct access to the Audit Committee and Board on a regular basis.

5.5 Risk function

The Risk function is responsible for:

- Own Risk and Solvency Assessment (ORSA) process;
- 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 the Company's risk management framework and maintaining an accurate view of the Company's risk profile.

5.6 Internal Audit function

During the year under review, our internal audit function was outsourced to RSM who have been engaged for three years.

5. System of Governance (continued)

5.6 Internal Audit function (continued)

Internal audit reviews are scheduled using a risk-based approach, in accordance with a three-year audit cycle. The risk based approach concentrates on those areas that are considered higher risk, derived from the Company's risk register, through discussions with senior management and the Chair of Audit, and through the Internal Auditor's own independent assessment. The Internal Audit function reports directly to the Chair of the Audit Committee, although day-to-day contact is maintained through the Finance Director.

5.7 Actuarial function

The Company has an in-house actuarial team which carries out the day-to-day actuarial role, including pricing, claims reserving, reinsurance, capital management and maintenance of the Company's standard formula model.

The actuarial function deals with uncertainty and risk. It has a key role in identifying, analysing and quantifying levels of uncertainty and in assessing Company strategies for managing and mitigating risk. It is recognised that the wide use of judgement and estimation in quantifying uncertain insurance liabilities introduces the potential for bias.

As a vital control function, the key requirement is that the function is effective in delivering robust application of appropriate techniques within the control areas, minimising bias and is conscious of limitations and sensitive to the assumptions it uses.

Barnett Waddingham, an independent actuarial firm, provide an Actuarial Function report annually to the Board on technical provisions, reinsurance and underwriting policy.

5.8 Outsourcing

The Company has formally documented its outsourcing policy and undertakes a risk assessment and due diligence process prior to any final decision being made as to whether to outsource a material business activity. This addresses all material factors that would impact on the potential service provider's ability to perform the business activity. Each established outsourcing arrangement is also subject to on-going monitoring and annual review. The Company has outsource arrangements with RSM for the internal audit function which is disclosed in section 5.6. The Company has also outsourced fund management, compliance audit and out of hours claims handling activities.

6. Risk Profile (unaudited)

6.1 Underwriting Risk

The Company primarily accepts risk arising from property and fire damage arising in the United Kingdom from household insurance policies. It is open to new business and operates under two distinct brands; a trade union/affinity brand "UIA Mutual" and a brand aimed at the general public, "Together Mutual Insurance". The Company also underwrite Home emergency, before the event (BTE) legal and after the event (ATE) Legal cover.

The principal risk faced by the Company is that the actual claims and benefit payments exceed the carrying amount of the risk premium. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary year to year from the level established using estimation techniques.

Household underwriting risk is derived from two sources:

- Reserving risk – which is a failure to adequately capture reserves leading to adverse development patterns; and
- Premium risk – which is a failure to capture an adequate premium for the risks underwritten

To manage the reserving risk, the Company's actuarial team uses a range of recognised actuarial techniques to project the gross written premium, monitor claims development patterns and determine claims provisions. Claims provisions are also reviewed annually by external consulting actuaries who confirm that in their view the Company's provisions are within a range of acceptable best estimate.

To address premium risk the Company moved to a new rating engine (Building Level Tariff: BLT) during 2016 for its Tiered product which better assesses the risks by peril (e.g. flood, fire, storm etc.). A number of measures are in place to ensure this risk is managed prudently and conservatively; these include monthly monitoring performance statistics including loss ratios by product and channel.

The Company is exposed to concentration risk. This will be caused by a geographic concentration exposure risk from a single weather event or a possible man-made event e.g. spread of fire from one property to another or an explosion. The Company reviews the highest concentration of risks by total sum insured within a 200 metre radius. The postcode is used as a proxy for this. The Company is growing its public brand with nationwide coverage which is diversifying the exposure. The historic union brand has an inherent geographical exposure concentration.

A pricing, underwriting and partnership group has been established to review and approve pricing recommendation and to review any new opportunities. The Company maintains an Underwriting philosophy document, an Underwriting Manual and has an Underwriting Policy which is signed off annually by the Board.

To further mitigate its risks, the Company has a number of reinsurance arrangements in place. For the household book we have Treaty Catastrophe XL, Treaty Liability XL, Treaty per Risk XL, and Facultative per Risk XL. For Home Emergency, BTE Legal and ATE Legal we have 100% Quota share arrangements.

The reinsurance strategy is reviewed on an annual basis by the Risk Committee and approved by the Board.

6.2 Market Risk

Market risk is the risk arising from fluctuations in the values of, or income from, the Company's assets due to fluctuations in equities, interest rates, and/or exchange rates.

Market risk is managed through our assets being diversified by type and class, daily monitoring of prices by the Finance Director and regular meetings with investment fund managers during 2016. The Company has an investment management policy which is reviewed annually by the Risk Committee and subsequently approved by the Board. A review of the strategic asset allocation policy has been initiated.

6. Risk Profile (continued)

6.3 Credit Risk

The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is that in the absence of appropriate guidelines and procedures the Company might not be able to limit its credit exposure which could affect earnings and capital.

The Company, through the Board and Risk Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment and reinsurance activities. To achieve this objective it has established guidelines, procedures and monitoring requirements to manage credit risk.

6.4 Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due.

The Company, through the Board and Risk Committee, seeks to limit exposure to liquidity risk by ensuring liquidity is optimally managed and that all known cash flows can be met out of readily available sources of funding. The Company maintains a strong liquidity position.

6.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events such as outsourcing, catastrophes, legislation, or external fraud.

Focus is placed on such risks by the Risk Committee and the Board. A risk register covering all risk is maintained and reviewed by the Company and Risk Committee.

6.6 Pension Risk

The Board of the Company considers that there is one event which could trigger the pension risk, however also considers the possibility to be so remote that it has not been modelled. This is the potential that the Company, as part of a multi-employer defined benefit pension scheme would have to step in and pay the benefits to members under a "Last Man Standing" arrangement which the Board is currently in the process of mitigating.

The current employer pension scheme is in a deficit position. A triennial valuation took place in 2014 with an overall deficit of £123 million, of which the Company's share is approximately 4.5%.

A recovery plan remains in place between the principal employer and the members, which includes a reduction in benefits for future service, which acts to reduce the impact of future service accruals on the deficit. The Company has established a working group to monitor and look at alternative solutions to the current situation.

6.7 Stress tests, scenarios and the reverse stress test

The Company is required, at least annually, and as part of the ORSA process, to test our capital requirement against a number of stress tests, scenarios and a "reverse stress test" (testing the business to not being viable) which measures the robustness of the Company's capital position over a one year time horizon to a 3 year time horizon.

Stress tests measure the shock of certain individual events such as a stock market correction of 10% or a series of smaller "catastrophe" events. Scenarios measure a combination of stresses which are not necessarily linked. The reverse stress test involves identifying a scenario which could potentially lead the business to not being viable.

6. Risk Profile (continued)

6.7 Stress tests, scenarios and the reverse stress test (continued)

Below are some examples of stress and scenario tests which have been modelled in the ORSA:

Risk Area	Stress items	Stress/Scenario description
Insurance	Claims frequency	Claims frequency increases to 8% (4% last 12 month average as at Dec 2016)
Insurance	Claim frequency and Severity	We have launched a new rating engine in Nov 2016. Last 12 month overall loss ratio is 46% as at Dec 2016. BLT pricing fails and overall loss ratio increases to 60% immediately.

We have also modelled through our ORSA process the following:

Insurance risk – Premium, expenses, inflation and reinsurance;
Market risk – Equities, expenses, inflation, and yields;
Governance – a run off scenario;
Pension risk – pension deficit; and
Counterparty risk – Largest bond exposure.

7. Valuations for Solvency purposes

7.1 Assets

We set out below the basis for our Solvency II asset valuation for each main class of asset compared to the GAAP valuation as at 31 December 2016. The GAAP valuation is the UK GAAP policy, as described in the Company report and accounts on pages 36 to 42:

	GAAP	Solvency II
	2016 £000	**2016** £000
ASSETS		
Intangible assets	**381**	**-**
Investments (other than assets held for index-linked and unit-linked)	**58,849**	**58,906**
Reinsurance recoverable from: Non-life excluding health	**2,516**	**(90)**
Insurance and intermediaries receivable	**12,184**	**-**
Receivables (trade, not insurance)	**222**	**222**
Property, Plant & Equipment held for own use	**21**	**21**
Cash and cash equivalents	**3,221**	**3,221**
Any other assets, not elsewhere shown	**2,035**	**967**
Total assets	**79,429**	**63,247**

- Intangible assets

Intangible assets (other than purchased goodwill) are not recognized in the Solvency II balance sheet because they relate to software development which does not have a readily ascertainable market value and they cannot be sold.

- Investments (other than assets held for index-linked and unit-linked)

The valuation for Solvency II investment assets follows that of the valuation for UK GAAP (Generally Accepted Accounting Practice), which for investments is at fair value, further details can be found in the Company's report and accounts on pages 40 to 42.

- Reinsurance recoverable from: Non-life excluding health

Under the Solvency II balance sheet the reinsurers' share of technical provisions are valued as part of net technical provisions. The gross valuation for reinsurance recoverable is identical in both balance sheets. In the Solvency II balance sheet however, we make an allowance for future premiums to be paid to reinsurers under the 100% quota share arrangement.

- Insurance and intermediaries receivable

No debtors arising out of direct insurance operations are shown in the Solvency II balance sheet as these are due from policies already sold and are accounted for separately as part of technical provisions (see Liabilities below).

7. Valuations for Solvency purposes (continued)

7.1 Assets (continued)

- Receivables (trade, not insurance)

Receivables (trade, not insurance) are valued on the same basis between the Solvency II and the GAAP balance sheet.

- Property, Plant and Equipment held for own use

These are valued on the same basis between the Solvency II and the GAAP balance sheet, which are stated at cost, net of depreciation and any provision for impairment. Given the principal of materiality, this is deemed to be a close approximation to the fair value. Further details can be found in the Company's report and accounts on page 39.

- Cash and cash equivalents

These are valued on the same basis between the Solvency II and the GAAP balance sheet.

- Any other assets not held elsewhere

Deferred acquisition costs are not considered as an asset under Solvency II. Accrued interest, prepayments and accrued income are held on the same basis between the Solvency II and the GAAP balance sheet.

7. Valuations for Solvency purposes (continued)

7.2 Liabilities

We set out below the basis for our Solvency II liability valuation for each material class of liability compared to the GAAP valuation as at 31 December 2016:

	GAAP	Solvency II
	2016 £000	**2016** £000
LIABILITIES		
Excess of assets over liabilities	**36,501**	**41,033**
Technical provisions – Non-life (excluding health)	**22,576**	**7,559**
Insurance & Intermediaries payables	**3,091**	**-**
Reinsurance payables	**2,606**	**-**
Deferred tax liabilities	**435**	**435**
Any other liabilities, not elsewhere shown	**3,196**	**3,196**
Pension benefit obligations	**11,024**	**11,024**
Total liabilities	**79,429**	**63,247**

- Technical Provisions – Non-life (excluding health)

See section below for detailed comparison.

- Insurance and Intermediaries payables

These are included within the technical provisions.

- Reinsurance payables

These are included within the technical provisions.

- Deferred tax liabilities

These are valued on the same basis between the Solvency II and the GAAP balance sheet, which states that deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Further details can be found in the Company's report and accounts on pages 38 to 39.

- Any other liabilities, not elsewhere shown

These are valued on the same basis between the Solvency II and the GAAP balance sheet.

7. Valuations for Solvency purposes (continued)

7.2 Liabilities (continued)

- Pension benefit obligations

It should be noted that the standard formula model does not include a module to calculate the risk arising from the Company's defined benefit pension scheme. However, to accommodate the Company's pension risk, the assets, but not the liabilities, are included as an input into the model for the calculation of the SCR.

The pension deficit has increased from £5.5m as at 31 December 2015 to £11.0m at 31 December 2016. The primary reason for this significant increase is a decrease in the discount rate (from 3.8% to 2.7%) used to value our liabilities under this scheme. Further details can be found in the Company's report and accounts on pages 63 to 65.

The balance sheet position of the scheme as at 31 December 2016 is as follows:

	£000
Present value of Scheme liabilities	**(38,390)**
Fair value of Scheme assets	**27,366**
Surplus / (deficit)	**(11,024)**

The following table reports the percentage by asset class for the defined benefit pension scheme assets:

UK equities	26.50%
Global equities	16.40%
Government index linked bonds	20.40%
Corporate Bonds	9.90%
Cash	0.20%
Property	8.50%
Diversified growth	18.10%

7. Valuations for Solvency purposes (continued)

7.2 Liabilities (continued)

Technical provisions

Technical provisions represent the current cost of insurance liabilities at the balance sheet date. They are calculated on a discounted cash flow basis and include the following high level components which are calculated separately:

• Best estimate of claims provisions being claims incurred at the balance sheet date; and
• Best estimate of premium provision being claims expected to be incurred after the balance sheet date on contracts incepted prior to that date.

We set out in the table below a summary of the Solvency II and GAAP valuations of technical provisions and risk margin by line of business.

Provision		GAAP Item	GAAP Value	SII Item	SII Value	Difference	% Difference
GAAP: Claims Outstanding Provision SII: Claims Provision	Household	Claims Outstanding	£ 5,059,465	Discounted Claims Outstanding	£ 4,859,932	£ 199,533	4%
	Household	IBNR including: - 10% CHE - 12% prudency loading	£ 3,044,000	Discounted IBNR including: - 10% CHE	£ 2,155,185	£ 888,815	29%
	Household	Total Household	£ 8,103,465	Total Household	£ 7,015,117	£ 1,088,348	13%
	ATE	ATE Reserves/Expected future payables	£ 2,490,849	ATE Reserves/Expected future payables	£ 2,490,849	£ -	0%
		Total Claims Provision	**£ 10,594,313**	**Total Claims Provision**	**£ 9,505,966**	**£ 1,088,348**	**10%**
GAAP: Unearned Premium Provision SII: Premium Provision	Household	Household Unearned Premium	£ 11,308,840	-	£ -	£ 11,308,840.16	
	Household	HE & Legal Unearned Premium	£ 393,232	-	£ -	£ 393,232.35	
	Household	-	£ -	Projected Future claims payable including: - 10% CHE	£ 4,472,736	-£ 4,472,736	
	Household	-	£ -	Projected operating expenses	£ 3,374,862	-£ 3,374,862	
	Household	-	£ -	Projected Premium Receivable (uncollected)	-£ 7,568,058	£ 7,568,058	
	Household	Total Household	£ 11,702,072.51	Total Household	£ 279,540	**£ 11,422,532**	**98%**
	ATE	-	£ -	ATE Expected future receivables	-£ 3,352,414	£ 3,352,414	
		Total UEP	**£ 11,702,073**	**Total Premium Provision**	**-£ 3,072,874**	**£ 14,774,946**	**126%**
Unearned Premium Reserve		**URR**	**£ 279,540**		**£ -**	**£ 279,540.50**	**100%**
Total Provision			**£ 22,575,926**		**£ 6,433,092**	**£ 16,142,834**	**72%**
Risk Margin	**Household**				**£ 1,126,116**		
	ATE				**£ -**		
Total Risk Margin					**£ 1,126,116**		

Overall we consider that the technical provisions are prepared on a suitable basis, in line with the approach laid down in the legislation. This is a new area of work that has been subject to only limited external scrutiny for the Company. It is expected that our approach will continue to develop and be refined in response to external audit, ongoing commentary and guidance by the regulator and our own ongoing continuous improvement reviews.

In the face of uncertainty we have taken a cautious approach. Where we believe our best estimate lies in a range of values we are biased towards higher values at this stage through our choice of estimates or parameters within calculations. Control over our sources of data and the processing of that data are good. The link between our GAAP reserves and our Solvency II provisions is straightforward, well understood by those undertaking the work and enables reliance to be placed on underlying accounting controls as well as those specific to the technical provision exercise. There are some opportunities to refine our approach. There will always be a trade-off between model precision and error rate. Where simplified approaches are warranted, proportional and will not lead to a material error, we have adopted such approaches.

7. Valuations for Solvency purposes (continued)

7.2 Liabilities (continued)

Technical provisions (continued)

Below is a qualitative comparison table of the GAAP vs Solvency II technical provisions:

Provision	Description – GAAP Basis	Description – SII Basis
GAAP: Claims Outstanding Provision SII: Claims Provision	This includes: • Outstanding household reserves (extracted from TIA), • IBNR (calculated by Actuarial department) including additional 10% claims handling expenses and additional 12% prudency loading (90% confidence interval) • ATE reserves (calculated by finance department)	This includes: • Discounted outstanding reserves (extracted from MI system), • Discounted best estimate IBNR (calculated by Actuarial department) including additional 10% claims handling expenses, • ATE reserves/expected future payables (as listed in the management accounts)
GAAP: Provision for Unearned Premium SII: Premium Provision (Note that these two measures cannot be compared easily, as they are made up of different items)	This includes: • Household unearned premium (calculated by finance, using 1/24th earned pattern), • HE and Legal (Add-on products) unearned premium (calculated by finance, using 1/24th earned pattern)	This includes: • Projected future claims payable (based on current policies, assume retention of 0%) including 10% claims handling expenses, • Projected future operating expenses (based on core expenses required to process claims), • Expected future premium (based on premium still to be collected, not earned) • ATE expected future receivables (as listed in the management accounts)
GAAP: Other technical provisions Unexpired Risk Reserve	• Separate allowance for a URR is taken as the expected cost of future claims and expenses from unexpired risks less expected future premiums of unexpired risks.	• Included in premium provision calculation

The Company values technical provisions on a best estimate basis using widely recognized and accepted Technical Actuarial Standards (TAS).

Solvency II requires undertakings to set up technical provisions which correspond to the current amount of liabilities which would have to be paid if they were to transfer their insurance obligations immediately to another undertaking. The technical provisions are the principle building blocks for the Solvency II balance sheet.

Technical provisions under the GAAP valuation are calculated on an undiscounted and ‘prudent’ basis. Under Solvency II the technical provisions consist of a discounted best estimate plus a prescribed risk margin (RM). The best estimate is calculated gross, without deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately. The best estimate is a combination of a premium provision and a claims provision.

7. Valuations for Solvency purposes (continued)

7.2 Liabilities (continued)

Technical provisions (continued)

The actuarial and statistical methods to calculate technical provisions should be proportionate to the nature, scale and complexity of the risks supported by the Company. These methods are outlined in this document.

- *Interest rates* - All interest rates used for discounting are taken from EIOPA's release of risk-free curves;

- *Business expenses* - Expense data has been taken from the most recent version of the Company's budget, as agreed and signed off by the Board. The budget includes the Company's most up to date projection of future business expectation, and most importantly budgeted future claims experience. This is then adjusted to put the business into a state of 'run-off' from the date of publication and any alterations are made to best reflect the costs which the Company would incur based on the criteria set out in the Solvency II technical provisions for general insurers guidance paper, published by the regulator. The budget is prepared by management and any assumptions are discussed and validated by the Board;

- *Claims run-off* - In order to allocate the Company's projected claims in run-off, the Company have created a model that uses the number of open claims as at the valuation date, with the claims provision claim run-off pattern and claim frequency, such that:
  - The projected run-off for the live book is projected using a retention rate of 0%. This equates to all live policies, at the valuation date, having lapsed after one year;
  - Future claims from the run-off of the live policies are then extrapolated using the current claims frequency. These are run off using the claims provision claims run-off pattern; and
  - Claims handling expenses are assumed to be 10% of claims incurred in both the claim provision and premium provision;

- *Claims provision* - The claims provision is equivalent to the expected present value of all future claim payments (and claims administration expenses) arising from claim events that have occurred before or at the valuation date. This can be thought of as all reserved claims plus any IBNR and IBNER additional reserves, plus any expenses associated with the management of these claims as they run-off over time.

The calculation of the claims provision is the same as the quarterly IBNR calculation which the Company carries out. The only changes which are subsequently applied are discounting using the EIOPA released risk free yield curves; and

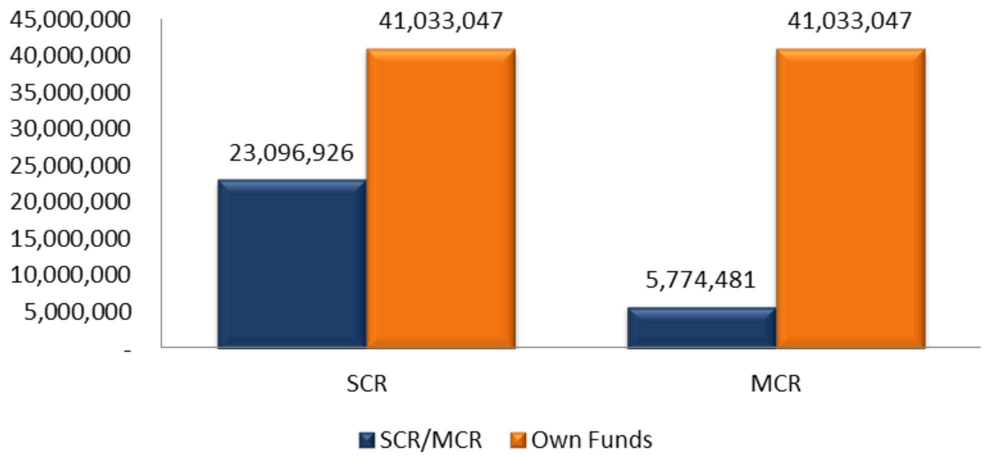
- *Premium provision* - The best estimate of premium provisions is the expected present value of the following cash in-flows and cash out-flows:
  - Cash flows from future premiums relating to any period of exposure, in-force or otherwise (including adjustment premiums from expired policies, cash flows due from premium debtors, reinstatement premiums or premiums expected from in-force policies);
  - Cash flows arising from future claims events;
  - Cash flows arising from allocated and unallocated claims administration expenses in respect of claims events occurring after the valuation date;
  - Cash flows arising from ongoing administration of in-force policies; and
  - Cash flows arising from subrogation and salvage.

8. Capital Management

8.1 Own funds

As a mutual entity, the Company's own funds are made up 100% of members' funds arising from retained profits, which have arisen from past underwriting and investment surpluses. As such all capital is Tier 1 and there are no restrictions on the availability of Company own funds to support the MCR or SCR.

The chart below shows the Company's own funds in relation to the SCR and MCR:



Set out below is a summary of own funds and shareholders' equity which also includes the appendix reference where a more detailed breakdown can be found.

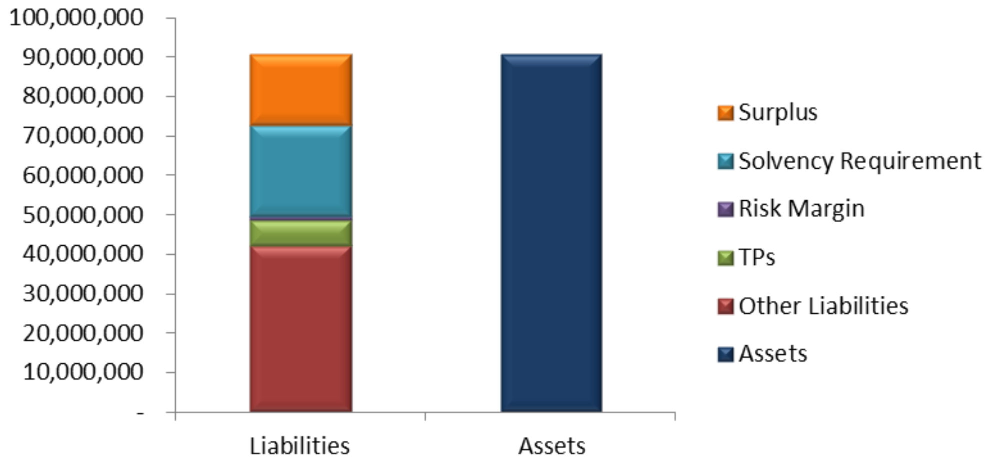
	Own Funds		QRT reference
	Per Solvency II	Per GAAP	
Description	£	£	
Own Funds	41,033,047	36,501,315	S23.01.b
Minimum Capital Requirement	5,774,481		S28.01.b
Solvency Capital Requirement	23,096,926		S25.01.b
Solvency Ratio	178%		

The following table sets out reconciliation between the GAAP and SII Own funds:

Description	**£**
GAAP Own Funds	**36,501,315**
Reallocation of Insurance Debtors to Technical Provisions	12,184,275
Reallocation of Reinsurance recoverables under Solvency II basis	2,605,985
Valuation of Intangible Assets under Solvency II basis	381,303
Change in Valuation basis for other assets	1,010,439
Total Reduction to Assets	**16,182,002**
Reallocation of Insurance Payables to Technical Provisions	3,091,033
Reallocation of Reinsurance Payables to Technical Provisions	2,605,985
Recalculation of Best Estimate under Solvency II	13,890,602
Risk Margin	1,126,116
Total Reduction in Technical Provisions	**20,713,736**
Solvency II Own Funds	**41,033,047**

8. Capital Management (continued)

The following chart shows the Company's assets and liabilities in relation to the SCR:



8.2 Solvency Capital Requirement (SCR)

The Company's SCR is calculated using the standard formula basis, having reviewed the assumptions underlying the formula and assessed them as appropriate for the Company. The Company has no simplifications applied to the standard formula and has no undertaking specific parameters applied. From the table below we can see that the Company is currently operating with a solvency ratio of 178%. The Company has an internal target to meet a minimum of 150% solvency ratio.

The SCR as at 31 December 2016 is comprised of the following risk categories:

Market Risk	17,108,793
Counterparty Risk	976,815
Non life Underwriting Risk	10,186,189
Diversification	*(5,847,119)*
BSCR	22,424,679
Operational Risk	672,247
SCR	23,096,926
Own Funds	41,033,047
Surplus	17,936,121
Solvency Ratio	178%

8.3 Minimum Capital Requirement (MCR)

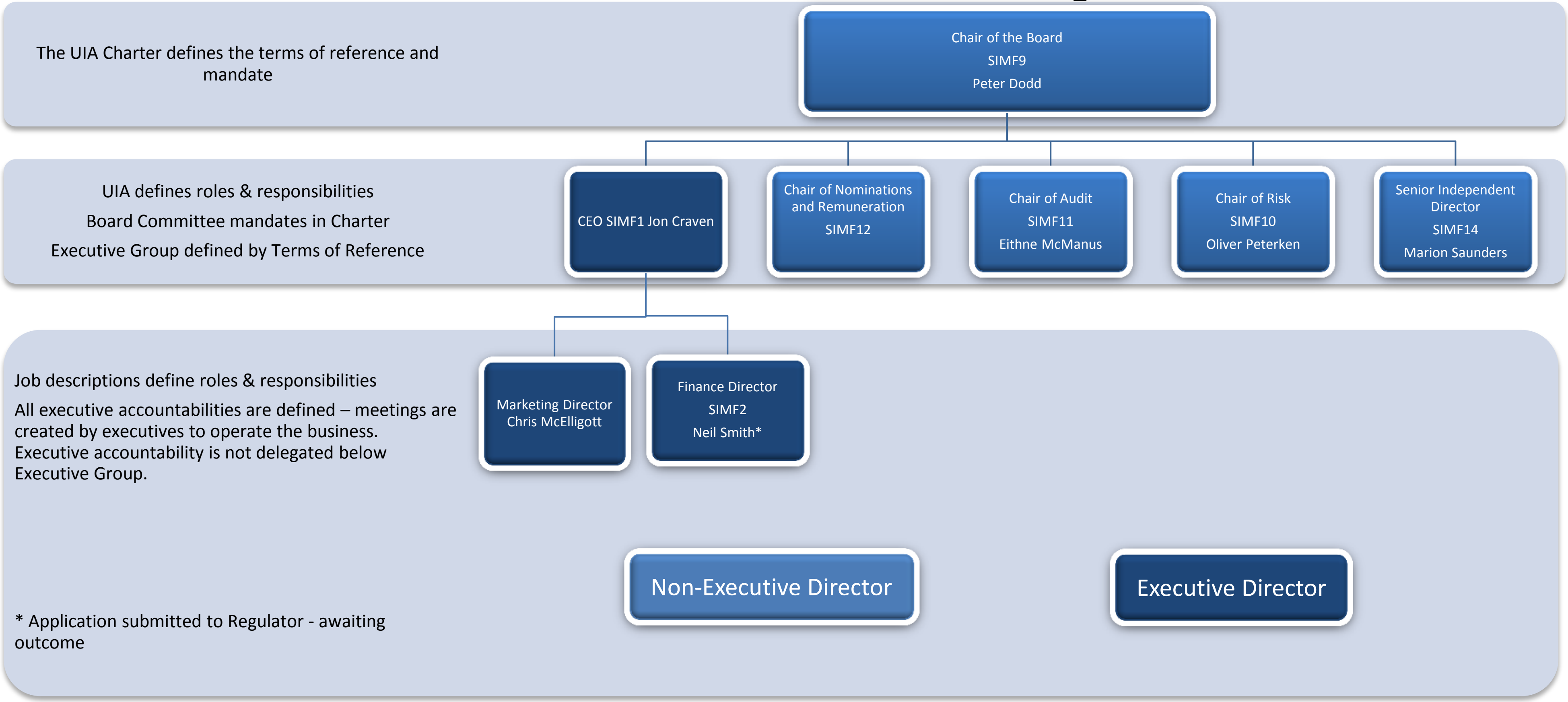
The MCR is set at 25% of the SCR with no management adjustment considered necessary.

8.4 Non Compliance with SCR and MCR

The Company has met its MCR and SCR throughout the year.

Appendix A

Extract of Governance Map



Appendix B

Annual QRTs (Quantitative Reporting Templates) as at 31 December 2016

S.01.02.01 Basic Information – General

		C0010
R0010	Undertaking name	UIA (Insurance) Ltd
R0020	Undertaking identification code	2138004QDHX7Q2X1GO36
R0030	Type of code of undertaking	LEI
R0040	Type of undertaking	3 - Non-Life undertakings
R0050	Country of authorisation	GB
R0070	Language of reporting	English
R0080	Reporting submission date	
R0090	Reporting reference date	2016-12-31
R0100	Regular/Ad-hoc submission	1 - Regular reporting
R0110	Currency used for reporting	GBP
R0120	Accounting standards	2
R0130	Method of Calculation of the SCR	1 - Standard formula
R0140	Use of undertaking specific parameters	2 - Don't use undertaking specific parameters
R0150	Ring-fenced funds	2 - Not reporting activity by RFF
R0170	Matching adjustment	2 - No use of matching adjustment
R0180	Volatility adjustment	2 - No use of volatility adjustment
R0190	Transitional measure on the risk-free interest rate	2 - No use of transitional measure on the risk-free interest rate
R0200	Transitional measure on technical provisions	2 - No use of transitional measure on technical provisions
R0210	Initial submission or re-submission	1 - Initial submission

S.02.01.02 Balance Sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	21
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	58,907
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	265
R0100	Equities	30,945
R0110	Equities - listed	30,945
R0120	Equities - unlisted	0
R0130	Bonds	23,972
R0140	Government Bonds	8,128
R0150	Corporate Bonds	15,844
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	1,736
R0190	Derivatives	-13
R0200	Deposits other than cash equivalents	2,001
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	-90
R0280	Non-life and health similar to non-life	-90
R0290	Non-life excluding health	-90
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	222
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	3,221
R0420	Any other assets, not elsewhere shown	967
R0500	**Total assets**	63,247

		C0010
	Liabilities	
R0510	Technical provisions – non-life	7,559
R0520	Technical provisions – non-life (excluding health)	7,559
R0530	TP calculated as a whole	0
R0540	Best Estimate	6,433
R0550	Risk margin	1,126
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	11,024
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	435
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	0
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	3,196
R0900	**Total liabilities**	22,214
R1000	**Excess of assets over liabilities**	41,033

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
		Fire and other damage to property insurance	Legal expenses insurance	
		C0070	C0100	C0200
	Premiums written			
R0110	Gross - Direct Business	22,305	759	23,063
R0120	Gross - Proportional reinsurance accepted	0	0	0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share	1,018	591	1,609
R0200	Net	21,286	168	21,454
	Premiums earned			
R0210	Gross - Direct Business	20,632	168	20,799
R0220	Gross - Proportional reinsurance accepted	0	0	0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share	0	0	0
R0300	Net	20,632	168	20,799
	Claims incurred			
R0310	Gross - Direct Business	11,138	2,534	13,672
R0320	Gross - Proportional reinsurance accepted	0	0	0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share	0	2,527	2,527
R0400	Net	11,138	7	11,144
	Changes in other technical provisions			
R0410	Gross - Direct Business	4,105	1,497	5,602
R0420	Gross - Proportional reinsurance accepted	0	0	0
R0430	Gross - Non- proportional reinsurance accepted			0
R0440	Reinsurers'share	147	1,474	1,621
R0500	Net	3,959	23	3,981
R0550	**Expenses incurred**	12,251	-36	12,216
R1200	**Other expenses**			0
R1300	**Total expenses**			12,216

S.17.01.02 Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance		
		Fire and other damage to property insurance	Legal expenses insurance	Total Non-Life obligation
		C0080	C0110	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	280	-3,352	-3,073
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-59	-2,547	-2,606
R0150	Net Best Estimate of Premium Provisions	339	-806	-467
	Claims provisions			
R0160	Gross	7,015	2,491	9,506
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	25	2,491	2,516
R0250	Net Best Estimate of Claims Provisions	6,990	0	6,990
R0260	**Total Best estimate - gross**	7,295	-862	6,433
R0270	**Total Best estimate - net**	7,329	-806	6,523
R0280	**Risk margin**	1,126	0	1,126
	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	8,421	-862	7,559
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	-35	-56	-90
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	8,455	-806	7,650

S.19.01.21 Non-Life Insurance Claims

Total Non-Life Business

Z0010	Accident year / Underwriting year	**Z0010**	Underwriting Year (UY)

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**											5,902		**R0100**	5,902	25,010,615
R0160	**N-9**	9,824,480	6,202,792	1,140,036	719,843	965,737	1,281,113	976,407	778,741	318,786	11,775			**R0160**	11,775	22,219,710
R0170	**N-8**	7,572,528	3,409,180	851,533	972,610	925,749	892,997	607,196	293,558	72,980				**R0170**	72,980	15,598,331
R0180	**N-7**	6,098,454	2,673,010	908,070	957,280	878,241	620,349	205,018	16,473					**R0180**	16,473	12,356,897
R0190	**N-6**	5,625,935	5,136,836	1,252,629	1,045,436	625,679	427,515	14,416						**R0190**	14,416	14,128,447
R0200	**N-5**	5,570,762	3,312,936	903,380	539,939	405,898	69,788							**R0200**	69,788	10,802,705
R0210	**N-4**	6,559,869	3,570,754	480,961	158,876	66,091								**R0210**	66,091	10,836,551
R0220	**N-3**	4,770,831	3,095,876	578,670	109,118									**R0220**	109,118	8,554,494
R0230	**N-2**	4,912,034	2,354,095	841,527										**R0230**	841,527	8,107,656
R0240	**N-1**	4,622,962	3,751,459											**R0240**	3,751,459	8,374,421
R0250	**N**	5,431,403												**R0250**	5,431,403	5,431,403
R0260													**Total**	**R0260**	10,390,933	141,421,231

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**													**R0100**	
R0160	**N-9**	0	0	0	0	0	0	0	0	0	1,534			**R0160**	1,534
R0170	**N-8**	0	0	0	0	0	0	0	0	12,219				**R0170**	12,162
R0180	**N-7**	0	0	0	0	0	0	0	115,877					**R0180**	114,684
R0190	**N-6**	0	0	0	0	0	0	12,643						**R0190**	12,648
R0200	**N-5**	0	0	0	0	0	48,856							**R0200**	48,856
R0210	**N-4**	0	0	0	0	87,995								**R0210**	87,556
R0220	**N-3**	0	0	0	100,704									**R0220**	100,641
R0230	**N-2**	0	0	267,767										**R0230**	267,043
R0240	**N-1**	0	1,271,853											**R0240**	1,268,438
R0250	**N**	7,600,774												**R0250**	7,592,403
R0260													**Total**	**R0260**	9,505,966

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					
R0010	Ordinary share capital (gross of own shares)	1	1		0	
R0030	Share premium account related to ordinary share capital	0	0		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	36,500	36,500			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	4,532	4,532			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	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	
R0290	**Total basic own funds after deductions**	41,033	41,033	0	0	0
	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	41,033	41,033	0	0	0
R0510	Total available own funds to meet the MCR	41,033	41,033	0	0	
R0540	Total eligible own funds to meet the SCR	41,033	41,033	0	0	0
R0550	Total eligible own funds to meet the MCR	41,033	41,033	0	0	
R0580	**SCR**	23,098				
R0600	**MCR**	5,774				
R0620	**Ratio of Eligible own funds to SCR**	1.7765				
R0640	**Ratio of Eligible own funds to MCR**	7.1059				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	41,033
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	36,501
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	4,532
	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.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
R0010	Market risk	17,109		
R0020	Counterparty default risk	977		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	10,186		
R0060	Diversification	-5,847		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	22,425		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	672
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**	23,097
R0210	Capital add-on already set	1
R0220	**Solvency capital requirement**	23,098
	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 – Only life or non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	2,289

		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 expenses insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	7,329	21,250
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	89
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

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	2,289
R0310	SCR	23,098
R0320	MCR cap	10,394
R0330	MCR floor	5,774
R0340	Combined MCR	5,774
R0350	Absolute floor of the MCR	3,332

		C0070
R0400	**Minimum Capital Requirement**	5,774