Solvency and Financial Condition Report

2018

Summary

Cornish Mutual manages the business in a prudent manner for the benefit of Members. We price our products on a technical and consistent basis to deliver stable, fair premiums to Members while delivering a return that supports an appropriate level of Members' Funds over a five year planning period. Investment returns form an intrinsic part of the financial performance, utilising capital surplus' to take investment risk and generate returns.

The overall sources of profit and loss contributing to changes in Members' Funds are shown below in the graph.

Members' funds have decreased by £0.4m during the year to £22.9m on a GAAP basis.

	2018	2017
	£000's	£000's
Technical Profit	389	1,305
Other charges	(981)	(859)
Underwriting result	**(592)**	**446**
Property revaluation	0	265
Investment income net of fair value adjustments	270	1,906
Tax	177	(40)
Pension adjustments net of tax	(293)	368
Change in Members' Funds	**(438)**	**2,945**

On a Solvency II basis Members' Funds which represent the total of own funds decreased to £24.6m from £24.8m. All own funds are eligible to cover the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR).

The SCR has reduced as a result of reduced investment risk at the balance sheet date. The ratio of Own Funds to the SCR is 238%, an increase from last year's figure of 210%. There are no volatility or matching adjustments. No transitional measures have been adopted in the calculation of the technical provisions.

The MCR is calculated as £3.2m being the higher of the Absolute Floor of £3.2m or 25% of SCR, £2.6m at 30 September 2018.

There are no areas of non-compliance with the SCR or the MCR.

With a stable, high retention book of business and broadly similar reinsurance arrangements, we expect the capital requirements to remain relatively consistent on a forward looking basis for most of the risks we face. The main source of variability in the total capital required to support the business arises from changes in the allocation of funds to different asset classes within our investments, held directly or as part of the assets of the defined benefit pension scheme.

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Member approved directors make up the board. The governance objectives of the board of Cornish Mutual are set out publicly in its Board Charter (www.cornishmutual.co.uk).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nominations.

The following standard sections of the SFCR are considered not applicable and are therefore not included: A5, B8, C7, D4, D5, E3 and E4.

Where numbers are provided on a rounded basis, each individual number is presented using conventional rounding without adjustment. No adjustment is introduced to allow totals to agree so tables and columns of rounded numbers may be subject to rounding errors.

This report is subject to audit in accordance with the PRA Supervisory Statement SS11/16.

Statement of Directors' Responsibilities

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

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply and will continue so to comply in future.

Signed: A. Goddard .... **Alan Goddard (Director)** .... **Peter Beaumont (Director)**

Date: 9 January 2019

Report of the external independent auditors to the Directors of Cornish Mutual Assurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 30 September 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 30 September 2018, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the Templates subject to audit').

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 30 September 2018 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.

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

Auditors' 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 information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers llp

PricewaterhouseCoopers LLP
Chartered Accountants
2 Glass Wharf
Bristol
BS2 0FR
9 January 2019

A. Business and performance

A1 - Business

Cornish Mutual Assurance Co Ltd is a company limited by guarantee. Company number 78768.

The company, as a category 5 firm, has no named supervisor and is managed through the smaller insurer regime by the Prudential Regulation Authority. Their address is 20 Moorgate, London, EC2R 6DA. The company is also regulated by the Financial Conduct Authority. Their address is 12 Endeavour Square, EC20 1JN.

The external auditor for the annual report and the Solvency and Financial Condition Report for the year ended 30 September 2018 was:

PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors

2 Glass Wharf, Bristol, BS2 0ZX, United Kingdom.

The Company conducts general insurance business in the four counties of the south west of England. Material lines of business are identified in section A2 by inclusion of the segmental analysis from the financial statements, as set out on page 10.

A2 - Underwriting performance

The overall sources of profit and loss contributing to changes in Members' Funds are shown to the right.

Members' funds need to be maintained at an appropriate level to meet the expected level of current and future claims. Managing the level of these reserves is key to the financial success of the company. During 2018 Members' funds fell by £0.4m (compared to an increase of £3m in 2017), but they remain comfortably in excess of regulatory requirements and our own appetite.

The underwriting contribution to the overall result moved from a profit of £446k in 2017 to a loss of £592k as shown in the table above. Written and earned premiums increased. The main driver of the lower underwriting profit compared to 2017 was a higher loss ratio which was reflected in a retained cost of claims which was c. £1m higher than the previous year. Reinsurance costs increased as a proportion of earned premium while expenses reduced marginally as a proportion. Each of these components is discussed in more detail overleaf.

	2018	2017
	£000's	£000's
Technical Profit	389	1,305
Other charges	(981)	(859)
Underwriting result	**(592)**	**446**
Property revaluation	0	265
Investment income net of fair value adjustments	270	1,906
Tax	177	(40)
Pension adjustments net of tax	(293)	368
Change in Members' Funds	**(438)**	**2,945**

Gross Written Premium

As a result of reinsurance costs rising in the motor market it was necessary to raise premiums above inflation to pay for this directly increased cost. This impacted both 2017 and 2018.

We continue to see demand for our offering and underlying growth continued. We have increased our presence in the eastern end of our South West territory and this is starting to gain traction.

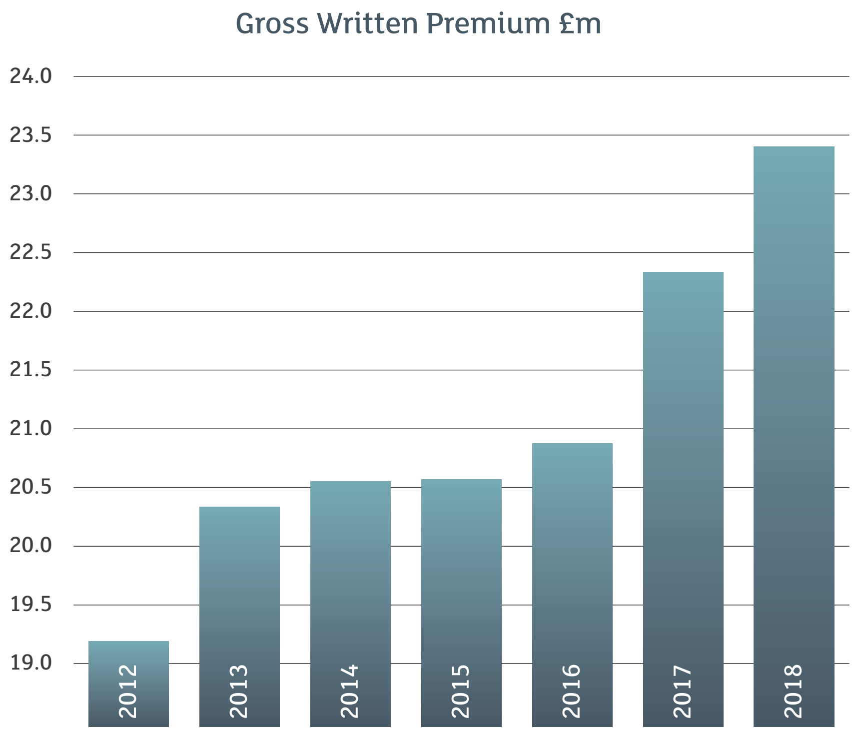
Gross written premium increased over the period to £23,437k (2017:£22,314k).

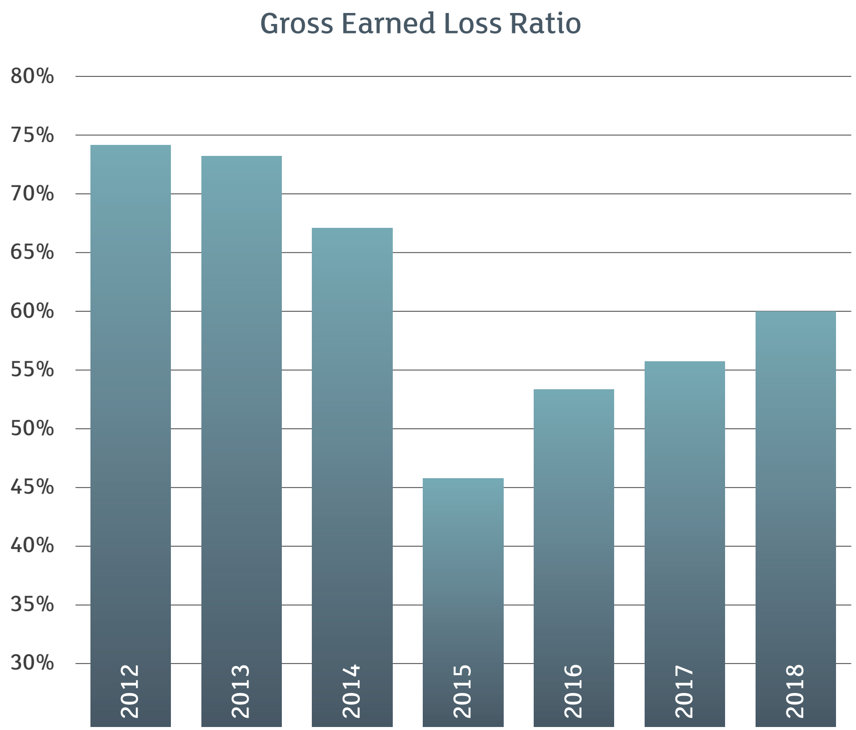
Gross Earned Loss Ratio (GELR)

Gross earned loss ratio is the cost of claims, excluding the effect of reinsurance, as a proportion of gross earned premium. It includes the cost of claims reported in the year and movements in the estimated cost of claims bought forward from previous accounting periods.

GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.

As the chart shows, claims can be volatile, as evidenced by the relatively low loss ratio in 2015. Despite underwriting broadly the same risks each year the gross claims cost varies considerably. This is mostly caused by the effect of a few individual large claims or, as in the case of 2014, a period of bad weather.





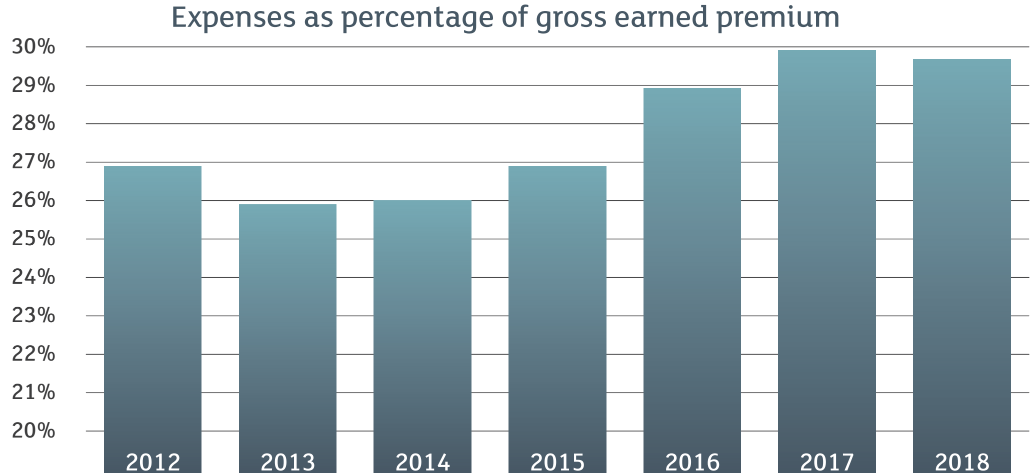
Very large incidents or events can result in losses in any one year being many millions of pounds higher than we have experienced previously. To protect against this possibility, Cornish Mutual utilises reinsurance. Reinsurance has a significant effect on how this underlying performance is reflected in our overall operating result and this is discussed below.

Expenses

Expenses include net operating expenses from the technical account and other charges from the non-technical account. In the current year the ratio of expenses to gross earned income decreased to 29.7% from 29.9% in 2017.

As a Member owned organisation, Cornish Mutual is always aware that any money we spend is Members' money. Without having carried out a formal benchmarking exercise we nonetheless look to compare favourably against other insurers on this measure. We believe we can dilute some fixed costs through future growth and if plans are met expect to see our expense ratio become even more competitive, particularly for an organisation of our scale.

Equally we will continue to commit resources in maintaining and developing the high level of service we believe that Members want and deserve.



The use and effect of reinsurance

Cornish Mutual, in common with other insurance companies, is exposed to potentially large though infrequent losses. For example, motor insurance in the UK is provided on the basis of unlimited liability. To protect against the possibility of a very large claim or a large number of claims arising from a natural catastrophe, the Company enters into reinsurance arrangements which would reduce the impact of such claims should they occur.

Cornish Mutual participates in two main types of reinsurance which protect Members' Funds.

Quota share reinsurance involves sharing the insurance result with an external party in return for a commission payable by the reinsurer. They take some of the profit but share in the risk of any losses which occur.

While quota share reduces the impact of large claims, it still leaves the possibility of a large loss on the share of business we retain. To protect against the risk to the retained share, we purchase excess of loss insurance. This provides protection for certain incidents or events in excess of agreed limits. Cornish Mutual pays a premium for such cover. From January 2018 we saw a significantly increased cost of this reinsurance for motor and liability cover reflecting changes to the Ogden discount rate, set by the government and used to calculate the cost of personal injury claims.

The combined effect of the reinsurance in place over the last seven years is shown in the table overleaf.

Year	2012	2013	2014	2015	2016	2017	2018
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross Written Premium	**19,210**	**20,300**	**20,570**	**20,590**	**20,820**	**22,310**	**23,440**
Gross Earned Premium	**18,450**	**19,810**	**20,460**	**20,710**	**20,600**	**21,500**	**23,000**
Less: Gross Claims	13,580	14,460	13,790	9,460	10,870	12,070	13,830
GELR %age	74%	73%	67%	46%	53%	56%	60%
	4,870	5,350	6,670	11,250	9,730	9,430	9,170
Less: Expenses	4,970	5,140	5,310	5,570	5,960	6,430	6,830
Gross Earned Expense ratio	26.9%	25.9%	26.0%	26.9%	28.9%	29.9%	29.7%
Gross insurance result	**(100)**	**210**	**1,360**	**5,680**	**3,770**	**3,000**	**2,340**
Profit before tax	2,580	1,460	360	790	1,590	2,350	(10)
Less: Investment returns	2,320	2,050	1,040	350	1,820	1,890	580
Net insurance result	**260**	**(590)**	**(680)**	**440**	**(230)**	**(460)**	**(590)**
Effect of reinsurance	**360**	**(800)**	**(2,040)**	**(5,240)**	**(4000)**	**(2,540)**	**(2,930)**
Effect of reinsurance as %age of Gross Earned Premium	2%	(4%)	(10%)	(25%)	(19%)	(12%)	(13%)
Members' Funds £m	**17.7**	**18.4**	**19.4**	**20.0**	**20.4**	**23.4**	**22.9**

Rounded to nearest £10,000

Whilst clearly reinsurance comes at a cost, the net insurance result is much less volatile than the gross insurance result.

The main benefit is the protection reinsurance gives against losses that would otherwise threaten the capital base of the Company, as described in the risk management section of this report.

In none of the last six years have we seen the sort of catastrophe or large motor loss which could threaten the capital base so the full protection potential of the cover is not evident in the table above.

Key aspects of the underwriting performance by line of business, as reported in the financial statements are included below as disclosed in note 6, segmental analysis.

2018	Motor	Property	Accident & Health	Liability	Marine, Aviation & Transport	Total
	£	£	£	£	£	£
Gross premiums written	13,053,713	7,231,727	140,956	3,002,567	7,709	23,436,672
Gross premiums earned	12,798,627	7,068,091	140,773	2,980,965	12,378	23,000,834
Gross claims incurred	(6,863,340)	(4,983,564)	(108,206)	(1,868,972)	(2,014)	(13,826,096)
Reinsurance claims recoverable	2,576,370	3,007,011	2,143	1,086,684	1,209	6,673,417
Operating expenses	3,804,394	2,107,625	41,080	875,073	2,247	6,830,418

2017	Motor	Property	Accident & Health	Liability	Marine, Aviation & Transport	Total
	£	£	£	£	£	£
Gross premiums written	12,327,638	6,878,650	137,837	2,956,227	13,525	22,313,876
Gross premiums earned	11,696,855	6,725,024	139,720	2,928,711	13,713	21,504,023
Gross claims incurred	(6,789,929)	(3,757,682)	(112,056)	(1,413,602)	681	(12,072,588)
Reinsurance claims recoverable	1,553,474	2,695,140	0	938,922	(594)	5,186,942
Operating expenses	3,549,976	1,980,837	39,693	851,301	3,895	6,425,702

Operating expenses include administrative expenses and other charges.

A3 - Investment Performance

The company's investments are disclosed in the financial statements as follows:

Investments

Other Financial Investments	Current and Fair Value		Historical Cost	
	2018	2017	2018	2017
	£	£	£	£
Securities and units in unit trust				
Listed equity shares	0	877,751	0	182,834
Unit trust	0	150,496	0	17,205
	0	**1,028,247**	**0**	**200,039**
Collective investments	**29,075,720**	**27,955,525**	**27,718,000**	**26,718,000**
	29,075,720	**28,983,772**	**27,718,000**	**26,918,039**

The process of moving from a segregated investment portfolio into collective investment funds was completed during the year. The funds we have selected have absolute return targets and give the fund manager discretion over asset allocation decisions to both increase returns and reduce volatility in a cost effective way.

The expectation of a low return environment over a longer period of time is challenging for insurers, especially when combined with the potential for market shocks. The use of multi asset funds gives our selected expert providers more ability to manage these challenges on our behalf.

The collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes.

Investment Income

	2018	2017
	£	£
Income from Land & Buildings	122,303	140,637
Income from listed investments	4,105	157,532
Income from other investments	169	851
Dividend from subsidiary	312,470	0
	439,047	299,020
Gains on the realisation of investments	852,533	2,823,955
Less accumulated unrealised gains from prior years	(828,207)	(2,249,441)
Profit on disposed investments	**24,326**	**574,514**
Unrealised gain / loss on retained investments	**235,228**	**1,148,229**
Total investment gains / (losses)	**259,554**	**1,722,743**
Total investment income per financial statements	**698,601**	**2,021,763**
Less investment management expenses	(116,215)	(117,018)
Fair value adjustment arising out of subsidiary performance	(312,453)	1,345
Contribution from investment activities	**269,933**	**1,906,090**

The investment performance for 2018 is significantly below 2017 and below the benchmark and budgeted results for the year. The result however is reflective of the performance of the financial markets in which the collective funds invest. The result lies within the range of reasonably foreseeable outcomes for the overall performance of our chosen investments.

A4 - Performance of Other Activities

Tax

At 30 September 2018 Cornish Mutual was able to release a deferred tax provision held to reflect a potential tax liability on accumulated investment gains. The realisation of certain gains and their relief with allowable management expenses means this provision is no longer required. The release of the provision added £176,841 to Members' Funds.

Pension

The company has a defined benefit pension scheme. Details of the accounting for the pension are included within the financial statements. While the valuation of the pension scheme by actuaries has indicated a surplus for accounting purposes, the company has taken the view that there is no recognisable asset recognised in the financial statements. The company continues to fund the pension to meet the potential cost of transferring the liability off the company balance sheet. Because the accounting surplus is not recognised, the cash cost of the pension reduces Members' Funds. Of the total of £386k, £93k is reflected as an administrative expense within the underwriting result and £293k is a re-measurement difference in the statement of comprehensive income. In 2017 there was a re-measurement surplus net of tax resulting from the pension scheme moving out of deficit.

Financial Commitments

	2018	2017
	£	£
a) Operating lease commitments as lessee		
Expiry date		
Within one year	165,530	133,446
- between two and five years	254,260	205,160
- after five years	60,000	80,000
	479,790	418,606
b) Operating lease commitments as lessor		
Expiry date		
Within one year	42,960	78,000
- between two and five years	0	312,000
- after five years	0	156,000
	42,960	546,000

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £201,704 (2017 – £157,961).

Operating lease commitments as lessor represent leases of certain elements of its freehold property to third parties. At the balance sheet date the minimum lease receipts to the company under these arrangements are as included in part b) of the note above. During the year the lessee exercised break clauses within the lease.

B. System of governance

B1 - General Information on the system of governance

As a mutual insurance company, Cornish Mutual is owned by its customers who are all Members of the company. Members are all entitled and encouraged to participate in the stewardship of the company and to influence its culture and direction through voting and participation in its annual general meetings, by becoming qualified to be members of its board, or by providing feedback to management on any aspect of their current and future insurance protection and service needs.

The governance objectives of the board of Cornish Mutual are set out publicly in its Board Charter (www.cornishmutual.co.uk).

The company operates with three Board committees: Risk and Audit, Investment and Capital Management and Remuneration and Nominations.

The Company, as a member of the Association of Financial Mutuals, also subscribes to the provisions of the UK Corporate Governance Code: an Annotated version for Mutual Insurers.

Board directors take individual and collective responsibility for determining the Company's objectives and strategy and for ensuring that the Company is managed and directed in such a way as to determine good outcomes for Members as a whole. Directors, where appropriate, are controlled function holders under the Senior Insurance Management Regime (SIMR).

The board is responsible for corporate governance; stewardship of Members' Funds; and for the reputation of the Company. The board's ORSA Policy sets out the role and responsibilities of the board, its committees, the executive, management and employees in respect of the ORSA process.

Appointment of Directors is initially handled by a Remuneration and Nominations committee. Their preference is to use "head-hunters" to identify a short list of suitable candidates; from this list candidates for interview are selected by the committee. Interviews take place with the committee using a common format. Successful candidates are recommended for co-option to the Board: Directors co-opted by the board face election by the Membership at the next AGM.

Most directors serve 3 terms of 3 years each, but there is also value through continuity in some directors serving for longer than 9 years, subject to recommendation by the board and annual approval by Members at the AGM in accordance with good governance.

The composition of the Board and Board succession are managed to maintain the range of skills and experience needed to direct and govern the affairs of the company and to support and constructively challenge management. In addition to the qualities of intelligence, integrity and independent judgement, particular attributes and experience are sought at different times to maintain the right balance: directors are chosen as being fit and proper, with the requisite experience, skills and diversity to influence positively the development of the Company in the interests of Members and other stakeholders.

The Board sets a number of Company Policies, some of which are designed to recognise and control financial risk; others to control conduct risk and to promote a culture of prudent management and customer focused service. In some instances, such as the Company's Underwriting and Pricing Policy, both prudential and conduct issues are defined.

The Board has agreed policies in twenty four areas. Those deemed critical are reviewed annually with all others reviewed at a minimum of every three years. These are supported by Operational policies which in turn are augmented by processes and procedures for delivery of agreed outcomes.

For the SIMR functions of risk management, internal audit and the actuarial function, the company adopts an approach which reflects the nature, scale and complexity of the business and delivers the desired outcomes:

Ultimate executive responsibility for Risk Management rests with the Managing Director. The Board view this as both proportionate and appropriate.

In respect of Internal Audit the responsibility, from a regulatory perspective rests with the Governance Leader. This SIMR function reports directly to the chair of the Risk and Audit Committee and completes a programme of work which has been agreed with the Committee. This role oversees work which is done internally taking a risk based approach. This is enhanced by work done by external agencies, usually relevant professionals. The end result is an objective and independent approach.

Regulatory responsibility for the Actuarial function rests with the Finance and Operations Director. Focusing on both pricing and reserving, the Board are of the view that there are sufficient checks in place to ensure there is no conflict of interest. In particular, an independent actuarial review of claims reserves, previously as a stand-alone exercise and now as part of statutory audit is conducted by qualified providers and is subject to oversight by the Risk and Audit Committee.

Governance arrangements remained unchanged over the period. We have prepared for the implementation of the new Senior Managers and Certification Regime (SM&CR), which comes into effect on 10 December 2018. We will update our governance procedures to reflect these changes.

The remuneration policy is based on ensuring the business attracts and retains staff who can deliver the service the Members desire. As part of this Cornish Mutual does not think paying bonuses to Executives is appropriate and consequently they form no part of Executives' remuneration. Executive pay is dependent on individual performance and the performance of the Company as a whole. These are reflected in any salary increases which have been made.

B2 - Fit and proper requirements

Directors are appointed under the “fit and proper” process adopted by the Company and in addition Senior Insurance Management Function holders are pre- approved by the PRA/FCA.

The process within Cornish Mutual which is used to determine, honesty, integrity, reputation, competence/capability and financial soundness, involves a personal declaration, credit checks, criminal record checks as well as the assessment as to whether individuals have the knowledge, skills and experience to undertake a particular role. This is reflected in the Scope of Responsibilities.

“Fit and proper” is reviewed annually and there is a continuing obligation to advise the Chairman if, at any stage, individuals cannot fulfil these requirements.

B3 - Risk management system including the ORSA

The Company identifies and manages risk within a clearly defined framework. The framework comprises our Board Risk Policy, Risk Appetite Statement, Risk Appetite Tolerance and Control Register, and is underpinned by a Three Lines of Defence monitoring mechanism. The framework informs the major risk elements of the Company’s Own Risk and Solvency Assessment (ORSA).

This framework begins with the Board who have ultimate responsibility for identifying and managing the risks which the business faces as set out in the Risk Policy, and the appetite to risk the company exhibits in achieving its business goals. The framework is directly overseen by the Risk and Audit Committee who have effective ownership of the Company’s Risk Appetite, Tolerance and Control Register. On an operational basis risk is managed by the Management Risk Committee, which meets quarterly and is chaired by the Managing Director as Chief Risk Officer, with each of the identified risks being owned by an individual member of the Executive Team.

The Company’s ORSA process pulls together the work which is done on risk within the business and ensures that appropriate monitoring takes place, that appropriate reviews are conducted in line with the regulatory guidelines and the appropriate amendments made to any necessary documentation. The ORSA is reviewed and approved by the Board on an annual basis.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board have a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at 150% of MCR.

B4 – Internal control system

The company's Internal Control Framework is described in the board policy on Internal Audit and Internal Control. Key elements include the following:

- Shared values bind the organisation together, provide the context in which the company conducts its business and serve as touchstones. This shared culture is the foundation of all the other controls.
- Training and development of the Board and staff is also an important control. All joiners undertake a common induction programme which emphasises culture, values and the mutual aspects of the business. There is also focus on achieving CII qualifications.
- Performance appraisal is based on behaviours.
- Technical controls: a well-established Validation and Support Programme drives improvements in standards and member outcomes; an Underwriting Review Committee assesses larger risks for acceptance; a Pricing Committee is charged with reviewing all products for pricing appropriateness on an annual basis and individual authority levels are set for both claims handling and underwriting acceptance.
- Treating Customers Fairly (TCF) is embedded and supported by management information discussed during a quarterly meeting which ensures the agreed outcomes are being delivered.
- A Management Risk Committee, which meets quarterly ensures all identified risks are closely monitored, reviewed and remedial action taken where appropriate.

This overall framework can be envisaged as layered, with relevant outputs being produced as evidence of the control which is being exercised. There are three layers:

Overall Governance

Executive Governance

Board Governence

Within this approach a traditional "three lines of defence" is adopted:

- Internal controls are firmly established in work practices, for example, in the authorisation of expenditure and the acceptance of risk.
- Monitoring takes place at Line Manager level to ensure that correct procedures are adopted and desired outcomes achieved. Such activities range from file reviews, quality monitoring of phone calls and accompanied visits.
- The obtaining of independent assurance that what is desired is being achieved. This is overseen by the internal audit controlled function, which reports independently into the Head of the Risk and Audit Committee. This function ensures that the organisation's Validation and Support Team focusses on any particular areas of concern, ensures that a system of peer reviews take place which utilise the knowledge and experience in the business and ensures that external reviews have the appropriate focus and are conducted within agreed timescales. Specific internal audits of key functions {e.g. claims) are sanctioned by the Risk and Audit Committee on a both a scheduled and ad hoc basis using external specialist auditors in these areas.
- Compliance is the responsibility of all within the business. To ensure an embedded approach, the Technical Department, operating via a Governance and Regulation Committee- which encompasses other parts of the business- ensures all relevant legislation and regulation is incorporated into the business and adhered to. A program of validation and internal audit monitors performance with any changes being introduced as required.

B5 - Internal audit function

The Board exercises the Internal Audit control via the Risk and Audit Committee. Regulatory responsibility rests with the Governance Leader who holds the SIMF 5 function. This function holder reports directly to the Risk and Audit chairman. This approach gives the necessary independence and objectivity.

There is a rolling programme of internal audit activity in place which includes peer reviews, independent evaluation of compliance with company polices and technical reviews of underwriting and claims functions by external specialists. This process is underpinned by the involvement of an external provider of internal audit services, PKF Littlejohn. This enhances the objectivity and independence of the work which is undertaken.

B6 - Actuarial function

The Board exercises the Internal Audit control via the Risk and Audit Committee. Regulatory responsibility rests with the Governance Leader who holds the SIMF 5 function. This function holder reports directly to the Risk and Audit chairman. This approach gives the necessary independence and objectivity.

There is a rolling programme of internal audit activity in place which includes peer reviews, independent evaluation of compliance with company polices and technical reviews of underwriting and claims functions by external specialists. This process is underpinned by the involvement of an external provider of internal audit services, PKF Littlejohn. This enhances the objectivity and independence of the work which is undertaken.

The Actuarial Function Holder is the Finance and Operations Director. While not a qualified actuary, the board considers the Finance and Operations Director has the capability of discharging the responsibility in line with regulations. Additional permanent members of the Actuarial Function include the Financial Controller and a Business Analyst.

The Actuarial Function deals with uncertainty and risk. It has a key role to play 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 being conscious of the limitations and sensitivity to the assumptions it uses.

Where senior staff carry a broader responsibility they should operate with a wider perspective. Accordingly, while the company does not have an actuary who has no operational role, equally there are no directors with narrow responsibilities for whom increasing risk or introducing bias might be actively if inadvertently increased. For example the executive team do not receive performance bonuses.

In Cornish Mutual, full separation of the function cannot be achieved cost effectively. What cannot be sacrificed are the desired features of an effective function.

- Objectivity
- Challenge to others
- Challenge to itself

The approach to the structure of the Actuarial Function within Cornish Mutual has been considered by the Board to be appropriate in achieving the full intended aims of the function. It is proportional in constitution but complete in scope.

B7 - Outsourcing

Cornish Mutual ensure that decisions regarding customer outcomes, where Cornish Mutual are the contracting party, for example whether a claim should be paid and how much, are always retained within the business. There is no appetite to outsource any of this core activity to third parties, Cornish Mutual take the view that such outcomes are critical to the delivery of its business objectives. Hence there is no outsourcing of any critical or important operational functions and activities.

Cornish Mutual makes use of an outsourcing arrangement in respect of the internal audit function to provide independent, expert input to this activity. The relevant Senior Insurance Management Function (SIMF5) is held by a Cornish Mutual employee, the Head of Governance.

C. Risk profile

Risks are quantified through the application of the standard formula. The overall risk, quantified as the SCR is broken down across the relevant risks in the following table:

Description	Sep - 18
Insurance Risk	**£M**
Premium & Reserve Risk	3.0
Catastrophy Risk	2.2
Lapse and Expense Risk	0.9
Diversification	-1.9
Total Insurance Risk	**4.2**
Market Risk	**£M**
Interest Rate Risk	0.5
Equity Risk	5.2
Property Stress	0.6
Currency Risk	0.4
Credit Risk	1.8
Diversification	-1.0
Total Market Risk	**9.5**
Counterparty Risk	**£M**
Reinsurance and Long Term Deposits	0.3
Insight Investment	0.1
Pension	0.0
Total Counterparty Risk	**0.5**
Total Before Diversification	12.1
Overall Diversification Benefit	-2.5
Total after Diversification	**9.6**
Operational Risk	**0.7**
Loss Absorbing Capacity of Technical Provisions & Deferred Tax	**0.0**
Overall Diversification Risk (ICA)	**0.0**
Capital Requirement	**10.3**

C1 - Underwriting risk

Underwriting risk is the risk of making losses on the activity of insurance either in assessing the risks it provides policies for or in quantifying claims that occur.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is uncertain and therefore unpredictable.

The principal risk faced by the Company is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are 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.

A number of measures are in place to ensure this risk is managed prudently and conservatively; these include meetings of our Large Loss Committee, the Management Risk Committee, the Underwriting Referral Committee, the Pricing and Underwriting Committee, as well as the monthly Business meeting which reviews all statistics relating to the insurance side of the business.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Company has also ensured that sufficient reinsurance arrangements are in place and has an active claims handling team.

As a niche insurer, the Company holds insurance risks entirely within the four counties of the South West being Cornwall, Devon, Somerset and Dorset. This creates a regional concentration of risk in relation to weather events.

The company concentrates on rural risks and this avoidance of urban settings limits concentration risk for certain event types; the majority of property damage exposure is commercial farm business or connected in some way to a farm. The company also maintains limits at an individual risk level to reduce exposure to individual events at the gross level.

Risk is quantified through the risk of catastrophe, uncertainty of claims value (premium and reserve risk) and the risk of policies lapsing.

The material lines of business against which these risks are quantified are motor liability, motor damage, property and non-motor liability (public and employers).

In addition to the rural nature of the business and the individual risk limits, the chief mitigation for underwriting risk is reinsurance and the company utilises it as described in section A2 above.

The principle effect of quota share reinsurance is to reduce premium and reserve risk to £3.0m from an expected £5.6m without reinsurance under the standard formula before the application of diversification.

The principle effect of excess of loss insurance is a significant reduction of the gross, undiversified SCR for catastrophe from £26.4m to £2.2m.

C2 - Market risk

The market risk Cornish Mutual faces is that an adverse movement in the value of assets, such as interest rates or equity prices, is not matched by a correspondent movement in the value of liabilities.

Market risk under the standard formula represents the largest component of Cornish Mutual's SCR at £7.5m in the table above. The capitalisation of the company allows for this level of risk to be carried comfortably.

Our investment policy ensures that we have a suitable balance of assets. Testing of the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the SCR. Cornish Mutual makes wide use of collective investment funds. These collective funds are not operated under a mandate specific to Cornish Mutual. The funds have investment objectives and typically broad ranges for allocation within different asset classes. Accordingly the contribution of market risk to the SCR can be quite volatile. The SCR is monitored on a quarterly basis. Quarterly monitoring does not allow for timely adjustment and maintaining the SCR is required at all times. Accordingly, sensitivity analysis has been carried out to ensure the capital of the company can bear the capital charge which would arise if the funds trade at the upper end of their limits for the asset classes which attract the highest level of capital charge, most notably equities.

C3 - Counterparty risk

Counterparty risk arises from the risk of loss if another party fails to perform its obligations or fails to perform in a timely or appropriate fashion.

Given the reliance on reinsurance partners, counterparty risk is potentially significant for the Company. As well as our reinsurers, we also have exposure from banks, contractors, our investments and our Members.

As quantified in D1 below, Cornish Mutual has built up a reinsurance recoverable balance, primarily with quota share partners, which represents a concentration of a relatively small number of counterparties. Given the credit quality of those counterparties the SCR is relatively modest however the company recognises the potential for this risk and has significant mitigation in place to deal with counterparty risk and the related operational risk identified in C5 below. Additionally the 1 in 200 catastrophe risk faced by the company gives rise to a potential reinsurance recoverable of £26.4m as identified in C1 above under the standard formula calculation. The crystallisation of this additional recoverable amount is included within the calculation of the counterparty SCR.

There are significant controls in place to ensure that the risk is minimised:

Contractually we pay our reinsurers quarterly in arrears with the claims being paid out of the premiums which we collect.

Our reinsurers', as well as the retrocessionaires', Standard and Poor's ratings are monitored and their financial strength is reviewed annually.

The excess of loss treaties which could give rise to a significant recovery are placed with a panel of reinsurers to avoid excessive concentration.

C4 - Liquidity risk

The liquidity risk is the possibility that the business may be unable to meet its obligations as they fall due as a consequence of having insufficient accessible funds. Our reinsurance arrangements and the significant liquid assets the business holds, both controlled through appropriate policies, mean that the liquidity risk is not a significant risk as far as Cornish Mutual is concerned.

C5 - Operational risk

Operational risks are the most numerous ones faced by Cornish Mutual and they relate to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events, for example, a disruption to the business by natural catastrophe.

The range of operational risks, identified by the Board is captured in a risk register. The risk register is actively managed through a quarterly management risk committee (MRC) which monitors, quantifies and assigns actions on a quarterly basis. The activities of the MRC are supported through the operational organisation of the company and the MRC is subject to oversight by the Risk and Audit Committee and the Board, both which receive the minutes of MRC meetings.

In particular, given the reliance on reinsurance, any failure in the arrangement, placement or conduct of reinsurance activities in line with our contracts could have a material impact on the company.

Given their potential impact, particular focus is placed on such operational reinsurance risks by the Board with a variety of mechanisms in place to both mitigate their effect should they arise, and to prevent them arising in the first place. Multiple layers of review take place within the reinsurance process, primary wordings are reviewed in line with the reinsurance contracts and extensive training around acceptance criteria and limits is provided. In relation to claims there are further mitigating activities such as audit activity and the inclusion of reinsurers within the large loss committee to aid awareness of potential recoveries and scenarios under which specific notification is required.

All identified operational risks have a documented approach to the monitoring, control and mitigation of the risk according to the nature, scale and complexity of the risk.

Operational risk is quantified under the standard formula at £0.6m and the company has determined, through an examination of the operational risks it faces, that the operational SCR sufficiently captures a wide range of potential, independently operating risks on a probability weighted basis.

Additional information about our risk profile is available in Note 5 of the Annual Report and Accounts.

D. Valuation for solvency purposes

D1 - Assets

We set out below the basis for our Solvency II asset valuation for each material class of assets. Assets are measured on a market value basis at the balance sheet date of 30 September 2018. Except where stated, the valuations of other assets is in line with those disclosed in Note 3 of the annual report available on the Cornish Mutual website.

Assets	Solvency II	Statutory GAAP Acounts
	£	£
Property, plant & equipment held for own use	2,680,447	2,680,447
Holdings in related undertakings, including participations	3	3
Collective Investment Undertakings	29,075,719	29,075,719
Reinsurance recoverables	8,957,180	12,987,294
Insurance and intermediaries receivables	0	5,683,152
Reinsurance receivables	3,318,003	3,318,003
Cash and cash equivalents	647,821	647,821
Any other assets, not elsewhere shown	234,861	341,789
Total Assets	**44,914,034**	**54,734,228**

Property

Freehold property is valued for Solvency II purposes on the same basis as the annual Financial Statements, which follow UK GAAP. Full valuations are made by an independent, professionally qualified valuer every three years. A valuation took place on 30 September 2017.

Plant and equipment is held at historical cost less depreciation which has been judged to be equivalent to fair value. The difference in Any Other Assets relates to balances that have been moved to Technical Provisions under Solvency II.

Holdings in related undertakings, including participations

Under Solvency II, the holding in related undertakings is valued using the adjusted equity method. This is the same as UK GAAP which requires the related undertaking to be valued at net present value (NPV). As the undertaking is in run-off, there is considered to be no future profits and the NPV is considered to be the net asset value.

Investments

Our investments are valued on a Solvency II basis. Fair value is based on quoted bid prices on 30 September 2018.

As at 30 September 2018 the total value of investment assets was £31.35 million, analysed as follows:

	£M
Collective investments funds	29.08
Freehold property partially occupied	2.27
Total investments	**31.35**

During the financial year the majority of the portfolio was invested in the Insight Broad Opportunities Fund. The fund is a multi-asset fund with a wide-ranging mix of investment classes and assets. This fund aims to deliver positive returns over the medium term while minimising losses. The manager has freedom to make significant asset allocation decisions. The Fund targets a return based on a percentage in excess of LIBOR (a technical measure for the return expected from cash holdings), and is measured against its own absolute return targets as opposed to a benchmark.

In October 2017 we finalised the liquidation of the remaining Equities portfolio managed by Quilters and commenced the transfer of the assets to appropriate collective investment funds managed by Insight. In addition to the Insight Broad Opportunities fund, in January 2018 we invested £6.0m into the Insight managed BNY Mellon Absolute Return Bond Fund. This fund seeks to provide a positive absolute return in all market conditions, over a rolling 12-month period, by investing primarily in debt and debt-related securities and instruments located worldwide and in financial derivative instruments relating to such securities and instruments. The Fund targets a return based on a percentage in excess of 3 Months EURIBOR (a further technical measure for the return expected on cash holdings).

We undertook this investment in order to gain exposure to a broader range of investment strategies and fund manager views within Insight. As a result, all of our holdings of long-term investment funds have a focus on capital preservation and the management of risk. The Committee recognises and has actively sought to reduce the overall level of risk and volatility our investment portfolio is exposed to. While this is expected to reduce the return profile of the portfolio moving forwards we consider this to be appropriate given the importance of preserving Member's Funds while growing these in real terms.

As part of maintaining liquidity we hold specific liquidity funds within our collective investment funds. The Company maintains sufficient cash balances to meet short-term liabilities.

Reinsurance recoverable (Reinsurers' share of technical provisions)

Under the Solvency II balance sheet the reinsurers' share of technical provisions are valued as part of net technical provisions. This has been calculated as the reinsurers' share of the unearned premium provision multiplied by the expected claim rate for each Solvency II line of business.

Insurance and intermediaries receivables

Under GAAP these figures relate primarily to the amount owed to us by Members through direct debits. However, under Solvency II, these amounts are included as part of premium provisions within Technical Provisions and therefore do not feature within Solvency II assets. This represents one of the most significant differences between the GAAP and Solvency II technical provisions.

Reinsurance receivables

Reinsurance receivables primarily relate to the amount owed to us from our reinsurers arising from claims payments made or profit share due. The difference between the Solvency II amount and GAAP figure relates to an unexpired minimum reinsurance commitment from one reinsurer. However, it is excluded from the Solvency II figures because it has no future cash flow.

Other Assets

Remaining assets not covered above have the same carrying value in the Solvency II and the GAAP balance sheet.

D2 - Technical provisions

Components of 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 to be calculated separately:

- Best estimate of claims provisions being claims incurred at the balance sheet date
- Best estimate of premium provision being claims expected to be incurred after the balance sheet date on contracts incepted prior to that date.
- Risk Margin representing the amount a third party would require in addition to the best estimates to assume the liability, calculated on a cost of capital basis.

	Technical Provisions	
Description	Per Solvency II	Per GAAP
	£	£
Technical Provisions	15,431,407	25,895,272
Risk Margin	495,308	
Total Technical Provisions	**15,926,715**	**25,295,272**

We set out in the table below a summary of the Solvency II valuation of technical provisions split between best estimate and risk margin in the table below by Solvency II line of business.

	Direct business and accepted proportional reinsurance					
	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	General liability insurance	Total
Technical provisions calculated as a sum of Best Estimate and Risk Margin	C0050	C0060	C0080	C0090	C00130	C0180
Best Estimate						
Premium Provisions						
Gross - Direct Business	751,682	1,325,230	1,027,270	558,229	18,109	3,680,521
Total Recoverable from Reinsurance	221,622	1,348,573	1,295,694	441,024	0	3,306,913
Net Best Estimate of Premium Provisions	530,060	(23,343)	(268,424)	(117,206)	18,109	373,608
Claims Provisions						
Gross - Direct Business	2,245,754	3,130,495	4,717,678	1,628,500	28,459	11,750,886
Total Recoverable from Reinsurance	676,889	1,101,226	3,004,309	863,166	4,677	5,650,267
Net Best Estimate of Claims Provisions	1,568,865	2,029,268	1,713,369	765,335	23,782	6,100,619
Total Best Estimate - Gross	2,997,436	4,455,725	5,744,949	2,186,730	46,568	15,431,407
Total Best Estimate - Net	2,098,925	2,005,925	1,444,945	882,540	41,891	6,474,227
Risk Margin	141,015	112,331	163,357	72,797	5,808	495,308
Technical Provisions - Total	3,138,451	4,568,055	5,908,306	2,259,527	52,375	15,926,715
Recoverable from Reinsurance	898,511	2,449,799	4,300,004	1,304,189	4,677	8,957,180
Technical Provisions minus Recoverables	2,239,940	2,118,256	1,608,303	955,338	47,698	6,969,535

Gross claims cash flows and reinsurance recoveries

Our best estimate calculations have been completed on a deterministic basis in line with the Directive. No transitional measure has been used in the calculation of technical provisions.

1. **Claims provision**

   The current claims provisions have been developed over time to separate out best estimate and prudent elements. The claims provisions on a GAAP basis have been used as a starting point for the expected nominal value of the Solvency II future cash flow. We have excluded elements within our GAAP provisions which we consider to represent prudence. We have also only included expenses which relate to the cost of handling existing business.

   Projected cash flows are estimated by applying payment patterns to the estimates of gross claims and recoveries. These payment patterns have been calculated based on historic trends for each Solvency II line of business. However, given the relatively short tail nature of our book, the impact of discounting on our technical provisions is limited.

2. **Premium provision**

   Premium provision replaces UK GAAP unearned premium reserve (UEPR). Premium provisions are split between a future claims element and a future expenses element. In addition, all of CM premium, which is uncollected due to instalment patterns is treated as premium provision. The rationale is that all instalment patterns are designed so that Members are effectively in credit with respect to insurance exposure. To determine the nominal amount of future claims we take the amount of UEPR for each segment within the GAAP accounts and multiply it by the planned loss ratio for the current year. The loss ratios used are in line with Solvency II guidance. We have included an amount for expenses which represents our estimate of the cost of handling the remaining element of this business.

Discounting

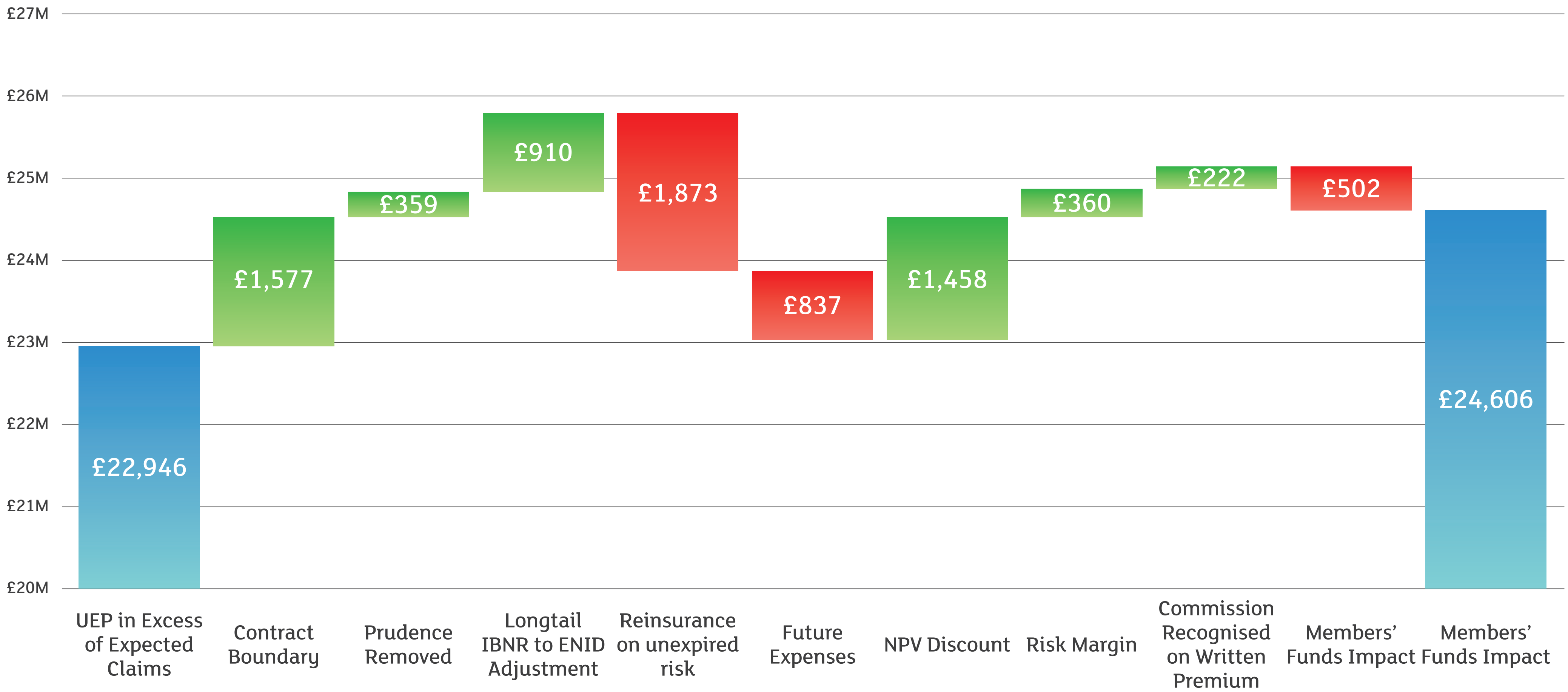
Claims, premium and expense cash flows have been discounted using the EIOPA yield curve.

Risk Margin

To calculate the risk margin we have estimated the SCR using the Standard Formula. We have then projected future SCRs using different runoff patterns for different elements of the SCR. We have discounted and summed the projected SCRs and multiplied this by the cost of capital.

Solvency II Adjustments Impact on Members' Funds

We set out in the graph below a reconciliation between GAAP Members' Funds and Solvency II Members' Funds all of which are derived from movements in Technical Provisions which are in line with expectations.



UEP in Excess of Expected Claims

In the statutory financial statements, unearned premium (UEP) is deferred to the extent that it relates to unexpired term of each policy. Under Solvency II, all premium is recognised and the future expected value of claims is provided for. This adjustment represents the difference between the two approaches.

Contract Boundary

Under Solvency II the recognition of insurance contracts is extended to include policies on which terms have been agreed even if the renewal date lies in the future. This is the estimate of the effect on technical provisions of including these contracts.

Prudence removed and long tail IBNR to ENID adjustment

Under UK GAAP the inclusion of prudence is permitted within the technical provisions whereas within the Solvency II balance sheet, provisions are made on the probability weighted best estimate of future cash flows. These two adjustments take account of this different policy. ENID is Events Not In Data and is an estimate of claims which might occur that lie outside of the provisions which have been estimated using existing historical data. We have used the cost of reinsurance as a reference point for ENIDs. Our logic is that material tail events which would change technical provisions are likely to arise in liability classes which are covered by reinsurance. While not in our data, these events are likely to be in reinsurer data or priced in. Accordingly the starting point for our ENIDs is an interpolation from the amount paid to reinsurers for excess of loss cover in relation to liability classes.

Future Expenses

This is an accrual of the expected cost of expenses required to discharge the provisions within technical provisions.

NPV Discount (Net Present Value)

The technical provisions are allocated over future periods in which the cash flows are expected to occur. The cash flows in future periods are discounted at a prescribed rate to reflect the ‘time value of money’. This is the effect of that discount.

Risk Margin

The technical provisions are an estimate of what the company would have to pay a third party to assume the insurance liabilities. A third party would need to hold capital to meet regulatory conditions if they assumed these liabilities. The risk margin is the extra amount the third party would require to accept the liabilities and represents a 6% annual cost of capital on the reducing balance of regulatory capital required.

Commission Recognised on Written Premium

Under Solvency II, all profit on existing contracts is recognised in the period. In the annual statements the commission relating to unearned premium (UEP) is also deferred. In line with the adjustment to premium, the related commission is also recognised in the Solvency II net assets.

Data adjustments and recommendations

Overall we consider that the technical provisions are prepared on a suitable basis, in line with the approach laid down in the legislation and sources of interpretation we have referred to. 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.

Sensitivity Analysis

The following table lays out the key components of the TPs. For each component there is a sensitivity column which gives an idea of the degree of confidence in each number. There are three key sources of sensitivity: uncertainty, volatility and model inaccuracy. The sensitivities quoted are against the intended calculated value of TPs prescribed in the directive. It is not a view on the result as a measure of the fair value of the liabilities. For example the risk margin methodology is prescribed as a cost of capital calculation at the rate of 6%. The sensitivity below is a reflection of confidence in the calculation of this item rather than its appropriateness as a method.

Uncertainty arises in incurred claims where the final outcome is not known.

Volatility arises in future claims cost expectations, particularly large claims. The impact of quota share is to reduce the net exposure and the nominal amount of sensitivity of the calculated technical provisions. The exception to this is on large motor claims where CM retains 80%.

Model inaccuracy arises in incorrect assumptions or calculations. The sensitivity captured here is the difference to the intended model rather than overall model inaccuracy. The main source of model inaccuracy is the estimate of the allocated expense nominal cash amount. ENIDs also represent a challenge in arriving at a well-supported number.

Element of TP	Value £M	Sensitivity Estimate	£M	Source of Sensitivity	Notes
Claims Provisions small - net	2.6	5%	0.13	Accuracy of savings model. High volume low value claims are subject to accurate statistical analysis and capable of achieving accurate results	Analysis of run-off of aggregate small claims cost. High confidence in figure.
Claims Provisions large - net	3	15%	0.45	Accuracy subject to expert judgement.	High volatility in large claims run off but small net figure. Original best estimate error lies in case estimate.
Expenses - claims	0.3	3%	0.009		Cost of settling outstanding 1500 claims
Premium Provisions small	3.5	5%	0.175	Underling volatility in each class of business.	Uncertainty higher as not yet incurred. Looked at LR volatility over time for portfolio
Contract boundary	0.6	3%	0.018	Estimated premiums	
Premium provisions large	0.4	15%	0.06		
Expenses - premium	1.8	15%	0.27	Uncertainty over the method is the main source of uncertainty	Lack of prescribed methods in directive.
Reinsurer payments	1.9	3%	0.057	This is the future cost of unexpired risk based on existing contracts so known figure.	
Future Premium policyholders	(7.8)	1%	(0.078)	Absolute number.	
ENIDs	0.4	50%	0.2	Inherent uncertainty.	Unknown but low on a probability weighted basis. Record gross and net.
Effect of discounting	(0.2)	3%	(0.006)	Uncertainty is driven by cash flow profiles. Short tail book is relatively insensitive.	Immaterial; pure estimate of 25%
Reinsurer default	0		0	No allowance made at this stage.	Not material
BEST ESTIMATE	6.5		1.285	Sum of individual sensitivities	
Risk Margin	0.5	10%	0.05		
TOTAL	7	Sensitivity Estimate	0.613	Diversified uncertainty - square root of sum of squares of individual sensitivities	Notes

D3 - Other liabilities

Set out in the table below are our other liabilities under Solvency II and GAAP. Except where stated, the valuations of liabilities is in line with those disclosed in Note 3 of the annual report available on the Cornish Mutual website.

	Liabilities	
Description	Per Solvency II	Per GAAP
	£	£
Reinsurance Payables	3,055,141	3,340,607
Payables (trade, not insurance)	1,318,851	1,017,877
Pension benefit obligations	0	0
Deferred tax liabilities	0	0
Any other liabilities, not shown elsewhere	0	1,534,407
Total Liabilities	**4,373,992**	**5,892,891**

Any other liabilities in the GAAP accounts represents commission income unearned on the unearned proportion of premium ceded to reinsurers. Within the Solvency II balance sheet these amounts are recognised on a written basis and all associated commission has been taken to Members' Funds rather than remain outstanding within liabilities.

Deferred tax liabilities

Deferred tax liabilities are recognised where transactions or events have occurred at the balance sheet date that will result in an obligation to pay tax in the future.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

The deferred tax liability held in the balance sheet at the reporting date is made up as follows:

	2018	2017
	£	£
Unrealised gains on investments	-	178,284
Capital Allowances in excess of depreciation	7,002	5,293
Tax losses carried forward	(80,669)	(6,736)
Undiscounted deferred tax liability	**(73,667)**	**176,841**
Deferred tax asset recognised in other debtors	-	-
Net deferred tax liability	**(73,667)**	**176,841**
Net provision for liability at start of period	176,841	64,226
Deferred tax charge in profit and loss	-	26,355
Deferred tax credit in other comprehensive income	176,841	86,260
Provision for liability at the end of the period	**-**	**176,841**

When realised, the untaxed gains on investments can be offset against the carried forward losses. No specific date has been set for sale of the assets but it is envisaged that these timing differences will expire within the next 3 years.

Pension benefit obligations

The Cornish Mutual Assurance Company Limited operates a defined benefit pension scheme (the Cornish Mutual Assurance Company Limited Staff Pension Scheme), the assets of which are held in a trustee's bank account and invested with Legal and General.

An actuarial valuation of the scheme, on an FRS102 basis, was carried out as at 30 September 2017. The valuation of the scheme used the projected unit credit method and was carried out by Barnett Waddingham LLP who are professionally qualified actuaries. This valuation basis is the same as the Solvency II basis.

The major assumptions used by the actuary at the balance sheet date were:	2018
Rate of increase in pensions in payment	3.60%
Discount rate	2.90%
Inflation assumption	3.60%

The amounts recognised in the statement of financial position were are as follows:	2018
	£000's
Fair value of assets	9,493
Present value of funded obligations basic calculation	(7,843)
Surplus /(Deficit) in scheme	1,650
Restriction to surplus	(1,650)
Net Pension (Deficit)	nil

The composition of the fair value of the plan assets can be summarised as follows:	2018
Equity instruments	34%
Multi-asset Funds	18%
ARB Funds	15%
Cash	3%
Liability Driven Investment	30%

E. Capital management

E1 - Own Funds

Cornish Mutual's Own Funds are made up 100% of Members' Funds which equal 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 Cornish Mutual's own funds to support the MCR or SCR.

Cornish Mutual has adopted the Standard formula as the basis for calculating its solvency capital requirement. The Board have a policy which determines the level of surplus capital it holds in addition to the SCR, currently determined at 150% of MCR. The expectation of meeting the SCR and the higher internal capital requirement in future periods is tested annually.

The Company produces a five year plan with a forecast balance sheet for each year. Two core scenarios are modelled, one assuming existing reinsurance arrangements and a second assuming that quota share reinsurance cover ceases but existing excess of loss cover is maintained. These reinsurance types are explained on page 8.

The balance sheet for each scenario is subject to stress testing as our Regulator would expect, to ensure they would meet regulatory capital requirements at each future period. Additionally we test these future balance sheets against our own internal capital standard.

As a mutual the Company does not set out to make a specific return on capital. Rather it seeks to use its capital for the benefit of Members by delivering a high quality and cost effective service. The Company does not return capital to Members through any specific distribution mechanism. Accordingly, premiums are maintained at a level which allows for sustainable growth and provides a reasonable expectation that Own Funds meet the capital appetite described above, without generating excessive profits over the five year planning period.

E2 - Minimum Capital Requirement and Solvency Capital Requirement

Cornish Mutual uses the standard formula as the basis for calculating capital requirements having reviewed the assumptions underlying the formula and assessed them as appropriate for the firm. We have not adopted any simplified calculations or undertaking specific parameters (USPs). Set out below is a summary of Own Funds, which also includes the appendix reference where a more detailed breakdown can be found.

Description	2018 Per Solvency II	2018 Per GAAP	Appendix Reference
	£	£	
Own Funds	24,613,327	22,946,065	S.23.01.b
Minimum Capital Requirement	3,250,561		S.28.01.b
Solvency Capital Requirement	10,344,294		S.25.01.b
Solvency Ratio	**238%**		

Description	2017 Per Solvency II	2017 Per GAAP	Appendix Reference
	£	£	
Own Funds	24,758,591	23,383,721	
Minimum Capital Requirement	2,946,337		
Solvency Capital Requirement	11,785,348		
Solvency Ratio	**210%**		

Set out below is a summary of our overall MCR Calculation.

Overall MCR Calculation	£
Linear MCR	1,456,864
SCR	10,344,294
MCR cap	4,654,932
MCR floor	2,586,073
Combined MCR	2,586,073
Absolute floor of the MCR	3,250,561
Minimum Capital Requirement	**3,250,561**

S.02.01.02
Balance Sheet

Assets	Solvency II value
	C0010
Goodwill	0
Deferred acquisition costs	0
Intangible assets	0
Deferred tax assets	0
Pension benefit surplus	0
Property, plant & equipment held for own use	2,680,447
Investments (other than assets held for index-linked and unit-linked contracts)	29,075,722
Property (other than for own use)	0
Holdings in related undertakings, including participations	3
Equities	0
Equities - listed	0
Equities - unlisted	0
Bonds	0
Government Bonds	0
Corporate Bonds	0
Structured notes	0
Collateralised securities	0
Collective Investments Undertakings	29,075,719
Derivatives	0
Deposits other than cash equivalents	0
Other investments	0
Assets held for index-linked and unit-linked contracts	0
Loans and mortgages	0
Loans on policies	0
Loans and mortgages to individuals	0
Other loans and mortgages	0
Reinsurance recoverables from:	8,957,180
Non-life and health similar to non-life	8,957,180
Non-life excluding health	8,957,180
Health similar to non-life	0
Life and health similar to life, excluding index-linked and unit-linked	0
Health similar to life	0
Life excluding health and index-linked and unit-linked	0
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	0
Reinsurance receivables	3,318,003
Receivables (trade, not insurance)	0
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	647,821
Any other assets, not elsewhere shown	234,861
Total assets	**44,914,034**

Liabilities	Solvency II value
	C0010
Technical provisions - non-life	15,926,715
Technical provisions - non-life (excluding health)	15,926,715
TP calculated as a whole	0
Best Estimate	15,431,407
Risk margin	495,308
Technical provisions - health (similar to non-life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	0
Technical provisions - health (similar to life)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding health and index-linked and unit-linked)	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - index-linked and unit-linked	0
TP calculated as a whole	0
Best Estimate	0
Risk margin	0
Other technical provisions	0
Contingent liabilities	0
Provisions other than technical provisions	0
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	0
Derivatives	0
Debts owed to credit institutions	0
Financial liabilities other than debts owed to credit institutions	0
Insurance & intermediaries payables	0
Reinsurance payables	3,055,141
Payables (trade, not insurance)	1,318,851
Subordinated liabilities	0
Subordinated liabilities not in BOF	0
Subordinated liabilities in BOF	0
Any other liabilities, not elsewhere shown	0
Total Liabilities	**20,300,707**
Excess of Assets over Liabilities	**24,613,327**

S.05.01.02
Premiums, claims and Expenses by Line of Business

	Line of Business					
	Motor Liability	Motor Damage	Property	Liability	Miscellaneous	Total
	C0040	C0050	C0070	C0080	C0120	C0200
Premiums written						
Gross - Direct Business	3,263,428	9,790,285	8,175,587	2,041,959	165,411	23,436,671
Reinsurers' share	1,597,977	4,793,931	5,137,016	1,307,401	17,800	12,854,126
Net	1,665,451	4,996,354	3,038,571	734,558	147,611	10,582,545
Premiums earned						
Gross - Direct Business	3,199,656	9,598,969	7,913,180	2,106,223	182,805	23,000,833
Reinsurers' share	1,501,314	4,503,943	5,027,910	1,330,255	28,259	12,391,682
Net	1,698,342	5,095,026	2,885,271	775,968	154,545	10,609,151
Claims incurred						
Gross - Direct Business	1,680,660	5,041,979	6,090,887	622,369	112,328	13,548,223
Reinsurers' share	644,093	1,932,278	3,769,651	321,678	5,717	6,673,417
Net	1,036,567	3,109,702	2,321,236	300,690	106,612	6,874,806
Changes in other technical provisions						
Reinsurers' share	0	0	0	0	0	0
Net	0	0	0	0	0	0
Expenses incurred	1,002,456	3,007,368	2,532,245	632,808	49,631	7,224,508
Other expenses						0
Total expenses						7,224,508

S.05.02.01
Premiums, Claims and Expenses by Country

	C0010	C0070
	Home Country	Total Top 5 and Home Country
	C0080	C0140
Premiums written		
Gross - Direct Business	23,436,671	23,436,671
Reinsurers' share	12,854,126	12,854,126
Net	**10,582,545**	**10,582,545**
Premiums earned		
Gross - Direct Business	23,000,833	23,000,833
Reinsurers' share	12,391,682	12,391,682
Net	**10,609,151**	**10,609,151**
Claims incurred		
Gross - Direct Business	13,548,223	13,548,223
Reinsurers' share	6,673,417	6,673,417
Net	**6,874,806**	**6,874,806**
Changes in other technical provisions		
Reinsurers' share	0	0
Net	**0**	**0**
Expenses incurred	7,224,508	7,224,508
Other expenses	0	0
Total expenses	7,224,508	7,224,508

S.17.01.02
Premiums, claims and Expenses by Line of Business

	Direct Business and Accepted Proportional Reinsurance					
	Motor Liability	Motor Damage	Property	Liability	Miscellaneous	Total
	C0040	C0050	C0070	C0080	C0120	C0200
Technical Provisions calculated as a Whole	0	0	0	0	0	0
Total Recoverable from Reinsurance	0	0	0	0	0	0
Technical Provisions calculated as a sum of BE and RM						
Best Estimate						
Premium Provisions						
Gross - Total	751,682	1,325,230	1,027,270	558,229	18,109	3,680,521
Total Recoverable from Reinsurance	221,622	1,348,573	1,295,694	441,024	0	3,306,913
Net Best Estimate of Premium Provisions	530,060	(23,343)	(268,424)	117,206	18,109	373,608
Claims Provisions						
Gross - Total	2,245,754	3,130,495	4,717,678	1,628,500	28,459	11,750,886
Total Recoverable from Reinsurance	676,889	1,101,226	3,004,309	863,166	4,677	5,650,267
Net Best Estimate of Premium Provisions	1,568,865	2,029,268	1,713,369	765,335	23,782	6,100,619
Total Best Estimate - Gross	2,997,436	4,455,725	5,744,949	2,186,730	46,568	15,431,407
Total Best Estimate - Net	2,098,925	2,005,925	1,444,945	882,540	41,891	6,474,227
Risk Margin	141,015	112,331	163,357	72,797	5,808	495,308
Technical Provisions - Total	3,138,451	4,568,055	5,908,306	2,259,527	52,375	15,926,715
Recoverable from Reinsurance	898,511	2,449,799	4,300,004	1,304,189	4,677	8,957,180
Technical Provisions minus Recoverables	2,239,940	2,118,256	1,608,303	955,338	47,698	6,969,535

S.19.01.21
Non-Life insurance claims

Total Non-life business

Accident year

Gross Claims Paid (Non-Cumulative)

(absolute amount)

	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Year	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10+		
Prior											(7,238)	(7,238)	(7,238)
N-9	6,201,745	2,259,452	650,163	234,247	134,117	66,541	79,527	0	0	5,000		5,000	9,630,792
N-8	5,538,415	2,080,672	886,670	328,893	971,601	112,837	8,892	0	2,143			2,143	9,930,123
N-7	6,067,425	2,519,186	632,102	520,366	979,755	759,995	46,878	120,921				120,921	11,646,629
N-6	6,907,309	3,001,870	1,018,002	690,294	2,458,880	541,081	12,869					12,869	14,630,305
N-5	6,775,245	2,899,433	501,573	566,046	460,536	122,125						122,125	11,324,958
N-4	8,726,016	3,775,430	459,665	263,732	281,662							281,662	13,506,506
N-3	5,377,225	2,929,591	740,604	655,367								655,367	9,702,787
N-2	6,183,726	3,038,254	625,581									625,581	9,847,597
N-1	6,230,272	3,134,766										3,134,766	9,365,038
N	8,545,703											8,545,703	8,545,703
												13,498,900	108,123,200

Gross undisclosed Best Estimate Claims Provisions

(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Year	Development year											Year end (discounted)
	0	1	2	3	4	5	6	7	8	9	10+	
Prior											313,407	0
N-9	3,234,572	933,101	407,701	374,672	312,015	147,906	40,000	40,000	40,000	15,000		1,683
N-8	3,522,319	2,597,920	2,259,134	2,018,531	103,958	0	0	0	0			1,740
N-7	4,239,078	2,695,753	2,422,785	1,964,559	1,035,951	75,501	244,957	98,988				4,122
N-6	5,763,173	4,494,862	4,376,139	3,692,817	606,952	49,761	2,000					47,449
N-5	4,368,591	2,018,358	1,822,887	1,241,222	417,986	64,383						310,397
N-4	6,186,595	1,145,699	1,405,859	580,665	192,130							630,414
N-3	5,584,529	1,769,179	1,318,760	461,594								748,861
N-2	5,816,424	2,068,339	1,250,434									1,075,563
N-1	6,744,669	3,167,229										2,508,271
N	6,390,373											6,422,388
											Total	11,750,886

S.23.01.01
Own Funds ('000s)

Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	0	0		0	
Share premium account related to ordinary share capital	0	0		0	
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	24,613,327	24,613,327			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	0				0
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	0

Deductions					
Deductions for participations in financial and credit institutions	0	0	0	0	0

Total basic own funds after deductions	24,613,327	24,613,327	0	0	0

Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0			0	
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	
Unpaid and uncalled preference shares callable on demand	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
Other ancillary own funds	0			0	0
Total ancillary own funds	0			0	0

S.23.01.01
Own Funds ('000s)
Continued

Basic own funds before deduction for participants in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	C0010	C0020	C0010	C0020	C0020
Available and eligible own funds					
Total available own funds to meet the SCR	24,613,327	24,613,327	0	0	0
Total available own funds to meet the MCR	24,613,327	24,613,327	0	0	
Total eligible own funds to meet the SCR	24,613,327	24,613,327	0	0	0
Total eligible own funds to meet the MCR	24,613,327	24,613,327	0	0	

SCR	10,344,294
MCR	3,250,561
Ratio of Eligible own funds to SCR	238%
Ratio of Eligible own funds to MCR	757%

Reconciliation reserve	
Excess of assets over liabilities	24,613,327
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	0
Other basic own fund items	0
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	24,613,327

Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	0
Expected profits included in future premiums (EPIFP) - Non-Life business	0
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	C0080	C0090
Market risk	7,457,944		11,802
Counterparty default risk	453,786		
Life underwriting risk	0	0	0
Health underwriting risk	0	0	0
Non-life underwriting risk	4,213,362	0	0
Diversification	(2,486,892)		
Intangible asset risk	0		
Basic Solvency Capital Requirement	9,638,200		

Calculation of Solvency Capital Requirement	C0100
Operational risk	690,025
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	16,069
Capital requirement for business operated in accordance with Art.4 of Directive 2003/41/EC	0
Solvency Capital Requirement excluding capital add-on	10,344,294
Capital add-ons already set	0
Solvency capital requirement	10,344,294

Other information on SCR	
Capital requirement for duration-based equity risk sub-module	0
Total amount of Notional Solvency Capital Requirements for remaining part	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01
Minimum Capital Requirement ('000s)

Linear formula component for non-life insurance and reinsurance obligations

	C0010
MCR Result	1,456,864

	Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
Medical expense insurance and proportional reinsurance	0	0
Income protection insurance and proportional reinsurance	0	0
Workers' compensation insurance and proportional reinsurance	0	0
Motor vehicle liability insurance and proportional reinsurance	2,098,925	1,721,025
Marine, aviation and transport insurance and proportional reinsurance	2,005,925	5,163,076
Fire and other damage to property insurance and proportional reinsurance	0	0
General liability insurance and proportional reinsurance	1,444,945	3,049,561
General liability insurance and proportional reinsurance	882,540	746,263
Credit and suretyship insurance and proportional reinsurance	0	0
Legal expenses insurance and proportional reinsurance	0	0
Assistance and proportional reinsurance	0	0
Miscellaneous financial loss insurance and proportional reinsurance	41,891	147,611
Non-proportional health reinsurance	0	0
Non-proportional casualty reinsurance	0	0
Non-proportional marine, aviation and transport reinsurance	0	0
Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations

	C0070
MCR Result	0

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

Overall MCR calculation

	C0040
Linear MCR	1,456,864
SCR	10,344,294
MCR cap	4,654,932
MCR floor	2,586,073
Combined MCR	2,586,073
Absolute floor of the MCR	3,250,561
Minimum Capital Requirement	**3,250,561**