



NELSON

INSURANCE COMPANY LTD

Single Group Solvency and Financial Condition Report

Nelson Group of Companies

Financial Year 31/12/2018

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Summary

This Single Solvency and Financial Condition Report (SFCR) has been prepared to allow the Nelson Group of Companies, (Nelson Group), to comply with the Pillar III reporting requirements set out in Articles 293-297 and 307-311 of the Directive 2009/138/EC and associated Regulations ('the Solvency II Directive').

This SFCR incorporates consolidated information at the level of the Group and Solo information for the insurance subsidiary, Nelson Insurance Company Limited.

Review of the Business and Performance

The business of the Nelson Group is conducted solely through its insurance subsidiary (NICL).

The business model is built on unrivalled experience and understanding of the sector, backed up by the use of innovative claims management systems and services.

In addition, NICL uses an outsourced model of management and partners with a number of specialists to deliver the services to support the board of directors in their delivery of the strategy.

Aside from organic growth, there have been no other material changes to NICL's insurance or reinsurance activities, system of governance or risk profile.

There are currently no other external factors that are expected to influence the business model in 2019.

Governance

The Nelson Group relies on NICL's system of governance to fulfil its regulatory obligations.

NICL's Board of Directors has the responsibility to combine the need to maintain its business ethos whilst at the same time ensuring that it upholds fundamental corporate governance principles and operates effective systems of internal control, risk management and compliance.

The Board, supported by an Underwriting Committee and an Audit & Risk Committee, retains overall responsibility for the strategy and direction of the Company.

The Board is ultimately responsible for ensuring that NICL has an effective internal control system in place, which is commensurate with the nature, scale and complexity of the NICL's operations. The internal control system comprises three lines of defence:

- Primary risk owners (first line).
- Independent risk management and control functions (second line).
- An independent internal audit (third line).

Risk Profile

The Nelson Group's risk profile is the same as that of its insurance subsidiary (NICL).

Underwriting risk is the most significant risk faced by NICL. NICL manages its premium risk through approval procedures for underwriting or renewing business, policy wording controls, and monitoring of performance.

NICL mitigates its claims risk by purchasing reinsurance to limit the aggregate exposure, The key mitigation for any one loss or event, is to buy Q/S and XOL reinsurance cover to allow it to maintain its risk profile and appetite to the levels acceptable to the Company's Board and management.

Valuation for Solvency Purposes

During 2018, the Nelson Group has met the requirements under all 3 Pillars of the SII regime.

The ultimate valuation of assets and liabilities under the Solvency II regulatory regime, starts with the GAAP values displayed in the financial statements of NICL and the consolidated financial statements of the Nelson Group.

Adjustments to the GAAP values are driven by the requirements of the Standard Formula in accordance with the recognition and valuation provisions of the Solvency II Directive.

The main areas of difference are found in the valuation of the Technical Provisions and associated Reinsurance Recoverables, where under the provisions of the Solvency II Directive, the valuations are as follows:

- The value of technical provisions shall be equal to the sum of a best estimate and a risk margin.
- Solvency II Directive regulation requires the inclusion of “run-off” expenses to be incorporated into the Solvency II calculation.
- The valuation is carried out for each line of business and is valued on a “best estimate” discounted cash flow basis.

All of the above lead to differences in Technical Provisions and Reinsurance Recoverables between the financial statements and Solvency II balance sheets.

Capital Management

The Nelson Group is subject to insurance solvency regulations on a Solo basis (for NICL) and on a Group basis (for the consolidated position of both companies in the Nelson Group).

The Group and the Company are subject to the Solvency II regime and have held sufficient capital resources to meet its' solvency capital requirements.

During the period in question, the Board approved an amendment to the Company's capital management policy including an improved solvency buffer.

Section 1: Business and Performance

This Single Solvency and Financial Condition Report (SFCR) has been prepared to allow the Nelson Group of Companies, (Nelson Group), to comply with the Pillar III reporting requirements set out in Articles 293-297 and 307-311 of the Directive 2009/138/EC and associated Regulations ('the Solvency II Directive').

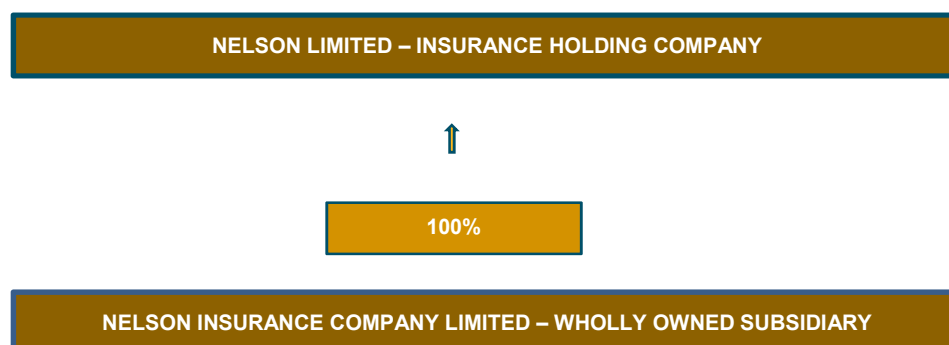
This SFCR incorporates consolidated information at the level of the Group and Solo information for the insurance subsidiary, Nelson Insurance Company Limited.

1.1 General Information about the Business

Legal Form

The Nelson Group of companies is comprised of two separate legal entities, incorporated in Gibraltar, as follows:

- Nelson Limited (NL), incorporated with the sole purpose of acting as the holding company for Nelson Insurance Company Limited (NICL). The only activity of the holding company is that of an investment holding company.
- Nelson Insurance Company Limited (NICL) is a wholly owned subsidiary of Nelson Limited. NICL is the only trading company in the Group and is regulated under the Financial Services (Insurance Companies) Act 1987.



Supervisory Authority

The Gibraltar Financial Services Commission, PO Box 940, Suite 3, Ground Floor, Atlantic Suites, Europort Avenue, Gibraltar.

Registered Office and Registered Numbers: Both companies

Registered Office

c/o T&T Management Services Limited, 28 Irish Town, GX11 1AA, Gibraltar.

Registered Numbers

Nelson Limited (NL): 108997

Nelson Insurance Company Limited (NICL): 108039

Business Address: Both companies

c/o: Willis Towers Watson Management (Gibraltar) Limited, Suite 827, Europort, GX11 1AA, Gibraltar

External Auditor

Deloitte Limited: Merchant House, 22/24 John Mackintosh Square GX11 1AA, Gibraltar.

Manager

Willis Towers Watson Management (Gibraltar) Limited: Suite 827, Europort, GX11 1AA, Gibraltar.

Authorisation Profile: Insurance subsidiary (NICL)

NICL is authorised by the Gibraltar Financial Services Commission (GFSC) to carry on the following classes of business of insurance in accordance with The Financial Services (Insurance Companies) Act.

- Class 3: Land Vehicles
- Class 10: Motor Vehicle Liability
- Class 13: General Liability

Material geographical areas of operation: Insurance subsidiary (NICL)

NICL is structured to operate on the EU passport principle of 'Freedom of Services' and as advised to the GFSC, writes insurance business in the United Kingdom.

1.2 Underwriting Performance

Other than immaterial operating expenses incurred by the holding company (NL), the Nelson Group's underwriting performance follows that of the insurance subsidiary (NICL), the only insurance entity in the Group.

All the business risks are within the motor industry, with operations focused solely in the UK. The splits by line of business class, is as follows:

Nelson Group: Underwriting Performance: 2018 (GBP)			
Per Gibraltar GAAP (FRS102 & 103)	Other Motor	Motor Vehicle Liability	Total
Gross Written Premium	6,912,487	36,290,558	43,203,045
Net Technical Result	506,124	2,657,153	3,163,277

Nelson Insurance Company Limited: Underwriting Performance: 2018 (GBP)			
Per Gibraltar GAAP (FRS102 & 103)	Other Motor	Motor Vehicle Liability	Total
Gross Written Premium	6,912,487	36,290,558	43,203,045
Net Technical Result	508,121	2,667,633	3,175,754

Nelson Group: Underwriting Performance: 2017 (GBP)			
Per Gibraltar GAAP (FRS102 & 103)	Other Motor	Motor Vehicle Liability	Total
Gross Written Premium	4,925,088	36,117,310	41,042,398
Net Technical Result	-135,520	3,449,040	3,313,520

Nelson Insurance Company Limited: Underwriting Performance: 2017 (GBP)			
Per Gibraltar GAAP (FRS102 & 103)	Other Motor	Motor Vehicle Liability	Total
Gross Written Premium	4,925,088	36,117,310	41,042,398
Net Technical Result	-134,470	3,453,645	3,319,175

In the post 2017 year-end period, an unanticipated adverse development of claims against previously forecast, actuarial best estimate ultimate loss ratios was identified and addressed. A further actuarial assessment of revised best estimate ultimate loss ratios was approved by the Board and reflected in NICL's audited financial statements at 31st December 2017.

1.3 Investment Performance

NL held no investments other than its shares in NICL and received no investment income during the financial period in question.

NICL's investments consisted of term deposits with banks and two investment properties. NICL held no investments in equity or securitisation.

NICL did not hold any foreign currency investments.

Total investment income for the financial years ended 31st December 2018 and the comparative financial period, was earned by NICL, as set out in the tables below.

Total Investments 31st December 2018		GBP	Income for the year ended 31st Dec 2018 (GBP)
Bank Deposits	GBP	6,749,056	115,026
Property	GBP	888,358	51,785
Total Investments		7,637,414	166,811

Total Investments 31st December 2017		GBP	Income for the year ended 31st Dec 2017 (GBP)
Bank Deposits	GBP	10,527,751	78,547
Property	GBP	331,322	1,600
Total		10,859,073	80,147

1.4 Performance of other Activities

The trading activities of the Nelson Group are restricted to those of its insurance subsidiary, NICL. All material operating expenses and other income relate to the main business activity as outlined in the profit and loss account below.

Nelson Insurance Company Limited	2018 GBP	2017 GBP
Technical Account		
Gross premiums written	43,203,045	41,042,398
Outward reinsurance premiums	31,702,518	29,770,788
Net premiums written	11,500,527	11,271,610
Change in the gross provision for unearned premiums	1,259,785	1,104,042
Change in the provision for unearned premiums, reinsurer's share	1,064,443	1,273,117
Change in the provision for unearned premiums, net of reinsurance	195,342	-169,075
Earned premiums, net of reinsurance	11,305,185	11,440,685
Other Technical Income	8,000,000	7,900,000
Claims paid, net of reinsurance	9,190,939	8,114,278
Change in the provision for claims, net of reinsurance	2,107,191	5,742,811
Claims incurred, net of reinsurance	11,298,130	13,857,089
Net operating expenses	4,831,301	2,164,421
Balance on the technical account for general business	3,175,754	3,319,175
Non-Technical Account		
Investment Income	115,026	78,547
Rent and gains on investment property	51,785	1,600
Profit on ordinary activities before taxation	3,342,565	3,399,322
Taxation charge - 2018 based on estimated tax charge	318,835	332,078
Profit on ordinary activities after taxation	<u>3,023,730</u>	<u>3,067,244</u>

Nelson Limited - Group	2018 GBP	2017 GBP
Technical Account		
Gross premiums written	43,203,045	41,042,398
Outward reinsurance premiums	31,702,518	29,770,788
Net premiums written	11,500,527	11,271,610
Change in the gross provision for unearned premiums	1,259,785	1,104,042
Change in the provision for unearned premiums, reinsurer's share	1,064,443	1,273,117
Change in the provision for unearned premiums, net of reinsurance	195,342	-169,075
Earned premiums, net of reinsurance	11,305,185	11,440,685
Other Technical Income	8,000,000	7,900,000

Nelson Limited - Group - (continued)	2018 GBP	2017 GBP
Claims paid, gross and net	9,190,939	8,114,278
Change in the provision for claims, gross and net	2,107,191	5,742,811
Claims incurred, net of reinsurance	11,298,130	13,857,089
Net operating expenses	4,843,778	2,170,076
Balance on the technical account for general business	3,163,277	3,313,520
Non-Technical Account		
Investment Income	115,026	78,547
Rent	51,785	1,600
Profit on ordinary activities before taxation	3,330,088	3,393,667
Taxation charge - 2018 based on estimated tax charge	317,587	331,512
Profit on ordinary activities after taxation	<u>3,012,501</u>	<u>3,062,155</u>

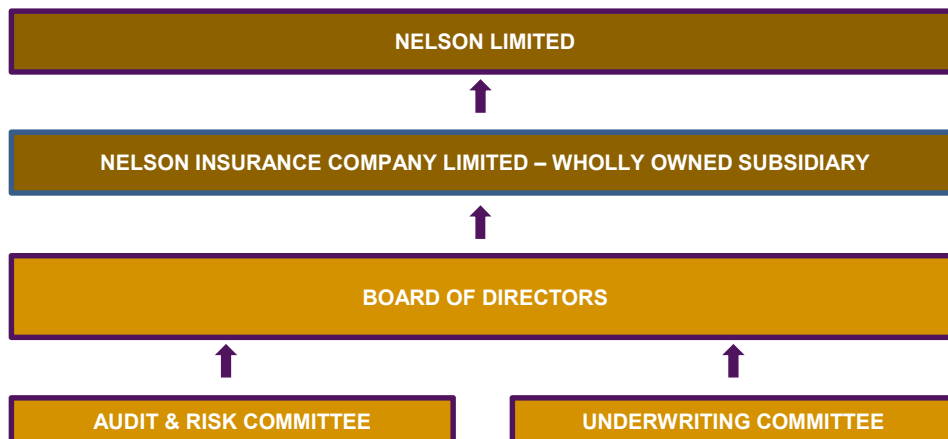
1.5 Any Other Information

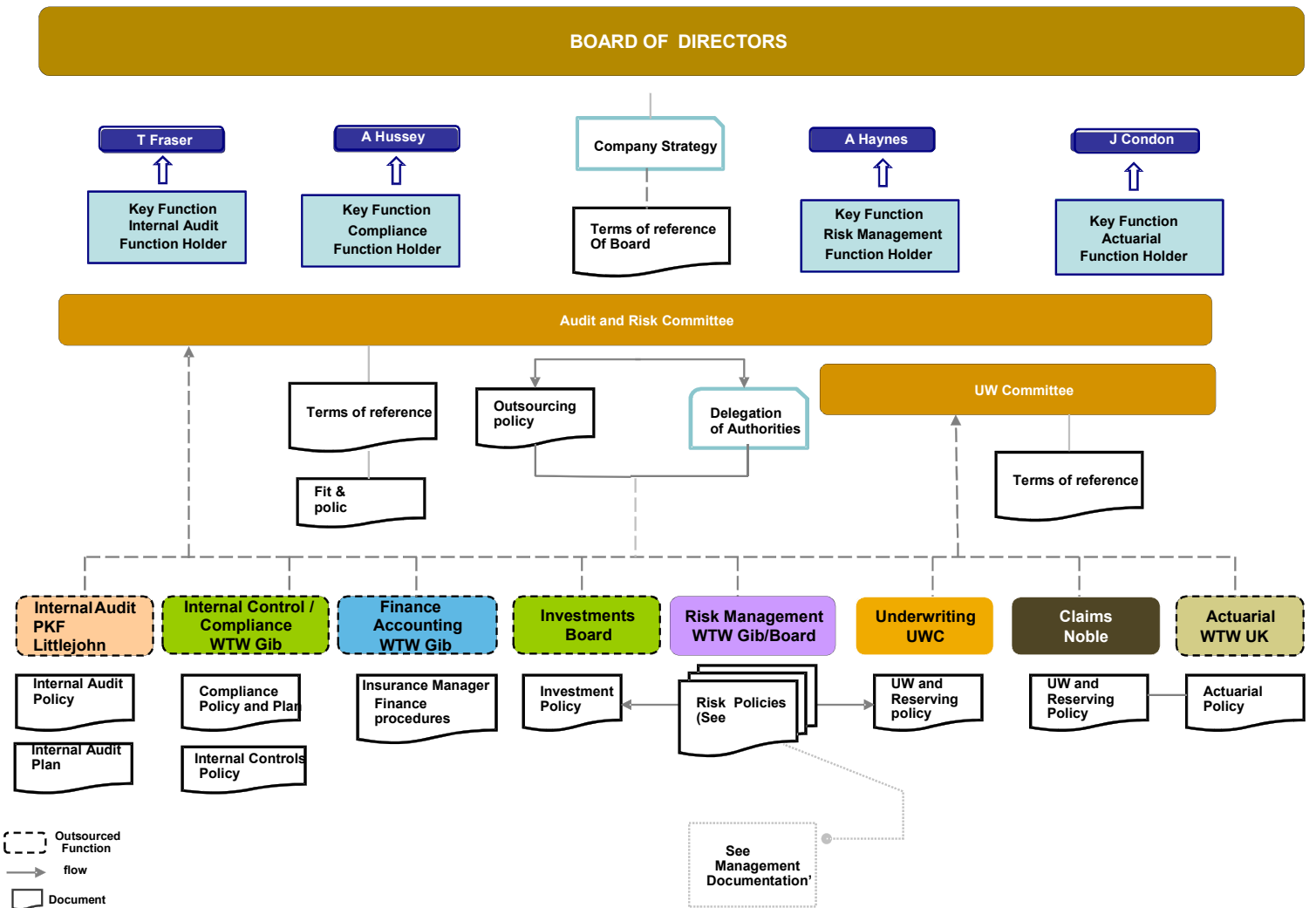
There are no material changes to report as part of the performance analysis detailed in this section of the report.

Section 2: Systems of Governance

2.1 General Information on Systems of Governance

The Organisational Structures of the investment holding company (NL) and its insurance subsidiary (NICL), are set out in the tables below.





The NL Board's main activity is to monitor the investment in NICL. NL has no staff. The Nelson Group relies on NICL's system of governance to fulfil its regulatory obligations.

NICL's Board is responsible for performance and strategy of the Company. As part of the outsourced model of management, the Board delegates certain authorities and functions to two committees and other external service providers identified in the second table above

The Boards of NL and NICL are responsible for:

- Overall strategic direction of the Nelson Group.
- Ensuring that both companies uphold the fundamental corporate governance principles of discipline, transparency, independence, accountability, responsibility and fairness.
- Ensuring that the management of NICL and NL operate effective systems of internal control, risk management and compliance.
- Ensuring that the business activities are managed in the best interest of the stakeholders and always in compliance with the Memorandum and Articles of Association, applicable laws and regulations.
- Ensuring that the insurance subsidiary meets its regulatory obligations at all times.

The Board of NICL has established two Committees to assist in the delivery of the Board's responsibilities, an Underwriting Committee and an Audit & Risk Committee.

The Board and the two Committees are comprised of a combination of executive and non-executive directors and meet regularly, depending on the responsibilities and activities of each committee and the matters that are referred to the Board for approval.

All three bodies have established Terms of Reference to set out the parameters that govern the responsibilities, membership and authorities of each.

Underwriting Committee:

The Underwriting Committee membership consists of two executive directors, one independent non-executive director and a representative of the Manager. The Committee is chaired by the Underwriting Director.

The Committee is responsible for assisting the Board in the oversight of the underwriting function and carries out its duties on behalf of the Board. The Committee meets on a monthly basis and recommendations are presented to the Directors at Board meetings as required.

The Committee carries out the following duties on behalf of the Board:

- Periodically review (at least once a year) and propose updates to the Underwriting Policy.
- Liaise with the Audit and Risk Committee on the underwriting risk management exposure and to determine appropriate risk appetite.
- Perform such other functions as the Board may from time to time assign to the Committee.
- Review annually, and if necessary, propose for formal Board adoption, amendments to the Committee's Terms of Reference.
- Review overall underwriting performance through analysis of statistical reports.
- Claims review.
- Portfolio performance and analysis.
- Large loss claims monitoring and settlement decisions review.
- Reinsurance design, review and placement in line with risk appetite.
- To make recommendations to the Board for pricing/underwriting changes and/or changes to the Business Plan.
- Approval of large claims payments above an amount agreed by the Board.

Audit & Risk Committee:

The Audit & Risk Committee membership consists of one executive director, one independent non-executive director and two representatives of the Manager. The Committee is chaired by the independent non-executive director.

The Audit & Risk Committee is responsible for assisting the Board in the oversight of the management of risks and the effectiveness of the systems of internal controls. It also has responsibility for the integrity of financial and regulatory reporting and the performance of the external and internal auditors. The Audit & Risk Committee meets on a regular basis and at least four times a year.

The Committee carries out the following duties on behalf of the Board:

- Review annually, and if necessary, propose for formal Board adoption, amendments to the Committee's Terms of Reference.
- Periodically review the Company's Risk Register & the Board's Risk Appetite Statement.

- Periodically review risk management and internal control procedures, including those in respect of monitoring compliance with laws and regulations.
- Consider audit plans and scope of external audits & internal audit function; liaise with external & internal auditors.
- Review the Company's financial statements.
- Review the Company's Business Plans, as devised by the Underwriting Committee, against the Board's risk appetite and risk tolerances.
- Maintain a fit & proper register for all relevant persons involved in the management of the Company; liaise with all bodies involved in the notifications required, including the Financial Services Commission.
- Advise the Board on all matters relating to the successful implementation and management of Solvency II requirements, including all matters relating to Pillars I, II, & III.

Material Changes to the Systems of Governance

None during the financial period.

Information on Remuneration Policies and Practices

There is no remuneration within the holding Company.

The Remuneration Policy followed by NICL applies to all independent directors, managers, committee members and other service providers engaged by the Company.

The directors received individual fixed annual fees for their role as board members. All remuneration agreed is subject to formal contract. The review of fees takes place at the same time as the review of each director's contract with NICL.

Neither of the two Group companies employs any persons; and no other forms of remuneration exist including pension schemes or share options.

Principal partners and outsourced service providers of NICL receive previously approved fixed remuneration for their services in accordance with the relevant service level agreements. Any additional charges are presented to and approved by the directors before being paid.

Material transactions with Shareholders / Group companies

Other than the investment of share capital by NL, there are no material transactions between NL and NICL.

2.2 Fit and Proper Requirements

The Nelson Group applies 'fit and proper' standards to the personnel associated with the direction and management of NICL or those with other key functions to fulfil.

These are applied in accordance with the requirements under Solvency II and the Gibraltar Fitness & Probity standards to ensure that key functions are held by persons with the appropriate knowledge, experience and competence.

Fitness

The Board and Committees of NICL must collectively possess the required qualifications, experience and knowledge of:

- Insurance and financial markets relevant to the operations of NICL.

- The business strategy and business model of the NICL.
- NICL's system of governance.
- The delivery of sound financial and actuarial analysis to NICL.
- The regulatory framework and requirements applicable to NICL.
- The provision of sound and prudent management of NICL.

In addition, senior management and persons holding key functions, as per the list of entities below, must hold the appropriate qualifications, knowledge and sufficient experience in their relevant disciplines, in compliance with the Fitness and Probity Standards.

- Claims Management Provider.
- Manager and Risk & Compliance Function Service Provider.
- Internal Audit Service Provider.
- Actuarial Function Service Provider.

Propriety

The honesty, financial soundness and reputation of every relevant person as defined above has been assessed by NICL in order to determine that they are of good repute and integrity. This assessment has been based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects, regardless of location.

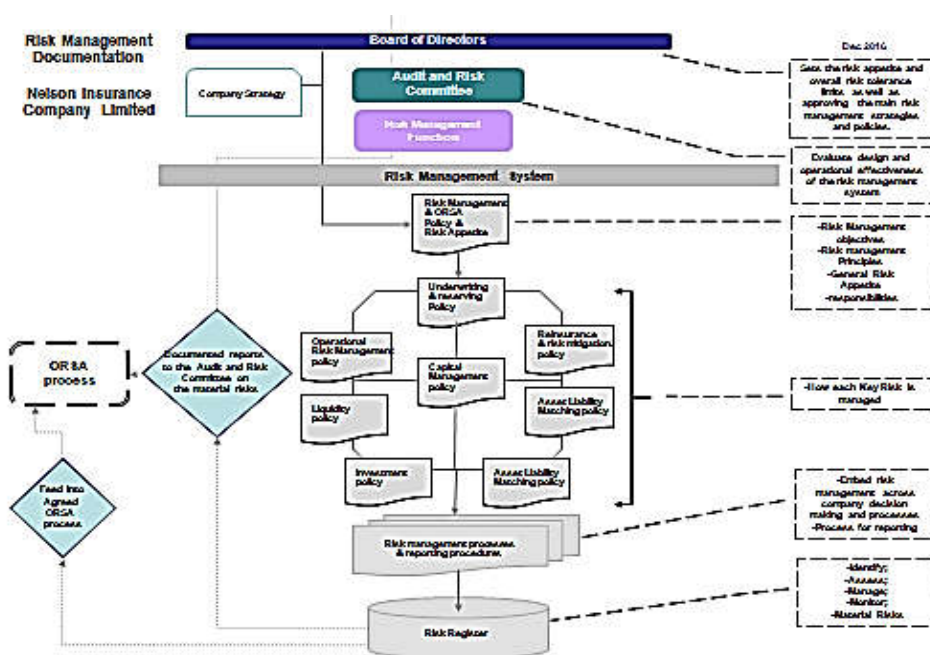
The appointment and continuing engagement of any relevant person must comply with the propriety elements of the Fitness & Propriety Standards set by EU and Gibraltar regulation.

2.3 Risk Management System

The Nelson Group relies on NICL's Risk Management Framework as the Group has no activity other than monitoring the investment in its insurance subsidiary.

NICL's Risk Management System is comprised of the following elements:

- Risk Register, incorporating all the risks the Company is faced with;
- Risk Appetite Statement (RAS) incorporating the Company's appetite and tolerance levels;
- Systems of Governance - Formal Policy Documents for all key risks;
- Own Risk and Solvency Assessment (ORSA);
- Formalised Risk Reporting mechanisms.



Risk Management Function

The Board is responsible for ensuring the effectiveness of NICL’s Risk Management System, for setting the risk appetite and tolerance levels as well as approving all related risk management strategies and policies. The Board reviews the composition of its Risk Management Function at least annually.

The Board of NICL has outsourced the activities of the ‘Risk Management Function’ to the Manager. The Risk Management Function is also responsible for reporting to the Board on a regular basis.

NICL has nominated a Board member as the Risk Management Key Function Holder who will be ultimately responsible for oversight of the Risk Management Function, with the support of the Audit & Risk Committee on behalf of the Board.

ORSA

As part of its regulatory requirements under the Solvency II regime, NICL conducts an Own Risk and Solvency Assessment (‘ORSA’) at least annually and upon the occurrence of an event which may materially impact NICL’s risk profile.

The assessment is an integrated part of NICL’s business strategy and planning process and takes account of its specific risk profile over a forward looking time horizon. The ORSA assists with strategic decision making at Board level and allows management to address any follow up actions.

The ORSA represents NICL’s own view of its risk profile and the capital needed to address these risks, and as such NICL decides the most appropriate process by which the ORSA is performed.

The Board takes a proactive approach in the ORSA process by providing guidance to the Risk Management function as to the direction of the ORSA process, including the identification, evaluation and quantification of the risks inherent in the business.

The initial ORSA process is conducted by the Audit & Risk Committee. The Audit & Risk Committee makes formal recommendations to the Board, which in turn reviews the risk management system as well as the risk documentation, including the potential stressed scenarios before finalising the process and approving any management actions required.

The final step in the ORSA process is the preparation of the ORSA report. The objective is to provide the reader with sufficient details on the approach and methodology used in the assessment and the results of the review undertaken.

Risk Management Process

■ Risk Identification

Key risks are considered to be the six risk categories detailed in the Solvency II Directive, together with any other risks evaluated as being key risks by the Risk Management Function, the Audit & Risk Committee and the Board of Directors.

Any of the other identified risks, outside of those prescribed risk categories in the Solvency II Directive, are considered to be a key risk if, on a residual basis, a material level of capital is deemed to be required in order to accept the risk, or if particular controls or risk mitigation techniques specific for the risk in question must be employed in order to bring the risk within the appropriate thresholds as defined in the Risk Appetite Statement.

All key risks are documented in the Risk Appetite Statement and are subject to a specific policy document which addresses how the risk is to be managed in line with the hierarchy outlined previously.

■ Risk Documentation

Risk Appetite Statement

NICL has in place a Risk Appetite Statement (RAS) which sets out the risk appetite and tolerance levels for all key risks over NICL's business planning time horizon. The RAS directly links to NICL's overall strategy and determines the level of risk retained for each key risk, whilst also influencing the nature of the controls and mitigation techniques employed to ensure that the risk remains within the tolerance range.

Risk Policies

NICL has documented a formal policy for each key risk included in the RAS. The controls, reporting triggers, and any other relevant aspects of the management of the risk are appropriately reflected in the relevant policy for the risk.

Risk Register

NICL maintains a Risk Register to evaluate and assess the risks to which it is exposed, both before and after the effect of the controls in place. The Risk Register is updated on a regular basis and upon the occurrence of an event which may materially impact NICL's risk profile.

On a residual basis, a key risk is deemed to potentially require a material level of capital or the implementation of significant additional controls. Any risk deemed to be a key risk shall be considered for inclusion in the RAS and a specific policy developed.

■ Risk Reporting

The Risk Management Function formally reports to the Board, via the Audit & Risk Committee on a regular basis.

The report contains both qualitative and quantitative aspects and covers all NICL's key risks. It includes:

- Details of the outcome of the review of the Risk Register.
- The results of the comparison of the RAS to actual results.
- An update on emerging risks.

- Advice on the quality of data used in the review of the Risk Management system, including any deficiencies that may have been identified during the course of the review.

The Risk Management Function also provides a report to the Audit & Risk Committee on the occurrence of an event which materially alters the risk profile of the Company or if the tolerance level triggers are breached.

The Audit & Risk Committee makes recommendations to the Board of NICL and the final decisions are taken by the Board.

2.4 Internal Control System and Compliance Function

Internal Controls

The Board is ultimately responsible for ensuring that NICL has an effective internal control system in place, which is commensurate with the nature, scale and complexity of the NICL's operations. The internal control system comprises three lines of defence:

- Primary risk owners (first line).
- Independent risk management and control functions (second line).
- An independent internal audit (third line).

This structure is consistent with NICL's risk management structure and the NICL Board considers it appropriate to the management of the risks.

NICL ensures that appropriate levels of internal controls are present within the organisational structure, work and authority flows, resource utilisation, and information systems.

Responsibilities

- The Internal Audit Function is responsible for the evaluation of the adequacy and effectiveness of NICL's internal control system.
- The Compliance Function is responsible for the review and monitoring of the application of internal controls relating to compliance risk.
- The Manager is responsible for the application and ongoing maintenance of NICL's internal control activities.

Compliance Function

NICL's Compliance Function has been outsourced to the Manager, and the principal responsibility is that of implementing an appropriate compliance framework within NICL and monitoring adherence to legal and regulatory requirements on an ongoing basis.

The Compliance Function reports to the Audit & Risk Committee regularly on all key compliance matters, such as implementation of the annual Compliance Plan, regulatory engagement and correspondence, regulatory developments, and any compliance breaches that may have occurred in the period and corrective actions undertaken.

The Audit & Risk Committee considers all matters presented and makes recommendations to the Board for final approval and determination of actions required.

NICL has nominated a director as the appropriate person ultimately responsible for oversight of the compliance function.

2.5 Internal Audit Function

The Internal Audit Function is an outsourced service, with the Audit & Risk Committee and ultimately the Board acting as oversight.

The Internal Audit remit is to independently examine and evaluate the functioning effectiveness and efficiency of NICL's internal control system and all other elements of governance.

The activities of the Internal Audit function are designed to provide advice to management in improving the internal control environment, monitoring the implementation of strategic control initiatives and managements remediation activity. The Internal Audit Function provides a formal report to NICL at least annually.

NICL has nominated an independent non-executive director as the person ultimately responsible for the oversight for the Internal Audit function.

2.6 Actuarial Function

The activities of NICL's Actuarial Function are outsourced to a qualified service provider as required by the Solvency II Directive.

NICL has nominated an executive director to oversee the Actuarial Function.

The Actuarial Function undertakes the following activities and provides a written report (Actuarial Function Report (AFR)), which is presented to the Audit & Risk Committee and thereafter to the Board, at least annually.

The AFR includes details of the tasks performed during the year and includes conclusions on the results, details of reliance on external data, as well as limitations and recommendations for improvement.

The responsibilities of the Actuarial Function include:

- Computation of the SCR and MCR.
- Contribution to the effective implementation of the risk management system, in particular, the Own Risk and Solvency Assessment (ORSA) and SCR (Solvency Capital Requirement) calculations.
- Co-ordination of the calculation of the Technical Provisions including an assessment of the sufficiency and quality of the data used in the calculation of technical provisions.
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions.
- Advising on the reliability and adequacy of the calculation of technical provisions.
- Comparison of best estimates against experience.
- Expression of an opinion on NICL's overall underwriting policy.
- Expression of an opinion on the adequacy of NICL's reinsurance policy and current reinsurance arrangements.

2.7 Outsourcing

NICL outsources activities where the Board believes outsourcing can provide access to superior processes and technical skills than it would otherwise achieve on a standalone basis, or where appropriate due to the nature, scale and complexity of the operations of the Company. The Board is ultimately responsible for the approval of and termination of all outsourcing arrangements of critical or important functions and activities.

NICL's Risk Management Function is responsible for assessing the risks associated with the outsourcing of critical or important functions or activities as part of its overall remit to identify, assess, manage, monitor and report NICL's risks on an ongoing basis.

The functions deemed critical or important are defined in NICL's Outsourcing Policy. This Policy provides a risk management framework to support the management of outsourcing arrangements and to ensure compliance with the relevant regulatory requirements.

2.8 Any Other Information

Manager

A number of services are contracted to the Manager, under a Management Services Agreement. The Manager provides and/or assists the Committees and the Board of NICL in the delivery of a wide range of management services.

Section 3: Risk Profile

The Nelson Group's risk profile is the same as that of its insurance subsidiary (NICL).

NICL's activities expose it to a number of financial and non-financial risks. Exposure to these risks is managed by a series of controls and procedures which NICL has implemented to mitigate the effects of exposure to these risks.

3.1 Underwriting Risk

Underwriting and Reserving

The risk under any one motor insurance contract written by NICL is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random, unknown and unpredictable

The main underwriting risks affecting NICL are:

- Failure to correctly price and implement pricing changes causing an increase in loss ratio.
- Failure to reserve adequately and to record and review accurate claims and case estimates.
- Lack of controls to prevent claims fraud and leakage.
- Failure to recognise and manage the potential financial impact of catastrophe losses.

Inadequate Premium Rates

NICL manages its premium risk through approval procedures for underwriting or renewing business, policy wording controls, and regular pricing reviews.

NICL also prepares a Business Plan on an annual basis. The Plan includes forecast rating levels and premium volumes. The Underwriting Committee regularly monitors actual performance against the Plan and any significant changes to market conditions are modelled as part of a revised Plan.

Claims Risks

NICL has risk management and control arrangements which allow for the continuous monitoring of claims which are designed to alert the Board should they exceed appetite.

NICL mitigates its claims risk by purchasing reinsurance to limit the aggregate exposure. The key mitigation for any one loss or event is to buy Q/S and XOL reinsurance cover to allow it to maintain its risk profile and appetite to the levels acceptable to the Company's Board and management.

NICL's claims service provider, reports regularly to the UW Director and UW Committee and the UW Director undertakes regular internal file reviews. The large losses are audited regularly by reinsurers and the claims management provider is reviewed within the internal audit framework.

NICL also mitigates reserving risks through the utilisation of expert loss adjusting services in order to ensure that the Incurred But Not Enough Reported (IBNER) provisions are appropriate.

Reinsurance Risk

Given the levels of risk reinsured with both QS and XOL reinsurers, reinsuring risk can be considered to be NICL's primary risk mitigation arrangement.

Failure for a reinsurer to meet its obligation would most likely occur as a result of default of the counterparty or a coverage dispute. NICL has a number of controls in place to limit the likelihood of failure to recover from reinsurance. NICL uses traditional reinsurance arrangements free from any contingent conditions attached to the agreements or any other mechanism that would potentially affect the transfer of the risk.

A Re-Insurance broker is used to advise and undertake the placements. NICL monitors the financial condition of its reinsurers on an ongoing basis.

The assessment and monitoring of all reinsurers is based on information received from rating agencies such as Standard and Poor's, A.M. Best and Moody's or from market intelligence from the reinsurance broker.

Risk Sensitivity and Stress Tests

NICL carries out stress and scenario testing on material underwriting risks as part of the ORSA process.

3.2 Market Risk

NICL's primary objective in relation to market risk is to protect and preserve the Company's assets so as to be able to meet NICL's technical liabilities and to maximise the income streams arising to increase those asset levels.

Its investment policy is therefore conservative and the protection of the capital invested is paramount.

NICL invests in the vast majority of its assets in cash deposits with third party credit institutions and applies a number of restrictions to the diversification, concentration and investment strength of each institution it invests with.

NICL invests according to the Prudent Person Principle of Article 132 Directive 2009/138/EC:

- In assets and instruments whose risks can be properly identified, measured, monitored, managed, controlled and reported.
- In a manner so as to ensure the availability, security, quality, liquidity and profitability of the portfolio as a whole. In addition the localisation of those assets shall be such as to ensure their availability.
- In a manner appropriate to the nature and duration of the insurance and reinsurance liabilities.
- In the best interest of policy holders and beneficiaries.
- In assets which are not admitted to trading on a regulated financial market shall be kept to prudent levels.
- In assets that shall be properly diversified.
- In assets that shall not expose NICL to excessive risk concentration.

In 2018 and in line with the Company's investment policy for the Board approved the purchase of a second investment property. The rental income derived from this investment delivers a return in excess of that offered by cash deposits. In addition, the property is expected to offer steady capital growth over the period of ownership.

Risk Sensitivity and Stress Tests

The risk is sensitive to interest rate risk, as well as the creditworthiness and ultimately the default of the counterparties.

The former is not believed to be a material risk. The impact of the latter risk is more fully explained below.

3.3 Counterparty Default Risk

Counterparty default risk allows for the likelihood of default of cash and cash equivalent deposit holders and reinsurance counterparties.

NICL has little appetite for external counterparty default risk in relation to investments and seek to invest in institutions of minimum rating A-. NICL also looks to limit the duration of investments to reduce Asset/Liability matching risk and ensure liquidity. NICL holds cash on Call and Current accounts and has invested in a UCIT Liquidity fund.

NICL utilises reinsurance to manage underwriting risk. NICL exposed to the failure of its various reinsurance counterparties. As documented in NICL's reinsurance policy, credit default risk is managed by ensuring that a general minimum credit rating of A- or greater is maintained, and the reinsurance placement diversified.

Risk Sensitivity and Stress Tests

The risk is sensitive to the creditworthiness and ultimately the default of its counterparties.

The stress test scenario applied indicated that NICL could withstand the impact an adverse change in ratings. However, a full default of a principal reinsurer or a bank would have a material impact on NICL.

3.4 Liquidity Risk

The risk event is defined as the risk that NICL is unable to meet its obligations to policy holders as they fall due.

NICL's Liquidity Policy requires that the amount, type and structure of its investments and capital are liquid enough to sustain the day-to-day cash requirements, the possibility of various unexpected and potentially adverse business conditions together with an appropriate buffer for liquidity shortfall.

Over 90% of investments are held in a portfolio of cash deposits and bonds. The remainder are held in investment properties. The deposits and bonds are redeemable upon short notice and with a spread of renewal dates; with the remainder held as cash in a call account and a UCIT Liquidity fund, liquidity risk is of limited applicability to Nelson Insurance.

Risk Sensitivity and Stress Test

The risk is sensitive to NICL's investment policy which currently requires significant liquidity of assets.

The only perceived potential for an associated cost are as follows:

- That of the loss of investment income arising from the recall of a long term deposit, due to large claims payments becoming due for payment at amounts over and above the monthly premium receipts.
- A delay in the sale of an investment property.

A liquidity change would require the conscious decision of the Board.

3.5 Operational Risk

NICL is exposed to operational risks, which are collectively defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the failure of key outsourcing arrangements, business disruption, fraud and loss of key personnel.

The key operational risks identified fall into the following categories:

- Outsourcing.
- Crime / Mis-reporting.
- Compliance incl. solvency.

In addition NICL has a non-material exposure to currency risk. NICL has foreign exchange exposures but the likelihood of this risk materialising is low, as it writes UK risks and only covers policy holders travelling abroad in their vehicles for private purposes.

The process through which NICL's operational risk universe is determined and subsequent estimates of frequency and severity are assessed is captured in the Operational Risk Policy. This process safeguards the ongoing improvement of the control environment and ensures that operational risk is identified and mitigated.

NICL's organisational and operational structures reduce the exposure to many of the risks associated with the operational risk class. The main risk events identified under Operational Risk are listed in the Risk Register and considered as part of the regular reviews of said document.

Risk Sensitivity and Stress Test

NICL understands that complete removal of operational risk is impossible and that process failures may occur occasionally. However, it has little tolerance for operational risk including no tolerance or appetite for compliance risk.

Realistic stresses are considered to manifest ultimately in monetary cost or time disruption to NICL. In both cases the additional costs are not deemed to be of an amount that would compromise solvency.

3.6 Other Material Risks

Concentration Risk

Risk concentrations are inevitable and potentially arise in the following areas:

- Outsourcing.
- Underwriting.
- Reinsurance partners.
- Banks.

Concentration risk is managed by monitoring of performance and financial soundness, and in the case of reinsurance and banks, diversification.

Political Risk - Brexit

The Board has considered the emerging risks arising from the UK's decision to exit from the EU.

The Company writes 100% of its insurance business in the UK and its position would be most impacted by:

- Any changes to the current arrangements with the UK; which are not currently expected to materialise.
- The effects of Brexit on the UK economy. In the short-term, the risk appears to be that Brexit could lead to an economic slowdown in the UK. In the medium to long term, the impacts will depend heavily on the nature of the exit. The outcome is currently unknown and the impact of the materialisation of the perceived risks is unquantifiable with any degree of certainty.

Strategic Risk

The standard model does not cover reputational (e.g. risk of poor publicity affecting NICL) or strategic risk (i.e. that its business plan is not executed properly). NICL has strategic risks due to selling motor policies in specialised areas of the UK motor market.

Regulatory Risk

There is a risk that regulations or tax rules may change which may impact on NICL's business in the future.

3.7 Any Other Information

There are no other matters to report in respect of NICL's current risk profile.

Section 4: Valuation for Solvency Purposes

4.1 Assets

The assets held by the Nelson Group and NICL, per the consolidated financial statements at 31st December 2018 and 31st December 2017 were as follows.

Financial assets per audited financial statements 31 st December 2018	Nelson Group (GBP)	NICL (GBP)
Investments	7,634,318	7,634,318
Reinsurers Share of Technical Provisions	45,737,562	45,737,562
Debtors	13,026,137	13,052,302
Prepayments & Accrued Interest	4,119,603	4,119,603
Cash and cash equivalents	22,294,498	22,294,425
Total	92,812,118	92,838,210

Financial assets per audited financial statements 31 st December 2017	Nelson Group (GBP)	NICL (GBP)
Investments	10,859,073	10,859,073
Reinsurers Share of Technical Provisions	38,053,177	38,053,177
Debtors	11,338,341	11,353,937
Prepayments & Accrued Interest	74,767	74,767
Cash and cash equivalents	13,991,231	13,991,151
Total	74,316,589	74,332,105

Recognition

Financial assets are recognised when the entities in the Nelson Group become a party to the contractual provisions of the instrument.

Initial recognition and subsequent measurement

The initial recognition of all financial assets is measured at transaction price (including any transaction costs).

Other than investments, for which the accounting policy regarding subsequent measurement is detailed in the investment section to this note, all other financial assets continue to be measured at their initial transaction value unless fair value adjustments, which flow through to profit or loss, are deemed to be required.

Financial assets are only offset against financial liabilities in the statement of financial position when, and only when there exists, a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2018	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,839,830	0
Deferred Tax Assets	0	592,028
Investments	23,665,159	23,665,159
Reinsurance share of TP - non-life excluding health	45,737,563	42,066,282
Insurance and Reinsurance Receivables	2,867,710	0
Cash & Cash Equivalents	8,266,753	8,266,753
Any Other Assets, Not Elsewhere Shown	8,342,635	8,206,233
Total assets	91,719,651	82,796,455

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2017	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,587,237	0
Deferred Tax Assets	0	430,782
Investments	10,904,388	10,904,388
Reinsurance share of TP - non-life excluding health	38,053,178	34,831,692
Insurance and Reinsurance Receivables	2,928,045	0
Cash & Cash Equivalents	13,991,232	13,991,232
Any Other Assets, Not Elsewhere Shown	8,439,749	8,411,896
Total assets	76,903,829	68,569,990

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2018	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,839,830	0
Deferred Tax	0	473,623
Investments	23,665,159	23,665,159
Reinsurance share of TP - non-life excluding health	45,737,563	42,066,282
Insurance and Reinsurance Receivables	2,867,710	-
Cash & Cash Equivalents	8,266,681	8,266,681
Any Other Assets, Not Elsewhere Shown	8,368,800	8,232,398
Total assets	91,745,743	82,704,142

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2017	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,587,237	0
Deferred Tax	0	430,782
Investments	10,904,388	10,904,388
Reinsurance share of TP - non-life excluding health	38,053,178	34,831,692
Insurance and Reinsurance Receivables	2,928,045	0
Cash & Cash Equivalents	13,991,151	13,991,151
Any Other Assets, Not Elsewhere Shown	8,455,345	8,427,492
Total assets	76,919,344	68,585,505

Valuation of Assets: SII

The recognition and valuation basis are in accordance with the provisions of the Solvency II Directive with the valuation and recognition for material classes as follows:

Intangible Assets

Intangible assets are recognised under Financial Reporting Standards (FRS) on the basis that the expected future economic benefits that are attributable to the asset will flow to the entity concerned, and the cost of the asset can be measured reliably. The Nelson Group holds no intangible assets and thus no recognition and valuation methodology was applied in respect of this category.

Deferred Tax Asset

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Investments

Investments are recognised under Financial Reporting Standards (FRS) on the basis that the Nelson Group becomes a party to the contractual provisions of the instrument.

The Nelson Group classifies its investments as financial assets, with fair value adjustments flowing through to profit or loss if and where required.

Investments are comprised of two investment properties and cash deposits with banks and are valued at the balances on the date of the financial statements. The properties earns rental income and the cash deposits and bonds earn interest at the respective bank deposit rates. All fixed term deposits are shown within investments.

Overview of any assets not regularly traded in Financial Markets

The Nelson Group has no assets that are not regularly traded in financial markets.

During the period in question, NICL has made a loan to a related party. The basis of valuation is supported by the security for the loan, namely a registered fixed charge on a property. For solvency purposes and in line with the relevant EIOPA regulations, NICL has applied the look-through test on the loan and has taken the value of the registered charge on the property as a property investment in its Solvency II balance sheet. An independent valuation of the property shows the value of the property to be in excess of the amount of the registered charge. The basis of valuation for solvency purposes is viewed as prudent by the directors.

4.2 Technical Provisions

The starting point for the calculation of the SII Gross Technical Provisions, are the GAAP reserves included in the audited financial statements. These are calculated on a 'Best Estimate' basis, before discounting and include provisions for IBNR/IBNER, which are computed using the actuarial reserving techniques applied by the appointed reserving actuaries and presented in an annual actuarial report to the Audit & Risk Committee and ultimately the Board for approval. The GAAP reserves are used as the entry point for the Standard Formula SCR Model and transformed into the values in the Solvency II Balance Sheet.

The key components of the transformation, including the application of discounting and the computation of the Risk Margin are reviewed by the Actuarial Function and an opinion on the appropriateness of the Solvency II Technical Provisions is delivered to the Audit & Risk Committee and ultimately the Board for approval.

At 31st December 2018, the actuarial function report confirmed the adequacy of the value of the Gross Technical Provisions in the Solvency II Balance Sheet.

Gross Technical Provisions in SII Balance Sheet by Line of Business:

As at the reporting date, the Nelson Group (through its insurance subsidiary – NICL) had the following claims provisions and financial liabilities gross of reinsurance:

NICL Group: Gross Technical Provisions by Line of Business - 31st December 2018	Best Estimate Liabilities (GBP)	Risk Margin (GBP)	Technical Provisions (GBP)
Other Motor	7,965,942	145,929	8,111,871
Motor Vehicle Liability	50,645,421	1,018,848	51,664,269
Total	58,611,363	1,164,777	59,776,140

NICL: Gross Technical Provisions by Line of Business - 31st December 2017	Best Estimate Liabilities (GBP)	Risk Margin (GBP)	Technical Provisions (GBP)
Other Motor	8,707,931	127,437	8,835,368
Motor Vehicle Liability	40,327,125	698,285	41,025,410
Annuities	679,477	7,730	687,207
Total	49,714,533	833,452	50,547,985

Material Differences between GAAP and Solvency II Balance Sheets

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2018	Accounting Basis	Solvency II
Best Estimate – gross claims provision	46,591,168	46,936,849
Best Estimate – gross premium provision	17,963,969	11,674,514
Risk Margin	0	1,164,777
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	808,102	808,102
Total Liabilities	75,540,622	70,761,625

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2017	Accounting Basis	Solvency II
Best Estimate – gross claims provision	38,300,605	39,159,277
Best Estimate – gross premium provision	16,704,184	10,555,256
Risk Margin	0	833,452
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	381,255	381,255
Total Liabilities	63,950,190	59,493,386

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2018	Accounting Basis	Solvency II
Best Estimate – gross claims provision	46,591,168	46,936,849
Best Estimate – gross premium provision	17,963,969	11,674,514
Risk Margin	0	1,164,777
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	793,152	793,152
Total Liabilities	75,525,672	70,746,675

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2017	Accounting Basis	Solvency II
Best Estimate – gross claims provision	38,300,605	39,159,277
Best Estimate – gross premium provision	16,704,184	10,555,256
Risk Margin	0	833,452
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	368,205	368,205
Total Liabilities	63,937,140	59,480,336

Valuation of Technical Provisions under Solvency II

Technical provisions are valued in accordance with Article 77 of the Solvency II Directive which states that the value of technical provisions shall be equal to the sum of a best estimate and a risk margin.

The Solvency II Directive regulation requires the inclusion of “run-off” expenses to be incorporated into the Solvency II calculation. This has been added to the net technical provisions for the Nelson Group.

The valuation was carried out together for each line of business. Under Solvency II, the balance sheet is required to be valued on a “best estimate” discounted cash flow basis. This leads to differences in claims provision between financial statements and Solvency II.

The Nelson Group applies the standard formula for the calculation of its Solvency Capital Requirement (‘SCR’). Simplification method two is used for the standard formula.

Uncertainties in the value of Technical Provisions

The key assumptions that impact the Technical Provisions are detailed below along with comments regarding the materiality of these assumptions.

- **Premium provisions:** This projection is used to capture the expected profit in the unearned premium reserve and is based on ratings used in the computation in line with historical experience.
- **Cashflows/Settlement period:** The risks being underwritten are relatively short-tailed and the proposed periods of settlement are forecast using assumptions based on historical data.
- **Discount rate:** Current yields are very low and close to zero, which means that almost no discounting is applied to the Technical Provisions given the risks underwritten by NICL are relatively short-tailed.
- **Expenses:** The total expenses involved in the operation of NICL are small compared with other elements in the calculation of the technical provisions.
- **Reinsurance:** It is assumed that the reinsurance programme will perform as expected.

The above assumptions are consistent with the previous Actuarial Function Report therefore there have been no material changes in technical provisions due to underlying changes in the assumptions.

Impact of Reinsurance on Technical Provisions

As at the reporting date, the Nelson Group (through its insurance subsidiary – NICL) was impacted by reinsurance under SII valuation principles, with a consequent reduction in Gross Technical Provisions as follows:

NICL: GAAP vs SII B/S in SCR Model 31st December 2018 (GBP)	Accounting Basis	Solvency II
Best Estimate – R/I share of claims provision	32,568,490	31,823,409
Best Estimate – R/I share of premium provision	13,169,073	10,242,873
Reinsurer's share of technical provisions (non-life and health)	45,737,563	42,066,282

NICL: GAAP vs SII B/S in SCR Model 31st December 2017 (GBP)	Accounting Basis	Solvency II
Best Estimate – R/I share of claims provision	24,630,584	28,616,672
Best Estimate – R/I share of premium provision	12,104,631	6,034,161
Annuities	1,317,963	180,859
Reinsurer's share of technical provisions (non-life and health)	38,053,178	34,831,692

NICL: Net Technical Provisions 31st December 2018 (GBP)	Accounting Basis	Solvency II
Best Estimate – net claims provision	14,022,678	15,113,440
Best Estimate – net premium provision	4,794,896	1,431,641
Risk Margin	0	1,164,777
Net Technical Provisions (non-life and health)	18,817,574	17,709,858

NICL: GAAP vs SII B/S in SCR Model 31st December 2017 (GBP)	Accounting Basis	Solvency II
Best Estimate – net claims provision	38,300,605	39,159,277
Best Estimate – net premium provision	16,704,184	10,555,256
Risk Margin	0	833,452
Net Technical Provisions (non-life and health)	55,004,789	50,547,985

Effectiveness of reinsurance arrangements

The Board of NICL are of the view that the reinsurance policy adopted for the insurance subsidiary of the Nelson Group is fit for purpose. This is supported by the opinion of the Actuarial Function, which is based on the following considerations:

- Good quality reinsurers (A minimum rating) under Quota Share and Excess of Loss contracts of reinsurance.
- Reasonable level of capital surplus which also takes into account the potential gross exposures and ratings.
- A large panel of high quality reinsurers therefore benefitting from diversification.

Matching Adjustments, Volatility Adjustments and Transitional Measures

The Nelson Group has no matching adjustments, volatility adjustments or transitional measures applying as at the reporting period.

4.3 Other Liabilities**Valuation**

As at the reporting date, the Nelson Group had an amount of other liabilities. Of these liabilities, the holding company (NL) only had an amount of GBP 41,115, (2017: GBP 28,646) as creditors falling due within one year. The remaining liabilities were those of the insurance subsidiary NICL:

Nelson Insurance Company Limited: GAAP vs SII B/S in SCR Model (GBP) 2018	Accounting Basis	Solvency II
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	793,152	793,152
Total	10,970,534	10,970,534

Nelson Insurance Company Limited: GAAP vs SII B/S in SCR Model (GBP) 2017	Accounting Basis	Solvency II
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	368,205	368,205
Total	8,932,351	8,932,351

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2018	Accounting Basis	Solvency II
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	808,102	808,102
Total	10,985,484	10,985,484

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2017	Accounting Basis	Solvency II
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	381,255	381,255
Total	8,945,401	8,945,401

Material Differences in the above used for valuation in Financial Statements

There is no differentiation between the valuation of the other liabilities between the financial statements prepared under FRS and their valuation under Solvency II principles.

4.4 Alternative methods for valuation

No alternative methods for valuation are utilised.

4.5 Any other Information

Changes to estimations and recognition

The year-end Solo & Group SCR models used; reflect key recommendations arising from a Quality Assurance review exercise commissioned by the Regulator.

Section 5: Capital Management

5.1 Own Funds

The ordinary shares in both entities of the Nelson Group have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption. It is not planned to change the composition of the own funds over the planning period. The business planning time horizon is three years.

The difference between the equity values in the audited financial statements and the excess of assets over liabilities as calculated for solvency purposes is due to the difference between the technical provisions calculated in accordance with the Solvency II requirements, as well as the removal of the value of the net balance on deferred acquisition costs.

Nelson Group: Basic Own Fund Items (GBP) 2018	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted	Tier 3
Ordinary share capital (net of own shares)	10,100	10,100	10,100	-
Ordinary share capital (gross of own shares)	-	10,100	10,100	-
Share premium account related to ordinary share capital	5,490,400	5,490,400	5,490,400	-
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-	-	-
Subordinated mutual member accounts	-	-	-	-
Surplus funds	10,678,528	-	-	-
Preference shares	-	-	-	-
Share premium account related to preference shares	-	-	-	-
Reconciliation reserve	-	5,942,303	5,942,303	-
Excess of assets over liabilities	-	12,034,831	12,034,831	-
Own shares (included as assets on the balance sheet)	-	-	-	-
Foreseeable dividends and distributions	-	-	-	-
Other basic own fund items	-	6,092,528	6,092,528	-
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	-	-
Subordinated liabilities	-	-	-	-
An amount equal to the value of net deferred tax assets	-	592,028	-	592,028
Other items approved by supervisory authority as basic own funds not specified above	-	-	-	-

Nelson Group: Basic Own Fund Items (GBP) 2017	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted
Ordinary share capital (net of own shares)	10,100	10,100	10,100
Ordinary share capital (gross of own shares)	-	10,100	10,100
Share premium account related to ordinary share capital	5,490,400	5,490,400	5,490,400
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-	-
Subordinated mutual member accounts	-	-	-
Surplus funds	7,453,139	-	-
Preference shares	-	-	-
Share premium account related to preference shares	-	-	-
Reconciliation reserve	-	3,145,321	3,145,276
Excess of assets over liabilities	-	9,076,603	9,076,563
Own shares (included as assets on the balance sheet)	-	-	-
Foreseeable dividends and distributions	-	-	-
Other basic own fund items	-	5,931,282	5,931,282
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	-
Subordinated liabilities	-	-	-
An amount equal to the value of net deferred tax assets	-	430,782	430,782
Other items approved by supervisory authority as basic own funds not specified above	-	-	-

Nelson Insurance: Basic Own Fund Items (GBP) 2018	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted	Tier 3
Ordinary share capital (net of own shares)	5,500,000	5,500,000	5,500,000	-
Ordinary share capital (gross of own shares)	-	5,500,000	5,500,000	-
Share premium account related to ordinary share capital	-	-	-	-
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-	-	-
Subordinated mutual member accounts	-	-	-	-

Nelson Insurance: Basic Own Fund Items (GBP) 2018 - (continued)	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted	Tier 3
Surplus funds	10,720,072	-	-	-
Preference shares	-	-	-	-
Share premium account related to preference shares	-	-	-	-
Reconciliation reserve	-	5,983,845	5,983,845	-
Excess of assets over liabilities	-	11,957,468	11,957,468	-
Own shares (included as assets on the balance sheet)	-	-	-	-
Foreseeable dividends and distributions	-	-	-	-
Other basic own fund items	-	5,973,623	5,973,623	-
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	-	-
Subordinated liabilities	-	-	-	-
An amount equal to the value of net deferred tax assets	-	473,623	-	473,623
Other items approved by supervisory authority as basic own funds not specified above	-	-	-	-

Nelson Insurance: Basic Own Fund Items (GBP) 2017	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted
Ordinary share capital (net of own shares)	5,500,000	5,500,000	5,500,000
Ordinary share capital (gross of own shares)		5,500,000	5,500,000
Share premium account related to ordinary share capital	-	-	-
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-	-
Subordinated mutual member accounts	-	-	-
Surplus funds	7,482,204	-	-
Preference shares	-	-	-
Share premium account related to preference shares	-	-	-
Reconciliation reserve	-	3,174,386	3,174,386
Excess of assets over liabilities	-	9,105,169	9,105,169
Own shares (included as assets on the balance sheet)	-	-	-
Foreseeable dividends and distributions	-	-	-

Nelson Insurance: Basic Own Fund Items (GBP) 2017 - (continued)	Current Accounting Bases	SII Valuation Principles	Tier 1 - unrestricted
Other basic own fund items	-	5,930,782	5,930,782
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	-
Subordinated liabilities	-	-	-
An amount equal to the value of net deferred tax assets	-	430,782	430,782
Other items approved by supervisory authority as basic own funds not specified above	-	-	-

No deductions are applied to own funds and there are no significant restrictions affecting their availability and transferability. The Minimum Capital Requirement ('MCR') and SCR were calculated using the standard formula.

Solvency Capital Policy

The Board of NICL has set a target for the solvency capital cover it wishes to attain as part of its risk appetite on capital management.

On an annual basis, and having regard to the results of stress tests applied to projections over the planning period, the Board will consider whether a dividend should be paid to remit any surplus capital above this target.

5.2 SCR & MCR

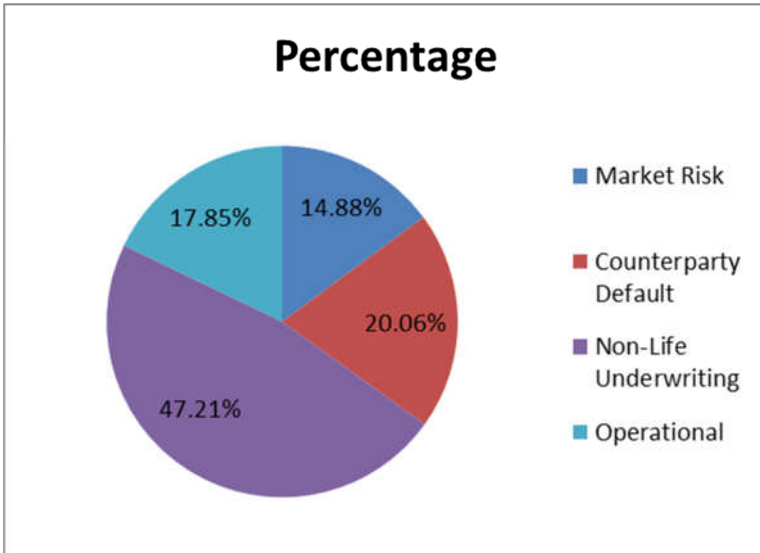
Nelson Group

Solvency 2018	Capital Requirement	Eligible Capital
SCR	9,848,856	12,034,831
MCR	3,288,301	11,442,803

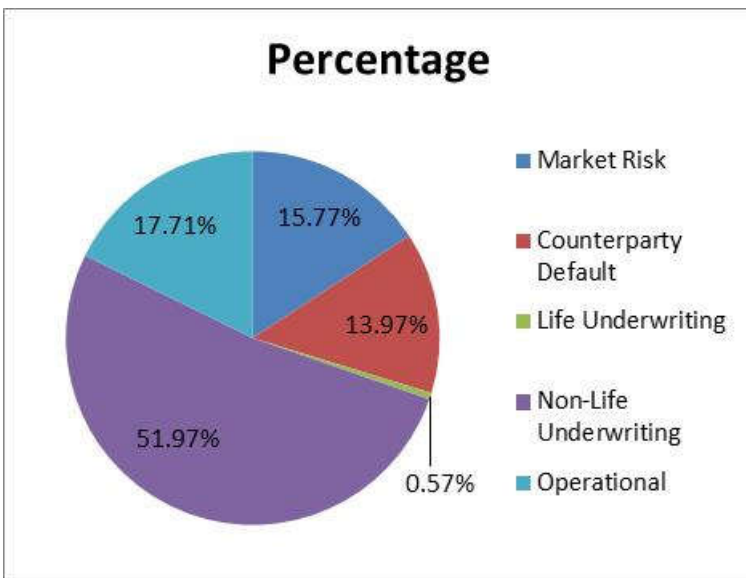
Solvency 2017	Capital Requirement	Eligible Capital
SCR	8,321,557	9,076,603
MCR	3,250,561	8,645,821

The diagram below breaks down the SCR by raw risk charge, without the diversification factor:

2018



2017



The Minimum Capital Requirement ('MCR') and SCR were calculated using the standard formula and the SCR is comprised of the following risk modules:

Risk Module 2018	Capital GBP
Market Risk	1,835,967
Counterparty Default	2,474,734
Life Underwriting	0
Health Underwriting	0
Non-Life Underwriting	5,824,759
Diversification	-2,044,946
Basic SCR	8,090,515
Operational	1,758,341
SCR	9,848,856
Risk Module 2017	Capital GBP
Market Risk	1,628,278
Counterparty Default	1,442,357
Life Underwriting	58,544
Health Underwriting	0
Non-Life Underwriting	5,364,918
Diversification	-1,646,649
Basic SCR	6,847,448
Operational	1,474,109
SCR	8,321,557

No simplified calculations are being utilised within the risk modules, neither are any undertaking specific parameters.

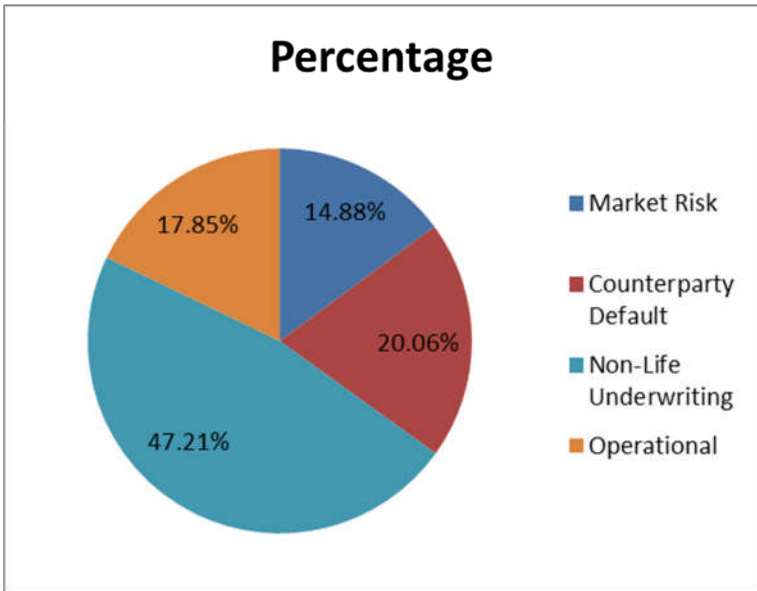
Nelson Insurance

Solvency 2018	Capital Requirement	Eligible Capital
SCR	9,848,854	11,957,468
MCR	3,288,301	11,483,845

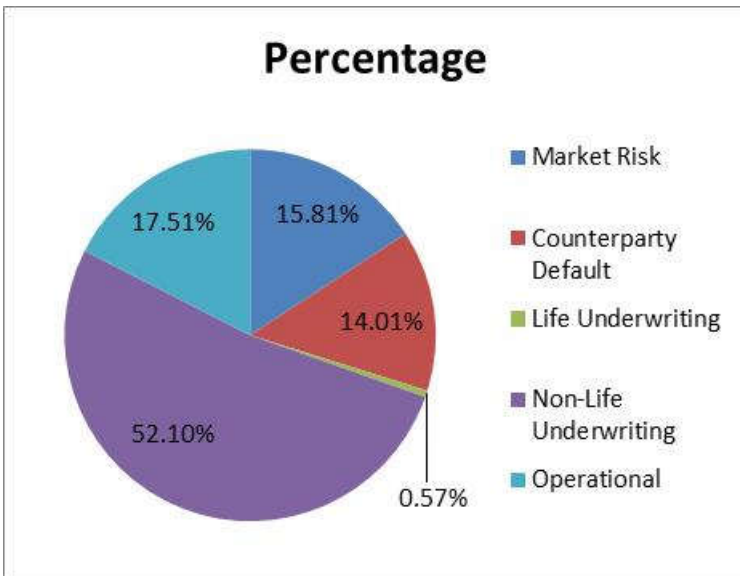
Solvency 2017	Capital Requirement	Eligible Capital
SCR	8,321,554	9,105,169
MCR	3,250,561	8,674,387

The diagram below breaks down the SCR by type of risk:

2018



2017



The Minimum Capital Requirement ('MCR') and SCR were calculated using the standard formula and the SCR is comprised of the following risk modules:

Risk Module 2018	Capital GBP
Market Risk	1,835,967
Counterparty Default	2,474,731
Life Underwriting	0
Health Underwriting	0
Non-Life Underwriting	5,824,759
Diversification	-2,044,945
Basic SCR	8,090,513
Operational	1,758,341
SCR	9,848,854

Risk Module 2017	Capital GBP
Market Risk	1,628,278
Counterparty Default	1,442,352
Life Underwriting	58,544
Health Underwriting	0
Non-Life Underwriting	5,364,918
Diversification	-1,646,648
Basic SCR	6,847,444
Operational	1,474,109
SCR	8,321,554

No simplified calculations are being utilised within the risk modules, neither are any undertaking specific parameters.

Material Change to SCR and MCR over the period

The movement in Solo and Group SCR's between at 31st December 2018 and 31st December 2017 were:

Solvency - 2018	SCR (GBP)	Eligible Capital	MCR
Solo – NICL	9,848,854	11,957,468	3,288,301
Solvency - 2018	SCR (GBP)	Eligible Capital	MCR
Group – Nelson Group	9,848,856	12,034,831	3,288,301

Solvency - 2017	SCR (GBP)	Eligible Capital	MCR
Solo – NICL	8,321,554	9,105,169	3,250,561
Solvency - 2017	SCR (GBP)	Eligible Capital	MCR
Group – Nelson Group	8,321,557	9,076,603	3,250,561

Nelson Insurance Company Limited	SCR (GBP)	Eligible Capital
Movement	1,527,300	2,852,299
Nelson Group	SCR (GBP)	Eligible Capital
Movement	1,527,299	2,958,228

The tables below sets out Nelson Group's balance sheet as at 31st December 2018 and 2017:

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2018	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,839,830	0
Deferred Tax Assets	0	592,028
Investments	23,665,159	23,665,159
Reinsurance share of TP - non-life excluding health	45,737,563	42,066,282
Insurance and Reinsurance Receivables	2,867,710	0
Cash & Cash Equivalents	8,266,753	8,266,753
Any Other Assets, Not Elsewhere Shown	8,342,635	8,206,233
Total assets	91,719,651	82,796,455
Best Estimate – gross claims provision	46,591,168	46,936,849
Best Estimate – gross premium provision	17,963,969	11,674,514
Risk Margin	0	1,164,777
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	808,102	808,102
Total Liabilities	75,540,621	70,761,625
Assets less Liabilities	16,179,029	12,034,831

Nelson Group: GAAP vs SII B/S in SCR Model (GBP) 2017	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,587,237	0
Deferred Tax Assets	0	430,782
Investments	10,904,388	10,904,388
Reinsurance share of TP - non-life excluding health	38,053,178	34,831,692
Insurance and Reinsurance Receivables	2,928,045	0
Cash & Cash Equivalents	13,991,232	13,991,232
Any Other Assets, Not Elsewhere Shown	8,439,749	8,411,896
Total assets	76,903,829	68,569,990
Best Estimate – gross claims provision	38,300,605	39,159,277
Best Estimate – gross premium provision	16,704,184	10,555,256
Risk Margin	0	833,452
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	381,255	381,255
Total Liabilities	63,950,190	59,493,387
Assets less Liabilities	12,953,639	9,076,603

The tables below sets out NICL's balance sheet as at 31st December 2018 and 2017:

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2018	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,839,830	0
Deferred Tax Assets	0	473,623
Investments	23,665,159	23,665,159
Reinsurance share of TP - non-life excluding health	45,737,563	42,066,282
Insurance and Reinsurance Receivables	2,867,710	0
Cash & Cash Equivalents	8,266,681	8,266,681
Any Other Assets, Not Elsewhere Shown	8,368,800	8,232,398
Total assets	91,745,743	82,704,142
Best Estimate – gross claims provision	46,591,168	46,936,849
Best Estimate – gross premium provision	17,963,969	11,674,514
Risk Margin	0	1,164,777
Creditors arising out of insurance operations	1,656,139	1,656,139
Creditors arising out of reinsurance operations	8,521,243	8,521,243
Other creditors including taxation and social security	793,152	793,152
Total Liabilities	75,525,671	70,746,675
Assets less Liabilities	16,220,072	11,957,468

Insurance Subsidiary (NICL) : GAAP vs SII B/S in SCR Model (GBP) 2017	Current Accounting Bases	SII Valuation Principles
Deferred Acquisition Costs	2,587,237	0
Deferred Tax Assets	0	430,782
Investments	10,904,388	10,904,388
Reinsurance share of TP - non-life excluding health	38,053,178	34,831,692
Insurance and Reinsurance Receivables	2,928,045	0
Cash & Cash Equivalents	13,991,151	13,991,151
Any Other Assets, Not Elsewhere Shown	8,455,345	8,427,492
Total assets	76,919,344	68,585,505
Best Estimate – gross claims provision	38,300,605	39,159,277
Best Estimate – gross premium provision	16,704,184	10,555,256
Risk Margin	0	833,452
Creditors arising out of insurance operations	1,596,222	1,596,222
Creditors arising out of reinsurance operations	6,967,924	6,967,924
Other creditors including taxation and social security	368,205	368,205
Total Liabilities	63,937,140	59,480,336
Assets less Liabilities	12,982,204	9,105,169

5.3 Use of duration based equity risk Sub module in SCR calculation

The Nelson Group and its insurance subsidiary do not hold any liabilities that require this approach; therefore the use of this sub-module is not applicable in either the Solo or the Group SCR computation.

5.4 Standard Formula

The Nelson Group and its insurance subsidiary NICL; exclusively used the standard formula for SCR computation purposes.

5.5 Compliance with MCR and SCR during the period

The Nelson Group and its insurance subsidiary NICL were compliant at all times with the MCR and SCR requirements during the reporting period.

5.6 Any Other Information

The Board of NICL regularly reviews and if necessary, amends its business plans in accordance with business developments as they arise.

Section 6: Appendices

Nelson Group	
Templates	Detail
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.23.01.22	Own Funds
S.25.01.22	Solvency Capital Requirement – for groups on Standard Formula
S.32.01.22	Undertakings in the scope of the group

Nelson Insurance Company Limited	
Templates	Detail
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.25.01.22	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only Life or only Non-Life insurance or reinsurance activity

Nelson Limited

Solvency and Financial Condition Report

Disclosures

31 December

2018

(Monetary amounts in GBP thousands)

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	592
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	23,665
R0080	<i>Property (other than for own use)</i>	2,888
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	9,002
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	11,775
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	42,066
R0280	<i>Non-life and health similar to non-life</i>	42,066
R0290	<i>Non-life excluding health</i>	42,066
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	8,267
R0420	Any other assets, not elsewhere shown	8,206
R0500	Total assets	82,796

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	59,776
R0520	<i>Technical provisions - non-life (excluding health)</i>	59,776
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	58,611
R0550	<i>Risk margin</i>	1,165
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	1,656
R0830	Reinsurance payables	8,521
R0840	Payables (trade, not insurance)	0
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	808
R0900	Total liabilities	70,762
R1000	Excess of assets over liabilities	12,035

5.23.01.22

Own Funds

Basic own funds before deduction for participations in other financial sector

R0010	Ordinary share capital (gross of own shares)
R0020	<i>Non-available called but not paid in ordinary share capital at group level</i>
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0060	<i>Non-available subordinated mutual member accounts at group level</i>
R0070	Surplus funds
R0080	<i>Non-available surplus funds at group level</i>
R0090	Preference shares
R0100	<i>Non-available preference shares at group level</i>
R0110	Share premium account related to preference shares
R0120	<i>Non-available share premium account related to preference shares at group level</i>
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0150	<i>Non-available subordinated liabilities at group level</i>
R0160	An amount equal to the value of net deferred tax assets
R0170	<i>The amount equal to the value of net deferred tax assets not available at the group level</i>
R0180	Other items approved by supervisory authority as basic own funds not specified above
R0190	<i>Non available own funds related to other own funds items approved by supervisory authority</i>
R0200	Minority interests (if not reported as part of a specific own fund item)
R0210	<i>Non-available minority interests at group level</i>
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
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities
R0240	<i>whereof deducted according to art 228 of the Directive 2009/138/EC</i>
R0250	Deductions for participations where there is non-availability of information (Article 229)
R0260	Deduction for participations included by using D&A when a combination of methods is used
R0270	Total of non-available own fund items
R0280	Total deductions
R0290	Total basic own funds after deductions
Ancillary own funds	
R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0380	Non available ancillary own funds at group level
R0390	Other ancillary own funds
R0400	Total ancillary own funds
Own funds of other financial sectors	
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies
R0420	Institutions for occupational retirement provision
R0430	Non regulated entities carrying out financial activities
R0440	Total own funds of other financial sectors

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
10	10		0	
0				
5,490	5,490		0	
0	0		0	
0		0	0	0
0				
0	0			
0	0			
0		0	0	0
0				
0		0	0	0
0				
5,942	5,942			
0		0	0	0
0				
592				592
0				0
0	0	0	0	0
0				
0				
0				
12,035	11,443	0	0	592
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0
0				
0				
0				
0	0	0	0	0

S.23.01.22

Own Funds

Basic own funds before deduction for participations in other financial sector

Own funds when using the D&A, exclusively or in combination of method 1

R0450 Own funds aggregated when using the D&A and combination of method

R0460 Own funds aggregated when using the D&A and combination of method net of IGT

R0520 Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

R0530 Total available own funds to meet the minimum consolidated group SCR

R0560 Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)

R0570 Total eligible own funds to meet the minimum consolidated group SCR (group)

R0610 **Minimum consolidated Group SCR**

R0650 **Ratio of Eligible own funds to Minimum Consolidated Group SCR**

R0660 **Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**

R0680 **Group SCR**

R0690 **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**

Reconciliation reserve

R0700 Excess of assets over liabilities

R0710 Own shares (held directly and indirectly)

R0720 Forseeable dividends, distributions and charges

R0730 Other basic own fund items

R0740 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

R0750 Other non available own funds

R0760 **Reconciliation reserve**

Expected profits

R0770 Expected profits included in future premiums (EPIFP) - Life business

R0780 Expected profits included in future premiums (EPIFP) - Non- life business

R0790 **Total Expected profits included in future premiums (EPIFP)**

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0				
0				
12,035	11,443	0	0	592
11,443	11,443	0	0	
12,035	11,443	0	0	592
11,443	11,443	0	0	
3,288				
347.99%				
12,035	11,443	0	0	592
9,849				
122.20%				

C0060

12,035
6,093
0
5,942

0

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	1,836		
R0020 Counterparty default risk	2,475		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	5,825		
R0060 Diversification	-2,045		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	8,091		
	C0100		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	1,758		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes	0		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	9,849		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement for undertakings under consolidated method	9,849		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
R0470 Minimum consolidated group solvency capital requirement	3,288		
Information on other entities			
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510 <i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	0		
R0520 <i>Institutions for occupational retirement provisions</i>	0		
R0530 <i>Capital requirement for non-regulated entities carrying out financial activities</i>	0		
R0540 Capital requirement for non-controlled participation requirements	0		
R0550 Capital requirement for residual undertakings	0		
Overall SCR			
R0560 SCR for undertakings included via D&A	0		
R0570 Solvency capital requirement	9,849		

USP Key

For life underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

For non-life underwriting risk:

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk

S.32.01.22

Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	635400PWD1JX2QL9X028	LEI	Nelson Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	company limited by shares	Non-mutual	
2	GB	6354000MY4NZJGPCPH58	LEI	Nelson Insurance Company Limited	Non life insurance undertaking	company limited by shares	Non-mutual	Gibraltar Financial Services Commission

S.32.01.22

Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
			% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	635400PWD1.JX2QL9XO28							Included in the scope		Method 1: Full consolidation
2	GB	635400OMY4NZJGCPH58	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

Nelson Insurance Company Limited

Solvency and Financial Condition Report

Disclosures

31 December

2018

(Monetary amounts in GBP thousands)

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	0
R0040	Deferred tax assets	474
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	23,665
R0080	<i>Property (other than for own use)</i>	2,888
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	9,002
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	11,775
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	42,066
R0280	<i>Non-life and health similar to non-life</i>	42,066
R0290	<i>Non-life excluding health</i>	42,066
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	8,267
R0420	Any other assets, not elsewhere shown	8,232
R0500	Total assets	82,704

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	59,776
R0520	<i>Technical provisions - non-life (excluding health)</i>	59,776
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	58,611
R0550	<i>Risk margin</i>	1,165
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	1,656
R0830	Reinsurance payables	8,521
R0840	Payables (trade, not insurance)	0
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	793
R0900	Total liabilities	70,747
R1000	Excess of assets over liabilities	11,957

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	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	2009	0	0	0	0	0	0	0	0	0	0	0	0	
R0170	2010	0	0	0	0	0	0	0	0	0		0	0	
R0180	2011	0	0	0	0	0	0	0				0	0	
R0190	2012	0	0	0	0	0	0					0	0	
R0200	2013	936	4,742	2,181	1,684	721	354					354	10,619	
R0210	2014	1,630	5,469	3,143	2,153	1,465						1,465	13,860	
R0220	2015	1,886	6,169	3,605	2,544							2,544	14,204	
R0230	2016	3,288	9,389	4,800								4,800	17,476	
R0240	2017	4,313	12,231									12,231	16,543	
R0250	2018	4,974										4,974	4,974	
R0260												Total	26,367	77,676

Gross Undiscounted Best Estimate Claims Provisions														
(absolute amount)														
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360		
	Development year											Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior												0	
R0160	2009	0	0	0	0	0	0	0	0	0	0	0		
R0170	2010	0	0	0	0	0	0	0	0	0		0		
R0180	2011	0	0	0	0	0	0	0				0		
R0190	2012	0	0	0	0	0	0					0		
R0200	2013	0	0	0	759	664	280					0		
R0210	2014	0	0	8,355	5,133	3,064						0		
R0220	2015	0	6,493	5,126	5,465							0		
R0230	2016	8,465	9,064	5,835								0		
R0240	2017	13,851	17,401									0		
R0250	2018	14,546										0		
R0260													Total	0

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
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
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
5,500	5,500		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
5,984	5,984			
0		0	0	0
474				474
0	0	0	0	0
0				
0				
11,957	11,484	0	0	474

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

11,957	11,484	0	0	474
11,484	11,484	0	0	
11,957	11,484	0	0	474
11,484	11,484	0	0	

9,849
3,288
121.41%
349.23%

C0060
11,957
0
5,974
0
5,984

0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

- R0010 Market risk
- R0020 Counterparty default risk
- R0030 Life underwriting risk
- R0040 Health underwriting risk
- R0050 Non-life underwriting risk
- R0060 Diversification

R0070 Intangible asset risk

R0100 **Basic Solvency Capital Requirement**

Calculation of Solvency Capital Requirement

- R0130 Operational risk
- R0140 Loss-absorbing capacity of technical provisions
- R0150 Loss-absorbing capacity of deferred taxes
- R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
- R0200 **Solvency Capital Requirement excluding capital add-on**
- R0210 Capital add-ons already set
- R0220 **Solvency capital requirement**

Other information on SCR

- 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 Requirements for ring fenced funds
- R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
- R0440 Diversification effects due to RFF nSCR aggregation for article 304

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
1,836		
2,475		
0		
0		
5,825		
-2,045		
0		
8,091		
C0100		
1,758		
0		
0		
0		
9,849		
0		
9,849		
0		
0		
0		
0		

USP Key

For life underwriting risk:
 1 - Increase in the amount of annuity benefits
 9 - None

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

For non-life underwriting risk:
 4 - Adjustment factor for non-proportional reinsurance
 6 - Standard deviation for non-life premium risk
 7 - Standard deviation for non-life gross premium risk
 8 - Standard deviation for non-life reserve risk
 9 - None

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

R0010 MCR_{NL} Result

C0010

2,433

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

0	0
0	0
0	0
14,570	9,660
1,975	1,840
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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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

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 Minimum Capital Requirement

C0070

2,433
9,849
4,432
2,462
2,462
3,288
3,288