SOLVENCY & FINANCIAL CONDITION REPORT

BRITISH GAS INSURANCE LIMITED

Year Ended 31 December 2017

CONTENTS

EXECUTIVE SUMMARY

Introduction

The requirement to produce an annual Solvency and Financial Condition Report ("SFCR") follows the introduction of the Solvency II capital 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 SFCR presents information on the business and performance of British Gas Insurance Limited ("BGIL" or "the Company") and its system of governance, risk profile, valuation for solvency purposes, capital management position and process. Information about the business and performance of the Company is also included in the Annual Report and Financial Statements for 2017.

Parts of the SFCR are subject to external audit as explained in the Independent Auditor's report on page 8.

Overview

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 Company underwrites general insurance risks in the UK, within the assistance class of business, covering the breakdown of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances. It is authorised to carry out its regulated activities by the Prudential Regulation Authority ("PRA") and is regulated by the PRA and the Financial Conduct Authority ("FCA"). The Company does not underwrite risks outside the UK.

All business is introduced to the Company by British Gas Services Limited ("BGSL"), an insurance intermediary directly authorised and regulated by the FCA. All claims fulfilment and claims handling activities are also contracted out to BGSL. Through a service level agreement with BGSL, the Company monitors business acquisition, claims fulfilment and claims handling activities as well as the quality of customer service and the levels of customer complaints. It also applies the customer conduct principles of the FCA in its decision-making process and oversees adherence to those principles by BGSL. A services agreement between the two companies lays out the activities undertaken by each entity and limits exposure to BGIL in the event that BGSL fails to adequately perform the activities for which it is responsible.

Section A - Business and performance summary

The number of policies in force decreased by 4% in the year to 7,886,000 at 31 December 2017 reflecting the challenging economic environment and an increasingly competitive market-place. The outlook is broadly to stabilise policy volumes in 2018 and target more significant growth in 2019, principally through partnership arrangements. Gross premiums written were 2% lower than 2016 reflecting fewer policies in force partly offset by some price increases.

Under UK Generally Accepted Accounting Practice (UK GAAP), underwriting profit for 2017 was £79.7m (2016: 76.9m) and profit before tax was £80.3m (2016: £78.1m).

Underwriting Performance at 31 December under UK GAAP	2017 £m	2016 £m
Gross written premium	1,012.1	1,033.3
Gross earned premium	1,030.6	1,008.7
Gross claims incurred	(480.1)	(491.5)
Expenses incurred	(470.8)	(440.3)
Underwriting profit	**79.7**	**76.9**
Profit before tax	**80.3**	**78.1**

Section A has more information on the Company's business and performance. See pages 12 to 14.

Section B - System of governance summary

The Company has a robust risk management system in place to identify, measure, monitor, manage and report on the risks to its business strategy and delivery of its objectives, as part of a "three lines of defence" governance model to ensure appropriate segregation of risk ownership, oversight and assurance responsibilities.

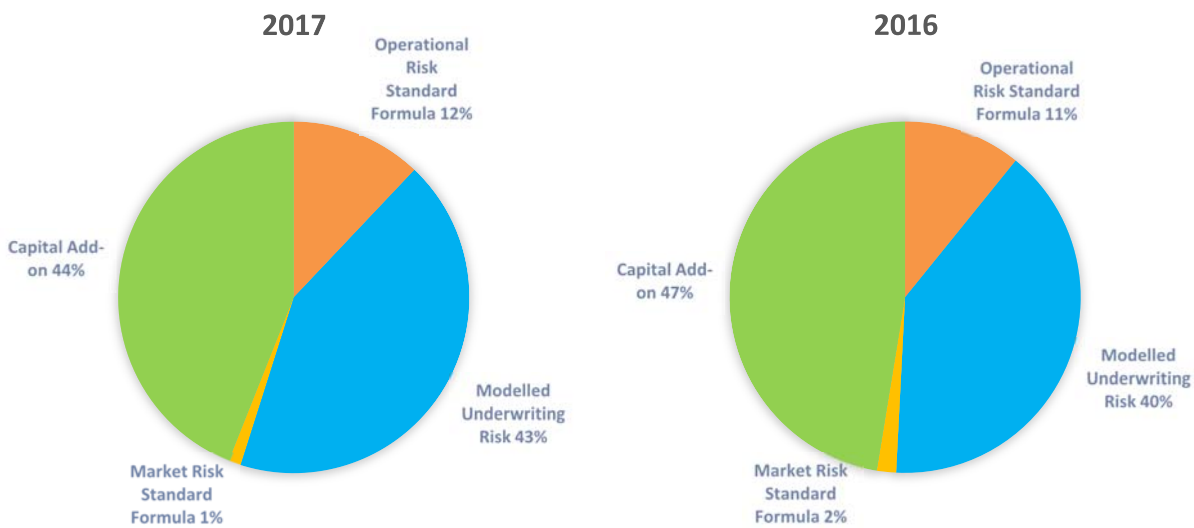
- First Line: Business management is accountable for implementing and using the Enterprise Risk Management Framework ("ERMF") when it delivers the business plan, assesses the levels of risk taking and embedding a risk culture.
- Second Line: Risk and Compliance function are accountable for providing an independent and forward looking assessment of the Company's risk profile to the Board, as well as providing the necessary oversight and challenge to the First Line.
- Third Line: Internal Audit is accountable for wholly independent assurance on the adequacy and effectiveness of risk management and control.

The Risk Audit & Compliance Committee ("RACC") is a Board committee with oversight of the risk agenda, providing independent challenge of how effectively the Company monitors and reports its risk exposures.

Section B has more information on the system of governance. See pages 15 to 24.

Section C - Risk profile summary

The following chart shows the composition by risk type of the Company's Solvency Capital Requirement ("SCR") of £79.6m at 31 December 2017 (2016: £73.8m), calculated using the PRA approved partial internal model (PIM). The increase arises in underwriting risk, due mainly to an increase in claims fulfilment and handling costs, and in the consequent impact on the operational risk component of standard formula.



Underwriting risk is the risk that future claims experience for business written is materially different from expectation, resulting in current year losses. This includes reserve risk, catastrophe risk and the risk of loss or adverse change in the value of the insurance liabilities.

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

Market risk reflects the risk of loss resulting from fluctuations in the level and volatility of the market prices of assets, liabilities and financial instruments. The Company's long-term financial strategy is to facilitate growth without undue balance sheet risk.

Investment counterparties are monitored to ensure individual exposure concentrations in the portfolio are appropriate. The Capital and Investment Committee ("CIC") supported by the Centrica treasury department, review counterparty limits within overall permissions set out in the investment risk policy.

Counterparty exposure relating to insurance activities is predominantly with BGSL, which collects premiums from customers on behalf of the Company. The insolvency of BGSL could result in premiums not being passed across to the Company.

In addition to standard formula, operational risk and counterparty default risk are subject to a £35m capital add-on, agreed with the PRA based on the Company's own assessment of capital requirements as at 31 December 2015 when the partial internal model was approved. In March 2018, a formal application was made to the PRA for approval to extend the internal model to include these two risk types.

Section C has more information on the Company's risk profile. See pages 25 to 31.

Section D - Valuation for solvency purposes summary

A summary of the Solvency II balance sheet at 31 December is set out below:

Solvency II Balance Sheet	2017 £m	2016 £m
Investments	203.7	215.3
Cash and cash equivalents	0.2	0.2
Other assets, not elsewhere shown	0.6	0.8
Total assets	**204.5**	**216.3**
Technical provisions	-	10.4
Deferred tax liabilities	(6.4)	(7.1)
Other liabilities, not elsewhere shown	(31.7)	(29.8)
Total liabilities	**(38.1)**	**(26.5)**
Excess of assets over liabilities	**166.4**	**189.8**

Assets and liabilities are reported at fair value:

- Investments comprise units in quoted short term money market funds, £198.7m (2016: £195.3m) and deposits with financial institutions, £5.0m (2016: £20.0m).
- Technical provisions comprise:
  - Premium provision negative liability £34.5m (2016: £35.2m negative liability).
  - Claims provisions liability £29.5m (2016: £20.1m liability).
  - Risk margin liability £5.0m (2016: £4.7m liability).
- Other liabilities comprise principally insurance premium tax payable £28.3m (2016: £25.9m).

Section D has more information on the Company's valuation for solvency purposes including technical provisions, estimation uncertainty and comparison with the bases, methods and assumptions applied to the UK Generally Accepted Accounting Practice (UK GAAP) financial statements. See pages 32 to 37.

Section E - Capital management summary

The Company's principal capital management objective is to maintain sufficient capital ("own funds") to protect the interests of customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development.

At 31 December 2017, the SCR coverage ratio was 138.7%:

Solvency II capital position at 31 December	2017 £m	2016 £m
Eligible own funds	110.4	103.8
Solvency capital requirement	79.6	73.8
Surplus	30.8	30.0
Solvency ratio (%)	**138.7%**	**140.7%**

The Company has maintained sufficient own funds to exceed both the SCR and the Minimum Capital Requirement ("MCR") throughout the reporting period.

All the Company's capital is Tier 1 unrestricted basic own funds, eligible to meet the SCR and MCR.

Section E has more information on the Company's SCR, MCR and own funds. See pages 38 to 44.

Other information

In line with PRA requirements, sections D. Valuation for Solvency Purposes and E.1. Own Funds have been subject to audit.

DIRECTORS' REPORT

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 so to comply, and will continue so to comply in the future.

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

Stephen O'Dwyer
Finance Director

3 May 2018

INDEPENDENT AUDITOR REPORT

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 2017:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2017, ('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'.

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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 about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive 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;
- 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 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ISAs (UK), including ISA (UK) 800 and ISA (UK) 805, 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 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

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

In connection with our audit of the SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in relation to these matters.

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 a SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

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

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.

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.

Adam Addis, ACA (Senior Statutory Auditor)
Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

3 May 2018

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 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

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

A. BUSINESS AND PERFORMANCE

This section of the report describes the business structure, key operations, market position and financial performance of British Gas Insurance Limited ("BGIL").

A.1 Business

A.1.1 Company information

BGIL is incorporated in the United Kingdom and registered in England and Wales. The Company is a wholly owned subsidiary of GB Gas Holdings Limited ("GBGH") forming part of the Centrica Group.

The Company's registered office and principal place of business and contact details of its external auditor and supervisory authority are shown below:

Registered Office:
Maidenhead Road
Windsor
Berkshire
SL4 5GD
+44 (0) 1753 494000

External Auditor:
Deloitte LLP
Hill House
1 Little New Street
London EC4A 3TR
+44 (0) 20 7936 3000

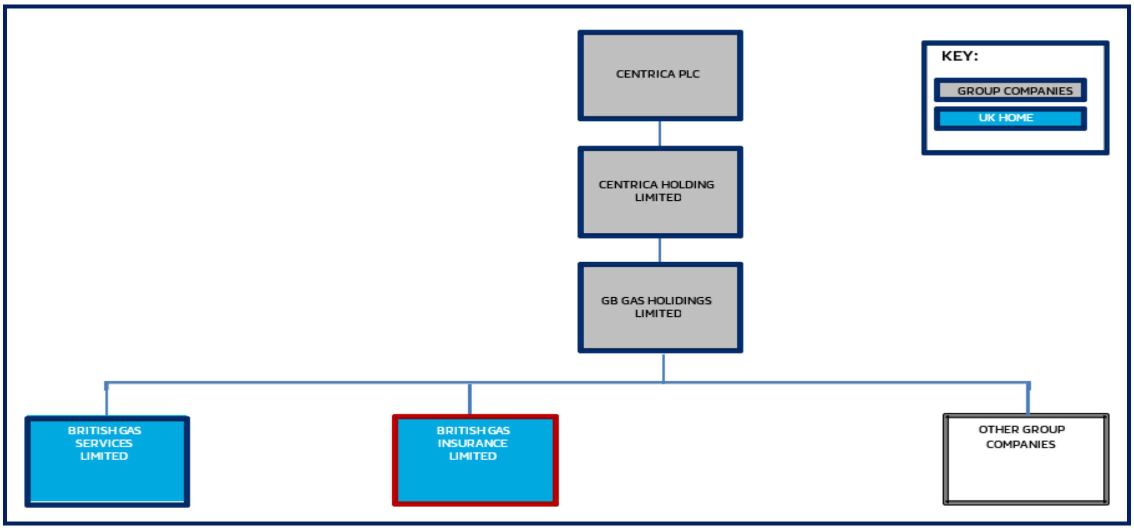
Supervisory Authority:
Prudential Regulation Authority (PRA)
20 Moorgate
London EC2R 6DA
+44 (0) 20 7601 4444

Supervisory Authority:
Financial Conduct Authority (FCA)
25 The North Colonnade
London E14 5HS
+44 (0) 20 7066 1000

A.1.2 Group structure

BGIL is the only insurance subsidiary of GBGH and a fellow subsidiary, BGSL, is the Company's sole insurance intermediary and provider of claims fulfilment and handling services.

There are other companies in the group structure but only BGIL and BGSL are shown below with their parent undertaking.



A.1.3 Business

The Company continued to underwrite general insurance risks in the UK covering the breakdown of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances. For Solvency II all underwriting transactions are classified and recorded as Assistance class of business.

BGIL had 3,174,000 customers at 31 December 2017, generating more than £1 billion in Gross Written Premium.

A.2 Underwriting performance

A.2.1 Overview

BGIL reports its financial results on a UK GAAP basis.

The Combined Operating Ratio ("COR") is the ratio of claims incurred and operating expenses to premiums earned; a lower ratio represents better performance. The COR improved slightly in 2017 to 92.3% (2016: 92.4%) due in part to marginally lower claim frequencies.

Customer numbers decreased slightly over the year. Revenue remained at over £1 billion. Claims fulfilment, volumes, comprising breakdown repairs and service visits, fell slightly over the period whilst expenses incurred increased slightly due to commission payable. BGIL remunerates BGSL for claims fulfilment and claims handling services on a fixed fee basis set by product type.

Underwriting Performance at 31 December under UK GAAP	2017	2016
Customers ('000)	3,174	3,266
	£m	£m
Gross written premium	1,012.1	1,033.3
Gross earned premium	1,030.6	1,008.7
Gross claims incurred	(480.1)	(491.5)
Expenses incurred	(470.8)	(440.3)
Underwriting profit	**79.7**	**76.9**

A.3 Investment performance

Deposits with financial institutions are classified as held to maturity. Other financial investments are classified as available for sale and are included in the statement of financial position at fair value by reference to published data and information that comes to the attention of the Company or to Centrica. All investments are sterling denominated so no currency appreciation or depreciation arises.

A.3.1 Investment by asset class

A large proportion of the Company's investments are in money market funds.

Investment Asset Classes at 31 December	2017 £m	2016 £m
Short term money market funds listed on the Irish Stock Exchange	198.7	195.3
Cash deposits with financial institutions	5.0	20.0
Company's investment portfolio	**203.7**	**215.3**

A.3.2 Investment income

All investment income relates to the Company's unit holdings in short-term money market funds and deposits with financial institutions. The reduction in investment income compared to last year was principally the result of lower market yields combined with decreased average invested funds.

Investment Income at 31 December	2017 £m	2016 £m
Investment income	0.7	1.4
Investment expenses	(0.2)	(0.2)
Net investment income	**0.5**	**1.2**

A.3.3 Investment expenses

All investment expenses relate to the Company's unit holdings in short-term money market funds and deposits with financial institutions, representing fees paid to investment managers.

A.3.4 Gains/losses recognised

There were no realised investment gains or losses and no investment appreciation or depreciation.

A.3.5 Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses.

A.4 Performance of other activities

This subsection of the report aims to provide an overview of the qualitative and quantitative information regarding income from other activities and other expenses.

Profit after investment income and tax was £64.8m (2016: £62.5m). The Board have approved a dividend of £56.0m (2016: £86.0m) to be paid to GBGH in May, in line with its risk appetite.

A.5 Any other information

There is no other additional information to report.

B. SYSTEM OF GOVERNANCE

The 'System of Governance' section of the report sets out details regarding the administration and management of the Company.

B.1 General information on the system of governance

This section of the report aims to provide details of the Company's management structure along with roles and responsibilities and key functions of various committees and working groups.

The oversight of the Company's business and its operations are provided through its governance structure, in which the management of risk plays a significant part. Governance starts with the Company's Board, which has overall responsibility for the management of the company. The Board is responsible for establishing an effective control framework such that the principal risks faced by the Company can be assessed and managed. The governance structure provides oversight and direction to the Company.

The governance framework is illustrated below:

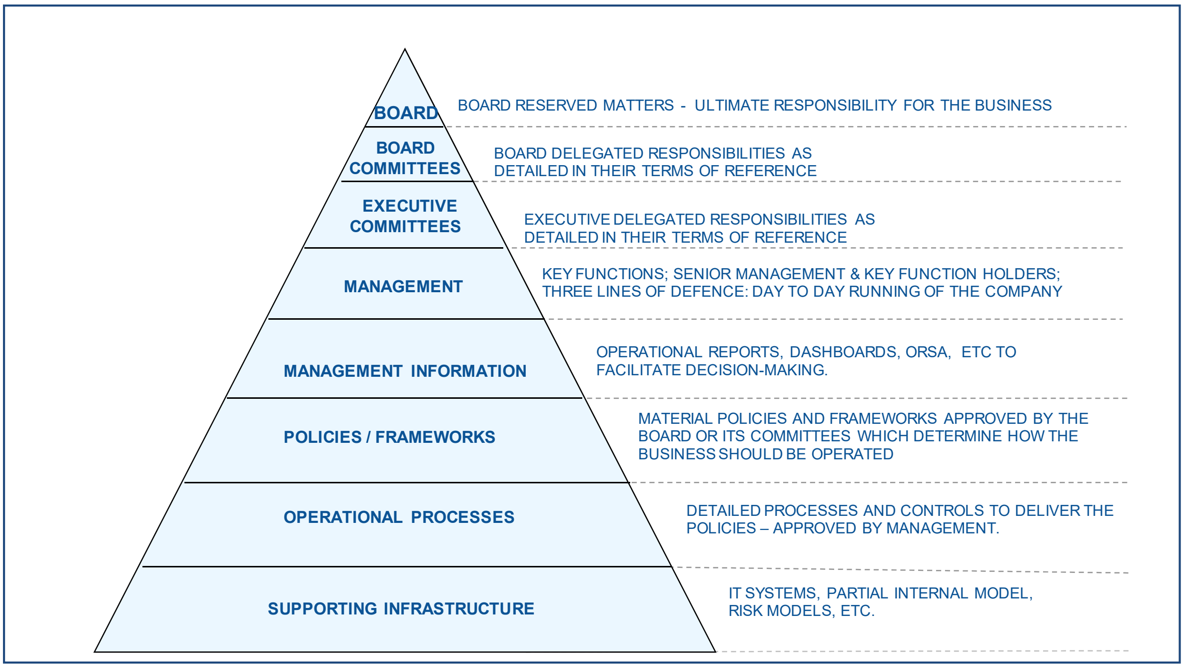


Table B.1.1 Corporate Governance Framework Overview

B.1.1 Board responsibilities

The Board has overall responsibility for the oversight of the management of the Company. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables each of the risks faced by the Company to be assessed and managed. The Board is responsible for promoting the long-term success of the Company whilst securing an appropriate degree of protection for policyholders. Its objectives are to set the Company's strategic aims, monitor management's performance against those strategic aims, set the Company's risk appetite, and ensure the Company is adequately resourced and that effective controls are in place.

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

The Board comprises an independent Non-Executive Chairman, Non-Executive Directors and Executive Directors, to achieve a balance of skills, experience, challenge and debate and so that no individual or small group of individuals can dominate its decision-making. Any major changes to the Company's business activities must receive Board approval prior to implementation. The Board meets at least on a quarterly basis. Minutes of all Board and Committee meetings are recorded and reflect the substance of the discussion, as well as the decisions made.

The Board closely monitors developments in corporate governance and assesses how these can be applied to BGIL. The Company's governance arrangements continue to be reviewed in line with developments in best practice. The Board believes the existing structure is appropriate for the size and complexity of BGIL.

There are several Board committees supported by the Executive Management Committee (the "Executive"). The Board and its committees' responsibilities are detailed in their terms of reference. The committees are shown below in the BGIL/BGSL Governance Structure.

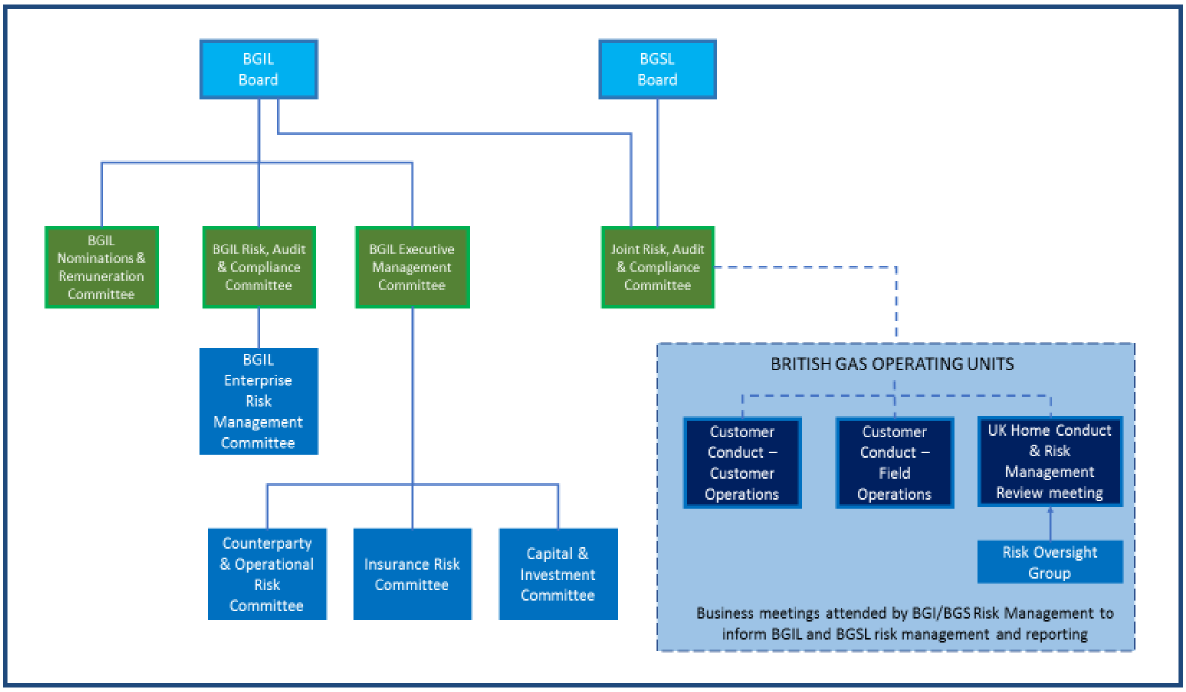


Table B.1.2 BGIL/BGSL Governance Structure (excludes BGSL elements not relating to BGIL)

The Company's risk management framework is based on the "Three Lines of Defence" model. This structure allows for each function and individual to have clear understanding of their risk management responsibilities and aids embedding an effective risk culture across the Company.

- The First Line of Defence: Business Management is accountable for implementing and using the ERMF when it delivers the business plan, to inform all risk-based decisions and in embedding a risk culture.
- The Second Line of Defence: Risk and Compliance function are accountable for providing an independent and forward looking view of the risk profile to the Board, as well as to provide the necessary oversight and challenge to the First Line.
- The Third Line of Defence: Internal Audit is accountable for providing wholly independent assurance on the adequacy and effectiveness of risk management and control.

B.1.2 Board Committee responsibilities

The Risk, Audit and Compliance Committee ("RACC") is responsible for monitoring and reviewing the effectiveness of the Company's risk, compliance, actuarial, internal audit, internal controls and financial matters to ensure they are in full compliance with all applicable regulations. Its responsibilities include oversight of the Company's partial internal model as well as all other duties required of a risk and audit committees by the regulations. Meetings of the RACC are structured to give clear and separate agenda time to each of its risk and audit related responsibilities. Subject matter experts attend meetings to address specific committee issues in relation to risk and audit.

The committee exercises governance through three lines of defence as disclosed in section B.1.1 and oversight of conduct risk ensuring an effective culture that delivers fair outcomes for our customers. The Board has responsibility to strategic matters relating to conduct.

The RACC meets at least quarterly. Joint RACC meetings are held with the equivalent BGSL committee twice a year. These joint meetings support the effective oversight of the Company's outsourcing arrangements.

The Nominations & Remuneration Committee is responsible for the nomination and approval of potential senior management appointments and for the effective operation of the Company's remuneration policy. Meetings of the Nominations & Remuneration Committee are held as required to fulfil its obligations.

The Executive Management Committee ("EMC") is the main operational committee of the Board and has a responsibility to implement the business strategy and decisions of the Board and keep them properly informed.

In addition to the Board committees there are several key executive committees:

- Enterprise Risk Management Committee ("ERMC") which acts as a sub-committee of the RACC and has second line responsibility for providing challenge to the Executive's risk management and control activity.
- Insurance Risk Committee ("IRC") is an executive sub-committee with specific responsibility for managing underwriting risk framework for the business.
- Counterparty and Operational Risk Committee ("CORC") is an executive sub-committee with specific responsibility for managing counterparty and operational risk framework for the business.
- Capital and Investment Committee ("CIC") is an executive sub-committee with responsibility for managing capital requirements and market risk of the Company.

B.1.3 Material changes to governance arrangements

With the introduction of the PRA's Senior Insurance Management Regime in 2016 changes were made to governance arrangements. Allocation of prescribed and significant responsibilities to the Senior Insurance Management Function Holders ("SIMFH") to undertake the duties required by the regulations has been authorised by the PRA. Documentation of the organisations structure, SIMFH, key functions and allocation of responsibilities is maintained within a "Governance Map".

Further changes to the governance arrangements were made in January 2017 to improve governance of the Company's remuneration arrangements. The responsibilities of the Nominations Committee were extended to include oversight of the remuneration policy and related reward schemes and processes. The committee was renamed the Nominations & Remuneration Committee.

B.1.4 Key functions, roles and responsibilities

Key Function	Role Holder	Overview
Risk	Chief Risk Officer	The Risk & Controls function is part of the Company's second line of defence and maintains its independence by carrying out an oversight role across the material parts of the business and all the outsourcing arrangements with group companies. The function oversees the Own Risk Solvency Assessment processes and the design and operation of the partial internal model. The Chief Risk Officer manages the relationship with the PRA.
Compliance	Head of Compliance	A second line function responsible for oversight of the Company's compliance with PRA regulation and the memorandum of understanding in place with the Group Ethics & Compliance Department for the provision of compliance services, which includes

		responsibility for conduct regulation and all compliance auditing activity. The Head of Compliance is authorised by the Financial Conduct Authority (CF29) and is the senior manager responsible within Group Ethics & Compliance for FCA compliance.
Internal Audit	Chief Executive Officer	Internal Audit is outsourced to the Group Internal Audit Department that in turn uses external resource from audit firms where in-house skills are not present. Group Internal Audit report the results of their monitoring, and progress achieved on all audit actions, directly to the RACC. This ensures no conflicts of interest arise with the Chief Executive's other responsibilities.
Actuarial	Director of Underwriting & Actuarial	Provide actuarial services including risk and capital modelling expertise. Produces an annual actuarial function report confirming its opinion on technical provisions, underwriting and reinsurance policy and other material activity undertaken. There is potential for conflict of interest in respect of the underwriting opinion, which is mitigated by a triennial independent third party review. The last review was undertaken in 2017. At all times, the Director of Underwriting and Actuarial has unrestricted access to relevant information and is not constrained, controlled or unduly influenced in respect of relevant actuarial matters.

B.1.5 Information on remuneration policies and practices

The Company's remuneration policy sets out the incentive arrangements that apply to the Board, executive and key employees whose professional activities have a material impact on BGIL's risk profile. The policy aims to deliver a remuneration package that promotes sound and effective risk management, does not encourage risk-taking that exceeds the Company's risk appetite, avoids conflicts of interest and ensures fair customer outcomes. Remuneration is managed and structured in line with PRA regulations with the fixed component of an individual's remuneration representing a sufficiently high proportion of total remuneration.

B.1.6 Incentive plans for senior management

The Company's incentive plan is designed to incentivise and reward the achievement of the financial performance of Centrica plc and individual strategically aligned objectives.

The target and maximum incentive payment is typically defined as a percentage of base salary. The maximum award for outstanding performance is 125% for senior executive directors. Dependent on seniority and performance rating, the award is delivered either entirely in cash, or as a combination of cash and deferred Centrica shares. 50% of deferred shares are released after two years with the remainder after three years providing the employee remains employed until the release dates. Claw-back and malus provisions apply to the deferred share awards if the performance which gave rise to the payment is subsequently discovered to have been achieved by a breach of PRA Conduct Standards.

Centrica's policy is not to offer defined pension benefit arrangements to new hire employees. A defined contribution arrangement with employer contributions is provided. For employees hired before 2009 Centrica continues to honour existing defined benefit pension arrangements. BGIL has no pension scheme of its own with its employees employed under Centrica (or other Group company) contracts.

B.1.7 Requirements for skills, knowledge and expertise

The Company's training & competence scheme sets out policies and procedures for ensuring the competency of all its directors and staff. Competency standards are defined for each role in their job description and all are assessed annually, as part of the performance management process.

B.1.8 Adequacy of systems of governance

The Company continually assesses the need for change in its system of governance through its annual review cycle of Board and committee terms of reference and material policies. The Company also keeps abreast of guidance from its industry bodies, regulators and the Financial Reporting Council, implementing these as appropriate to the size and complexity of the business.

B.2 Fit and proper requirements

BGIL implements policies and procedures to ensure persons who effectively run the Company or have other key functions are fit and proper to do so. Before appointment, and on an annual basis, directors and senior managers are assessed regarding the specific requirements of their role. Certain individuals holding roles of significant influence are required to have received prior approval from the PRA and/or FCA before they can perform their role. Individuals holding key functions are also separately notified to the PRA.

An individual's fitness to perform their role refers to their competence and capability including skills, knowledge and expertise applicable. Assessments of fitness are tailored to the individual's role, including the individual's knowledge and understanding of:

- 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.

Individuals are required to maintain their fit and proper status which would include arranging for further professional training as necessary, so that the individual is also able to meet changing or increasing requirements of their responsibilities.

Appointments are subject to background and good repute checks in line with recruitment and good repute policy requirements for senior insurance manager roles.

Individuals are regularly monitored to ensure that they maintain fit and proper for their role. This includes performance management and annual good repute checks.

B.3 Risk management including the Own Risk and Solvency Assessment (ORSA)

B.3.1 Risk management framework

The Company's risk management system is articulated in various policies and frameworks, overarched by the ERMF, the objectives of which are to:

- Meet the Company's statutory obligations.
- Ensure no actions or behaviours develop that could result in poor outcomes or unfair treatment of our customers.
- Maximise the efficient deployment of capital.
- Ensure the delivery of strategic objectives.
- Help ensure effective reporting.
- Avoid damage to reputation and associated consequences to protect our brand.
- Ensure employee and customer safety.

The Board is committed to a proactive approach in managing its risks and it aims to ensure that effective risk management practices are a key element of the Company's culture. As a business, which is reliant on its solvency capital, the Board is committed to best practice within the insurance industry on managing risk.

To support its objectives, the ERMF includes a comprehensive set of risk policies and guidelines to ensure that adequate process and procedures are in place to manage all material types of risk. They include the following risk policies.

- Insurance risk policy (Includes underwriting and reserving risks.
- Operational risk policy.
- Counterparty default risk policy.
- Financial - investment risk policy (includes market, credit, liquidity).
- Internal model change policy.
- Internal model validation policy.
- ORSA policy.
- Outsourcing policy.

The following principles have been established to inform the operation of the ERMF, deliver the risk objectives and implement the risk strategy:

- The Board owns the ERMF and will not delegate ultimate ownership of risk within the business although individuals across the business have day-to-day responsibility for ensuring that these principles are implemented, monitored and refreshed as required.
- The ERMF is fully aligned with and supports the delivery of the business strategy and management objectives.
- The ERMF is communicated to and understood by all senior management and staff.

B.3.2 Risk governance

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

The description of three lines of defence is disclosed in section B.1.1 Board Responsibilities.

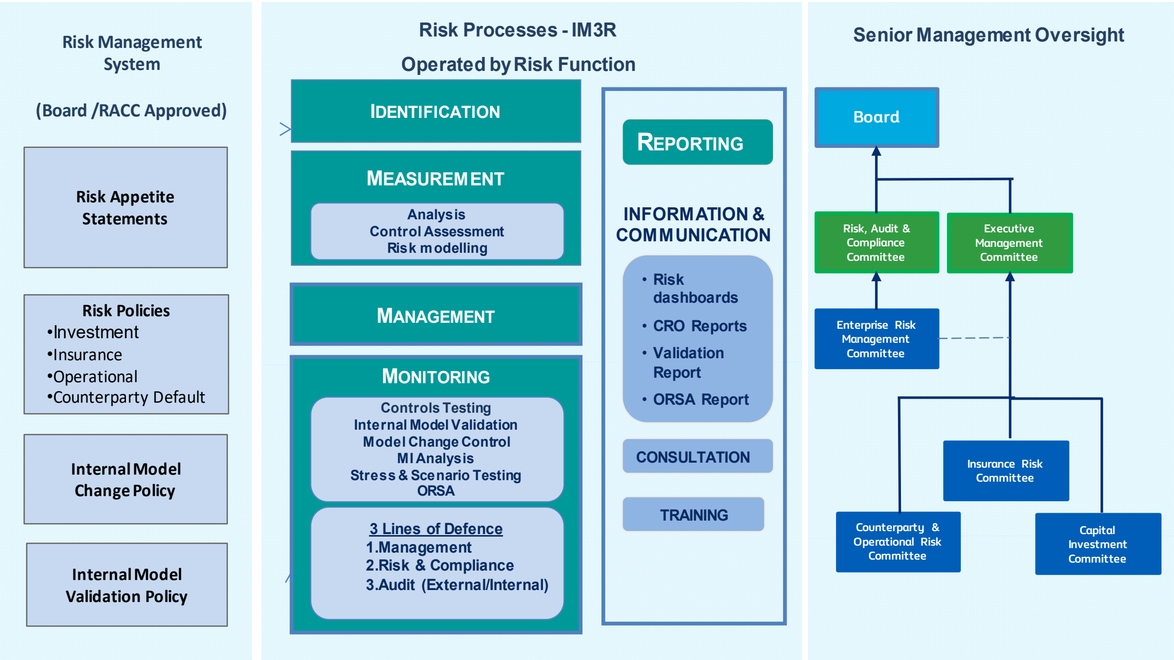


Table B.3.2: Risk Management Framework

B.3.3 Risk management roles and responsibilities

The Chief Risk Officer ("CRO") is responsible for the function and effectiveness of the framework and risk policies, supported by the ERMC (which the CRO chairs) and the RACC on behalf of the Board. The CRO reports to the Chief Executive Officer ("CEO") and has an escalation route to the Chair of the RACC and Chair of the Board in order that an independent channel is available to escalate matters where it is considered appropriate to do so. The Chair of the RACC has a responsibility to report the output of RACC meetings to the Board but may also escalate matters directly to the Chair of the Board should this be necessary at any stage.

Chief Risk Officer responsibilities include:

- Maintenance of the risk register which contains all risks which have a material impact on the Company's profits, capital or compliance with regulations.
- Collation, analysis and reporting of risks to the ERMC, RACC and Board.
- Implementing best practice in risk management and emerging risk identification.
- Management of the risk and control review programme, and monitoring risk mitigation plans and the Company's risk appetite.
- Liaising with the actuarial and modelling teams on the design and performance of the internal model.
- Liaising with Centrica Group and other British Gas business divisions to ensure that where appropriate the Company's approach to maintaining our risk and controls environment is consistent with other group entities.
- Oversight of the risk activities by our outsourced partners and by BGSL.
- Managing the production of the ORSA report.

The Company will ensure that for each risk identified and recorded on the risk register a senior manager is appointed as the risk owner. The risk owner will ordinarily be a SIMFH or key function-holder and their primary responsibilities are to monitor risk and controls in their area of responsibility and identify emerging risks and where appropriate design appropriate controls to mitigate risks.

B.3.4 Risk appetite & tolerances

BGIL's risk appetite expresses the degree of risk the Company is prepared to accept as it works to deliver on its strategy. It is defined in terms of both quantitative metrics and qualitative measures and is used by the Risk and Controls function to monitor the Company's risk profile, identify those instances where risk exposure has exceeded the Board's acceptable limit for a certain risk and report its findings to the Board.

The risk appetite statements are a key consideration in the Company's business planning process and are a central reference point to key decisions. These statements are not intended to automatically prevent activity outside of BGIL's risk appetite, but rather to help identify any such instances in a timely manner so that the Board can consider an appropriate response.

Risk appetite statements are reviewed on an annual basis, and the CRO recommends any changes to the statements, to the Board for approval.

BGIL has risk appetite statements for the following:

- Earnings at risk
- Capital surplus
- Underwriting risk (Insurance risk)
- Market risk
- Credit risk
- Liquidity risk
- Health & safety risk
- Legal & regulatory risk
- Conduct risk
- People risk

B.3.5 Risk processes

IM3R is the BGIL abbreviation for the risk management process and is illustrated below:

Identification	There are several methods that have been adopted with BGIL to identify and assess risk such as: meetings, workshops, seminars, media reports, reports from assurance functions.
Measurement	BGIL measures risk using both a conventional risk matrix approach and scenario analysis.
Management	A comprehensive controls framework exists which ensures risk is managed within agreed appetite and tolerance levels.
Monitoring	The main components of BGIL's risk monitoring process are: meetings of the Board, RACC, Executive, ERMC, and sub committees: risk dashboards, risk register and controls dashboard.
Reporting	Various risk reports are produced to enable stakeholders to assess the risk profile of BGIL. These include: Executive risk dashboards, Board and RACC risk reports, ORSA.

B.3.6 Partial internal model (PIM)

The Company's PIM is used to model underwriting risk capital requirements. Oversight is provided in the first instance by the IRC which is authorised to approve:

- The insurance risk and control assessment templates and the expert judgement included therein.
- The insurance risk capital requirement derived from the PIM.
- Minor changes to the PIM as outlined in the model change policy.
- The data used in the PIM for quantifying insurance risk.
- The design, documentation, parameterisation and outputs from the cold weather and capital models.
- The validation output applicable to the PIM and the cold weather model which is the main component of the PIM as it drives the parameterisation of the Company's most material risk, cold weather.

The ERMC coordinates with the IRC to ensure that underwriting risks are identified, measured, managed and monitored effectively. It also has a responsibility to ensure the PIM is performing as intended and reflects the risk profile of the business; to include review and challenge of the results of stress & scenario testing, profit & loss attribution, validation report(s), model changes and progress of any actions to improve the model.

The RACC ensures the ongoing appropriateness of the design and operations of the PIM and the suitability of the internal model validation policy to make a recommendation to the Board on the appropriateness of using model outputs to inform certain decision-making within the Company. The RACC reviews all model changes and PIM validation reports prior to advising the Board of the outcomes. Any major model change request is reviewed by the Board prior to submission to the PRA.

Following guidance from the PRA, a major model change application was made at the end of March 2018 seeking approval from the PRA to add counterparty default risk and operational risk modules to the currently approved PIM.

B.3.7 Validation of the PIM

The Company has an internal model validation policy and supporting procedures that includes detailed testing templates to confirm compliance with the tests and standards required by the regulations. Independent validation is undertaken by an external firm on behalf of the Risks and Controls function on a regular cycle defined in the internal model validation policy, with the most recent report having been tabled at the Board in April 2018.

B.3.8 Own Risk and Solvency Assessment (ORSA)

The ORSA is a set of processes undertaken to define, assess and manage the risk and solvency capital position of Company. The ORSA Process draws together the results and analysis delivered through BGIL's risk processes and provides a current and forward looking assessment of the Company's risk profile risk tolerance and business plan. It is used to identify, quantify, monitor, manage and report on the risks that BGIL may face as a solo entity.

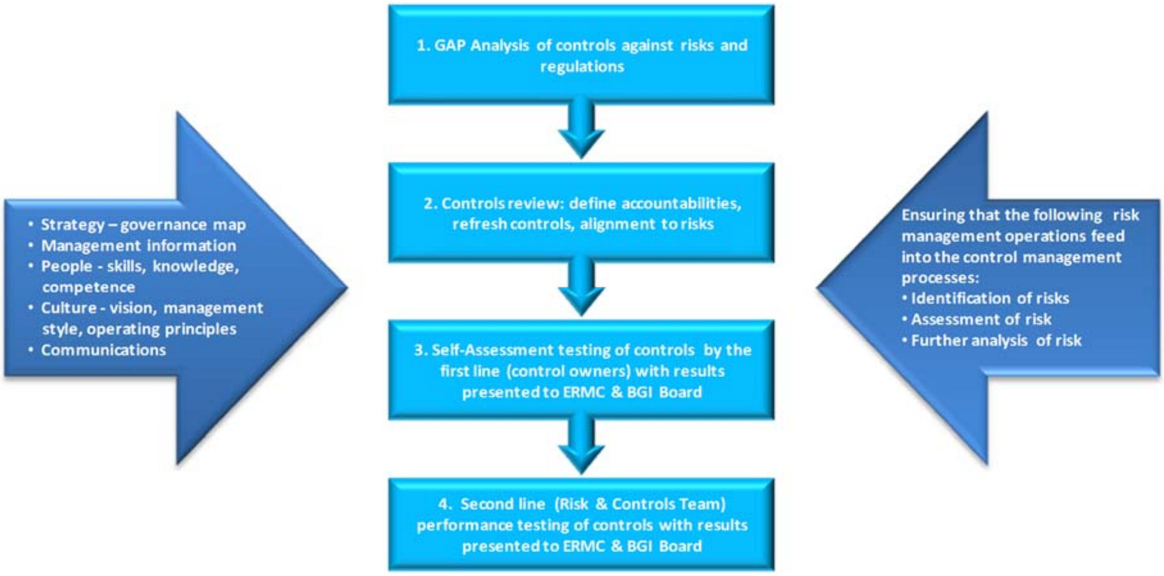
The ORSA considers all the key risks that face the business including those not in the SCR such as liquidity, group, reputational and regulatory risks, as well as those in the SCR. Both internal and external risks are considered.

The full ORSA process is performed at least annually, or more frequently if required in response to material changes in the internal or external environment. An ORSA report is produced under the direction of the CRO and is reviewed by the ERMC and RACC. The ORSA is used to inform the Board of capital adequacy and solvency coverage, enabling management to adjust capital if required to meet the Company's solvency obligations and make informed risk aware decisions by reference to their capital impact and consequences. Regulatory capital requirements (SCR PIM, standard formula and economic capital) are also refreshed at least annually.

B.4 Internal control system

The Board has overall responsibility for ensuring its internal controls and systems are adequate, appropriate, proportionate and effective in mitigating the risks to which the business is exposed. The Board has delegated responsibility to the RACC and ERMC to oversee the management of the controls framework.

An overview of the BGIL's controls framework is provided below:



The RACC is responsible to the Board for assessing the overall quality and effectiveness of the control systems and seeks input from Risk, Compliance, and Internal Audit teams as required. The ERMC is responsible to the RACC for overseeing the effective implementation of the controls framework and for assessing the effectiveness of controls, monitoring control improvements, ensuring controls are proportionate, and to report financial and non-financial risks. The ERMC provides challenge to management and control owners where controls are not fully effective.

The Executive is responsible for embedding the controls framework and for ensuring effective controls are in place to mitigate all monitored risks. The coordination of control related activities and implementation of the controls framework is delegated to the Risk and Controls function. The Risk and Controls function provide a second line of defence by supporting the first line in developing their controls, oversight of controls self-assessment by the first line, manage the second line review of controls and perform gap analyses of all controls against regulatory frameworks. The Risk and Controls function maintain logs of controls development, analyse control effectiveness to mitigate risk, monitor control performance, develop MI and work with the group (Centrica) to ensure consistency across all systems and controls. The Compliance function also provides a monitoring programme, the results of which are fed back into the risk and control assessments.

B.5 Internal audit function

The description of the Internal Audit function is disclosed in Section B.1 Key Function, Roles and Responsibilities.

B.6 Actuarial function

The description of the Actuarial function is disclosed in Section B.1 Key Function, Roles and Responsibilities.

B.7 Outsourcing

The Board retains responsibility for discharging all outsourced activities and has approved BGIL's policy under which it may only outsource material services to Centrica group companies. 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. The outsourcing policy and all material outsourcing arrangements are approved by the Board and have been designed to meet all relevant regulations.

BGIL has outsourced the following material services to Group companies in the UK:

British Gas Services Limited	Centrica Plc
Sales and Marketing	Ethics & Compliance Function
Product Design	Finance
Policy Administration including Premium Collection	Treasury & Investment Services
Claims Handling Services	Internal Audit
Claims Fulfilment (Engineers)	Information Systems
Complaints Handling	Human Resources
Retail Pricing	-

A services agreement between BGIL and BGSL lays out the activities undertaken by each entity and limits exposure to BGIL in the event that BGSL fails to adequately perform the activities for which it is responsible. Through effective governance of risks and controls management the Company has processes in place to actively monitor and manage risk relating to unsatisfactory performance of these services.

No customer facing activities are outsourced outside the UK although some support services (e.g. IT support) provided by Centrica are outsourced overseas. The Centrica policy on outsourcing includes meeting the requirements of UK regulators i.e., due diligence, written agreements which maintain confidentiality of information, contingency planning, access to staff, premises and records all of which ensures consistency in the event that our group service providers outsource to third parties. Directors and/or members of the Risk and Controls function attend the management committees of relevant group companies and analyse relevant management information to enable them to identify operational and other risks arising from outsource arrangements. The CRO reports regularly to the Board on the monitoring of the of the outsourced arrangements and its assessment of risks arising.

B.8 Any other information

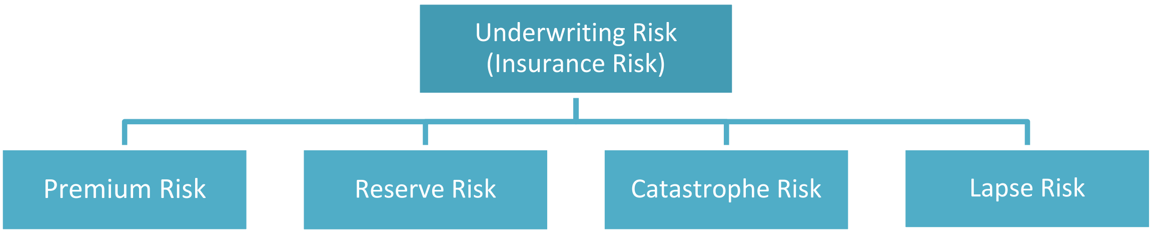
There is no other additional information to report.

C. RISK PROFILE

The Risk Management system outlined in section B.3 underpins the Company's management of risk including structured and consistent use of risk mitigation techniques. The risk profile section of the report seeks to capture each of the material risks to which the company is exposed including their identification, measurement, monitoring and reporting.

C.1 Underwriting risk (Insurance risk)

Underwriting Risk encompasses the risks the Company is exposed to arising from its insurance underwriting operations and is broadly split and assessed between the following risk categories:



BGIL's underwriting risk is low due to its very short claims development tail, its contractual unit claims costs relationship with BGSL, low cost base and the inherent nature of the Company's insurable risks. Additionally, the claims fulfilment approach (an engineer attends almost every breakdown rather than the settlement of claims in cash) acts as a strong mitigant against fraudulent claims.

Contracts are typically issued on an annual basis which means that the Company's liability usually extends for a 12-month period, after which the Company is entitled to decline, renew or impose renewal terms by amending premium or other policy terms and conditions such as policy excess levels, as appropriate.

BGIL is exposed to underwriting risk, as detailed in the underwriting risk sub-categories of premium risk, reserve risk, lapse risk and catastrophe risk. EIOPA ("European Insurance & Occupational Pensions Authority") further defines underwriting & reserving risks as fluctuations in the timing, frequency and severity of insured events relative to the expectations of the undertaking at the time of underwriting.

C.1.1 Underwriting risk exposures

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current year losses.

- Premium Risk is driven by changes in actual earned premiums and forecast premiums. It relates to the day to day variability in underwriting performance resulting from ongoing claims reporting and fulfilment, competitor activity and gradual changes in portfolio mix, for example, due to changes in the types of boilers and appliances insured. BGIL's stable underwriting performance is a good indicator of low levels of premium risk.

  Premium Risk arises from the failure of pricing or product strategy. It encompasses the risk of loss due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing a risk. Premium risk may arise during market and/or investment cycles where there is pressure on pricing, resulting in being unable to charge an appropriate price without undermining market position.

- Reserve Risk relates to both premiums and claims. This is the risk of understatement of reserves arising from:
    - The uncertain nature of claims.
    - Data issues and changes to the claims reporting process.
    - Operational failures.
    - Failure to recognise claims trends in the market.
    - Changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

The short tail and stable nature of BGIL's insurance activities results in low levels of both absolute reserves and their uncertainty. The actuarial function conducts annual independent reviews of technical provisions including stress testing, and has confirmed that BGIL's technical provisions are appropriate.

- Catastrophe Risk relates to the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances. In respect of BGIL, the potential for catastrophe losses exists because of exposure to extreme cold weather, as a consequence of which, BGIL's cold weather modelling activities are an important driver of its overall SCR.

- Lapse Risk reflects the risk of loss or of adverse change in the value of insurance liabilities, resulting from discontinuance of insurance policies. In respect of BGIL, lapse risk arises from customers' non-renewal or mid-term cancellation of policies. The rates for these are relatively stable and of limited impact on BGIL due to its low level of fixed expenses.

Underwriting Risk at 31 December	2017 £m	2016 £m
Premium risk	3.3	5.5
Other non-life underwriting risk	3.7	4.2
Catastrophe risk	38.4	31.8
Diversification benefit	(11.3)	(12.0)
Total underwriting risk	**34.1**	**29.5**

BGIL's underwriting risk is managed in accordance with the Enterprise Risk Management Framework (ERMF) and the detailed IM3R procedures. These include an IRC, which typically meets 6 times a year and an insurance risk policy, reviewed and approved annually by the Board.

BGIL's partial internal model, incorporating specific and detailed analysis of extreme cold weather risk, was approved by the PRA in December 2015. Cold weather is the largest driver of underwriting risk in BGIL due to the exposure of the Company to increased claims numbers when cold temperatures cause increased demand on central heating systems leading to higher than average boiler breakdown rates.

Other less material underwriting risks include claims leakage due to inadequate claims validation processes, ineffective policy wording leading to unexpected insurance exposure, systemic component defect leading to high levels of appliance breakdown and potential errors in the calculation of implementation of BGIL net pricing.

C.1.2 Risk concentration

The Company is subject to concentration risk in a variety of forms, including:

- Product concentration risk – the Company's business is heavily concentrated in the UK general insurance market.
- Component concentration risk – the increased appetite for Hive Heating within BGIL's Homecare portfolio could lead to additional risk concentration, so is the subject of ongoing review and analysis.

C.1.3 Management and mitigation

Underwriting risk is controlled through a range of processes:

- Underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data.
- A range of key performance indictors ("KPI") tracking underwriting performance are regularly monitored and reported to senior management.
- Governance on model change provided by various committees and the validation undertaken on the PIM by the Risk function.
- The use of external data to effectively quantify cold weather risk.

Reserve risk is controlled through a range of processes:

- The Company's technical provisions adopt various actuarial and statistical techniques. Management's booked reserves are within a reasonable range of the actuarial best estimate.
- Regular reviews of claims, premiums and an assessment of the requirement for an adequate liability provision for the main products of business by the internal actuarial team.
- Accompanying regulatory reserves reviews with actuarial assessment of reserves uncertainty.
- Oversight of the reserving process by relevant senior management and the Board.
- Regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent prior reviews.

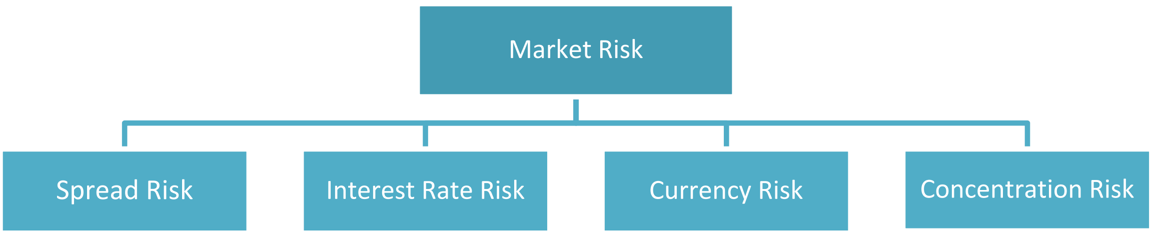
C.1.4 Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis Multiple major weather events

Catastrophe events, specifically cold weather, are a material driver of underwriting risk for the Company. To better understand the Company's exposure in this area, the Company has considered situations where multiple perils/risks are faced, as part of its Stress and Scenario Testing Framework.

C.2 Market risk

Market risk is the risk of loss resulting from fluctuations in the level and volatility of market prices of assets, liabilities including financial instruments. The Company's long-term financial strategy is to facilitate growth without undue balance sheet risk.

BGIL's investment strategy is guided by an investment risk policy which aims to mitigate this risk by restricting investments to high quality fixed interest securities and deposit based investments.



C.2.1 Market risk exposures

The Company's exposures to market risk are:

- Spread Risk This is the risk of loss from deterioration in the credit standing of issuers of securities or from fluctuations in the market valves for the credit risk. It is primarily managed by the First Line of Defence and monitored by the CIC. It is the responsibility of this committee to ensure that the spread risk is identified, monitored and measured.

- Interest Rate Risk This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The portfolio was invested in units in money market funds of constant net asset value and bank deposits throughout the year, mitigating against loss of value resulting from market interest rate changes.

- Currency Risk This is the risk of loss arising from the change in the value of currency exchange rate. BGIL is not exposed to currency risk as all assets, liabilities and cash flows are denominated in sterling.
- Concentration Risk The concentration risk charge applies to holdings above a specified threshold, and is based on exposure, rating and total assets held. The Company's short-term money market funds are spread across several fund managers to mitigate against significant concentration risk exposure.

Market Risk at 31 December	2017 £m	2016 £m
Spread risk	-	0.1
Interest rate risk	0.5	0.5
Concentration risk	0.8	1.2
Diversification benefit	(0.4)	(0.4)
Total market risk	**0.9**	**1.4**

C.2.2 Risk concentration

Concentration risk arises from inadequately diversified portfolios of assets:

- Large exposure to individual companies/groups.
- Large exposure to different companies/groups where movements in values and ratings are closely correlated - the Company may suffer significant losses in its investment portfolio due to over-exposure to entities engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.
- Large exposures to certain industry sectors.

The Company manages and controls concentration risk as part of its market risk mitigation techniques, which are described below.

C.2.3 Management and mitigation

The Company manages and controls the risks in its investment portfolio through an investment strategy approved by the EMC's Capital and Investment Committee through diversification of types of assets, and tight control of credit exposures. Risk mitigation of market risk is executed through the combined use of investment limits, guidelines and principles detailed below.

C.2.4 Prudent person principle and management of invested assets

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.

Prudence is evidenced in the way investment strategies are developed, adopted, implemented and monitored, considering the purpose for which funds are managed, the oversight of which is provided by the CIC.

The Investment Management and Treasury ('IMT') function is responsible for ensuring that the Company only invests in assets and instruments, the risks for which can be properly identified, assessed, managed, monitored, controlled and reported in accordance with the Company's' ERMF and the Investment Risk Policy. All assets and instruments are invested to ensure overall security, liquidity, quality and profitability.

The Board is responsible for setting the overall investment risk appetite for BGIL which is articulated through the risk parameters contained in the Investment Treasury Policy ("ITP") and its Statement of Investment Principles. The Board approves the expected investment return as part of the annual operating plan process and monitors investment performance against the plan monthly.

The CIC is responsible for setting investment strategy and asset allocation, within the Board approved risk parameters contained within the ITP and the Statement of Investment Principles. The CIC reviews and monitors the key risk indicators for the investments including the performance against targets, the value at risk, counterparty exposures, overall credit rating exposures and liquidity levels.

C.2.5 Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function is responsible for monitoring the regulatory capital requirement to support the investment strategy employed. The Risk and Controls unction performs market risk stress tests to determine capital requirements and mitigating management actions. Value at risk is calculated, by the Capital Modelling team on a quarterly basis to monitor changes in the market conditions. Losses may arise from:

- The sensitivity of the value of assets to changes in the level or in the volatility of the credit spread over the risk-free interest rate term structure.
- Assets and liabilities of which the net asset value is sensitive to changes in the term structure interest rates or interest rate volatility.
- The imperfect matching of the timing and size of the cash flows from the investments and those linked to liabilities.

C.3 Credit risk (Counterparty default 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. The CIC, supported by the Centrica treasury function manages the Company's credit risk in relation to the investment portfolio.

The largest exposure to credit risk comes in the form of the potential counterparty default of BGSL. As BGSL collects insurance premiums from customers on behalf of BGIL, insolvency of BGSL could result in premiums not being passed across to the company. Credit risk is mitigated through use of monthly cash forecasts designed to ensure exposure to BGSL is minimised and via regular monitoring of credit ratings of other counterparties.

Counterparty default risk is currently incorporated into BGIL's SCR via a negligible standard formula value and as part of the PRA agreed £35m capital add-on, based on BGIL's own assessment of the risk at 31 December, the point at which its internal model was approved. In March 2018, BGIL applied to the PRA for approval to extend its PIM to incorporate both counterparty default risk and operational risk.

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least A- or equivalent by two of the three key rating agencies used by the Company (unless a lower rating is specifically approved by the CIC). All counterparty rating downgrades are monitored and reported to the CIC, if necessary, to confirm or otherwise suitability of the counterparty for continued investment.

Counterparty default risk excludes investments, which are considered under Market Risk.

The Company does not have any outward reinsurance.

C.3.1 Credit risk exposure

The Company has potential exposure to credit risk on assets and liabilities on its balance sheet:

- Type 1 exposures include risk mitigating contracts like deposits with credit institutions and cash at bank that are not diversifiable but are likely to be rated.
- Type 2 exposures include diversifiable and unrated exposures such as receivable from intermediaries and policyholders.

For BGIL, the only material exposure to credit risk is a failure of BGSL to remit insurance premiums collected from customers on its behalf, as described in section C.3.

C.3.2 Credit risk concentration

Concentration risk arises where a fall in asset values could adversely affect the Company because the asset portfolio is inadequately diversified. The Company's investment portfolio is monitored and managed to mitigate that risk.

C.3.3 Management and mitigation

Credit risk is mitigated through use of monthly cash settlements with BGSL including contractual rights to offset between receivables and payables.

C.3.4 Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function monitors the regulatory capital requirement to support the investment strategy employed. The Risk and Controls function performs stress tests to identify management actions should such stresses occur.

C.4 Liquidity risk

Liquidity risk is being unable to realise investments and other assets to settle financial obligations when they fall due. Furthermore, it is the risk of investments and contractual obligations which impact the availability of funds, or certainty that funds will be available without significant losses or other costs, to honour all cash outflow commitments as they fall due.

The Company's liquidity risk is mitigated through investment in predominately liquid financial assets and regular monitoring of expected asset and liability maturities. Cash flows are forecast regularly and reported against actual experience in the monthly Board pack to ensure appropriate liquidity levels are maintained.

The Company's portfolio of customers is very large with no one customer or group of customers representing more than a very small fraction of policyholder receivables.

C.4.1 Management and mitigation

The annual asset-liability study considers access to liquidity in stressed scenarios. At more granular level, access to liquidity in stressed scenarios is met through benchmark holdings of cash.

C.4.2 Expected profit in future premiums ("EPIFP")

The expected profit in future premiums ("EPIFP") is calculated to assess the impact on own funds of a lapse in certain policies and provides a measure of the insurer's exposure to liquidity risk. It is not a measure of overall profitability of the business. For example, it does not allow for all sources of income (e.g. ancillary or investment income), is calculated on a different expense basis than that for ongoing operating expenses, does not allow for the development of prior year claims provisions and is affected by the seasonality of the business written over the year.

EPIFP calculated in accordance with Article 260 (2) of Solvency II Delegated Act amounted to £36.0m at 31 December 2017 (2016: £37.8m).

C.4.3 Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Liquidity Risk Minimum Standard ("LRMS") requires the IMT function to maintain short-term cash flow forecasts and maturity ladders to ensure ongoing operational liquidity requirements are met. The function is also required to hold minimum levels of liquidity to meet stress requirements on an oversight basis, within one month and within three months.

C.5 Operational risk

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

The largest operational risk in terms of its contribution to BGIL's SCR is Conduct Risk, i.e. the risk of poor customer outcomes leading to consequential premium refunds and additional remediation costs. Other key operational risks include Loss or Impairment of BGSL, Tax & Levies Risks and Systems, Cyber & Data Risks.

BGIL's operational risk requirement is calculated by considering several scenarios at a 1 in 200 level. Stress and scenario testing is performed at least annually to provide a fuller appreciation of risk to assist with decision making and model validation.

Operational Risk is currently incorporated into BGIL's SCR via a £10.3m (2016: £9.0m) standard formula value and as part of the PRA agreed £35m capital add-on, based on BGIL's own assessment of operating risk at the point at which its partial internal model was approved at December 2015. In March 2018, BGIL applied to the PRA for approval to extend its PIM to incorporate both counterparty default risk and operational risk.

C.5.1 Risk Concentration

Concentration of operational risk exists due to BGIL's outsourcing of activities (such as policy administration, product development, retail pricing, claims and complaints handling) to BGSL

The Company is also subject to concentration in its operational risk through, for example, its IT systems and change programmes, including the risk of losses from system outage and data security breaches.

C.5.2 Management and mitigation

BGIL's main mitigation controls for conduct risks are close oversight of BGSL's activities and managing the outsourcing agreement between the two companies which enables BGIL to recover costs from BGSL for any contractual breaches. This mitigation is supported by BGSL at all levels of the organisation including joint meetings at Executive and Board level.

In the context of a number of high profile market wide corporate incidents that have impacted on other groups, cyber risk is very closely monitored in the context of risk of loss of key IT systems and the importance of data protection.

C.5.3 Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Company's operational risk requirement is calculated by considering several scenarios at a 1 in 200 level. Relevant internal and external data is used to inform the scenarios, including: historical losses, near misses, the risk owners' past experiences, as well as results from internal assurance reviews (e.g. Internal Audit and Compliance reviews). The Risk and Controls function reviews scenarios regularly to ensure operational risk identification and quantification remains appropriate. Tests on the sensitivity of output to changes in inputs such as correlation factors and adverse scenario impacts are carried out as part of the model validation process.

Stress and scenario testing is performed at least annually. Scenario analysis and stress testing assess the financial effect of the events or sequence of events that lead to specific scenarios in adequate detail so that their causes can be identified and their effects on the firm can be understood. The fuller appreciation of risk assists with decision making and model validation.

C.6 Other material risks

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.

The risk associated with Brexit has been the subject of stress testing and is not material to BGIL. It will continue to be monitored as negotiations progress. Any risks that impact BGIL are domestic risks and not an exposure to European currency risk.

C.7 Any other information

There is no other additional information to report.

D. VALUATION FOR SOLVENCY PURPOSES

This section of the report describes how the Company's assets, technical provisions and other liabilities are valued and the key differences between UK GAAP and Solvency II.

Valuation basis, methods and main assumptions

In accordance with Article 75 of the Solvency II Directive, the Company's assets and liabilities other than technical provisions (refer to section D.2) are valued in accordance with the principles of arm's length transactions between knowledgeable willing parties using market consistent valuation methods. Asset and liability recognition and valuation bases have been applied consistently during the reporting period.

Accounting policies

There are differences in the valuation and recognition methods used for Solvency II reporting and the Company's annual financial statements, which are prepared under UK GAAP.

The table below provides a summary of Solvency II and UK GAAP assets and liabilities at 31 December 2017 and 31 December 2016.

Balance Sheet at 31 December	Notes	UK GAAP Value 2017 £m	Solvency II Adjustment 2017 £m	Solvency II Value 2017 £m	UK GAAP Value 2016 £m	Solvency II Adjustment 2016 £m	Solvency II Value 2016 £m
Assets							
Deferred acquisition costs	D.1.1	228.9	(228.9)	-	245.8	(245.8)	-
Investments	D.1.2						
Collective investment undertakings		198.7	-	198.7	195.3	-	195.3
Deposits other than cash equivalents		5.0	-	5.0	20.0	-	20.0
Insurance & intermediaries' receivables	D.1.3	539.4	(539.4)	-	556.4	(556.4)	-
Cash and cash equivalents	D.1.4	0.2	-	0.2	0.2	-	0.2
Any other assets, not elsewhere shown	D.1.5	0.6	-	0.6	0.8	-	0.8
Total assets		**972.8**	**(768.3)**	**204.5**	**1,018.5**	**(802.2)**	**216.3**
Liabilities							
Technical provisions	D.2	(553.4)	553.4	-	(570.3)	580.7	10.4
Deferred tax liabilities	D.3.1	-	(6.4)	(6.4)	-	(7.1)	(7.1)
Insurance & intermediaries' payables	D.3.2	(248.8)	248.8	-	(258.3)	258.3	-
Any other liabilities, not elsewhere shown	D.3.3	(31.7)	-	(31.7)	(29.8)	-	(29.8)
Total liabilities		**(833.9)**	**795.8**	**(38.1)**	**(858.4)**	**831.9**	**(26.5)**
Excess of assets over liabilities		**138.9**	**27.5**	**166.4**	**160.1**	**29.7**	**189.8**
Funded by: Capital & Reserves							
Retained earnings		133.9	-	133.9	155.1	-	155.1
Share capital		5.0	-	5.0	5.0	-	5.0
Reconciliation reserve		-	27.5	27.5	-	29.7	29.7
Shareholder / own funds		**138.9**	**27.5**	**166.4**	**160.1**	**29.7**	**189.8**

Solvency II own funds are greater than UK GAAP shareholder funds by £27.5m (2016: £29.7m) principally because Solvency II permits the recognition in 2017 of the discounted present value of profits from in-force policies at 31 December 2017. Such profits will be recognised under UK GAAP in 2018. Events Not in Data ("ENID") and a risk margin partially offset the increase in own funds, refer to sections D.2.5 and D.2.6.

D.1 Assets

D.1.1 Deferred acquisition costs

The UK GAAP deferred acquisition cost ("DAC") asset at 31 December 2017 represents commissions that will be released against revenue in 2018 to match future risk exposure. For Solvency II, commission costs on future risk exposure are included within technical provisions.

D.1.2 Investments

The Board approves the investment risk policy and risk appetite of BGIL annually. At 31 December 2017, the Company's investments comprised units in short term money market funds £198.7m (2016: £195.3m) and deposits with financial institutions of £5.0m (2016: £20.0m).

Units in short-term money market funds are valued at constant net asset value so there is no bid and offer spread. Deposits with financial institutions are held to maturity. Units in the funds are valued at the quoted market price at 31 December which is the same as their fair value and consistent with Solvency II requirements, therefore no adjustments are required for Solvency II reporting.

All investments are denominated in sterling.

Solvency II Balance Sheet - Investments at 31 December	2017 £m	2016 £m
Collective investment undertakings - short term money market funds	198.7	195.3
Cash deposits with financial institutions	5.0	20.0
Total investment portfolio	**203.7**	**215.3**

D.1.3 Insurance and intermediaries' receivables

UK GAAP insurance and intermediary receivables represent premium instalments due from customers for periods of future risk exposure at the balance sheet date, which are included within technical provisions in the Solvency II balance sheet.

D.1.4 Cash and cash equivalents

Cash and cash equivalents balance of £0.2m represent on demand balances with financial institutions at fair value and subject to insignificant risk of change in value.

D.1.5 Any other assets, not elsewhere shown

Other assets in the Solvency II balance sheet comprise prepayments for regulatory fees and levies and interest accrued on investments, which all mature within 12 months. Their carrying value in the UK GAAP financial statements is considered to represent fair value. Any discounting for the time value of money is immaterial. There are no material estimates, assumptions or judgements when reporting the value of these assets, therefore no adjustment is required for Solvency II purposes.

Solvency II Balance Sheet - any other assets at 31 December	2017 £m	2016 £m
Regulatory fees and levies and accrued interest	0.6	0.8
Total any other assets, not elsewhere shown	**0.6**	**0.8**

D.1.6 Assumptions and judgements

There are no assumptions and judgements about future or additional sources of estimation other than those noted.

D.2 Technical provisions

D.2.1 Summary

Technical provisions for Solvency II purposes are an estimate of the cost at which insurance contracts could be transferred to another knowledgeable insurer in an arm's length transaction. The value of technical provisions at 31 December 2017 and at 31 December 2016 were as follows:

Solvency II Balance Sheet - Non-Life Technical Provisions at 31 December	2017 £m	2016 £m
Premium provisions	(34.5)	(35.2)
Claims provisions	29.5	20.1
Total best estimate gross	**(5.0)**	**(15.1)**
Risk margin	5.0	4.7
Technical provisions	**0.0**	**(10.4)**

The technical provisions are the sum of the best estimate liability plus a risk margin. The best estimate liability comprises claims provisions and premium provisions.

BGIL's technical provisions at 31 December 2017 were £nil (2016: £10.4m asset). The main reasons for the movement are:

- Increase of £1.7m in reported outstanding claims.
- The BGIL/BGSL intercompany payable included within claims provisions increased by £7.7m, principally £3.2m higher claims payable and £3.1m more commission.
- A decrease in premium provisions mainly due to a projected increase in unit claims costs and lower business volumes.

The technical provisions calculations do not apply the matching adjustment, volatility adjustment or transitional measures referred to in Articles 77 (b), (d) and 308(c), (d) of the Solvency II Directive 2009/138/EC.

D.2.2 Technical provisions

Technical provisions are defined as the probability-weighted average of future cash flows, discounted at the prescribed EIPOA risk free rates to consider the time value of money. The value of technical provisions represents the best estimate plus the risk margin, the former representing claims and premium provisions and the latter the additional amount the Company would be obliged to pay for immediate transfer of its obligations under the insurance contracts to another insurer.

Technical provisions are grouped into the following key components:

- Gross claims provisions: Best Estimate of provisions that relate to the earned exposure (i.e. all future cash flows relating to breakdown claim events prior to the valuation date).
- Gross premium provisions: Best Estimate of provisions that relate to the unearned exposure. This is derived from in-force business and policies which are bound and polices which are bound but not yet incepted ("BBNI") at the valuation date.
- Risk margin: Additional provision to bring the Best Estimates to the level required to transfer the obligation to a third-party undertaking.

The main features of the valuation approach are as follows.

a. Simple multiplicative methods are used to determine balance sheet valuations for outstanding claims and claims incurred but not reported ("IBNR") or claims provisions and premium provisions. The claims provisions reflect the future cash outflows in relation to reported and unreported outstanding claims.

b. The premium provision reflects estimated outflows for claims, commission and expenses relating to contracts in force less inflows of premiums still to be collected on those contracts. The premium provision is held for claims and expenses expected to be incurred between the valuation date and the contract boundary and can be a positive or negative element in the balance sheet. The premium provision elements are discounted over the 12-month period of run-off from policies in force at the balance sheet date. Claims outstanding, IBNR and ENIDs are discounted over much shorter periods reflecting average exposure periods.

c. Also included are amounts in respect of ENIDs and Intercompany balance. The total, including the claims and premium provisions comprise the best estimate provision.

d. The risk margin is estimated using the Solvency II 'cost of capital' approach, which is intended to reflect the total consideration (when included with the best estimate liability) that would be required by a third-party insurer to take over the full liability.

e. The Company has no reinsurance obligations.

D.2.3 Gross claims provisions

The methods and data for the claims provision are largely the same as those used for the outstanding claims provision reported in the financial statements under UK GAAP, with a small difference due to discounting.

For claims outstanding the estimates are based on the claim volumes outstanding and the contractual amounts due at the valuation date; for the IBNR claims a similar approach is used but the estimates of the numbers are based on surveys of historical reporting delays. The short tail nature of the business means almost all outstanding claims are settled within the month of notification or the following month, and the impact of discounting is therefore immaterial.

The main claims features are:

- BGIL underwriting risks are very short tail both in terms of the time between occurrence and notification, and between notification and final settlement. A very small number of claims remain outstanding for more than a few days but these are not material compared with the total incurred cost.
- Shared systems/processes mean the notification of claims to BGIL's sole intermediary/claims handler (BGSL) is simultaneous. Uncertainties around reporting delays, which might otherwise undermine the completeness and timeliness of reported data, are therefore avoided.
- The indemnity and claims handling cost of each claim are charged at contractual rates agreed with BGSL; volatility and uncertainty of the amounts at which claims will settle is avoided; therefore, BGIL has no exposure to individual large claims.
- Policy terms and conditions do not include the right to a policy surrender value, paid up value or conversion rights of any description.

These characteristics limit both the size and volatility of claims provisions. Consequently, they are very small in value compared to the Company's other assets, liabilities and premium volumes: at 31 December 2017 claims provisions including claims handling were £8.2m (2016: £6.5m) of outstanding claims, £4.1m (2016: £4.1m) of IBNR and £17.2m (2016: £9.5m) of intercompany balance.

Uncertainty around the claims provisions is also limited, mainly related to assumptions based on survey samples around reporting delay and the proportions of claims likely to settle at nil cost.

The intercompany item represents the difference between the forecast amount and the actual amount to be paid/received between BGSL and BGIL at the year-end, in respect of the December month, plus profit commission payable.

D.2.4 Gross premium provision

The premium provision represents the estimated cost of future claims, commission and expenses arising from current and bound insurance contracts less the estimated value of future premium receipts. The premium provision is the expected present value, at the EIOPA prescribed rates of discount, of all future cashflows relating to risk exposure after the valuation date.

D.2.4a Claims cash flows of unearned business

Business plan loss ratios, which reflect seasonality, are used to calculate the expected losses from the unearned business in the premium provisions adjusted for experience if required. The projection of future cash flows allows for the expected lapse behaviour of customers (mid-term lapses and non-renewal lapses) in the period until contract expiry.

D.2.4b Bound but not incepted (BBNI)

Allowance is made for BBNI premium income that relates to policies which the Company is legally obliged to write, but which have not yet been incepted as at the valuation date. Generally, these relate to issued renewals.

They are derived utilising best estimate loss ratio assumptions with adjustments made to allow for future expected inflation.

D.2.5 Events not in data (ENID)

This is designed to capture those potential future costs that do not exist in the historical data. The approach used considers the possible outcomes from catastrophe claims in respect of future exposure (due to exceptional numbers of claims arising from adverse scenarios). Considering the short reporting tail, it is considered that there is minimal risk from historic exposure.

D.2.6 Risk margin (unaudited)

The risk margin of £5.0m (2016: £4.7m) was estimated using the Solvency II “cost of capital” approach, which is intended to reflect the total consideration (when included with the best estimate liability) that would be required by a third-party insurer to take over the full liability.

This was estimated by applying a 6% cost of capital charge to the sum of the present value of projected SCR in each future year using methodologies prescribed by EIOPA. The approach chosen entailed the approximation of Company’s whole SCR for all future years by using a proportional approach without the requirement to assess individual elements of the SCR. The method is considered appropriate and proportionate given the low volatility of the Company’s historical results and stable risk profile for both individual risk elements of the SCR and the overall SCR.

D.2.7 Expenses

Solvency II requires the best estimates to consider expenses relating to recognised insurance and reinsurance obligations of insurance and reinsurance undertakings. These expenses have been classified into the following four subgroups and the table below illustrates which expenses are included in the claims provisions and which are included in the premium provisions.

The UK GAAP reserves include all required expenses and no further allowance is made in the best estimates technical provisions. All expenses are applied on a gross basis and it is assumed there are no ceded expenses.

Assumptions on the percentage loading of Solvency II expenses are based on the Gross Operating Expenses. Key assumptions are applied around the proportion of the administration expenses to include in the Solvency II expense loading.

Expense Type	Premium Provision	Claim Provision
Administrative expenses	√	
Investment management expenses	√	√
Claims management expenses	√	√
Acquisition expenses	√	

D.3 Other liabilities

The Company values all liabilities at the amounts for which they could be transferred, or settled between knowledgeable willing parties in an arm’s length transaction. In the BGIL’s Solvency II balance sheet, no adjustments are made for own credit risk. There have been no changes to the basis used for recognition, valuation and estimation of other liabilities during the reporting period. All material assumptions and judgements are noted.

D.3.1 Deferred tax liabilities

Deferred tax liabilities are reported in Solvency II balance sheet at IAS 12 fair value. The reconciliation reserve in the Solvency II balance sheet at 31 December 2017 accounts for £33.9m (2016: £36.8m) of own funds additional to the amount recognised under UK GAAP. A deferred tax liability of £6.4m (2016: £7.1m) is recognised on this reserve, acknowledging that it will flow through to profits subject to tax deduction; the reconciliation reserve after tax is £27.5m (2016: £29.7m).

D.3.2 Insurance and intermediaries' payables

UK GAAP insurance and intermediary payables represent commission due to BGSL for periods of future risk exposure at the balance sheet date, which are included within technical provisions in the Solvency II balance sheet.

D.3.3 Any other liabilities, not elsewhere shown

As at the reporting date, the Company had £31.7m (2016: £29.7m) of other liabilities, not elsewhere shown. These amounts represent tax payable, accruals and other creditors. Accruals are recognised in line with UK GAAP, the Company accrues when settlement of an obligation is probable and a reliable estimate can be made of the amount of the obligation. All the liabilities are short-term in nature so the carrying value in the UK GAAP accounts is considered to approximate to fair value. Discounting for the time value of money is immaterial. No material estimates, assumptions or judgements are required to determine their value. Therefore, no adjustment is made for Solvency II purposes.

Solvency II Balance Sheet - any other liabilities at 31 December	2017 £m	2016 £m
Insurance premium tax (IPT)	28.3	25.9
Corporation tax	1.5	0.6
Sundry accruals	1.6	2.2
Other creditors	0.3	1.0
Any other liabilities, not elsewhere shown	**31.7**	**29.7**

D.4 Alternative methods of valuation

The Company does not apply any alternative method of valuation for assets and liabilities permitted under EIOPA Delegated Act Article 296(4).

D.5 Any other information

There is no other additional information to report.

E. CAPITAL MANAGEMENT

The capital management section of the report describes the Company's internal operational structures and procedures that support effective capital management. The Business Plan is updated annually or more frequently if material changes occur to the Company's risk or capital profile, business strategy or regulation.

E.1 Own funds

The Company's objective is to maintain appropriate levels of capital and solvency margin to meet operating needs and regulatory requirements. No material changes to these objectives were introduced in 2017.

Own funds at 31 December 2017 and 31 December 2016 comprise of Tier 1 unrestricted basic own funds only.

E.1.1 Summary of own funds

The Company's own funds represent Solvency II net assets less foreseeable dividends approved by the Board but not paid at 31 December.

Own Funds – Tier 1 unrestricted	Section	2017 £m	2016 £m
Assets	D.1	204.5	216.3
Liabilities	D.3	(38.1)	(26.5)
Net assets		**166.4**	**189.8**
Foreseeable dividends		(56.0)	(86.0)
Eligible own funds –Tier 1 Unrestricted		**110.4**	**103.8**

E.1.2 Governance over dividend payment

The Board must approve dividends paid by the Company. The foreseeable dividend of £56.0m (2016: £86.0m) was approved on 27 April 2018 and is recognised as a deduction from own funds at 31 December 2017. The Company has the right to cancel (or defer) dividend payments or other distributions after declaration at any time prior to payment.

E.1.3 Capital management policy and processes

Capital resources are managed in accordance with the Company's Capital Management Policy ("CMP"), 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. The Board has approved a required minimum margin of £30m over SCR to be maintained as own funds.

The Board has also approved a capital buffer ranging from £15m to £30m as a solvency margin above the SCR with the intention that own funds will normally exceed SCR by at least £30m at all times. If own funds were to fall below that level, the Company would take the actions specified in a Board approved 'ladder of intervention'. It quantifies the trigger points for management intervention and defines the actions required in the event of own funds falling below the relevant thresholds.

BGIL's strategy is to distribute excess own funds to its parent company in line with its capital management and dividend policy whilst ensuring the SCR and agreed surplus of £30m are maintained. The dividend of £56m payable in 2018 is calculated in line with that policy.

Eligible Own Funds to Cover Capital Requirements at 31 December	2017 £m	2016 £m
Eligible own funds	166.4	189.8
Less: Solvency capital requirement	(79.6)	(73.8)
Foreseeable dividends	(56.0)	(86.0)
Solvency II surplus	**30.8**	**30.0**

E.1.4 Capital forecasting

The Company prepares an annual three-year business plan. The plan includes a projection of own funds and SCR over the three-year period. Monthly actual positions are reported against the plan. Forecast updates will be prepared in the event of any significant deviation from the plan or material changes in business strategy.

E.1.5 Adverse capital movement

BGIL's solvency surplus is reported to executive management monthly and to the Board at least quarterly to ensure no deterioration below SCR or capital buffer.

E.1.6 Composition and quality of own funds

The composition of available own funds at 31 December is provided below:

Basic Own Funds - Tier 1 Unrestricted	2017 £m	2016 £m
Ordinary share capital (fully paid)	5.0	5.0
Reconciliation reserve	105.4	98.8
Total basic own funds	**110.4**	**103.8**

The fully paid ordinary share capital and reconciliation reserve meet the criteria to be classified as Tier 1 unrestricted basic own funds set out in Article 71 of Solvency II Delegated Act:

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

The reconciliation reserve represents net assets less share capital and foreseeable dividends:

Reconciliation Reserve at 31 December	2017 £m	2016 £m
Excess of assets over liabilities	166.4	189.8
Less: Ordinary share capital	(5.0)	(5.0)
Foreseeable dividends	(56.0)	(86.0)
Reconciliation reserve	**105.4**	**98.8**

E.1.7 Eligible own funds to cover capital requirements

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

At 31 December, SCR of £79.6m (2016: £73.8m) was covered by £110.4m (2016: £103.8m) of eligible own funds providing a Solvency II surplus of £30.8m (2016: £30.0m).

The MCR is the absolute minimum level below which own funds should not fall. It is calculated using a prescribed regulatory formula which is subject to a defined floor and cap based on the risk-based SCR. As BGIL holds capital to cover its (higher) SCR plus a capital buffer of £30m, it also holds more than sufficient funds to meet its MCR of £35.8m (2016: £33.2m).

The table below presents the ratio of eligible own funds available to cover the solvency capital requirement and minimum capital requirement:

Eligible Own Funds at 31 December	2017 £m	2016 £m
Eligible own funds to meet SCR and MCR	110.4	103.8
Solvency capital requirement (SCR)	79.6	73.8
Minimum capital requirement (MCR)	35.8	33.2
Ratio of eligible own funds to SCR	138.7%	140.6%
Ratio of eligible own funds to MCR	308.1%	312.5%

E.1.8 Material differences between equity in the financial statements and the excess of assets over liabilities

Capital resources are calculated differently under the Solvency II and UK GAAP rules.

- Deferred acquisition costs are not recognised under Solvency II.
- Technical provisions are recalculated under Solvency II using a discounted best estimate plus risk margin.
- A deferred tax liability is included to reflect the impact of the above.

Solvency II own funds are different from equity reported in the financial statements:

- Insurance debtors and creditors on a UK GAAP basis are replaced with an estimated fair value of all in force policies at the balance sheet date.
- A premium provision is established, representing the best estimate of future net cash inflows and outflows relating to future exposure for in-force policies at the balance sheet date.
- A provision is established for events not in data.
- A risk margin is established representing the cost of providing capital equal to the SCR necessary to support the insurance obligations over their lifetime.
- The adjustments above are discounted (where material) over the appropriate time horizon at prescribed rates.
- The sum of the above gives rise to a reconciliation reserve. Corporation tax is applied to this at the prevailing rate. In BGIL the net balance is an asset rather than a liability reflecting future positive cash flows arising on a stable and profitable book of business only partly offset by the introduction of new provisions. The impact of discounting in BGIL is marginal given the very short tail associated with claims notification and settlement.

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

The premium provision is the best estimate of future net cash flows (claims, commission and expense outflows less premium inflows) relating to future exposures arising from policies for which BGIL has an obligation at the balance sheet date. The best estimate is then discounted using EIOPA prescribed interest rates. The key assumptions and methodology used to determine the premium provisions are:

- A deduction is made for mid-term cancellations on in-force policies and renewal lapses on policies invited but not taken up, based on previous experience.
- An additional allowance for "BBNI business" representing policies invited for renewal in the weeks prior to the balance sheet date but not renewed until after that date. Claims ratios are modelled per the business plan which is consistent with recent actual loss experience.

Typically, given the business has been consistently profitable and most customers pay by monthly instalments, future cash in-flows exceed the present value of future cash out-flows, thus creating a premium provision negative liability.

The BBNI exposure primarily relates to contracts incepting post year end. As these contracts are entirely unearned at the valuation date, the estimate for the following underwriting year is subject to some uncertainty.

Equity in Financial Statements and Excess of Assets over Liabilities at 31 December	2017 £m	2016 £m
Equity in the financial statements	**138.9**	**160.1**
Remove UK GAAP insurance balances:		
Net insurance balance	4.4	6.3
Add Solvency II balances:		
Premium provision	36.2	36.7
ENIDS	(1.7)	(1.5)
Risk margin	(5.0)	(4.7)
Tax on reconciliation reserve	(6.4)	(7.1)
Excess of assets over liabilities	**166.4**	**189.8**

Other than disclosed above there have been no changes to what is managed as capital or to the Company's capital management objectives, policies or procedures during the year.

E.2 Solvency Capital Requirement & Minimum Capital Requirement (unaudited)

The section compares BGIL's own funds with regulatory requirements and provides assurance around its adequacy. The SCR calculation is calibrated to ensure that all quantifiable risks are considered.

BGIL calculates its SCR using:

- Internal model for underwriting risk.
- Standard formula used for all other risk types, namely market, counterparty default and operational risk.

A £35m capital add-on was approved by the PRA at 31 December 2015 for counterparty default and operational risk. The same add-on is required to be applied in addition to standard formula values for counterparty default and operational risk as at 31 December 2017. The Company has applied to the PRA in March 2018 to extend its internal model to cover counterparty default and operational risk in addition to the currently approved underwriting risk model. If approved, the new modelling basis would mean the removal of the 'add-on'. The implementation date of the resultant new SCR is to be agreed with the PRA post-approval.

The SCR is subject to annual external validation and was approved by the on Board on 27 April 2018.

The table below highlights the capital requirement for each risk module:

Solvency Capital Requirement for each Risk Module at 31 December	2017 £m	2016 £m
Market risk	0.9	1.3
Non-life underwriting risk	34.1	29.5
Counterparty default risk (standard formula)	0.0	0.0
Risk type diversification	(0.7)	(1.0)
Basic solvency capital requirement	**34.3**	**29.8**
Operational risk (standard formula)	10.3	9.0
Solvency capital requirement excluding capital add-on	**44.6**	**38.8**
Capital add-on for operational and counterparty default risk	35.0	35.0
Solvency capital requirement	**79.6**	**73.8**
Minimum capital requirement (45% of SCR)	**35.8**	**33.2**

E.2.1 Underwriting risk (Insurance risk) module

Non-life underwriting risk is the largest component of PIM-SCR and it mainly arises from:

- £3.3m (2016: £5.5m) of premium and reserve risk is driven by earned premiums, forecast premiums and claims provisions of non-life lines of business.
- £38.4m (2016: £31.8m) of catastrophe risk is driven by the Company's exposure to natural catastrophe i.e. cold weather.
- £3.7m (2016: £4.2m) of other non-life risk is driven by other adverse scenarios, for example risks relating to component defect or policy wording.

Non-Life Underwriting Risk - Partial Internal Model at 31 December	2017 £m	2016 £m
Non-life premium and reserve risk	3.3	5.5
Non-life catastrophe risk	38.4	31.8
Other non-life underwriting risk	3.7	4.2
Diversification benefit	(11.3)	(12.0)
Non-life underwriting risk	**34.1**	**29.5**

E.2.2 Market risk module

The Market Risk component of SF-SCR is driven by risks inherent within the Company's assets, liabilities and financial instruments:

- £nil (2016: £0.1m) of spread risk requirement is very small because the Company's investment in portfolio of principally money market funds has a very low exposure to derivatives and similar financial instruments.
- £0.5m (2016: £0.5m) interest rate risk is driven by applying interest rate change scenarios to the Company's assets and liabilities and assessing the impact on their values.
- £0.8m (2016: £1.2m) concentration risk is driven by the size and mix of counterparties in the investment portfolio.
- The small decrease is largely driven by lower concentration risk with a lower value of investments exceeding the concentration risk threshold in standard formula.

Market Risk - Standard Formula at 31 December	2017 £m	2016 £m
Spread risk	-	0.1
Interest rate risk	0.5	0.5
Concentration risk	0.8	1.2
Market risk - diversification benefit	(0.4)	(0.4)
Total market risk	**0.9**	**1.4**

E.2.3 Simplified calculations in the standard formula

No material simplifications have been used to derive the SCR using standard formula.

E.3 Use of duration based equity risk sub-module in the calculation of the SCR (unaudited)

The Company does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between the standard formula and partial internal model used (unaudited)

The SCR at 31 December 2017 calculated using the standard formula is £313.4m (2016: £307.4m), which is higher than the approved PIM including add-on by £233.8m (2016: £233.6m). The differences mainly arise from the lower underwriting risk figure produced by the internal model which more appropriately reflects BGIL's risk profile than the standard formula.

Table E.4.1: Below shows the composition by risk type under standard formula and partial internal model (2017 v 2016)

Risk Type at 31 December	Standard Formula 2017 £m	Partial Internal Model 2017 £m	Difference 2017 £m	Standard Formula 2016 £m	Partial Internal Model 2016 £m	Difference 2016 £m
Market risk	0.9	0.9	-	1.3	1.3	-
Non-life underwriting risk	282.3	34.1	(248.2)	276.8	29.5	(247.3)
Counterparty default risk	-	-	-	-	-	-
Diversification benefit	(0.7)	(0.7)	-	(1.0)	(1.0)	-
Basic solvency capital requirement	**282.5**	**34.3**	**(248.2)**	**277.1**	**29.8**	**(247.3)**
Operational risk	30.9	10.3	(20.6)	30.3	9.0	(21.3)
Solvency capital requirement (excl. add-on)	**313.4**	**44.6**	**(268.8)**	**307.4**	**38.8**	**(268.6)**
PRA capital add-on	-	35.0	35.0	-	35.0	35.0
Solvency capital requirement	**313.4**	**79.6**	**(233.8)**	**307.4**	**73.8**	**(233.6)**

The standard formula SCR of £313.4m (2016: £307.4m) would be £253.9m (£245.9m) net of tax.

The standard formula for underwriting risk produces a capital requirement of £282.3m (2016: £276.8m) compared with an approved internal model basis of £34.1m (2016: £29.5m). The internal model better reflects BGIL's low underwriting risk profile characterised by the short tail nature of the business and contractually fixed claims costs provided from within the Group.

A standard formula approach applies to operational risk in both the 'Standard Formula' and 'Partial Internal Model' columns in table E.4.1. Due to its formulaic approach (capped against basic SCR), the quantification of operational risk reduces to £10.3m (2016: £9.0m) when adopted alongside the PIM. This is less than BGIL's own economic capital quantification of operational risk.

The standard formula for counterparty risk is almost zero reflecting the very small cash fund in the 2017 balance sheet. This is also lower than BGIL's to the economic capital assessment of the risk.

BGIL's own assessment of its counterparty default risk and operational risk underpinned the basis of the PRA agreed £35m capital add-on, which forms part of BGIL's SCR, in addition to the standard formula values for these two risk types.

Aggregation of risk types, using a standard formula approach, creates a small diversification benefit of £0.7m (2016: £1.0m).

E.4.1 Use of partial internal model

The partial internal model is used in day-to-day management of the business:

- For capital management purposes, to determine level of dividends and define an appropriate solvency capital margin.
- To inform the ORSA process and report.
- To develop risk ranking reports and to inform risk mitigation actions.
- To inform pricing decisions by applying risk based capital allocation.
- To support new product development e.g., decisions to underwrite new product lines.
- To assess any reinsurance protection requirement (currently no reinsurance is purchased).

E.4.2 Risk measure and period used in the internal model

The Company's PIM is calibrated to be equivalent to a confidence level of 99.5% over a one-year period. This basis ensures that the SCR is not misstated and provides an appropriate level of protection for policyholders.

E.5 Non-compliance

The Company has maintained sufficient capital to exceed both the SCR and the MCR throughout the reporting period.

E.6 Any other information

There is no other additional information to report.

F. GLOSSARY

Definitions

BGIL or the Company	British Gas Insurance Limited
BGSL	British Gas Services Limited
GBGH	GB Gas Holdings Limited
Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council
Solvency II Delegated Act	Commission Delegated Regulation (EU) 2015/35

Abbreviations

BBNI	Bound But Not Incepted
BSCR	Basic Solvency Capital Requirement
CMP	Capital Management Policy
CEO	Chief Executive Officer
CIC	Capital and Investment Committee
COR	Combined Operating Ratio
CORC	Counterparty and Operational Risk Committee
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
EIOPA	European Insurance and Occupational Pensions Authority
EMC	Executive Management Committee
ENID	Events Not In Data
EPIFP	Expected Profit In Future Premium
ERMC	Enterprise Risk Management Committee
ERMF	Enterprise Risk Management Framework
FCA	Financial Conduct Authority
IBNR	Incurred but Not Reported
IRC	Insurance Risk Committee
IMT	Investment Management & Treasury
ITP	Investment Treasury Policy
LRMS	Liquidity Risk Minimum Standard
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
PIM	Partial Internal Model
QRT	Quantitative Reporting Template
RACC	Risk, Audit and Compliance Committee
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SF-SFCR	Standard Formula - Solvency and Financial Condition Report
SIMFH	Senior Insurance Management Function-Holders
UK	United Kingdom
UK GAAP	UK Generally Accepted Accounting Practice

G. APPENDIX

G.1 Public quantitative reporting templates (QRTs)

The following templates are provided as an appendix to this report, as required by the regulations:

Template Code	Template Name
S.01.02.01	General basic information
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.28.01.01	Minimum capital requirement – only life or non-life insurance or reinsurance activity

British Gas Insurance Limited

Solvency and Financial Condition Report

Disclosures

31 December

2017

(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 2017
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
	Assets	C0010
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)	203,746
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	198,714
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	5,032
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	231
R0420	Any other assets, not elsewhere shown	547
R0500	**Total assets**	204,524

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	-13
R0520	*Technical provisions - non-life (excluding health)*	-13
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	-4,979
R0550	*Risk margin*	4,966
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	6,447
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	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	31,662
R0900	**Total liabilities**	38,097
R1000	**Excess of assets over liabilities**	166,428

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business											1,012,150						1,012,150
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share																	0
R0200	Net											1,012,150						1,012,150
	Premiums earned																	
R0210	Gross - Direct Business											1,030,643						1,030,643
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share																	0
R0300	Net											1,030,643						1,030,643
	Claims incurred																	
R0310	Gross - Direct Business											462,448						462,448
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share																	0
R0400	Net											462,448						462,448
	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**											473,592						473,592
R1200	**Other expenses**																	15,040
R1300	**Total expenses**																	488,632

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	1,012,150						1,012,150
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	1,012,150	0	0	0	0	0	1,012,150
	Premiums earned							
R0210	Gross - Direct Business	1,030,643						1,030,643
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	1,030,643	0	0	0	0	0	1,030,643
	Claims incurred							
R0310	Gross - Direct Business	462,448						462,448
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	462,448	0	0	0	0	0	462,448
	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	0	0	0	0	0
R0550	**Expenses incurred**	473,592						473,592
R1200	**Other expenses**							15,040
R1300	**Total expenses**							488,632

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											-34,490						-34,490
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**											-34,490						-34,490
	Claims provisions																	
R0160	Gross											29,512						29,512
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**											29,512						29,512
R0260	**Total best estimate - gross**											-4,979						-4,979
R0270	**Total best estimate - net**											-4,979						-4,979
R0280	**Risk margin**											4,966						4,966
	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**											-13						-13
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**											-13						-13

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2008	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2009	2,153	102	0	0	0	0	0	0	0			0	2,255
R0180	2010	192,373	5,153	0	0	0	0	0	0				0	197,526
R0190	2011	525,073	4,585	0	0	0	0	0					0	529,658
R0200	2012	544,973	6,819	0	0	0	0						0	551,792
R0210	2013	561,863	6,777	0	0	0							0	568,640
R0220	2014	523,184	7,715	0	0								0	530,898
R0230	2015	506,000	4,495	0									0	510,495
R0240	2016	485,542	5,811										5,811	491,353
R0250	2017	472,645											472,645	472,645
R0260												**Total**	478,456	3,855,262

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2008	0	0	0	0	0	0	0	0	0	0		0
R0170	2009	0	0	0	0	0	0	0	0	0			0
R0180	2010	0	0	0	0	0	0	0	0				0
R0190	2011	0	0	0	0	0	0	0					0
R0200	2012	0	0	0	0	0	0						0
R0210	2013	0	0	0	0	0							0
R0220	2014	0	0	0	0								0
R0230	2015	0	0	0									0
R0240	2016	0	0										0
R0250	2017	29,512											29,512
R0260												**Total**	29,512

S.23.01.01

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	105,428	105,428			
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**	110,428	110,428	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	110,428	110,428	0	0	0
R0510	Total available own funds to meet the MCR	110,428	110,428	0	0	
R0540	Total eligible own funds to meet the SCR	110,428	110,428	0	0	0
R0550	Total eligible own funds to meet the MCR	110,428	110,428	0	0	
R0580	**SCR**	79,635				
R0600	**MCR**	35,836				
R0620	**Ratio of Eligible own funds to SCR**	138.67%				
R0640	**Ratio of Eligible own funds to MCR**	308.15%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	166,428
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	56,000
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**	105,428
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-36,035
R0790	**Total Expected profits included in future premiums (EPIFP)**	-36,035

S.25.02.21

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

Row	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	3,260	3,260	9	
2	50300I	non-life catastrophe risk	38,373	38,373	9	
3	50500I	Other non-life uw risk	3,718	3,718	9	
4	55900I	non-life uw diversification	-11,268	-11,268	9	
5	10200I	Interest rate risk	438		9	
6	10700I	Spread risk	45		9	
7	10800I	Concentration risk	837		9	
8	19900I	Market risk - Diversification	-374		9	
9	20100I	Counterparty default risk	7		9	
10	70100I	Operational risk	10,300		9	

S.25.02.21

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

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	45,336
R0060	Diversification	-701
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	44,635
R0210	Capital add-ons already set	35,000
R0220	**Solvency capital requirement**	79,635
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	
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	

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	87,479

		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	0	1,029,160
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	87,479
R0310	SCR	79,635
R0320	MCR cap	35,836
R0330	MCR floor	19,909
R0340	Combined MCR	35,836
R0350	Absolute floor of the MCR	2,196
R0400	**Minimum Capital Requirement**	35,836