



SOLVENCY AND FINANCIAL CONDITION REPORT

BRITISH GAS INSURANCE LIMITED

Year Ended 31 December 2020

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SUMMARY

(Unaudited)

Coronavirus Update

On 11 March 2020, a global pandemic (“Covid-19”/ “the pandemic”) was declared by the World Health Organisation. In the UK, this resulted in the Coronavirus Act 2020 which placed wide-ranging restrictions on freedom of movement. Since the date of reporting of 31 December 2020, there has been a further national lockdown with similar restrictions. Following the deployment of the vaccination programme the UK government published “Covid-19 Response – Spring 2021” on 22 February 2021 which sets out the roadmap out of lockdown. Restrictions started easing in England from 8 March 2021 and from 22 February 2021 in Wales and Scotland.

We are following relevant advice from the government and health organisations and we continue to focus on looking after the health and safety of our employees and our customers. Depending on prevailing circumstances, the fulfilment of non-essential visits may be rescheduled but service engineers continue to support core insurance activities including attending emergencies such as no heating or hot water.

Covid-19 has caused widespread disruption to businesses and economic activity. This has caused fluctuations in the UK and global financial markets, but our investment policy means our funds have been largely unaffected by these movements.

The information presented in this report is as at 31 December 2020. Our financial and liquidity positions are regularly monitored and remain robust.

BUSINESS

British Gas Insurance Limited underwrites general insurance risks in England, Scotland and Wales, within the Solvency II assistance¹ class of business. The HomeCare range covers the breakdown of domestic boilers and central heating systems, as well as options to cover plumbing & drains and home electrics. We also offer appliance cover.

We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

British Gas Insurance Limited is part of the Centrica Group. Business is introduced to us by our sister company, British Gas Services Limited, who are authorised and regulated by the Financial Conduct Authority. British Gas Services Limited undertake sales & marketing, product design and retail pricing. They also deal with claims handling & fulfilment, policy administration and complaints handling on our behalf.

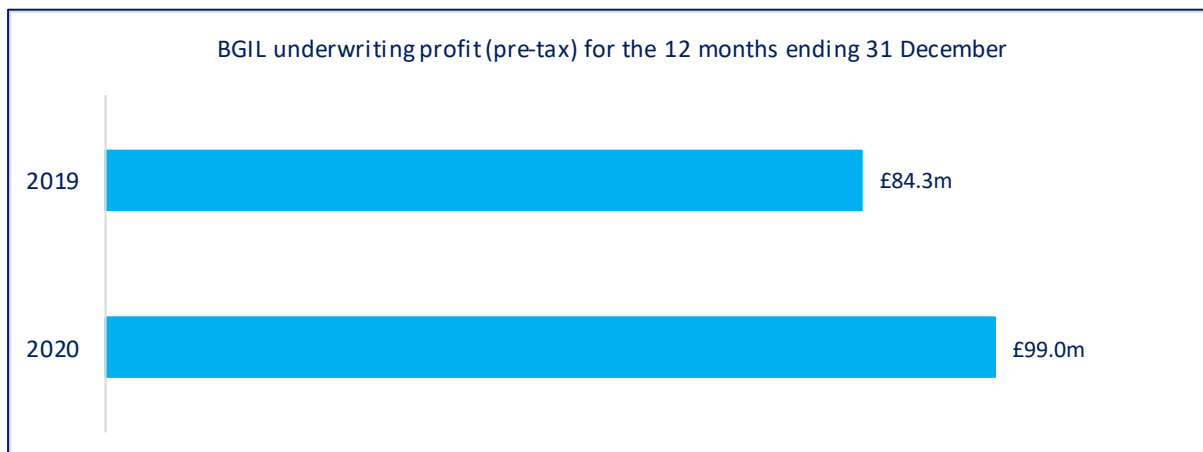
UNDERWRITING PERFORMANCE

Our underwriting profit is higher in 2020 compared to 2019 partly reflecting warmer weather in the year resulting in lower boiler and central heating claims and partly reflecting changes in the contractual arrangements between British Gas Insurance Limited and British Gas Services Limited which benefitted us in 2020.

Some of the increase is due to the rescheduling of non-essential visits from 2020 to 2021 as a result of reduced access to customers’ homes during periods of lockdown but we expect a similar reduction in profit in 2021 as the rescheduled non-essential work is completed.

Section A has more information on our business and performance.

¹ Customers can also arrange home insurance through British Gas but we do not underwrite it and so this report does not cover home insurance.



SYSTEM OF GOVERNANCE

Governance is provided through the Board, and through its delegated authority, its sub-committees and Executive committees.

We have a robust risk management system in place to identify, measure, monitor, manage and report on the risks to our business strategy and delivery of our objectives. We operate a ‘three lines of defence’ governance model to ensure appropriate segregation of risk ownership, oversight and assurance responsibilities.

- First line: ownership of risk taking and risk management in respect of business as usual activities, change programmes and strategy.
- Second line: protecting and enabling the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.
- Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

Section B has more information on our system of governance.

RISK PROFILE

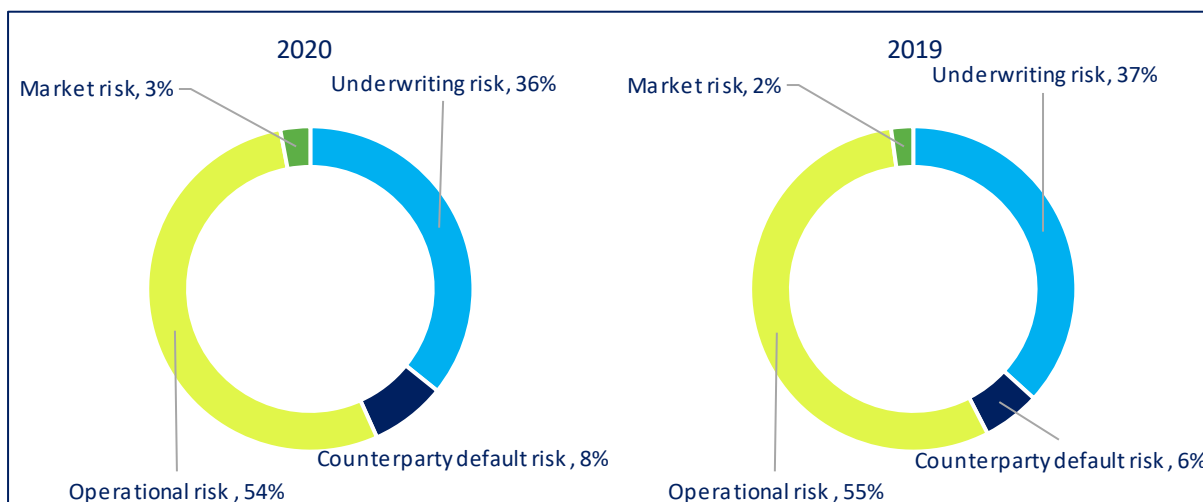
Operational risk and underwriting risk remain our key risks. Cold weather risk is our biggest underwriting risk and how British Gas Services Limited deal with customers drives our operational risk.

Like most companies, our operational risk is currently heightened due to the pandemic. Although service engineers continue to support core insurance activity including attending emergencies such as no heating or hot water, some non-essential activity is being rescheduled due to rules in place during lockdown periods.

Compared to many other insurers, our operational risks represent a bigger proportion of our total risk profile. This is a feature of our comparatively low underwriting risk due to the quick settlement of claims at a fixed unit cost per claim. We also have low market risk due to our low risk investment strategy.

The adverse impact of post-Brexit trading is expected to be limited as we do not export products and services to EU countries, nor do we have material exposures to currency or interest rate risks.

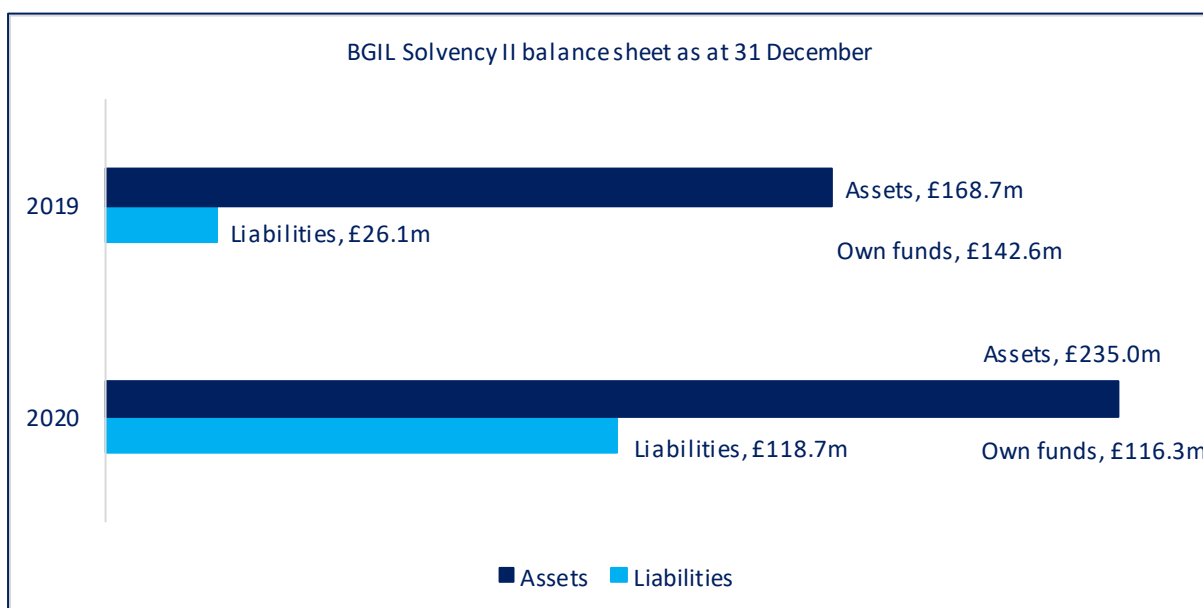
Further information is in Section C.



2

VALUATION FOR SOLVENCY PURPOSES

The increase in profit in 2020 means that we owe British Gas Services Limited more profit commission at the year-end and this is reflected in our assets and liabilities at that date. Our own funds (excess of assets over liabilities) have decreased reflecting a decrease in expected profit for 2021³. Further information on assets and liabilities is provided in section D.



CAPITAL MANAGEMENT

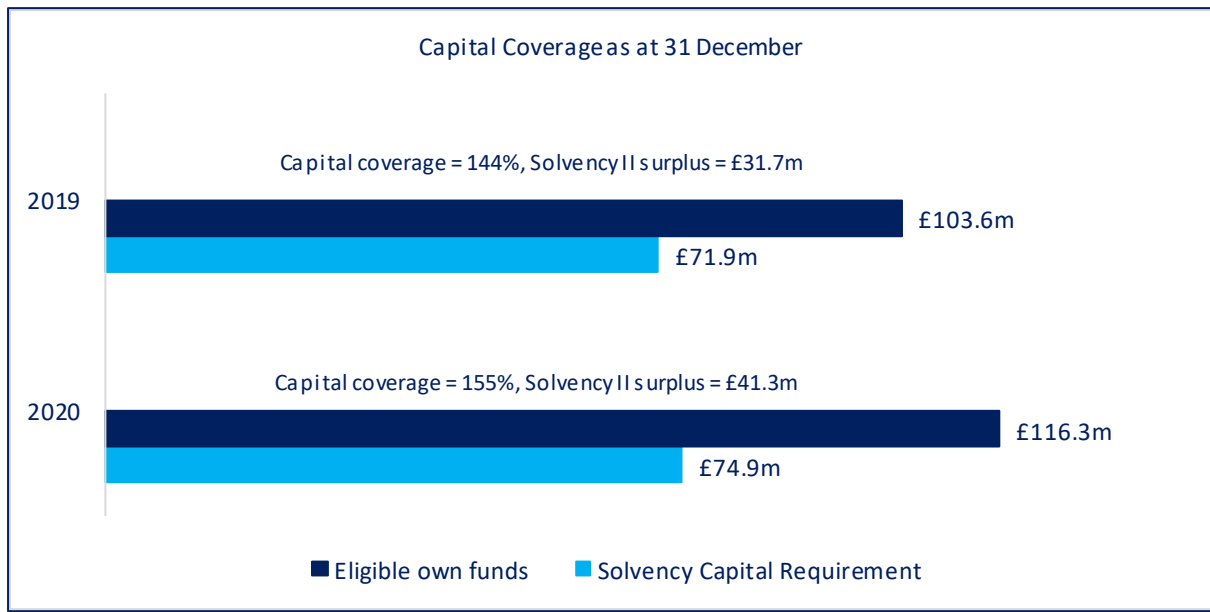
Our aim is to maintain sufficient capital to meet claims as they fall due, protect the interests of customers and meet operational needs and regulatory requirements. We hold capital resources above the regulatory capital requirement to ensure that the business remains adequately capitalised to remain resilient in a range of stress scenarios. Subject to ongoing business performance being within risk appetite, specific requirements in the

² The chart shows our risk profile based on the amount of capital held for each risk, which is assessed on an ‘extreme scenario’ basis.

³ The Solvency II balance sheet includes an allowance for expected profits for certain policies.

Dividend Policy and other relevant factors, our approach is to pay funds in excess of risk appetite as a dividend to our parent company, GB Gas Holdings Limited.

We paid interim dividends of £39m in June 2020⁴ and £44m in December 2020. Although we are financially resilient, the Board took into account the uncertainties arising from customer delivery performance and agreed to defer further dividend payments until later in the year when there is clarity in the operating environment.



The minimum amount of capital that we must hold (our MCR) is £33.7m.

We have maintained sufficient own funds to meet both our Solvency Capital Requirement and our Minimum Capital Requirement throughout the reporting period.

Section E contains further information on capital management.

⁴ Own fund position as at 31 December 2019 is after allowance for the dividend of £39m actually paid in June 2020.

MEANING OF TERMS

| Term | Meaning with this report |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capital coverage | <p>Insurers are required to hold enough eligible own funds to cover the SCR.</p> <p>The capital coverage ratio, defined as eligible own funds divided by the SCR, must be at least 100%.</p> |
| Counterparty default risk (credit risk) | <p>Credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which British Gas Insurance Limited is exposed.</p> |
| Market risk | <p>Market risk is the risk of loss resulting from fluctuations in the level and volatility of market prices of assets and liabilities.</p> |
| Operational risk | <p>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.</p> |
| Own funds | <p>Own funds represent the excess of assets over liabilities (on a Solvency II basis).</p> |
| Eligible own funds | <p>Eligible own funds are own funds after approved dividends have been deducted.</p> |
| Parent company | <p>The parent company of British Gas Insurance Limited is GB Gas Holdings Limited, part of the Centrica Group.</p> |
| Solvency II | <p>Solvency II is an EU-wide regulatory regime. Although some PRA rules have changed to reflect the UK withdrawal from the European Union, Solvency II continues to be the regulatory regime for UK insurers.</p> |
| Solvency Capital Requirement (SCR) | <p>The SCR represents the level of eligible own funds required to provide assurance that the Company can absorb significant losses in remote (1-in-200) scenarios, and still meet policyholders' claims costs and other obligations as they fall due.</p> |
| Underwriting risk | <p>Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the insurer at the time of underwriting.</p> |

There is also a glossary of terms in Section G.

DIRECTORS' REPORT

(Unaudited)

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

We are satisfied that:

- throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
- it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Company has continued to comply, and will continue so to comply in the future.

For and on behalf of the Board of British Gas Insurance Limited:

A handwritten signature in blue ink, appearing to read "C. McLeod".

Charles McLeod
Chief Financial Officer
7 April 2021

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF BRITISH GAS 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 2020:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2020, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, 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 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:

- information contained within the relevant elements of the SFCR set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21, S.25.02.21, S.25.03.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. 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 Financial Reporting Council's (the 'FRC'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.

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.

Conclusions relating to going concern

In auditing the SFCR, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the SFCR is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's going concern assessment in light of COVID-19; this included obtaining the underlying business plans and forecasts to support the key assumptions such as pricing and claims rates;
- assessing the company's Own Risk and Solvency Assessment Report (ORSA) to support our understanding of the key risks faced by the Company, its ability to continue as a going concern, and the longer-term viability of the Company;
- obtaining and inspecting correspondence between the Company and its regulators, the Prudential Regulation Authority and Financial Conduct Authority, as well to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the Company; and
- assessing the appropriateness of the going concern disclosure.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

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 course of 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 themselves. 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 which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of an 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) 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 FRC's website at: <https://www.frc.org.uk/auditorsresponsibilities>. The same responsibilities apply to the audit of the SFCR.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of its policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II as implemented in the UK.
- do not have a direct effect on the SFCR but compliance with may be fundamental to the Company's ability to operate or to avoid a material penalty. These included Companies Act 2006 and related Company Law, the Prudential Regulation Authority and the Financial Conduct Authority.

We discussed among the audit engagement team including relevant internal specialists such as IT and analytics' specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Estimation of the Bound But Not Incepted (BBNI) Solvency II adjustments requires significant management judgement, and therefore there is potential for management bias through manipulation. In response to the identified risk, our testing included: assessing the design and implementation of key controls that are related to the Solvency II reporting process; obtaining management's methodology and calculations related to technical provisions and assessing this for reasonableness; engaging analytics' specialists to compare the BBNI renewals volumes to the underlying revenue data utilised as part of our statutory audit.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority and Financial Conduct Authority.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using a partial internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating

effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

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 also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of British Gas 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 relation to this matter.

Use of our Report

This report is made solely to the Directors of British Gas 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.



Adam Addis, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
7 April 2021

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

Solo partial/internal model

The relevant elements of the SFCR that are not subject to audit comprise:

- The following elements of template S.02.01.02:
 - Row R0550: Technical provisions – non-life (excluding health) – risk margin
 - Row R0590: Technical provisions – health (similar to non-life) – risk margin
 - Row R0640: Technical provisions – health (similar to life) – risk margin
 - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) risk margin
 - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.17.01.02
 - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
 - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.23.01.01
 - Row R0580: SCR
 - Row R0600: MCR
 - Row R0620: Ratio of Eligible own funds to SCR
 - Row R0640: Ratio of Eligible own funds to MCR
 - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01
 - Row R0310: SCR
 - Row R0320: MCR cap
 - Row R0330: MCR floor
 - Row R0340: Combined MCR
 - Row R0400: Minimum Capital Requirement

Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’

INTRODUCTION

The requirement to produce an annual Solvency and Financial Condition Report follows the introduction of the Solvency II regime on 1 January 2016 for the EU insurance industry. This includes standards for assessing capital requirements and governance over risk management, with the principal objectives of improved comparability of information across the insurance industry and increased policyholder protection. The summary is intended for policyholders with the remaining sections for analysts.

This report for British Gas Insurance Limited (“BGIL” or “the Company”) presents information on business and performance, the system of governance, risk profile, valuation of assets and liabilities, and capital management.

Information about the business and performance of the Company is also included in BGIL’s Annual Report and Financial Statements for 2020.

Parts of the SFCR are subject to external audit, as indicated, and explained in the Independent Auditor’s report.

Figures are presented on a Solvency II basis, unless indicated otherwise.

A BUSINESS AND PERFORMANCE

(Unaudited)

A.1 BUSINESS

A.1.1 COMPANY INFORMATION

British Gas Insurance Limited is registered in England and Wales under the company registration number 06608316. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under Financial Services Register number 490565.

Its registered office and details of its supervisors and auditor are as follows:

Registered Office

British Gas Insurance Limited
Millstream, Maidenhead Road
Windsor
Berkshire
SL4 5GD
+44 (0) 1753 494000

External Auditor

Deloitte LLP
Hill House
1 New Street Square
London
EC4A 3HQ
+44 (0) 20 7936 3000

Supervisory Authority

Prudential Regulatory Authority
20 Moorgate
London
EC2R 6DA
+44 (0) 20 7601 4444

Supervisory Authority

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
+44 (0) 20 7066 1000

A.1.2 GROUP STRUCTURE

BGIL is a private company limited by shares and is a wholly owned subsidiary of GB Gas Holdings Limited (“GBGH”) within the Centrica Group (“the Group”). In 2020 Centrica restructured its operating model resulting in a reduction in headcount and a reprioritisation of resource to meet the changing needs of its customer base but the legal structure of BGIL and its sister company British Gas Services Limited (“BGSL”) remains unchanged. BGSL is authorised and regulated by the Financial Conduct Authority. BGSL introduces business to BGIL and services such as policy administration, and claims handling & fulfilment are outsourced to BGSL. Further information is in section B.7.



A.1.3 LINES OF BUSINESS

BGIL underwrites general insurance risks in England, Scotland and Wales, within the assistance class of business, covering the breakdown of domestic boilers and central heating systems, plumbing & drains, and electrical and gas appliances. The Company does not write risks outside the UK.

A.2 UNDERWRITING PERFORMANCE

Under UK Generally Accepted Accounting Practice (UK GAAP⁵), the underwriting performance is as follows:

| BGIL underwriting performance for the 12 months to 31 December (UK GAAP) | 2020 £m | 2019 £m |
|--------------------------------------------------------------------------|--------------|--------------|
| Gross written premium | 966.2 | 997.5 |
| Gross earned premium | 986.3 | 1,011.8 |
| Claims incurred | (350.1) | (456.4) |
| Expenses incurred | (537.2) | (471.1) |
| Underwriting profit (pre-tax) | 99.0 | 84.3 |
| Combined operating ratio (COR) | 90.0% | 91.7% |

In 2020 warmer weather resulted in reduced boiler and central heating claims. There was a further benefit as the business changed the basis on which it pays BGSL for fulfilling claims, reducing the amount paid to BGSL. The timing of policy renewals incorporating this change benefitted the 2020 results, partially offset by increased commission costs payable to BGSL.

Some of the increase in profit is due to the rescheduling of non-essential visits from 2020 to 2021 as a result of reduced access to customers' homes during periods of lockdown. While the work will be fulfilled largely within customer contract periods, the lower level of service visit activity reduces claims costs in 2020, with a similar increase in costs expected in 2021 as the rescheduled activity is completed.

The number of policies in force decreased by 2.3% in the year to 7.6m at 31 December 2020 (2019: 7.8m). Gross premiums written were 3.2% lower than 2019 due to in part to the reduced number of policies in force and partly reflecting the move by customers towards lower priced policies with an excess.

No reinsurance contracts were entered into during the current or prior years.

⁵ The appended Quantitative Reporting Templates ("QRTs") show claims and expenses incurred on a Solvency II basis.

A.3 INVESTMENT PERFORMANCE

A.3.1 INVESTMENTS BY ASSET CLASS

Investments held by BGIL are shown below. BGIL invests in short duration, high-quality securities and deposit-based investments.

| Investments as at 31 December | 2020 £m | 2019 £m |
|------------------------------------|--------------|--------------|
| Collective investment undertakings | 234.8 | 168.6 |
| Total investments | 234.8 | 168.6 |

The increase in assets at 31 December is largely due to the retention of funds that will be used to settle the profit commission payable to BGSL and held on the balance sheet at year-end. Under the terms of the contractual arrangement with BGSL, profit commission is payable to BGSL based on the profitability of business introduced to the Company. In 2020 those profitability thresholds were met and profit commission of £70.0m is payable under the contract (2019: £8.9m⁶).

A.3.2 INVESTMENT INCOME AND EXPENSES

| Investment income for 12 months to 31 December | 2020 £m | 2019 £m |
|------------------------------------------------|------------|------------|
| Investment income | 0.7 | 1.4 |
| Investment expenses | (0.2) | (0.2) |
| Net investment income | 0.5 | 1.3 |

The reduction in investment income is due to a reduction in interest rates in 2020 compared to 2019.

All investment income and expenses relate to unit holdings in short-term money market funds and deposits with financial institutions. Expenses represent fees paid to investment managers.

A.4 PERFORMANCE OF OTHER ACTIVITIES

BGIL pays dividends to its parent company, GB Gas Holdings Limited. BGIL paid interim dividends of £39m in June 2020 and £44m in December 2020.

Further information is in section E.1.

A.5 ANY OTHER INFORMATION

BGIL does not invest in equity or have any investments in securitisation.

There is no other information to report.

⁶ Total profit commission was £31.4m, of which £22.5m was settled prior to 31 December 2019.

B SYSTEM OF GOVERNANCE

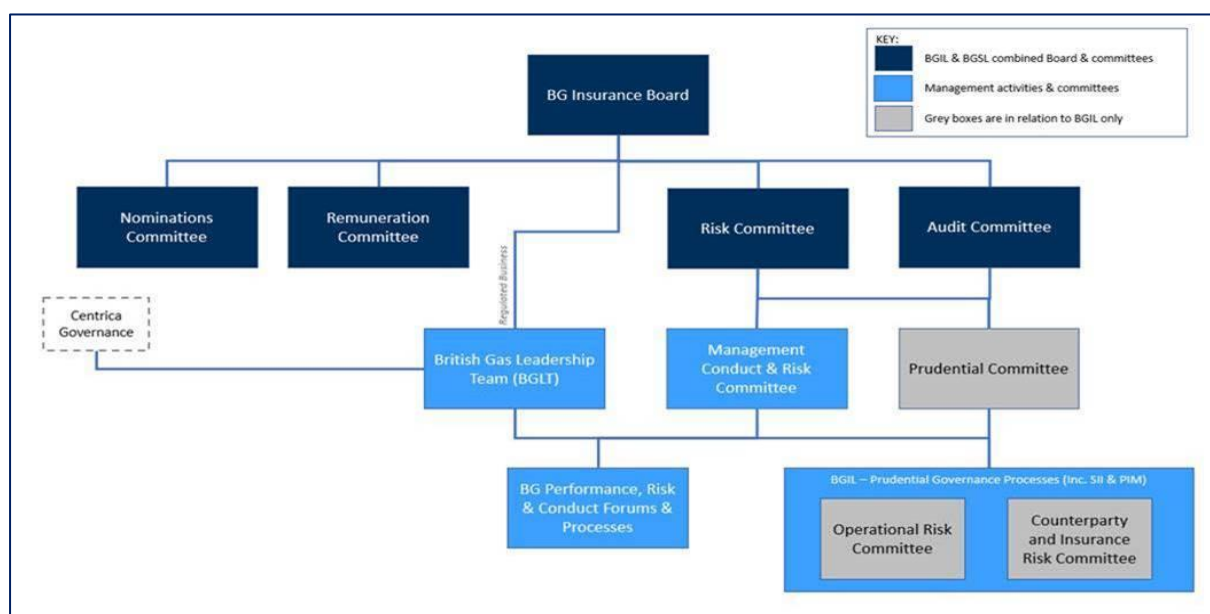
(Unaudited)

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

The prudential governance framework for BGIL has been in place since January 2019 and has been unaffected by the recent structural changes within Centrica (A.1). BGIL and BGSL are separate legal entities which are governed via a common Board, Risk Committee and Audit Committee. Common Nominations and Remuneration Committees are also in place.

B.1.1 GOVERNANCE STRUCTURE.

The committee structure for BG Insurance (BGIL & BGSL) is shown below. The grey boxes relate to BGIL only.



B.1.2 ROLES AND RESPONSIBILITIES

Board

The Board has overall responsibility for the oversight of the management of BGIL. Its objectives include setting the strategic aims, monitoring management’s performance against those aims, setting risk appetite and ensuring that effective controls are in place. Any major changes to the Company’s business activities must be approved by the Board before implementation. The Board meets at least four times a year. Minutes of all Board meetings are recorded and reflect the substance of the discussions as well as the decisions made.

The Board comprises an independent non-executive chair, non-executive directors and executive directors.

Board Sub-Committees

All authority flows from the Board, but it delegates to sub-committees. Responsibilities are set out in the respective terms of reference.

The following sub-committees are in place for BG Insurance (BGIL & BGSL):

- The Risk Committee: responsibilities include monitoring and reviewing the activities of the Risk Function and the Compliance Function, monitoring and reviewing the risk management and controls system, monitoring and overseeing conduct risk, and monitoring and overseeing the development and use of BGIL’s Partial Internal Model. The committee meets at least four times a year.

- The Audit Committee: the key objective of the committee is to monitor the integrity of the financial statements, including any financial judgements contained therein. The committee meets as required to fulfil its obligations, at least four times a year.
- The Nominations Committee: responsible for the nomination and approval of senior management appointments.
- The Remuneration Committee: responsible for the effective operation of the Remuneration Policy (B.1.4).

Executive Committees

The Board and its sub-committees are supported by the following Executive committees:

- The Management Conduct & Risk Committee is responsible for managing risks to BGIL (and the wider British Gas business) to within acceptable levels and for maintaining a sound enterprise risk management framework with appropriate internal controls. It specifically monitors conduct performance and ensures this is monitored and assessed against agreed risk appetite.
- The Prudential Committee assists the Executive Directors, Board and Risk and Audit Committees on specific BGIL financial and Solvency II processes supporting capital calculations, Own Risk and Solvency Assessment (“ORSA”) processes, internal model governance, Solvency II reporting and balance sheet assurance.

The British Gas leadership team manages the BG Insurance business and is responsible for developing and leading the delivery of the strategy.

Executive Sub-Committees

The Executive committees are supported by the following sub-committees.

- Operational Risk Committee: responsible for managing the operational risk framework.
- Counterparty & Insurance Risk Committee: responsible for managing the counterparty and insurance risk framework.

The Management Conduct & Risk Committee is also supported by several committees that support the operational needs of BGIL and BGSL.

Key Functions

BGIL has the following Solvency II key functions:

- Risk Function (section B.3).
- Compliance Function (section B.4).
- Internal Audit (section B.5).
- Actuarial Function (section B.6).

B.1.3 MATERIAL CHANGES TO THE SYSTEM OF GOVERNANCE OVER THE REPORTING PERIOD

On 31 August 2020, David Kirwan, the chief executive officer of British Gas Insurance resigned following an internal move to lead Centrica’s Bord Gáis Energy business in Ireland. Matthew Bateman, who was appointed to the Board in 2019, has been appointed chief executive officer of BGIL. Also, Leigh Tavaziva (executive) resigned on 10 June 2020.

There have also been changes to some other Senior Management Functions within BGIL following the reorganisation within Centrica in 2020 (A.1).

With effect from 1 January 2020, the combined Nominations and Remuneration Committee was separated into two distinct committees.

B.1.4 REMUNERATION POLICY

All independent non-executive directors are on contracts for services. Employees working on BGIL matters are employed under Centrica (or other Group company) contracts but BG Insurance (BGIL & BGSL) has its own Remuneration Policy which is aligned to the Centrica plc reward framework and remuneration principles. It applies to BG Insurance's management and key employees whose professional activities have a material impact on the risk profile of BG Insurance.

The key goal of the reward philosophy is to attract and retain top talent and motivate high performance while rewarding the right skills, behaviours and outcomes necessary to meet the long-term business strategy and ensure fair treatment of customers. Remuneration is managed and structured in line with PRA regulations with the fixed component of an individual's remuneration representing an appropriate proportion of total remuneration so that bonus payments do not skew decision making towards short term benefits.

The BGIL Remuneration Policy includes the following components:

- Base salary.
- Annual performance incentive plan: designed to reward in-year performance. The financial performance of Centrica plc over the year determines the amount of funds available to distribute to employees, with individual awards based on performance against individual objectives that align with Centrica's and BGIL's business strategies. The target and maximum annual performance incentive payment is typically defined as a percentage of base salary.
- Conditional share incentive plan: designed to encourage senior employees to focus on the long-term sustainability of the business and to align their compensation to shareholder experience. The award is delivered as deferred shares. Claw-back and malus provisions apply.
- Pension: new hires are offered membership of the Centrica defined contribution arrangement with a defined benefit arrangement in place for employees who joined prior to 2009. BGIL has no pension scheme of its own. BGIL has no material pension liabilities in respect of the defined benefit scheme.
- Benefits: Centrica offers other benefits including car allowance, life assurance and various benefits available via salary sacrifice.
- Share plans: UK-based employees may be eligible to participate in HMRC-approved share plans.

The Remuneration Policy is applied in the context of BGI's risk remuneration framework for senior leaders which includes consideration of risk-adjusted remuneration and is designed to promote and embed an effective risk culture.

The Remuneration Committee approves the annual performance incentive reward and pays particular attention to the risk and conduct performance of the Senior Management Function holders. The opinion of the Chief Risk Officer ("CRO") is sought as part of this process to ensure the proposed incentive plan does not reward material risk-taking outside of the Board's risk appetite.

B.1.5 MATERIAL TRANSACTIONS

No material transactions have been identified during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

B.2 FIT AND PROPER REQUIREMENTS

BGIL implements policies and procedures to ensure persons who effectively run the Company, or have responsibility for key functions, have the required skills, knowledge and expertise to carry out the role and are fit and proper to do so. Individuals holding Senior Manager Function positions are also required to receive prior approval from the PRA and/or FCA before they can perform their role.

BGIL undertakes fitness and propriety assessments in the following circumstances:

- Before an individual starts their role.
- Annually, to assess their 'continued fitness' to undertake their role.
- When an individual's role has significantly changed.

- Where there is a potential issue disclosed by an individual which might affect how their fitness and propriety is viewed.

BGIL's overall assessment of an individual's fitness and propriety includes:

- Financial soundness: assessed by conducting financial checks and asking specific questions as part of the fitness and propriety questionnaire.
- Honesty, integrity and reputation assessed through:
 - Fitness and propriety questionnaire/attestation.
 - Regulated references.
 - Standard criminal record check.
 - Directors/Companies House check (including disqualifications/dissolutions).
 - HR record check for existing employees (disciplinary and/or breaches of conduct rules).
- Competence and capability: during recruitment, at a point where an individual is being considered for a key function or as part of an annual assessment, a competence and capability assessment is carried out. The assessment considers:
 - Qualifications (where relevant).
 - Experience.
 - Current level of competence and personal characteristics.
 - Skills and knowledge gap analysis which will inform a tailored business induction and development plan.

The key areas that are considered as part of the skills and knowledge analysis include:

- The markets in which they operate (i.e. insurance or financial services).
- Business strategy and business model.
- System of governance.
- Financial and, where relevant, actuarial analysis.
- Regulatory framework and requirements.
- Objectives linked to delivering regulatory obligations and evidence of performance (as part of end of year review) confirmed by line manager.

BGIL has complied with the Senior Managers & Certification Regime over the year.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 CHIEF RISK OFFICER

The Risk Function is led by the CRO whose role includes responsibility for:

- The design, development, embedding and overseeing of the risk management strategy and risk management processes.
- Coordination of the ORSA processes and reporting.
- The compliance relationship with the PRA.
- Validation and performance of BGIL's capital model.

B.3.2 RISK MANAGEMENT FRAMEWORK

BGIL's risk management system starts with its Enterprise Risk Management Framework, the primary objective of which is to ensure that processes are in place for effective planning, organising, leading and controlling of BGIL activities to manage the effect of risk on BGIL's capital and earnings, while ensuring good customer outcomes and employee safety.

Governance is achieved through the implementation of a 'three lines of defence' model that ensures appropriate segregation of risk ownership, oversight and assurance responsibilities.

- First line: ownership of risk taking and risk management in respect of business as usual activities, change and strategy.

- Second line: protecting and enabling the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.
- Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

Risk management is embedded in the business and members of the risk team attend key meetings within the British Gas business. A CRO opinion is provided to the Board and its sub-committees in respect of key decisions.

B.3.3 RISK MANAGEMENT SYSTEM

Risk Policies

To support its objectives, BGIL's risk management framework includes a comprehensive set of risk policies which cover the partial internal model as well as all material risk categories to which BGIL is exposed. They are approved annually by the Board and/or appropriate sub-committees.

Risk Appetite Statements

Risk appetite is the amount of risk the Board is willing to take to meet its strategic objectives.

Risk appetite statements and underlying metrics are reviewed annually and approved by the Board.

The Risk Function is responsible for monitoring and reporting against the risk appetite statements. If a risk appetite threshold has been (or is close to being) breached, action is taken to bring it back within the accepted range. Out of appetite statements are reported to the Board and relevant sub-committees.

B.3.4 RISK PROCESSES

BGIL's risk management system includes the five processes below:

Identification

BGIL identifies current, emerging and future risks through various means such as meetings, workshops and seminars. Once a new or emerging risk has been identified a risk owner is assigned and the risk is added to the risk register.

Measurement

BGIL measures risk using output of its partial internal model (section B.3.5). In addition, risks are quantified through a suite of stress and scenario tests undertaken by the Risk and Actuarial Functions. The prioritisation of the risks is measured using a likelihood and severity matrix approach.

Management

A comprehensive controls framework exists which ensures risk is managed within agreed appetite and threshold levels.

Monitoring

Monitoring to ensure that risks are accurately evaluated and adequately controlled is integral to the risk management processes. Monitoring is achieved through the BGIL controls framework, stress and scenario testing, risk and control owner reviews, second line monitoring by the Risk and Compliance Functions, and third line of defence reviews.

Reporting

Risk reporting and communication forms a vital part of the process to ensure visibility and transparency of risks at both a BGIL and a Group level. Various risk reports are produced including risk dashboards and the ORSA report.

B.3.5 RISK MODELLING

BGIL uses a partial internal model for risk modelling. Further details are provided in section E.2. Oversight of the partial internal model is provided in the first instance by the Operational Risk Committee, and the Counterparty & Insurance Risk Committee. The Prudential Committee is responsible for reviewing and challenging the SCR. Oversight is also provided by the Risk Committee, which is responsible for the ongoing appropriateness of the design and operation of the model, as well as for reviewing model changes and validation reports.

Independent validation of the modelling underlying the SCR is undertaken by the Risk Function, supported by an external firm, currently Willis Towers Watson. BGIL's capital model is subject to a cycle of validation using appropriate techniques for the part of the model under review. It considers the appropriateness of the scope of the model and covers all parts of the model, adopting a proportionate approach, recognising the materiality of each model component.

The Board is required to approve BGIL's SCR, appropriate summaries of internal model results and validation reports on an annual basis.

B.3.6 OWN RISK AND SOLVENCY ASSESSMENT ("ORSA")

The ORSA enables senior management to make business decisions relating to medium term capital management and business planning. The ORSA process is cyclical and incorporates several underlying business processes. The full cycle is performed at least annually, or more frequently if required in response to material changes in the internal or external environment.

The ORSA:

- Considers risks, solvency and capital management over a three-year forward-looking horizon.
- Considers the key risks that face the business.
- Considers the link between the resulting risk profile, the approved risk appetite and the capital requirements.
- Includes stress and scenario testing and reverse stress testing.

The Board own the ORSA process with the CRO being responsible for coordinating the underlying ORSA processes and for producing an ORSA report. The underlying processes are undertaken throughout the year and reports for each key process are produced for the Board and reviewed by the Prudential Committee. The ORSA report, which contains the key results and conclusions of the underlying processes, is reviewed by the Risk Committee, and reviewed and approved by the Board.

The underlying ORSA processes are undertaken alongside the relevant activity in the business. For example, the CRO provides an opinion on the business plan, working with Finance to understand the underlying risks. Similarly, the SCR allows for material changes in the business plan, and stress testing is performed having regard to the key risks to the business. The Board seeks to hold adequate capital resources above the regulatory capital requirements. BGIL's capital model is used to determine adequacy thresholds and capital resources are regularly monitored, with a plan in place should capital fall below the specified thresholds.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 INTERNAL CONTROLS FRAMEWORK

BGIL has an internal controls framework designed to provide assurance that business objectives, including good customer outcomes and compliance with regulations, are met.

The three lines of defence model (section B.3.2) is used within the controls framework as follows:

- The first line develops controls and performs a control self-assessment.
- The Risk Function provides a second line of defence by:
 - Coordinating control related activities and implementing the controls framework.
 - Supporting the first line in developing their controls and providing oversight of first line control self-assessments.

- Managing the second line review of controls and performing gap analyses of all controls against regulatory frameworks.
 - Performing control effectiveness reviews.
- Internal Audit are responsible for a third line review of controls.

Governance over the internal control framework is achieved through:

- The Management Conduct & Risk Committee:
 - Responsible for ensuring that effective risk management processes are in place within the first line to manage and control the risks to which the business is exposed.
 - Responsible for reviewing controls reports and ensuring the completeness and effectiveness of the control environment.
- The Prudential Committee: responsible for monitoring and managing the performance of financial controls.
- The Risk Committee:
 - Overarching responsibility for the design, maintenance and improvements to the internal control framework.
 - Responsible for oversight of the effectiveness of key controls across the business, including the operation of an integrated assurance plan.

B.4.2 COMPLIANCE FUNCTION

The CRO is responsible for leading the Solvency II Compliance Function. Activities of the Compliance Function include:

- Ensuring ongoing prudential compliance, including horizon scanning activity.
- Managing the relationship with the PRA.

BGIL outsources conduct-related compliance to the Group Ethics & Compliance Function which is responsible for:

- Developing, implementing and communicating the ethics & compliance FCA strategy, structure and process.
- Escalating any FCA compliance matters to BGIL, reporting to the Board and other relevant stakeholders.
- FCA relations and notifications.
- FCA/PRA applications, amendments and withdrawals.

The Risk and Compliance Functions report to the Risk Committee. The effectiveness of the Risk and Compliance Functions is periodically audited by Internal Audit.

B.5 INTERNAL AUDIT FUNCTION

Internal Audit services for BGIL are performed by the Group Internal Audit Function. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the governance and internal control processes in relation to defined goals and objectives. Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee, including certain fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

To provide for the independence of Internal Audit, its employees report to the Group Head of Internal Audit, who reports functionally to the Chair of the Group Audit Committee and administratively to the Group Chief Financial Officer. The operating budget for Internal Audit is prepared according to standard Group guidelines as part of the Group's operating plan process. The Group Audit Committee has ultimate approval over the budget. Internal Audit follow all standard Group processes (e.g. delegation of authority) and adhere to all Group policies.

B.6 ACTUARIAL FUNCTION

The Actuarial Function undertakes, amongst others, those tasks required by Solvency II. The Chief Actuary chairs the Prudential Committee, a key executive committee within the governance structure of BGIL (section B.1.2). An actuarial function report is produced annually for the Board which describes the tasks undertaken by the

Actuarial Function over the year, provides recommendations, and includes opinions on technical provisions, the underwriting policy and the reinsurance policy.

The Actuarial Function is led by the Chief Actuary (SMF20). Actuarial Function responsibilities are conducted independently of the revenue generating functions of BGIL and the Chief Actuary reports to the Chief Risk Officer with direct escalation routes to the Chair of the Risk Committee, Chair of the Audit Committee, and Chair of the Board. At all times, the Chief Actuary has had unrestricted access to relevant information and is not constrained, controlled or unduly influenced in respect of relevant actuarial matters.

Resources in the Actuarial Function are continuously monitored to ensure that the work is carried out by persons who have knowledge of actuarial and financial mathematics commensurate with the nature, scale and complexity of the risks inherent in the business.

B.7 OUTSOURCING

BGIL has outsourcing arrangements for the provision of material services by third party service providers. Material services are those which are critical to the business model or are of such importance that weakness, or failure, of the services would cause detriment to customers and/or cast serious doubt upon an ability to meet regulatory requirements. BGIL will only outsource material services to group companies. Non-material services may be outsourced to external service providers if the services cannot be obtained in-house.

Centrica Procurement has a Financial Services Material Outsource Procedure which covers BGIL's and BGSL's outsourcing arrangements and has been designed to meet relevant regulations. Services agreements between BGIL and BGSL, and BGIL and Centrica, set out the activities undertaken by each entity.

BGSL introduces business to BGIL and therefore undertakes sales & marketing, product design and retail pricing. In addition, some material services are outsourced by BGIL to BGSL including claims handling & fulfilment and policy administration. Under the terms of the services agreement, some complaints handling activity is undertaken directly by BGSL and some is outsourced to BGSL from BGIL. Services outsourced to Group include some compliance activity (B.4.2), Treasury, Internal Audit, Legal, and some HR and IT services.

The majority of the outsourced activity is UK-based. In some circumstances, BGSL appoints external providers to fulfil services offshore. Examples include additional breakdown call handling support in winter which is provided by a company in South Africa, and some services such as webchat and some back-office support provided by service partners in India. Some support services that are provided by Centrica, but are not critical to BGIL, are outsourced overseas.

The common Risk Function, Risk Committee and Board (B.1) ensure that risks relating to outsourced services are actively monitored and managed.

B.8 ANY OTHER INFORMATION

B.8.1 ADEQUACY OF SYSTEM OF GOVERNANCE

The system of governance is considered appropriate having regard to the nature, scale and complexity of the risks inherent in the business.

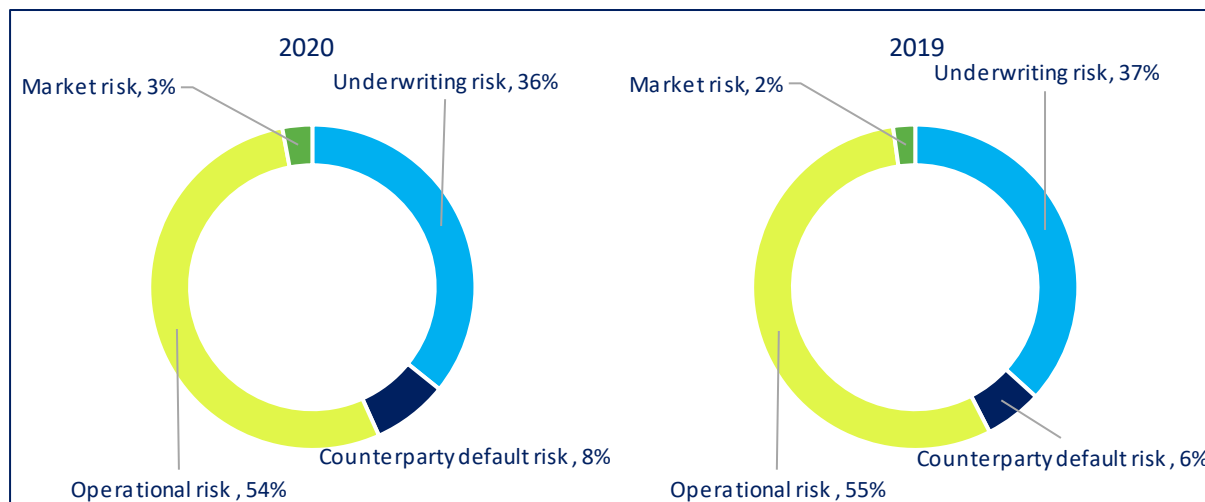
B.8.2 BOARD DIVERSITY POLICY

The Board ensures diversity in recruitment processes and actively promotes diversity at all levels in the business through its Diversity Policy. Throughout the process of appointment of Board members, due regard is given to ensuring fairness and diversity through consideration of skills, experiences and competencies. The recruitment process complies with Group HR recruitment processes and the Centrica UK Diversity, Respect and Inclusion Policy.

C RISK PROFILE

(Unaudited)

BGIL’s risk profile is a key driver of the SCR. The following chart shows the risk profile at this, and the previous, reporting period.



The assessments above⁷ relate to BGIL’s SCR. Note that liquidity risk (section C.4) and other risks (section C.6) are not part of the SCR calculation and so are excluded.

BGIL’s operational risk is comparatively large. This is mainly because BGIL’s underwriting risk is relatively low due to the quick settlement of claims at a fixed unit cost per claim. BGIL also has very low market risk due to its conservative investment strategy (C.2).

BGIL is exposed to material risk concentrations as follows:

- Product concentration (underwriting risk): BGIL is a mono-line insurer operating only in the UK with large exposure to cold weather risk.
- BGIL’s outsourcing relationship with BGSL (section B.7) creates risk concentrations in terms of counterparty default risk (section C.3) and operational risk (section C.5).

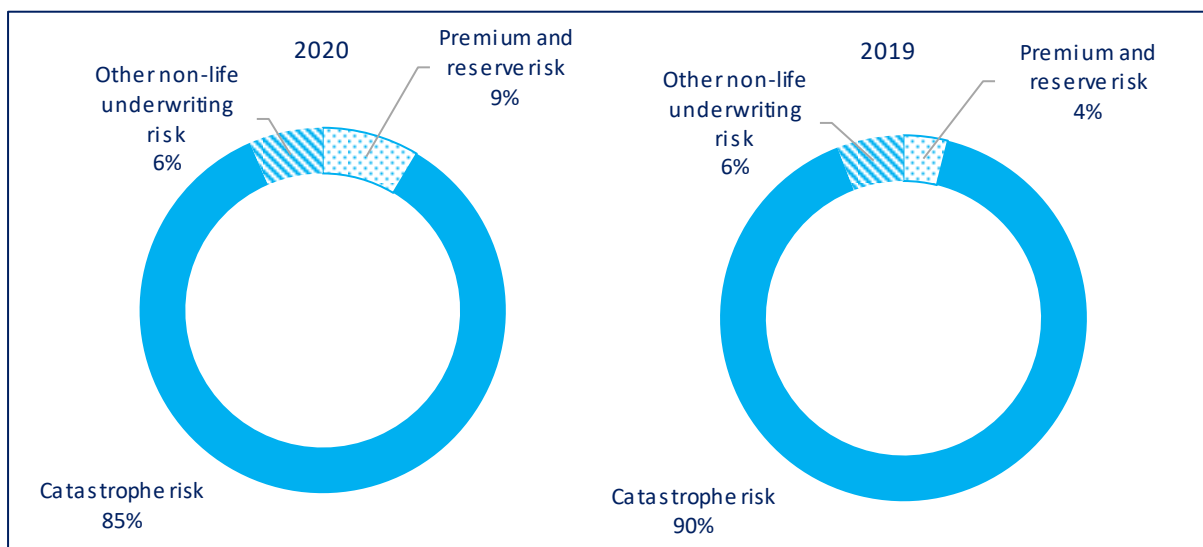
C.1 UNDERWRITING RISK

Underwriting risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the undertaking at the time of underwriting as well as fluctuations in premium volumes relative to the business plan.

The composition of BGIL’s underwriting risk profile is shown below⁷. The change in underlying risk primarily relates to a reduction in exposure reflecting a change in portfolio composition towards more products with an excess. The pandemic has had a minimal impact on underwriting risk as engineers have continued to support core insurance activities, including emergencies where customers have no heating or hot water.

Underwriting risk is managed in accordance with BGIL’s Underwriting Policy & Principles and Insurance Risk Policy and is assessed using BGIL’s internal model. Further details about the quantification of underwriting risk are included in section E.2.3.

⁷ The assessments are forward-looking and based on pre-diversification across risk-type figures.



BGIL’s underwriting risk consists of three main elements:

- Catastrophe risk: cold weather risk is BGIL’s main driver of underwriting risk. In cold weather there is an increased demand on central heating systems, leading to higher boiler breakdown rates and therefore increased claims.
- Premium and reserve risk considers the volatility of actual claims and premiums compared to those forecast in the business plan. In BGIL, premium and reserve risk is low due to:
 - BGIL’s very short claims development tail: claims are usually reported and settled within a few days.
 - The contractual unit claims cost relationship with BGSL: BGIL pay BGSL a fixed unit cost per claim varying by product.
 - The inherent nature of the insurable risks: in most cases an engineer attends the breakdown rather than the settlement of the claim in cash.
- Other non-life underwriting risks relate to component defect, policy wording and pricing of premiums.

BGIL has several processes and controls in place to manage underwriting risk, including:

- 12-month contract terms after which the Company is entitled to decline cover, or impose renewal terms by amending premiums, policy excess (where applicable), or other policy terms and conditions as appropriate.
- First visits: when a customer first purchases a central heating policy, an engineer visits their property to assess access, safety and insurability. If the findings are adverse, then BGSL works with the customer to address the issues, or the cover is declined. For some products where a first visit does not take place, such as breakdown only, claims cannot be made within 14 days of policy inception.
- Annual Service Visits: primarily a health check but the annual service visit also provides an opportunity for the early identification of claims and is believed to mitigate underwriting risk.

C.2 MARKET RISK

C.2.1 MARKET RISK PROFILE

Market risk is the risk of loss resulting from fluctuations in the level and volatility of market prices of assets and liabilities.

BGIL’s investment strategy is guided by its Investment Risk Policy which aims to mitigate market risk by restricting investments to short duration, sterling-denominated high-quality securities and deposit-based investments. As a result, market risk (calculated using the Standard Formula (section E.2.4)) is low and has been largely unaffected by market volatility over 2020.

C.2.2 PRUDENT PERSON PRINCIPLE

The Prudent Person Principle, defined in Article 132 of the Solvency II Directive, includes provisions on how undertakings should invest their assets and is as much a behavioural standard as an assessment of judgements and investment decisions. BGIL's investment strategy and asset allocation is set within the Board approved risk parameters contained within the Investment Risk Policy. The Prudential Committee reviews and monitors the key risk indicators for the investments.

C.3 CREDIT RISK

Credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which BGIL is exposed.

C.3.1 COUNTERPARTY DEFAULT RISK

The exposure to counterparty default risk arises due to BGIL's relationship with BGSL. Since BGSL collects premiums from customers on behalf of BGIL, the insolvency of BGSL could result in premiums not being paid to BGIL.

A services agreement exists between BGIL and BGSL which governs the relationship and sets out the business model interactions. Under this contract:

- BGSL pays premiums to BGIL.
- BGIL pays BGSL for each service visit or repair.
- BGIL pays BGSL commission for its role in selling and administering insurance policies on BGIL's behalf, including profit commission based on the profitability of business introduced to the Company.
- The difference between the amount payable to BGIL from BGSL and that payable from BGIL to BGSL is the intercompany balance.

Several processes are in place to mitigate BGIL's exposure to counterparty default risk, including:

- The services agreement requires intercompany balance payments to be made monthly to limit exposure to a maximum of one month's debt.
- A trust arrangement has been set up, to which premiums must be diverted in the event of BGSL default.

Counterparty default risk has increased over the year reflecting an increase in the intercompany balance payable to BGIL from BGSL, largely as a result of reduced service and repair visits in the year due to the pandemic.

The risk is managed in accordance with BGIL's Counterparty Default Risk Policy and is assessed using BGIL's partial internal model (section E.2.5).

C.3.2 OTHER CREDIT RISK

The only material exposure to credit risk is from BGSL, as described above. Exposure to credit risk on assets and liabilities on the balance sheet is not material. BGIL does not have any outwards reinsurance and has not transferred any risk to special purpose vehicles.

C.4 LIQUIDITY RISK

Liquidity risk is being unable to realise investments and other assets to settle financial obligations when they fall due.

Liquidity risk for BGIL is low and is managed in accordance with BGIL's Liquidity Policy. Liquidity risk is mitigated through investment in highly liquid financial assets and has not been adversely impacted by the pandemic.

Expected Profit in Future Premium (EPIFP), calculated in accordance with Article 260(2) of the Solvency II Delegated Act, amounted to £13.9m at 31 December 2020 (2019: £44.1m). As most of BGIL's customers pay by monthly instalments, the changes in the premium provisions (D.2.1) also impact the EPIFP.

C.5 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. It also includes conduct risks and regulatory risks.

A consequence of BGIL's relationship with BGSL (section B.7) is that many of BGIL's operational risks are derived from BGSL activities. Conduct risk is the main driver of BGIL's operational risk capital requirement. This relates to the risk that poor customer outcomes may lead to premium refunds, higher lapses, a reduction in new business and/or additional remediation costs. Conduct risk has heightened as the pandemic has had a significant operational impact on BGSL. Although service engineers continued to support core insurance activity, including attending emergencies such as no hot water or heating, some non-essential visits were rescheduled to 2021. Furthermore, an increase in complaints was observed as a result of the emergency-only remit during lockdown.

Over 2020, the main mitigation controls for conduct risks were the strengthening of the conduct risk framework and close oversight of BGSL's activities. The business continues to drive a more embedded conduct risk framework that is consistent with British Gas' customer-centric strategy. Oversight is via the common Board and sub-committees, as well as through the services agreement. The services agreement sets out the activities undertaken by each entity and limits BGIL's financial exposure in the event BGSL fails to adequately perform the activities for which it is responsible.

In 2020, BGIL's change management risk was heightened due to organisational change driven by a Centrica-wide strategy to increase focus on the customer, improve organisational effectiveness and drive cost efficiencies. Change management will be closely monitored over 2021 as the changes are embedded in the business.

As with all companies that hold customer data, BGIL is exposed to cyber risk which has heightened slightly with the increase in sophistication of external threats in general and with home working of office-based staff as a result of the pandemic. Additional mitigations are in place following penetration testing carried out by a third-party provider which prompted activity to improve resilience. To date there has not been a significant increase in cyber events and cyber risk is closely monitored and managed, particularly with regards to the loss of key IT systems and data protection.

In September 2020, the FCA published their final report on pricing practices in the general insurance industry alongside a Consultation Paper to consult on their proposed remedies with final guidance expected in Q2 2021. Some of the proposed remedies are specific to motor and home insurance products while others cover the whole general insurance market. BGSL are reviewing the proposed individual remedies and are designing customer journey and pricing changes where appropriate but the impact on BGIL is not expected to be material.

BGIL holds capital to fund potential losses arising from operational events. Operational risk is managed in accordance with the BG Insurance Operational Risk Policy and is assessed using BGIL's partial internal model (E.2.6).

Subsequent to the date of reporting of 31 December 2020, BGSL service engineers commenced industrial action in relation to changes to terms and conditions of employment with a series of strike dates in 2021. Contingency plans are in place and there is expected to be minimal financial impact on BGIL. Centrica remains committed to working with the GMB union to resolve the dispute.

C.6 OTHER MATERIAL RISKS

Group Risk

The British Gas brand has a high profile in UK consumer markets and BGIL has potential exposure to brand damage contagion caused by other parts of the Group or the energy market in general. The principal direct impact of British Gas brand damage to BGIL would be a reduction in business volumes through a loss of existing business. Group risk is being monitored in light of the industrial action (C.5).

C.7 ANY OTHER INFORMATION

C.7.1 CORONAVIRUS

The pandemic has had minimal adverse financial impact on BGIL. While some risks are heightened, they are being monitored and managed:

- Although BGIL's operational risk is heightened (C.5), BGSL service engineers have continued to support core insurance activity including attending emergency visits such as no hot water or heating. Depending on prevailing circumstances, some rescheduling of non-essential visits took place, largely within customer contract periods.
- BGIL's investment policy means that it has been largely unaffected by interest rate movements (D.1.1).
- BGIL settles claims within a few days on a unit cost per claim basis and therefore the impact on BGIL's UK GAAP reserves (section D) is minimal⁸.
- Counterparty default risk is heightened due to the lower claims activity increasing the amount owed to BGIL by BGSL each month (C.3.1). This is being closely monitored.
- Cold weather risk is a key risk for BGIL, which is not impacted by the pandemic.
- The amount of capital held by BGIL has been assessed considering the pandemic, with no material change (E.2).

The Company's operational resilience is supported by Centrica's Global Crisis Management team, which is operating a Pandemic Management Framework supported by existing business continuity plans. The Company's executive team meets frequently to review response plans and assess the latest government policy and guidance. There is also regular engagement with the BGIL Board and industry regulators. While the situation is continually evolving, risks are being monitored and the business remains focused on ensuring continuity of service while supporting customers and employees.

C.7.2 CLIMATE CHANGE RISK

The Bank of England has identified two key risks relating to climate change:

- Physical risks such as extreme weather events:
 - BGIL includes a 1-in-200 cold weather scenario in its SCR and considers more extreme weather events as part of its stress and scenario testing.
- Transition risks arising from a move to a greener economy which could lead to a large fall in asset values in some sectors, or a higher cost of doing business:
 - There is a risk to the market within which BGIL operates, from a potential move from gas to other forms of energy such as electrification.
 - BGIL invests in short duration, high-quality fixed interest securities and deposit-based investments so is less exposed to transition risks through its asset strategy.

Climate change is an area of regulatory focus and the PRA have introduced new requirements with regards to managing the financial effects of climate change risk that must be met by the end of 2021. BGIL has a documented plan in place to fulfil the requirements.

C.7.3 BREXIT

Brexit is expected to have a limited impact as the Company does not export products and services to EU countries nor does it have a material exposure to currency or interest rate risks.

BGIL's highly liquid assets and low risk investment strategy ensure that BGIL is resilient to unexpected economic downturn. Over the longer term, a prolonged period of uncertainty and a dampened economy may have an adverse impact on sales and growth. BGIL continues to carefully monitor economic developments.

⁸ Although Solvency II technical provisions have increased, this is largely due to an increase in the intercompany balance. See section D for further information.

C.7.4 SENSITIVITY ANALYSIS

The following table shows some sensitivities for the most material risks, assuming that each sensitivity occurs in isolation, with no other changes.

| Risk type | Sensitivity | Impact on SCR for risk type | Impact on overall SCR |
|-----------------------------------------------|----------------------------------------------------------------------|-----------------------------|-----------------------|
| Cold weather (catastrophe underwriting risk). | Increasing cold weather exposure by 10%. | 10% | 4% |
| Operational risk | Increasing the number of premium refunds within product risk by 30%. | 12% | 7% |

A one-notch downgrade in the credit rating assumed for BGSL would not have a material impact on the SCR and sensitivity analysis is not presented for market risk since it is a small proportion of BGIL's overall risk profile.

C.7.5 STRESS AND SCENARIO TESTING

Stress and scenario testing is part of BGIL's risk management process and is used to evaluate its financial position under severe but plausible events. Its value lies in enhancing management understanding of the financial vulnerability and viability of BGIL.

Stress and scenario testing is conducted at least annually and in 2020 was undertaken more frequently to assess the impact of the pandemic and to support the decisions to pay dividends in June and December. The analysis highlighted that BGIL's balance sheet is resilient to stresses and threats including potential impacts of Covid-19 together with combined cold weather and operational risk events.

BGIL has a recovery framework and plan which defines roles and responsibilities and sets out the management options that could be taken in times of stress to facilitate the recovery of BGIL's own funds.

C.7.6 REVERSE STRESS TESTING

BGIL also undertakes reverse stress testing which considers circumstances that would render BGIL's business model inviable, thereby identifying potential business vulnerabilities. Reverse stress testing starts from an outcome of business failure and identifies potential circumstances which might trigger this. This includes the extreme risks which are usually dismissed on the basis that they are very unlikely to happen and is different to general stress and scenario testing which assesses outcomes arising from changes in circumstances.

The reverse stress testing exercise reaffirmed the very low likelihood of BGIL becoming inviable. The potential causes of inviability were explored and such causes, while not impossible, are judged implausible given the nature of BGIL's business and risk profile. Should business failure occur, BGIL has a documented plan to ensure that run-off would be made in a structured way leading to an orderly exit from the insurance market.

D VALUATION FOR SOLVENCY PURPOSES

(Audited)

The Company's annual financial statements are prepared under UK GAAP. The balance sheet on a UK GAAP basis and the Solvency II basis is shown below.

| Balance sheet as at 31 December | 2020 UK GAAP value £m | 2020 SII value £m | 2020 Difference £m | 2019 UK GAAP value £m | 2019 SII value £m | 2019 Difference £m |
|----------------------------------------------------|--------------------------------|----------------------------|--------------------------|--------------------------------|----------------------------|--------------------------|
| Assets | | | | | | |
| Deferred acquisition costs | 265.2 | 0.0 | (265.2) | 243.7 | 0.0 | (243.7) |
| Investments | | | | | | |
| Collective investment undertakings | 234.8 | 234.8 | 0.0 | 168.6 | 168.6 | 0.0 |
| Insurance & intermediaries receivables | 513.7 | 0.0 | (513.7) | 534.0 | 0.0 | (534.0) |
| Cash and cash equivalents | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 | 0.0 |
| Any other assets, not elsewhere shown | 0.7 | 0.0 | (0.7) | 1.3 | 0.0 | (1.3) |
| Total assets | 1,014.6 | 235.0 | (779.6) | 947.8 | 168.7 | (779.1) |
| Liabilities | | | | | | |
| Technical provisions | (526.7) | (81.3) | 445.4 | (546.8) | 17.6 | 564.4 |
| Deferred tax liabilities | 0.0 | (2.2) | (2.2) | 0.0 | (7.8) | (7.8) |
| Insurance & intermediaries payables | (345.9) | 0.0 | 345.9 | (255.9) | 0.0 | 255.9 |
| Any other liabilities, not elsewhere shown | (35.2) | (35.2) | 0.0 | (35.9) | (35.9) | 0.0 |
| Total liabilities | (907.8) | (118.7) | 789.1 | (838.5) | (26.1) | 812.5 |
| Excess of assets over liabilities/own funds | 106.8 | 116.3 | 9.5 | 109.2 | 142.6 | 33.4 |

Units in collective investment undertakings are available for sale and are recorded on the balance sheet at fair value. The UK GAAP valuation is consistent with Solvency II requirements and so there is no difference between the two bases.

Under Solvency II, UK GAAP unearned premium provision, deferred acquisition costs and insurance debtors and creditors that are not past due are removed from the balance sheet and replaced with Solvency II provisions, such as premium provisions and risk margin. The difference between UK GAAP and Solvency II gives rise to a reconciliation reserve to which deferred tax is applied at the prevailing rate. Further detail on the calculation of technical provisions is included in section D.2.

D.1 ASSETS

D.1.1 VALUE OF ASSETS

| Assets as at 31 December | 2020 £m | 2019 £m |
|------------------------------------|--------------|--------------|
| Collective investment undertakings | 234.8 | 168.6 |
| Cash and cash equivalents | 0.2 | 0.1 |
| Total assets | 235.0 | 168.7 |

The increase in assets at 31 December is largely due to the retention of funds that will be used to settle the profit commission payable to BGSL and held on the balance sheet at year-end (A.3).

D.1.2 BASIS OF VALUATION

Collective investment undertakings comprise units in short term money market funds. They are classed as low volatility net asset value (LVNAV) funds working within a very narrow bid and offer spread. Units in the funds are valued at the quoted market price at 31 December.

The cash and cash equivalents balance represents on demand balances with financial institutions at fair value. All investments are denominated in sterling.

D.2 TECHNICAL PROVISIONS

D.2.1 VALUE OF TECHNICAL PROVISIONS

| Non-life technical provisions as at 31 December | 2020 £m | 2019 £m |
|-------------------------------------------------|-------------|---------------|
| Premium provisions | (10.6) | (41.2) |
| Claims provisions | 87.0 | 18.9 |
| Best estimate liabilities | 76.4 | (22.3) |
| Risk margin | 4.9 | 4.7 |
| Technical provisions | 81.3 | (17.6) |

The technical provisions as at 31 December 2020 are a liability of £81.3m, an increase of £98.9m over the negative liability of £17.6m as at 31 December 2019.

The increase in the premium provisions is principally due to the reduction in planned profit for 2021 as a result of the rescheduling of some non-essential service visits from 2020 due to the pandemic (A.2).

The increase in claims provisions is mainly due to an increase in the intercompany balance (C.3.1) payable to BGSL. This increase is mostly due to differences in timing of cashflows, including profit commission. The full profit commission of £70.0m payable to BGSL is held on the balance sheet at year-end 2020 compared to the non-settled amount of £8.9m at year-end 2019⁹. Furthermore, the profit for 2020 was higher than 2019 for the reasons outlined in Section A.2.

D.2.2 BASIS OF VALUATION

Technical provisions are defined as the discounted probability-weighted average of future cash flows. Discounting is based on EIOPA's risk free rate but has minimal impact for BGIL. Technical provisions consist of claims provisions, premiums provisions and a risk margin.

Claims Provisions

Claims provisions are the discounted best estimate of all future cashflows relating to claims events prior to the valuation date.

Claims provisions consist of outstanding claims, IBNR and the intercompany balance payable to BGSL at the year-end. Outstanding claims are based on claims volumes outstanding and contractual amounts due at the valuation date. IBNR relates to estimated claims that have occurred but have not yet been notified. Information on the intercompany balance is included in section C.3.1. Given the short-tailed nature of claims, there is no allowance for ENID within claims provisions.

Premium Provisions

Premium provisions are the discounted best estimate of all future cashflows relating to future exposure arising from policies for which BGIL has an obligation at the valuation date.

BGIL has used a simplified method to determine its premium provision, proportionate to underlying risks and taking account of Article 56 [Proportionality] of the Solvency II Delegated Act and the technical provisions requirements of PRA Supervisory Statement SS5/14.

A combination of business plan and actuarial loss ratios are used to calculate expected future cash flows in respect of policies in force. Allowance is also made for BBNI policies which have not incepted at the valuation date but for which BGIL has an obligation to provide insurance cover, such as issued renewals. A deduction is made for mid-term cancellations on in-force policies and renewal lapses on policies invited but not taken up.

⁹ Total profit commission was £31.4m, of which £22.5m was settled prior to 31 December 2019.

The premium provisions include an allowance for ENID, which is based on a consideration of adverse scenarios.

Risk Margin

The risk margin increases the overall value of the technical provisions from the discounted best estimate to an amount equivalent to a theoretical level needed to transfer the obligations to another insurance undertaking.

The risk margin is estimated by applying a 6% (determined by EIOPA) cost of capital charge to the sum of the present value of the entire projected SCR in each future year of exposure. Solvency II allows the use of a partial SCR in the calculation, but the use of the full SCR is considered to be appropriate and proportionate given BGIL's risk profile.

Expenses

Solvency II requires all future expenses incurred in fulfilling existing insurance contracts to be taken into account. The table below illustrates the types of expenses included in claims and premium provisions.

| Expense Type | Claims provisions | Premium provisions |
|-------------------|-------------------|--------------------|
| Administration | | ✓ |
| Claims management | ✓ | ✓ |
| Acquisition | | ✓ |

D.2.3 MATERIAL CHANGES TO ASSUMPTIONS

There have been no material changes to assumptions, notwithstanding the changes assumed for future claims rates in the premium provisions as a consequence of rescheduling service visits from 2020 due to the pandemic.

D.2.4 UNCERTAINTY

The Actuarial Function calculate the uncertainty in the technical provisions which exists in the form of potential variability in IBNR estimates, outstanding claims, and premium provision. Additionally, ENID and BBNI are naturally subject to a degree of uncertainty. The short tail and stable nature of BGIL's insurance activities results in low levels of both absolute technical provisions and their uncertainty.

D.3 OTHER LIABILITIES

| Other liabilities as at 31 December | 2020 £m | 2019 £m |
|---------------------------------------------------|-------------|-------------|
| Insurance premium tax (IPT) | 29.9 | 30.9 |
| Corporation tax | 4.4 | 4.0 |
| Sundry accruals | 0.8 | 0.9 |
| Other creditors | 0.1 | 0.1 |
| Any other liabilities, not elsewhere shown | 35.2 | 35.9 |

The corporation tax creditor relates to tax of £18.9m on the Company's 2020 profit. A payment on account of £14.5m was made during 2020 leaving the creditor of £4.4m to be settled in 2021, as shown in the table.

D.4 ALTERNATIVE METHODS FOR VALUATION

Alternative methods of valuation for assets and liabilities permitted under EIOPA Delegated Act Article 296(4) are not applied.

D.5 ANY OTHER INFORMATION

BGIL does not use the following adjustments:

- The matching adjustment referred to in Article 77b of the Solvency II Directive.
- The volatility adjustment referred to in Article 77d of the Solvency II Directive.
- The transitional risk-free interest rate term structure referred to in Article 308c of the Solvency II Directive.
- The transitional deduction referred to in Article 308d of the Solvency II Directive.

BGIL has no reinsurance contracts and does not use special purpose vehicles and therefore has no recoverables from these arrangements.

E CAPITAL MANAGEMENT

(E1, E5, E6: audited, E2 – E4: unaudited)

E.1 OWN FUNDS

BGIL's objective is to maintain appropriate levels of capital to meet claims as they fall due, protect the interests of customers and meet operating needs and regulatory requirements.

E.1.1 SUMMARY OF OWN FUNDS

| Own funds at 31 December | 2020 £m | 2019 £m |
|-----------------------------------------------|--------------|--------------|
| Excess of assets over liabilities (section D) | 116.3 | 142.6 |
| Foreseeable dividends | 0.0 | (39.0) |
| Eligible own funds (tier 1) | 116.3 | 103.6 |
| Of which: | | |
| Ordinary share capital (fully paid) | 5.0 | 5.0 |
| Reconciliation reserve | 101.9 | 98.6 |

Eligible own funds represent Solvency II net assets less foreseeable dividends approved by the Board but not paid at 31 December. The Solvency II reconciliation reserve represents own funds less share capital and foreseeable dividends.

The analysis of change of own funds over the year is as follows:

| Analysis of change of own funds | 2020 £m | 2019 £m |
|----------------------------------------------|--------------|--------------|
| Own funds at start of year | 142.6 | 151.1 |
| Foreseeable dividend (paid in Q2) | (39.0) | (47.0) |
| Eligible own funds at start of year | 103.6 | 104.1 |
| Increase in own funds during the year | 56.7 | 74.5 |
| December dividend paid | (44.0) | (36.0) |
| Foreseeable dividend (2019: paid in Q2 2020) | 0.0 | (39.0) |
| Eligible own funds at end of year | 116.3 | 103.6 |

Although BGIL is financially resilient, the Board took into account the uncertainties arising from customer delivery performance and agreed to defer further dividend payments until later in the year when there is clarity in the operating environment (C.5).

All own funds at 31 December 2020 and 31 December 2019 meet the criteria to be classified as Tier 1 unrestricted basic own funds as set out in Article 71 of the Solvency II Delegated Act:

- The own funds are immediately available to absorb losses.
- They are undated so there is no obligation for repayment.
- Dividends are approved by the Board and can be cancelled at any time prior to payment.
- There are no mandatory servicing costs.

There are no significant restrictions affecting the availability and transferability of own funds within BGIL.

All eligible own funds are available to cover the SCR (section E.2.7) and the MCR (section E.2.8).

E.1.2 CAPITAL MANAGEMENT POLICY

A business plan is prepared at least annually. The plan includes a projection of own funds and SCR over the three-year forward-looking period. Monthly actual positions are reported against the plan. Forecast updates are prepared in the event of any significant deviation from the plan or material changes in business strategy.

Capital resources are managed in accordance with the Capital Management Policy, which is reviewed by the Board on an annual basis. The key objective is to maintain sufficient own funds to safeguard the Company's

ability to continue as a going concern and to protect the interests of customers, investors and regulators while also efficiently deploying own funds and managing risk to sustain ongoing business development. Own funds are regularly monitored, and management intervention and actions are required at particular thresholds.

BGIL's approach at year-end is to distribute audited and approved own funds in excess of capital risk appetite to its parent company, subject to ongoing business performance being within risk appetite, specific requirements as detailed in BGIL's Dividend Policy, and other relevant factors. Funds in excess of BGIL's capital risk appetite may be distributed at other times throughout the year, in accordance with BGIL's Dividend Policy, and following Board approval.

E.1.3 DIFFERENCE BETWEEN EQUITY IN FINANCIAL STATEMENTS AND EXCESS OF ASSETS OVER LIABILITIES

The following table shows the differences between the equity in the financial statements, calculated on a UK GAAP basis, and the excess of assets over liabilities (own funds) calculated on a Solvency II basis.

| UK GAAP to SII as at 31 December | 2020 £m | 2019 £m |
|--------------------------------------------------------------|--------------|--------------|
| Equity in the financial statements/shareholders funds | 106.8 | 109.2 |
| Remove UK GAAP insurance balances | 5.9 | 4.7 |
| <i>Add Solvency II balances:</i> | | |
| Premium provisions | 10.6 | 41.2 |
| Risk margin | (4.9) | (4.7) |
| Tax on reconciliation reserve | (2.2) | (7.8) |
| Excess of assets over liabilities/own funds | 116.3 | 142.6 |
| Foreseeable dividend | 0.0 | (39.0) |
| Eligible own funds (tier 1) | 116.3 | 103.6 |

E.1.4 ANY OTHER INFORMATION

There are no basic own fund items subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Solvency II Directive.

BGIL does not have any ancillary own funds.

There are no significant restrictions affecting the availability and transferability of own funds within the undertaking.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The SCR represents the level of eligible own funds required to provide assurance that the Company can absorb significant losses in 1-in-200 year scenarios and still meet policyholders' claims costs and other obligations as they fall due.

E.2.1 PARTIAL INTERNAL MODEL

BGIL calculates its SCR using a partial internal model. The internal model is used for insurance risk, operational risk and counterparty risk, with the Standard Formula used for market risk and aggregation across risk types.

Uses

The partial internal model is also used in the ongoing management of the business including:

- For capital management purposes including determining the level of dividends and defining an appropriate solvency capital margin.
- In the ORSA process and report.
- To assess reinsurance requirements (currently no reinsurance is purchased).
- In stress and scenario testing and reverse stress testing.

Method

The separate risk modules of the model use different methods for the calculation of the probability distribution forecast as follows:

- Underwriting risk:
 - Catastrophe (cold weather) risk: Met Office temperature data and company-specific demand data, together with predictive modelling techniques, are used to create an empirical temperature-demand distribution from which a probability distribution is created.
 - Premium and reserve risk: attritional claims frequency is modelled stochastically.
- Operational risk: several scenarios at various return periods are considered and used to create a probability distribution.
- Counterparty default risk uses a stochastic model based on internal and external data.

Time Period

Solvency II requires firms to calculate the SCR over the following 12 months (Article 101 of the Solvency II Directive). Alternative methods are possible under Article 122. For BGIL, a bespoke model is used to provide sufficient protection to policyholders, in accordance with Article 122, and as approved by the PRA.

Data

The model uses data from various internal and external sources including:

- Business plan.
- Met Office temperature data.
- Event loss data.
- Debt recovery rates.

The data is handled in accordance with BGIL's Data Quality Policy which ensures that relevant data is accurate, complete and appropriate, enabling BGIL to effectively manage its business and to meet regulatory and statutory obligations, including Solvency II data quality standards.

E.2.2 OVERALL SCR

The table below shows BGIL's SCR for each risk module.

| Solvency Capital Requirement as at 31 December | 2020 £m | 2019 £m |
|------------------------------------------------|-------------|-------------|
| Non-life underwriting risk | 28.3 | 27.6 |
| Market risk | 2.3 | 1.6 |
| Counterparty default risk | 6.0 | 4.3 |
| Operational risk | 42.5 | 41.5 |
| Diversification | (4.2) | (3.1) |
| Total SCR | 74.9 | 71.9 |

The increase in SCR is due to the use of an updated business plan as well as technical changes to the partial internal model. Further information is included in sections E.2.3 to E.2.6.

No capital add-on is applied to the SCR.

E.2.3 UNDERWRITING RISK

Changes in underwriting risk are largely due to use of the 2021 business plan in the model. Premium and reserve risk is net of a profit offset. Further information about underwriting risk is included in section C.1.

| Underwriting risk as at 31 December | 2020 £m | 2019 £m |
|-------------------------------------|-------------|-------------|
| Premium and reserve risk | 3.2 | 1.5 |
| Catastrophe risk | 32.1 | 34.1 |
| Other non-life underwriting risk | 2.5 | 2.2 |
| Diversification | (9.5) | (10.3) |
| Total underwriting risk | 28.3 | 27.6 |

E.2.4 MARKET RISK

Market risk is calculated using the Standard Formula as it is considered to fairly reflect BGIL's risk profile and capital requirement. No material simplifications permitted in the Standard Formula have been used.

| Market risk as at 31 December | 2020 £m | 2019 £m |
|-------------------------------|------------|------------|
| Interest rate risk | 0.2 | 0.3 |
| Spread risk | 0.1 | 0.0 |
| Concentration risk | 2.3 | 1.6 |
| Diversification | (0.3) | (0.3) |
| Total market risk | 2.3 | 1.6 |

The increase in concentration risk reflects a higher value of funds exceeding the 3% threshold determined in the Standard Formula. BGIL's investments are all sterling-denominated and so there is no currency risk.

E.2.5 COUNTERPARTY DEFAULT RISK

The table below shows that there has been an increase in the quantification of counterparty default risk reflecting an increase in exposure as a consequence of the pandemic. Further information about counterparty default risk is included in section C.3.

| Counterparty default risk (credit risk) as at 31 December | 2020 £m | 2019 £m |
|-----------------------------------------------------------|------------|------------|
| Total counterparty default risk | 6.0 | 4.3 |

E.2.6 OPERATIONAL RISK

Operational risk is a scenario-based model and the scenarios, and correlations between scenarios and risk groups, have been reviewed and updated. The update reflects internal and external risk drivers, including the pandemic. Further information about operational risk is included in section C.5.

| Operational risk as at 31 December | 2020 £m | 2019 £m |
|------------------------------------|-------------|-------------|
| Total operational risk | 42.5 | 41.5 |

E.2.7 RATIO OF ELIGIBLE OWN FUNDS TO SCR

| Solvency II surplus as at 31 December | 2020 £m | 2019 £m |
|-------------------------------------------|-------------|-------------|
| Eligible own funds (tier 1) | 116.3 | 103.6 |
| Solvency Capital Requirement | 74.9 | 71.9 |
| Solvency II surplus | 41.3 | 31.7 |
| Ratio of eligible own funds to SCR | 155% | 144% |

E.2.8 MINIMUM CAPITAL REQUIREMENT

BGIL is required to report the MCR which is a regulatory figure representing the absolute minimum level below which own funds should not fall. While the SCR is driven by a bespoke, PRA-approved model designed to reflect BGIL's risk profile, the MCR calculation is a linear formula based on GWP and technical provisions and is subject to a defined floor of 25% of SCR and a cap of 45% of SCR. As such, caution needs to be exercised when comparing with BGIL's SCR, or with the MCR of other companies. The MCR (capped at 45% of SCR) and capital coverage of the MCR is shown below. All of BGIL's own funds are classed as Tier 1 and are therefore available to meet the MCR.

| Capital coverage of MCR as at 31 December | 2020 £m | 2019 £m |
|-------------------------------------------|-------------|-------------|
| Eligible own funds (tier 1) | 116.3 | 103.6 |
| MCR | 33.7 | 32.4 |
| Ratio of eligible own funds to MCR | 345% | 320% |

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SCR

The duration-based equity risk sub-module in the calculation of the SCR is not used.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND PARTIAL INTERNAL MODEL

The following table shows how BGIL's SCR calculated using the PRA-approved partial internal model compares with the calculation using the Standard Formula. Non-life underwriting risk calculated using the Standard Formula has decreased due to a reduction in EIOPA's standard deviation assumptions for premium risk.

| Comparison with Standard Formula as at 31 December | 2020 | 2020 | 2020 | 2019 | 2019 | 2019 |
|----------------------------------------------------|------------------------|------------------------------|------------------|------------------------|------------------------------|------------------|
| | Standard Formula £m | Partial Internal Model £m | Difference £m | Standard Formula £m | Partial Internal Model £m | Difference £m |
| Non-life underwriting risk | 192.5 | 28.3 | (164.2) | 276.6 | 27.6 | (249.1) |
| Market risk | 2.3 | 2.3 | 0.0 | 1.6 | 1.6 | 0.0 |
| Counterparty default risk | 0.0 | 6.0 | 5.9 | 0.0 | 4.3 | 4.3 |
| Diversification | (1.7) | (4.2) | (2.4) | (1.2) | (3.1) | (1.8) |
| Basic solvency capital requirement | 193.1 | 32.4 | (160.7) | 277.0 | 30.4 | (246.6) |
| Operational risk | 29.6 | 42.5 | 12.9 | 30.4 | 41.5 | 11.1 |
| Solvency Capital Requirement | 222.7 | 74.9 | (147.8) | 307.4 | 71.9 | (235.5) |

The Standard Formula for underwriting risk produces a capital requirement higher than under BGIL's internal model due to material differences in the assumptions used by EIOPA in the Standard Formula and those used in BGIL's internal model. The internal model better reflects BGIL's low underwriting risk characterised by the short tail nature of the business and contractually fixed unit claims costs.

Counterparty default risk calculated using the Standard Formula is negligible and does not adequately reflect BGIL's business relationship with BGSL. Under the Standard Formula calculation, operational risk capital is based on gross earned premium at the year-end and does not adequately reflect BGIL's risk profile. BGIL's partial internal model uses the Standard Formula to calculate market risk as this is considered to fairly reflect BGIL's risk profile. No material simplifications have been made, and BGIL does not use any undertaking-specific parameters, within the Standard Formula calculation.

E.5 NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

BGIL has maintained sufficient own funds to meet both the SCR and the MCR throughout the reporting period.

E.6 ANY OTHER INFORMATION

There is no other material information to report.

F GLOSSARY

| Term | Meaning within document |
|---------------------------|-----------------------------------------------------------------------------------|
| BBNI | Bound But Not Incepted |
| BGIL or the Company | British Gas Insurance Limited |
| BGSL | British Gas Services Limited |
| COR | Combined Operating Ratio |
| CRO | Chief Risk Officer |
| EIOPA | European Insurance and Occupational Pensions Authority |
| ENID | Events Not In Data |
| EPIFP | Expected Profit in Future Premium |
| FCA | Financial Conduct Authority |
| GBGH | GB Gas Holdings Limited |
| GWP | Gross Written Premium |
| IBNR | Incurred But Not Reported |
| MCR | Minimum Capital Requirement |
| ORSA | Own Risk and Solvency Assessment |
| PRA | Prudential Regulation Authority |
| PIM | Partial Internal Model |
| SCR | Solvency Capital Requirement |
| Solvency II Directive | Directive 2009/138/EC of the European Parliament and of the Council ¹⁰ |
| Solvency II Delegated Act | Commission Delegated Regulation (EU) 2015/35 ¹⁰ |
| UK GAAP | UK Generally Accepted Accounting Practice |

¹⁰ Some PRA rules have changed to reflect UK withdrawal from the European Union. Obligations are interpreted in accordance with the PRA Transitional Direction to the extent they apply.

British Gas Insurance Limited

Solvency and Financial Condition Report

Disclosures

31 December
2020

(Monetary amounts in GBP thousands)

General information

| | |
|-----------------------------------------------------|---------------------------------------------------------------|
| Undertaking name | British Gas Insurance Limited |
| Undertaking identification code | 213800QKXD83EEO79W25 |
| Type of code of undertaking | LEI |
| Type of undertaking | Non-life undertakings |
| Country of authorisation | GB |
| Language of reporting | en |
| Reporting reference date | 31 December 2020 |
| Currency used for reporting | GBP |
| Accounting standards | Local GAAP |
| Method of Calculation of the SCR | Partial internal model |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
- S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

| | | Solvency II value |
|---------------|----------------------------------------------------------------------------------------|----------------------|
| | | C0010 |
| Assets | | |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 234,841 |
| R0080 | <i>Property (other than for own use)</i> | 0 |
| R0090 | <i>Holdings in related undertakings, including participations</i> | 0 |
| R0100 | <i>Equities</i> | 0 |
| R0110 | <i>Equities - listed</i> | |
| R0120 | <i>Equities - unlisted</i> | |
| R0130 | <i>Bonds</i> | 0 |
| R0140 | <i>Government Bonds</i> | 0 |
| R0150 | <i>Corporate Bonds</i> | 0 |
| R0160 | <i>Structured notes</i> | 0 |
| R0170 | <i>Collateralised securities</i> | 0 |
| R0180 | <i>Collective Investments Undertakings</i> | 234,841 |
| R0190 | <i>Derivatives</i> | |
| R0200 | <i>Deposits other than cash equivalents</i> | 0 |
| R0210 | <i>Other investments</i> | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 0 |
| R0240 | <i>Loans on policies</i> | 0 |
| R0250 | <i>Loans and mortgages to individuals</i> | |
| R0260 | <i>Other loans and mortgages</i> | |
| R0270 | Reinsurance recoverables from: | 0 |
| R0280 | <i>Non-life and health similar to non-life</i> | 0 |
| R0290 | <i>Non-life excluding health</i> | 0 |
| R0300 | <i>Health similar to non-life</i> | 0 |
| R0310 | <i>Life and health similar to life, excluding index-linked and unit-linked</i> | 0 |
| R0320 | <i>Health similar to life</i> | |
| R0330 | <i>Life excluding health and index-linked and unit-linked</i> | |
| R0340 | <i>Life index-linked and unit-linked</i> | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | |
| R0390 | Own shares (held directly) | |
| 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 | 160 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | Total assets | 235,001 |

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Balance sheet

| Solvency II value | | |
|--------------------------|----------------------------------------------------------------------------------------|---------|
| C0010 | | |
| R0510 | Technical provisions - non-life | 81,289 |
| R0520 | <i>Technical provisions - non-life (excluding health)</i> | 81,289 |
| R0530 | <i>TP calculated as a whole</i> | 0 |
| R0540 | <i>Best Estimate</i> | 76,367 |
| R0550 | <i>Risk margin</i> | 4,922 |
| R0560 | <i>Technical provisions - health (similar to non-life)</i> | 0 |
| R0570 | <i>TP calculated as a whole</i> | 0 |
| R0580 | <i>Best Estimate</i> | 0 |
| R0590 | <i>Risk margin</i> | 0 |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 0 |
| R0610 | <i>Technical provisions - health (similar to life)</i> | 0 |
| R0620 | <i>TP calculated as a whole</i> | |
| R0630 | <i>Best Estimate</i> | |
| R0640 | <i>Risk margin</i> | |
| R0650 | <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i> | 0 |
| R0660 | <i>TP calculated as a whole</i> | |
| R0670 | <i>Best Estimate</i> | |
| R0680 | <i>Risk margin</i> | |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | <i>TP calculated as a whole</i> | |
| R0710 | <i>Best Estimate</i> | |
| R0720 | <i>Risk margin</i> | |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | 2,214 |
| R0790 | Derivatives | |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | |
| R0850 | Subordinated liabilities | 0 |
| R0860 | <i>Subordinated liabilities not in BOF</i> | |
| R0870 | <i>Subordinated liabilities in BOF</i> | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 35,208 |
| R0900 | Total liabilities | 118,712 |
| R1000 | Excess of assets over liabilities | 116,289 |

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

| Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | Total | | |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------|-----------------------------------|-----------------------|------------------------------------------|---------------------------------------------|-----------------------------|---------------------------------|--------------------------|------------|----------------------|-------------------------------------------------------------|----------|--------------------------------|----------|-------|-------|---------|
| Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | | C0200 | |
| C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | | | |
| Premiums written | | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | | | | | | | 966,221 | | | | | | | 966,221 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0200 | Net | | | | | | | | | | 966,221 | | | | | | | 966,221 |
| Premiums earned | | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | | | | | | | 986,295 | | | | | | | 986,295 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0300 | Net | | | | | | | | | | 986,295 | | | | | | | 986,295 |
| Claims incurred | | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | | | | | | | 309,080 | | | | | | | 309,080 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0400 | Net | | | | | | | | | | 309,080 | | | | | | | 309,080 |
| Changes in other technical provisions | | | | | | | | | | | | | | | | | | |
| R0410 | Gross - Direct Business | | | | | | | | | | | | | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0440 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0500 | Net | | | | | | | | | | 0 | | | | | | | 0 |
| R0550 | Expenses incurred | | | | | | | | | | 508,393 | | | | | | | 508,393 |
| R1200 | Other expenses | | | | | | | | | | | | | | | | | 70,005 |
| R1300 | Total expenses | | | | | | | | | | | | | | | | | 578,398 |

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Premiums, claims and expenses by country

Non-life

| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
|-------|----------------------------------------------|------------------------------------------------------------------------------|-------|-------|------------------------------------------------------------------------------|-------|------------------------------|
| | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | Top 5 countries (by amount of gross premiums written) - non-life obligations | | Total Top 5 and home country |
| | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| R0010 | | | | | | | |
| | Premiums written | | | | | | |
| R0110 | 966,221 | | | | | | 966,221 |
| R0120 | | | | | | | 0 |
| R0130 | | | | | | | 0 |
| R0140 | | | | | | | 0 |
| R0200 | 966,221 | | | | | | 966,221 |
| | Premiums earned | | | | | | |
| R0210 | 986,295 | | | | | | 986,295 |
| R0220 | | | | | | | 0 |
| R0230 | | | | | | | 0 |
| R0240 | | | | | | | 0 |
| R0300 | 986,295 | | | | | | 986,295 |
| | Claims incurred | | | | | | |
| R0310 | 309,080 | | | | | | 309,080 |
| R0320 | | | | | | | 0 |
| R0330 | | | | | | | 0 |
| R0340 | | | | | | | 0 |
| R0400 | 309,080 | | | | | | 309,080 |
| | Changes in other technical provisions | | | | | | |
| R0410 | | | | | | | 0 |
| R0420 | | | | | | | 0 |
| R0430 | | | | | | | 0 |
| R0440 | | | | | | | 0 |
| R0500 | 0 | | | | | | 0 |
| R0550 | 508,393 | | | | | | 508,393 |
| R1200 | | | | | | | 70,005 |
| R1300 | | | | | | | 578,398 |

S.17.01.02

Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | Accepted non-proportional reinsurance | | | | Total Non-Life obligation | |
|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------|---------------------------------|-----------------------------------|-----------------------|------------------------------------------|---------------------------------------------|-----------------------------|---------------------------------|--------------------------|------------|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------------------------------|---------------------------|---------------------------------------|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | | Non-proportional property reinsurance |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| R0010 | Technical provisions calculated as a whole | | | | | | | | | | | 0 | | | | | | 0 |
| R0050 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | | | | | | | | | | | | | | | | | 0 |
| Technical provisions calculated as a sum of BE and RM Best estimate | | | | | | | | | | | | | | | | | | |
| Premium provisions | | | | | | | | | | | | | | | | | | |
| R0060 | Gross | | | | | | | | | | | -10,634 | | | | | | -10,634 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | | | | | | | | | | 0 |
| R0150 | Net Best Estimate of Premium Provisions | | | | | | | | | | | -10,634 | | | | | | -10,634 |
| Claims provisions | | | | | | | | | | | | | | | | | | |
| R0160 | Gross | | | | | | | | | | | 87,002 | | | | | | 87,002 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | | | | | | | | | | 0 |
| R0250 | Net Best Estimate of Claims Provisions | | | | | | | | | | | 87,002 | | | | | | 87,002 |
| R0260 | Total best estimate - gross | | | | | | | | | | | 76,367 | | | | | | 76,367 |
| R0270 | Total best estimate - net | | | | | | | | | | | 76,367 | | | | | | 76,367 |
| R0280 | Risk margin | | | | | | | | | | | 4,922 | | | | | | 4,922 |
| Amount of the transitional on Technical Provisions | | | | | | | | | | | | | | | | | | |
| R0290 | Technical Provisions calculated as a whole | | | | | | | | | | | | | | | | | 0 |
| R0300 | Best estimate | | | | | | | | | | | | | | | | | 0 |
| R0310 | Risk margin | | | | | | | | | | | | | | | | | 0 |
| R0320 | Technical provisions - total | | | | | | | | | | | 81,289 | | | | | | 81,289 |
| R0330 | Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | | | | | | | | | | | 0 | | | | | | 0 |
| R0340 | Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | | | | | | | | | | | 81,289 | | | | | | 81,289 |

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

| Gross Claims Paid (non-cumulative) | | | | | | | | | | | | | | |
|------------------------------------|-------|---------|-------|-------|------------------|---|---|---|---|---|--------|-----------------|---------------------------|-----------|
| (absolute amount) | | | | | | | | | | | | | | |
| Year | C0010 | C0020 | C0030 | C0040 | Development year | | | | | | C0100 | C0110 | C0170 | C0180 |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | In Current year | Sum of years (cumulative) | |
| R0100 | Prior | | | | | | | | | | | 0 | 0 | 0 |
| R0160 | 2011 | 525,073 | 4,585 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 529,658 | |
| R0170 | 2012 | 544,973 | 6,819 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 551,792 | |
| R0180 | 2013 | 561,863 | 6,777 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 568,640 | |
| R0190 | 2014 | 523,184 | 7,715 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 530,898 | |
| R0200 | 2015 | 506,000 | 4,495 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 510,495 | |
| R0210 | 2016 | 485,542 | 5,811 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 491,353 | |
| R0220 | 2017 | 472,645 | 7,423 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 480,069 | |
| R0230 | 2018 | 508,033 | 5,566 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 513,599 | |
| R0240 | 2019 | 452,370 | 5,447 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,447 | 457,817 | |
| R0250 | 2020 | 344,663 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 344,663 | 344,663 | |
| R0260 | | | | | | | | | | | | Total | 350,110 | 4,978,984 |

| Gross Undiscounted Best Estimate Claims Provisions | | | | | | | | | | | | | |
|----------------------------------------------------|-------|--------|-------|-------|------------------|---|---|---|---|---|--------|----------------------------|---|
| (absolute amount) | | | | | | | | | | | | | |
| Year | C0200 | C0210 | C0220 | C0230 | Development year | | | | | | C0300 | C0360 | |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | Year end (discounted data) | |
| R0100 | Prior | | | | | | | | | | | 0 | |
| R0160 | 2011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0170 | 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0180 | 2013 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0190 | 2014 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0200 | 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0210 | 2016 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0220 | 2017 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0230 | 2018 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0240 | 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0250 | 2020 | 87,012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| R0260 | | | | | | | | | | | | Total | 0 |

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Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

| | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------------------|-------------------|--------|--------|
| | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 Ordinary share capital (gross of own shares) | 5,000 | 5,000 | | 0 | |
| R0030 Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0070 Surplus funds | 0 | 0 | | | |
| R0090 Preference shares | 0 | | 0 | 0 | 0 |
| R0110 Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0130 Reconciliation reserve | 111,289 | 111,289 | | | |
| R0140 Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | | | | |
| R0230 Deductions for participations in financial and credit institutions | 0 | | | | |
| R0290 Total basic own funds after deductions | 116,289 | 116,289 | 0 | 0 | 0 |
| Ancillary own funds | | | | | |
| R0300 Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0390 Other ancillary own funds | 0 | | | | |
| R0400 Total ancillary own funds | 0 | | | 0 | 0 |
| Available and eligible own funds | | | | | |
| R0500 Total available own funds to meet the SCR | 116,289 | 116,289 | 0 | 0 | 0 |
| R0510 Total available own funds to meet the MCR | 116,289 | 116,289 | 0 | 0 | |
| R0540 Total eligible own funds to meet the SCR | 116,289 | 116,289 | 0 | 0 | 0 |
| R0550 Total eligible own funds to meet the MCR | 116,289 | 116,289 | 0 | 0 | |
| R0580 SCR | 74,941 | | | | |
| R0600 MCR | 33,724 | | | | |
| R0620 Ratio of Eligible own funds to SCR | 155.17% | | | | |
| R0640 Ratio of Eligible own funds to MCR | 344.83% | | | | |
| Reconciliation reserve | | | | | |
| R0700 Excess of assets over liabilities | 116,289 | | | | |
| R0710 Own shares (held directly and indirectly) | 0 | | | | |
| R0720 Foreseeable dividends, distributions and charges | | | | | |
| R0730 Other basic own fund items | 5,000 | | | | |
| R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 | | | | |
| R0760 Reconciliation reserve | 111,289 | | | | |
| Expected profits | | | | | |
| R0770 Expected profits included in future premiums (EPIFP) - Life business | | | | | |
| R0780 Expected profits included in future premiums (EPIFP) - Non- life business | -13,892 | | | | |
| R0790 Total Expected profits included in future premiums (EPIFP) | -13,892 | | | | |

S.25.02.21

**Solvency Capital Requirement -
for undertakings using the standard formula and partial internal model**

| USP Key | USP Key | USP Key |
|------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------|
| For life underwriting risk: | For health underwriting risk: | For non-life underwriting risk: |
| 1 - Increase in the amount of annuity benefits | 1 - Increase in the amount of annuity benefits | 4 - Adjustment factor for non-proportional reinsurance |
| 9 - None | 2 - Standard deviation for NSLT health premium risk | 6 - Standard deviation for non-life premium risk |
| | 3 - Standard deviation for NSLT health gross premium risk | 7 - Standard deviation for non-life gross premium risk |
| | 4 - Adjustment factor for non-proportional reinsurance | 8 - Standard deviation for non-life reserve risk |
| | 5 - Standard deviation for NSLT health reserve risk | 9 - None |
| | 9 - None | |

| Unique number of component | Component description | Calculation of the Solvency Capital Requirement | Amount modelled | USP | Simplifications |
|----------------------------|-----------------------|-------------------------------------------------|-----------------|--------|-----------------|
| C0010 | C0020 | C0030 | C0070 | C0090 | C0120 |
| 1 | 50100I | Premium risk | 3,244 | 3,244 | 9 |
| 2 | 50300I | non-life catastrophe risk | 32,082 | 32,082 | 9 |
| 3 | 50500I | Other non-life uw risk | 2,463 | 2,463 | 9 |
| 4 | 55900I | non-life uw diversification | -9,476 | -9,476 | 9 |
| 5 | 10200I | Interest rate risk | 172 | | 9 |
| 6 | 10700I | Spread risk | 87 | | 9 |
| 7 | 10800I | Concentration risk | 2,339 | | 9 |
| 8 | 19900I | Market risk - Diversification | -251 | | 9 |
| 9 | 20100I | Counterparty default risk | 5,951 | 5,951 | 9 |
| 10 | 70100I | Operational risk | 42,517 | 42,517 | 9 |

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Calculation of Solvency Capital Requirement

| | C0100 |
|---------------------------------------------------------------------------------------------------|---------------|
| R0110 Total undiversified components | 88,856 |
| R0060 Diversification | -13,914 |
| R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | |
| R0200 Solvency capital requirement excluding capital add-on | 74,941 |
| R0210 Capital add-ons already set | |
| R0220 Solvency capital requirement | 74,941 |

Other information on SCR

| | |
|------------------------------------------------------------------------------------------------|---|
| R0300 Amount/estimate of the overall loss-absorbing capacity of technical provisions | 0 |
| R0310 Amount/estimate of the overall loss-absorbing capacity of deferred taxes | 0 |
| R0400 Capital requirement for duration-based equity risk sub-module | |
| R0410 Total amount of Notional Solvency Capital Requirements for remaining part | |
| R0420 Total amount of Notional Solvency Capital Requirement for ring fenced funds | |
| R0430 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | |
| R0440 Diversification effects due to RFF nSCR aggregation for article 304 | |

Approach to tax rate

| | |
|------------------------------------------|--|
| R0590 Approach based on average tax rate | |
|------------------------------------------|--|

Calculation of loss absorbing capacity of deferred taxes

| | C0109 |
|---------------------------------------------------------------------------------------------------|---------------|
| | LAC DT |
| | C0130 |
| R0640 Amount/estimate of LAC DT | 0 |
| R0650 Amount/estimate of LAC DT justified by reversion of deferred tax liabilities | |
| R0660 Amount/estimate of LAC DT justified by reference to probable future taxable economic profit | |
| R0670 Amount/estimate of AC DT justified by carry back, current year | |
| R0680 Amount/estimate of LAC DT justified by carry back, future years | |
| R0690 Amount/estimate of Maximum LAC DT | |

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

| Linear formula component for non-life insurance and reinsurance obligations | | C0010 | | |
|-----------------------------------------------------------------------------|--------------------------------------------------------------------------|--------|---------------------------------------------------------------------|-------------------------------------------------------------|
| R0010 | MCR _{NL} Result | 98,063 | | |
| | | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
| | | | C0020 | C0030 |
| R0020 | Medical expense insurance and proportional reinsurance | | 0 | |
| R0030 | Income protection insurance and proportional reinsurance | | 0 | |
| R0040 | Workers' compensation insurance and proportional reinsurance | | 0 | |
| R0050 | Motor vehicle liability insurance and proportional reinsurance | | 0 | |
| R0060 | Other motor insurance and proportional reinsurance | | 0 | |
| R0070 | Marine, aviation and transport insurance and proportional reinsurance | | 0 | |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | | 0 | |
| R0090 | General liability insurance and proportional reinsurance | | 0 | |
| R0100 | Credit and suretyship insurance and proportional reinsurance | | 0 | |
| R0110 | Legal expenses insurance and proportional reinsurance | | 0 | |
| R0120 | Assistance and proportional reinsurance | | 76,367 | 986,568 |
| R0130 | Miscellaneous financial loss insurance and proportional reinsurance | | 0 | |
| R0140 | Non-proportional health reinsurance | | 0 | |
| R0150 | Non-proportional casualty reinsurance | | 0 | |
| R0160 | Non-proportional marine, aviation and transport reinsurance | | 0 | |
| R0170 | Non-proportional property reinsurance | | 0 | |
| | | | | |
| Linear formula component for life insurance and reinsurance obligations | | C0040 | | |
| R0200 | MCR _L Result | 0 | | |
| | | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| | | | C0050 | C0060 |
| R0210 | Obligations with profit participation - guaranteed benefits | | | |
| R0220 | Obligations with profit participation - future discretionary benefits | | | |
| R0230 | Index-linked and unit-linked insurance obligations | | | |
| R0240 | Other life (re)insurance and health (re)insurance obligations | | | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Overall MCR calculation | | C0070 | | |
| R0300 | Linear MCR | 98,063 | | |
| R0310 | SCR | 74,941 | | |
| R0320 | MCR cap | 33,724 | | |
| R0330 | MCR floor | 18,735 | | |
| R0340 | Combined MCR | 33,724 | | |
| R0350 | Absolute floor of the MCR | 2,255 | | |
| R0400 | Minimum Capital Requirement | 33,724 | | |