THE NEW INDIA ASSURANCE CO LTD

UK BRANCH

Solvency and Financial Condition Report

SFCR

2017-18

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Executive Summary

This document is the Solvency Financial Condition Report ("SFCR") for UK Branch of The New India Assurance Co. Ltd ("NIA - UK" or "the Branch") as at the year ended 31st March 2018. This SFCR covers NIA - UK on a solo basis.

This SFCR provides information on the solvency of NIA - UK (i.e. our ability to pay liabilities, primarily current and future policyholder claims) and additional information on how we manage the financial strength of the Branch.

The report covers the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. The Branch's Executive Management Team ("EMT") has ultimate responsibility for all of these matters and is supported by other control functions in place to monitor and manage the business.

The information in this SFCR is based on the year ended 31st March 2018.

The Branch's reporting and presentational currency is GBP.

Figures are shown in £000's, any minor difference shown in totals are due to rounding.

NIA - UK Background

NIA - UK is majority owned by the Government of India, and operates in the UK as a third country branch of The New India Assurance Co. Ltd. NIA - UK operates out of London and Ipswich, writing both reinsurance contracts and direct insurance.

During November 2017 The New India Assurance Co. Ltd undertook an initial public offering ("IPO") to sell a 14.56% stake in the company and the shares were listed on the National Stock Exchange ("NSE") and the Bombay Stock Exchange ("BSE").

The majority of business written from Ipswich consists of direct operations of UK provincial business combined risks (motor, employer's liability, public liability and property for small-medium enterprises and homeowners).

Business written from London is mainly facultative property and is supplemented by property treaty business.

NIA – UK is authorised by the Prudential Regulation Authority ("PRA"), and jointly regulated by the Financial Conduct Authority ("FCA") and the PRA.

The following is a high-level description of the contents of each section in this document.

A. Business and performance

This section describes business performance and significant events during the year. It also includes details on our structure, how we are regulated and who our auditors are.

During the financial year ending 31st March 2018, NIA - UK completed a gross written premium of £159.0 million (£151.6m in 2016/17) - consisting of £90.7 million (£96.5m in 2016/17) from combined direct operations and £68.3 million (£55.1m in 2016/17) from inward reinsurance operations. NIA - UK strategically wanted to keep a small growth in premium of 5% against that of previous year (10%) in order to actively improve the risk-based capital under the Solvency II regime.

The combined ratio of the overall operations was kept at 99.43% (89.96% in 2016/17) on a net earned basis despite hurricane events and large risk losses. This was possible due to controlled growth in premium, prudence in accepting risks and control of expenses.

B. System of Governance

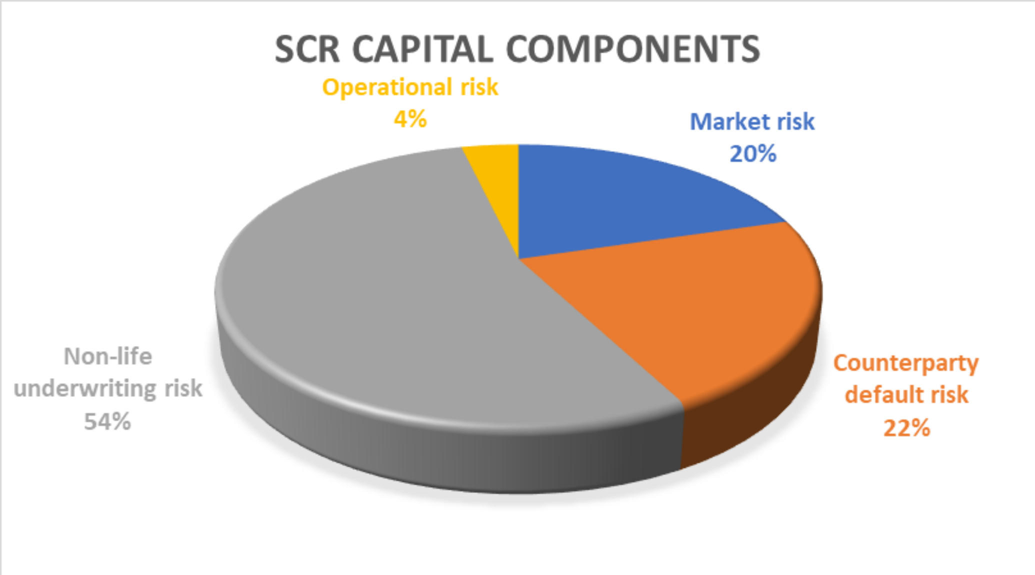
This section outlines our system of governance and risk management framework including details on how the Branch is directed and controlled. We also describe our remuneration policy and practices, and our adherence with the 'Fit and Proper Requirements' when appointing employees to key functions within the Branch.

NIA - UK employs systems of governance which are commensurate with the nature and size of the business, our products and risk profile, through a combination of internal and external knowledge and resources. A key part of NIA – UK's systems of governance is the three lines of defence model. The first line of defence comprises the management of day to day activities, risks and controls and the second line of defence involves the independent oversight of day to day activities and controls implemented by the first line by the risk and compliance team. The third line of defence rests with the internal auditors.

C. Risk profile

This section describes our risk profile, including risk exposures, concentrations, mitigation and sensitivity. NIA – UK's risk profile is stable and generally changes only gradually from year to year. However, the work we do to mitigate and manage risk is enhanced and strengthened each year.

NIA – UK underwrites a well-diversified portfolio of direct insurance and reinsurance operations (Property Facultative and Treaties on proportional and non-proportional basis). The risk categories contributing to our Solvency Capital Requirements ("SCR") are shown in the chart below.



The chart illustrates that non-life underwriting risk and counterparty risk make up the largest portion of the Branch's SCR. The SCR represents the minimum level of capital NIA – UK should hold to protect the business from a 1-in-200 year event over the next 12 months.

In order to help mitigate underwriting risks, NIA - UK maintains a disciplined underwriting philosophy that is supported by risk appetites set at the aggregate level as well as individual class.

NIA - UK also benefits from a comprehensive reinsurance programme that provides protection for both direct insurance and reinsurance business.

NIA - UK undertakes stress and scenario testing to test resilience of the Branch's capital. The results of this analysis showed that the most sensitive part of the SCR is premium/reserve risk element of non-life underwriting risk. Premium/reserve risk for NIA – UK is driven by business growth with corresponding increases in claims. This demonstrates the importance of disciplined underwriting philosophy and controlling growth targets against available capital.

D. Valuation for solvency purposes

In this section, we describe the bases and methods used for the valuation of our assets, technical provisions and other liabilities. The analysis includes a comparison to UK GAAP results and details of any judgements and assumptions made.

NIA - UK holds technical provisions to represent the current amount an insurer would have to pay to transfer of its (re) insurance obligations to another (re)insurer. This therefore represents the amount of money we would hold in reserve for claims and premiums for policies. The technical provisions are comprised of two key elements: the Best Estimate Liability ("BEL") and the Risk Margin ("RM").The BEL is calculated as the probability weighted average of future cash flows discounted back to the relevant balance sheet date using risk free discount rates.

The Risk Margin represents an allowance for the cost of capital necessary to support the policies NIA - UK is obligated to until the final settlement date.

NIA - UK uses the UK GAAP reserves as the starting point for determining the Solvency II technical provisions. Adjustments are made to move from the UK GAAP basis to the Solvency II basis. These adjustments are detailed within Section D2.

E. Capital management

NIA - UK has a strong and stable capital position under SII and our capital (referred to as 'Own Funds' under SII) is of a high quality. This section describes our approach to capital management and includes information on the amount and quality of our eligible Own Funds.

Under Solvency II the own funds of an insurance entity are placed into Tiers 1, 2 or 3 based on their ability to absorb losses, Tier 1 being the most readily available to absorb losses. Below is a summary of the own funds held by NIA - UK and a comparison to the regulatory capital requirements (the amount of capital the Branch is required to hold).

Asset Category (£000's)	31/03/2018	31/03/2017
Tier 1 (unrestricted)	148,812	117,819
Tier 2		
Tier 3 (recognised deferred tax asset)	2,193	8,919

The table below shows the ratio of eligible own funds to the SCR and MCR calculated under Solvency II shown in £000's.

Description	31/03/2018	31/03/2017
Total Assets	333,656	326,361
Total Liabilities	182,651	199,623
Basic Own Funds	151,005	126,738
SCR	110,299	107,598
MCR	27,575	30,345
Ratio of Eligible own funds to SCR	136.90%	117.79%
Ratio of Eligible own funds to MCR	539.67%	388.26%

Overall NIA - UK holds 136.90% of the SCR and 539.67% of the MCR.

Head of Third Country Branch statement

I acknowledge my responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations. I am satisfied that

a. throughout the financial year in question, the Branch has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the NIA - UK;

b. it is reasonable to believe that the Branch has continued to so comply subsequently and will continue to so comply in future.

Girish Radhakrishnan
Head of Third Country Branch Function – UK Branch

Date: 19.07.2018

Auditor's report

Report of the external independent auditor to the Head of Third Country Branch function of The New India Assurance Company Limited, UK Branch ("The Branch") pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion
Except as stated below, we have audited the following documents prepared by The New India Assurance Company Limited, UK Branch as at 31 March 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of The New India Assurance Company Limited, UK Branch as at 31 March 2018, **('the Narrative Disclosures subject to audit');** and

- Branch templates S02.01.02 , S17.01.02, S23.01.01, S28.01.01 **('the Templates subject to audit').**

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Branch templates S05.01.02;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report **('the Responsibility Statement').**

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of The New India Assurance Company Limited, UK Branch as at 31 March 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Conclusions relating to going concern

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

- the Head of Third Country Branch function's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the Head of Third Country Branch function have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Branch's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter — Basis of Accounting

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

Other Information

The Head of Third Country Branch function is responsible for the Other Information.

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

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

Responsibilities of Head of Third Country Branch function for the Solvency and Financial Condition Report

The Head of Third Country Branch function responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Head of Third Country Branch function is also responsible for such internal control as he determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report[1]

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

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

This report is made solely to the Branch's Head of Third Country Branch function, as a body, in accordance with rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms. Our audit work has been undertaken so that we might state to the Branch's Head of Third Country Branch function those matters we are required by the rules to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Branch and the Branch's Head of Third Country Branch function as a body for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of The New India Assurance Company Limited, UK Branch's special purpose financial information solely for consolidation reporting purposes. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Grant Thornton (UK) LLP
Statutory Auditor, Chartered Accountants
London
12 July 2018

The maintenance and integrity of The New India Assurance Company Limited, UK Branch website is the responsibility of the Head of Third Country Branch Function; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. Business and Performance

A.1 Business

A1.1 Name and legal form of the undertaking

New India Assurance Branch Limited ("NIA - UK") operates as a Third Country Branch undertaking of The New India Assurance Co. Ltd ("NIA – India"), an insurance company based in Mumbai, India.

The London Branch of UK operations is located at:

36 Leadenhall Street,
London,
EC3A 1AT.

This Solvency and Financial Condition Report ("SFCR") covers NIA - UK on a solo basis only.

The New India Assurance Co. Ltd is majority owned by the Government of India, and operates in the UK as a third country branch

The Branch's external auditor is Grant Thornton (UK) LLP and their head office is located at:

Grant Thornton,
30 Finsbury Square,
London,
EC2A 1AG.

A1.2 Business Strategy

NIA - UK has had a long-term presence in the UK market dating back to 1920 and has been operating as a branch since 1985. During this time, the annual gross written premium ("GWP") from general insurance and trading from the Lloyd's desk has grown to over £159 million.

NIA - UK continues to develop our standards of products and services, thereby broadening and strengthening relationships with existing customers and brokers, while all the time attracting new business and new customers.

NIA - UK's products in direct operations include business combined, office and surgeries, hotels, pubs and guesthouses, wholesale and manufacturers, shops and restaurants, care homes and residential and commercial properties. Motor and Householders' business products are serviced through Managing General Agents ("MGAs").

The London Facultative team has written business for nine decades considering a wide range of occupancies with a preference for medium sized industrial risks. A small portion of direct business is also written on a co-insurance basis including waste/recycling risks.

NIA - UK's reinsurance operations and Lloyd's desk are run from our London office and our box at Lloyd's. This business includes Property Facultative and Inward Treaties on a proportional and non-proportional basis.

NIA - UK's key strategies are to:

- provide excellent customer service;
- continue to offer a comprehensive product range to customers;
- continue to develop products and service standards, thereby broadening and strengthening relationships with existing customers and brokers;
- continually attract new business and new customers;
- maintain AM Best credit rating of A- and strive to get this upgraded;
- maintain an adequate Solvency ratio in excess of 100%, and to hold sufficient capital to provide at least a 99.5% level of confidence that policyholder liabilities will be met;
- continue the long-term presence in the UK;
- maintain and develop lasting relationships and goodwill with clients, brokers and intermediaries; and,
- continue to establish our identity as a dependable security and service provider.

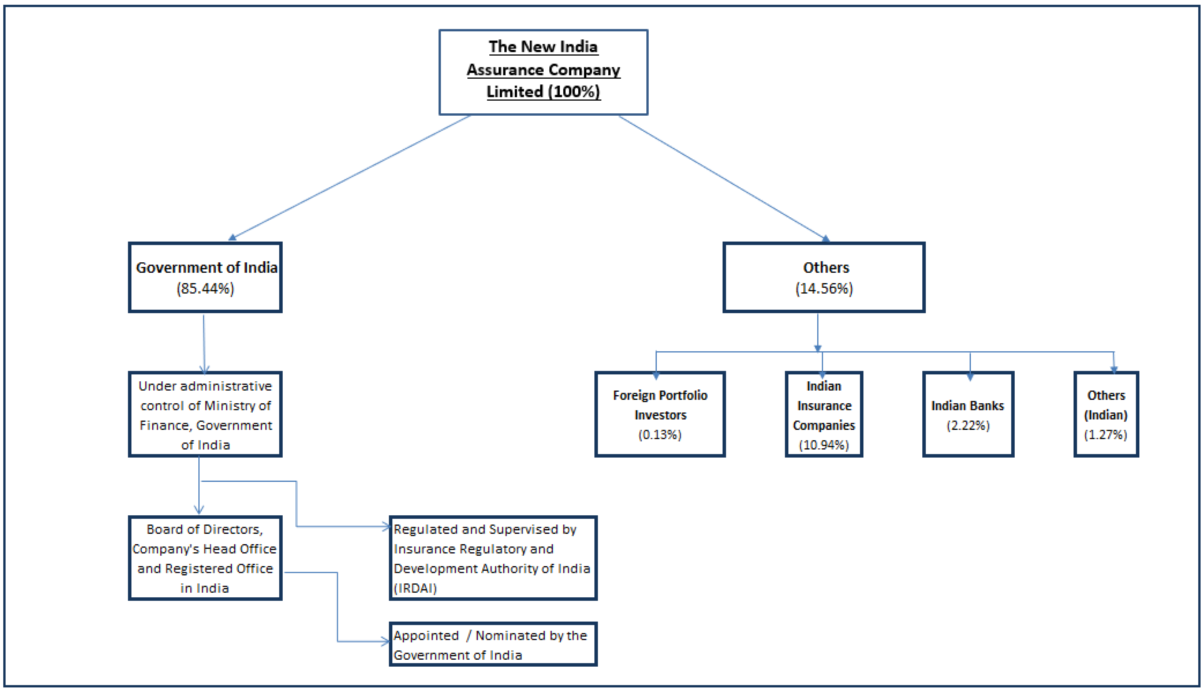
NIA - UK's long-term presence in the UK market provides a secure, solid base from which to continue to develop and direct a diverse range of insurance interests.

A1.2 Material Subsidiaries

NIA – UK does not have any subsidiaries.

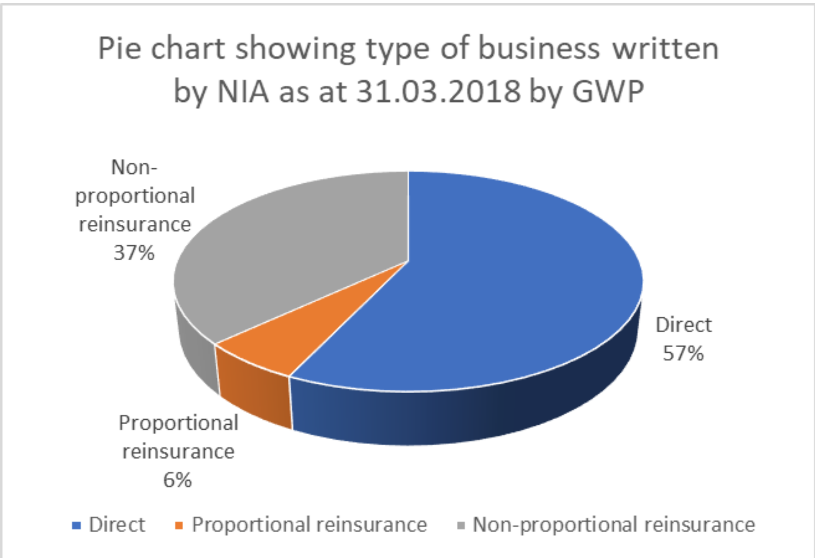
A1.3 Legal Structure

The chart below shows the structure of the ownership and legal links that affect NIA - UK. NIA – India is owned majority by the Government of India. NIA – India is regulated by Insurance Regulatory and Development Authority of India (IRDAI).

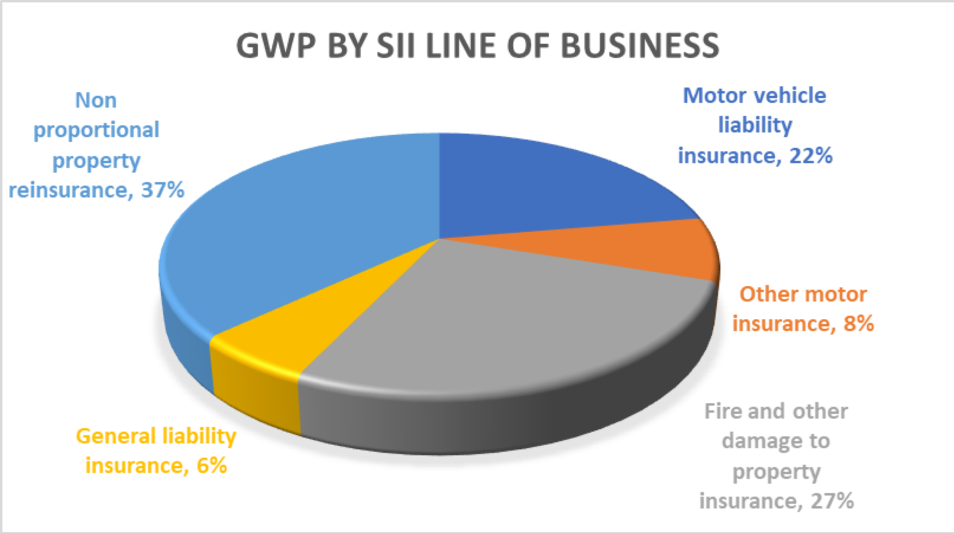


Strategy and portfolio: NIA - UK's strategy is to achieve long-term book value growth commensurate with the NIA - India objective of being a global property/casualty general insurer of choice, maximising the benefits of the local UK presence and global service and writing products in all territories.

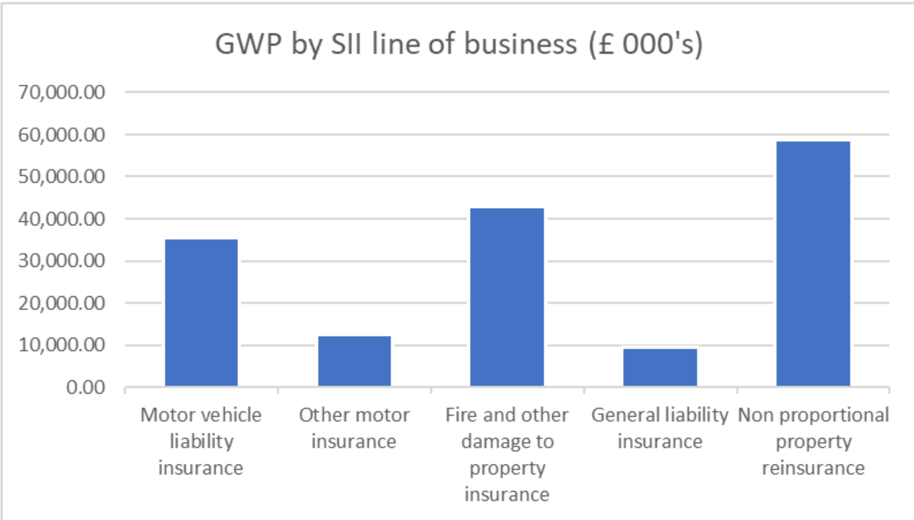
Premium income distribution by type of business and then by Solvency II line of business is shown in graphs below.



Direct business consists of motor and property business written out of London and Ipswich.



No new classes of business were underwritten by the Branch in the year ended 31st March 2018. The chart below shows GWP split by Solvency II line of business:



A1.4 Business Performance 2017/18

The following table provides details of key performance indicators under UK-GAAP for NIA – UK for the years ended 31st March 2018 and 2017 in £000's.

UK GAAP Performance Indicators (£000's)	2017/18	2016/17
Net Earned Premium	109,384	110,213
Underwriting Profit/Loss	1	12,545
Net Combined Ratio	99.43%	89.60%
Investment Return	4,975	5,523
Investments/cash deposits	250,688	277,875
Investment yield	2.00%	2.00%
Investments/Cash deposits	250,688	277,875
Total Assets	410,462	396,347
Proportion of Investments/Cash of Total Assets	61.00%	70.00%
Opening equity of NIA - UK	170,285	140,269
Profit/Loss for period	(4,099)	25,059
Net funds received/paid from Branch Head Office	(4,472)	4,957
Closing equity of NIA - UK	161,714	170,285

The increased combined ratio (99.43%) was mainly driven by:

- Catastrophe events like Hurricane Irma, Maria and Harvey
- Large losses from Motor and Property business
- These losses were protected by comprehensive reinsurance programmes.

The total value of investments/cash deposits held is reduced compared to the previous year due to settlement of Hurricane losses and large risk losses. There continues to be a healthy composition of investments and cash deposits within total assets. However, investment yields continue to be affected by macroeconomic conditions and the low interest rate environment. Despite the small underwriting profit for the financial year, there is a net loss for the year under UK GAAP which is due to exchange rate fluctuations due to macroeconomic uncertainties affecting currencies in which NIA – UK transact/hold deposits.

A.2 Underwriting Performance

A.2.1 Underwriting Performance

Net results by Solvency II line of business shown in £000's:

2017/18	Motor Vehicle Liability Insurance	Other Motor Insurance	Proportional Fire & Other Damage to Property*	General Liability Insurance	Non Proportional Property Reinsurance**	Total
Written Premium	35,493	12,471	42,784	9,483	58,808	159,039
Earned Premium	35,013	12,302	45,742	9,740	54,415	157,212
Incurred Claims	28,807	10,121	32,893	4,947	46,302	123,070
Underwriting Margin	6,206	2,181	12,849	4,793	8,113	34,141

* 80.64% relates to direct business (83.84% 2016/17) and 19.36% relates to proportional reinsurance (16.16% in 2016/17) based on gross earned premiums.
** 40.48% (45.12% in 2016/17) relates to facultative and 59.52% (54.88% in 2016/17) to treaty non-proportional reinsurance.

Type of business by gross written premium shown in £000's:

2016/17	Motor Vehicle Liability Insurance	Other Motor Insurance	Proportional Fire & Other Damage to Property*	General Liability Insurance	Non Proportional Property Reinsurance**	Total
Written Premium	34,325	12,060	49,095	10,208	45,935	151,623
Earned Premium	30,264	10,633	52,093	10,500	41,431	144,921
Incurred Claims	25,640	9,009	26,822	9,591	18,372	89,434
Underwriting Margin	4,623	1,624	25,271	910	23,059	55,487

2017/2018	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Recoverable Balances £000	Underwriting Profit/Loss under UK GAAP £000
Proportional	9,501	8,857	10,635	1,880	789	(2,869)
Non-Proportional	58,808	54,415	46,302	11,832	8,591	4,872
Direct - Ipswich	90,730	93,939	66,133	28,469	(713)	(1,376)
Total	159,039	157,211	123,070	42,181	8,667	627

2016/2017	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Recoverable Balances £000	Underwriting Profit/Loss under UK GAAP £000
Proportional	10,498	9,657	5,566	1,810	324	1,957
Non-Proportional	48,302	43,771	21,948	10,804	9,273	1,746
Direct - Ipswich	92,824	91,496	61,921	31,144	(1,256)	(313)
Total	151,623	144,924	89,434	43,757	8,341	3,390
Change in equalisation provision						**9,155**
Underwriting Profit						**12,545**

A.2.2 Underwriting GWP by geographical area.

Region	Assumed Treaty	Direct / Assumed Facultative
United Kingdom	3%	74%
North and South America	31%	6%
Europe	31%	3%
Africa and Middle East	1%	4%
Asia and Australia	16%	5%
Caribbean	12%	6%
Worldwide	6%	2%

For more details and the breakdown of the Premiums, Claims and Expenses please refer to Annual Return Template 05.01.

The performance has been in line with the branch's existing policies and projections. Apart from fulfilling the branch's policy requirements, we have also shown a modest growth of 5% in GWP in 2017/18.

A.3 Investment Performance

Investment Strategy: NIA – UK's investment strategy is built around the following objectives:

- Maintaining sufficient liquidity to meet likely obligations;
- Generating investment income to enhance and supplement the profitability of UK operations;
- Ensuring preservation and safety as well as the value of the investments; and
- Growing the value of the investments through capital appreciation.

The long-term objective is to achieve an average annual investment return of 2.5 - 3%.

The investment results for 2017/18 under UK GAAP are shown below:

Asset Category (000's)	Total Income
Cash, Bank and Deposits	5,020
Corporate Bonds	49
Government Bonds	31
Total	5,100

Market value of investments as at 2017/18 (£ 000's)	Market Value	Income
Income from debt securities	4,333	80
Income from deposits with credit institutions and cash at bank and in hand	255,340	5,020
Total	259,673	5,100

Deposits with credit institutions are primarily money market instruments held in Indian banks based in the United Kingdom. These accounts are denominated in Sterling, Dollars and Euro with the purpose of paying claims in the required currency based on regional exposure.

NIA - UK currently holds £4.3 million in investments through a Fund Manager. This portfolio is regularly monitored and tracked with periodic statements from the Fund Managers and NIA - UK still retains the option to provide more funds at any time up to £25 million.

A.4 Performance of other activities

NIA - UK does not receive any material income other than that received from its underwriting and investment performance.

NIA - UK has no financial or operating lease arrangements, as lessor.

As lessee, the Branch utilises office space in both London and Ipswich which are held under operating leases. The latter are not treated as assets under current UK GAAP reporting.

A.5 Any other information

No other significant business or other events have occurred over the reporting period that have had a material effect on NIA - UK.

NIA - UK does not consider there is any other material information to disclose on its business and performance.

B. System of Governance

B.1 General information on the System of Governance

NIA – UK's System of Governance provides a framework through which the Branch's risks are adequately directed and controlled. The system comprises a clear organisation structure, transparent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it might be exposed and an adequate internal control mechanism all of which promote effective risk management.

NIA - UK maintains a Governance Map as required by the PRA's Senior Insurance Managers Regime that shows the distribution of responsibilities of individuals for the systems of internal control of the Branch and the holders of specific responsibilities.

The Executive Management Team ("EMT") is satisfied that the system of governance as set out in the Governance Map, is adequate and appropriate for NIA - UK.

B1.1 The Executive Management of the Branch

The EMT is responsible for the governance and control of the Branch. In fulfilling these responsibilities, the EMT considers the relationships between risk, return and capital. These include amongst other things setting and overseeing the following:

- Business strategy
- Capital management
- Risk management
- Organisation structure
- Branch policies
- Remuneration
- Internal control framework

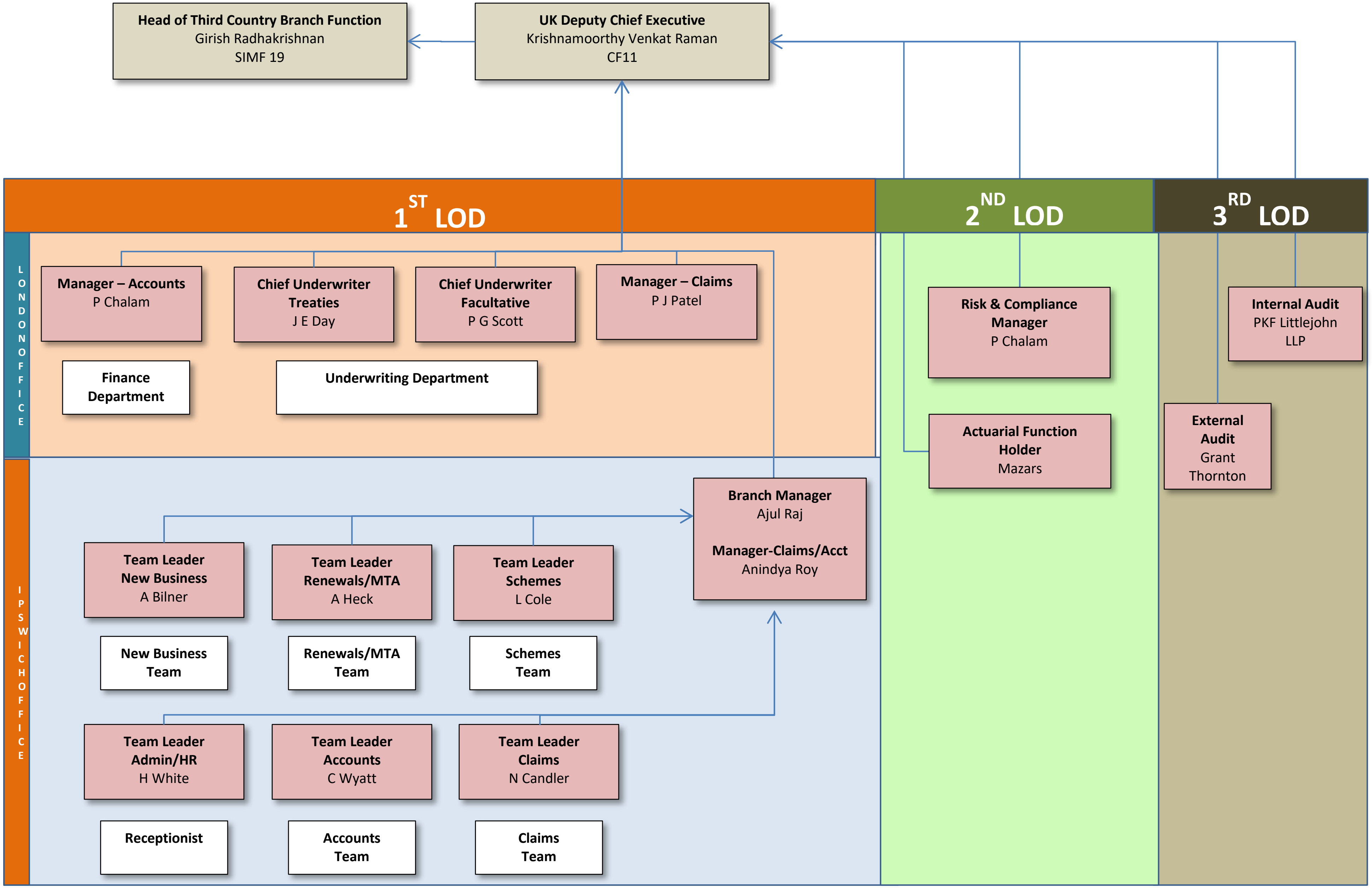
The EMT sets appropriate policies and assesses what constitutes a sound system of risk management and internal control in the particular circumstances of the Branch. In doing this, consideration is given to the following:

- The nature and extent of the risks facing the Branch
- The likelihood of the risks concerned materialising
- The Branch's ability to reduce the incidence and impact of the risks that do materialise
- The costs of operating particular controls relative to the benefit obtained in managing the related risks

B1.2 Structure of Governance Arrangements

The system of governance is considered to be appropriate for NIA - UK, taking into account the nature, scale and complexity of the risks inherent in the business.

The governance of the Branch is managed within the three lines of defence model as per the following chart:


Head of Third Country Branch Function
Girish Radhakrishnan
SIMF 19
UK Deputy Chief Executive
Krishnamoorthy Venkat Raman
CF11
1ST LOD
2ND LOD
3RD LOD
LONDON OFFICE
Manager – Accounts
P Chalam
Chief Underwriter
Treaties
J E Day
Chief Underwriter
Facultative
P G Scott
Manager – Claims
P J Patel
Finance
Department
Underwriting Department
IPSWICH OFFICE
Branch Manager
Ajul Raj
Manager-Claims/Acct
Anindya Roy
Team Leader
New Business
A Bilner
Team Leader
Renewals/MTA
A Heck
Team Leader
Schemes
L Cole
New Business
Team
Renewals/MTA
Team
Schemes
Team
Team Leader
Admin/HR
H White
Team Leader
Accounts
C Wyatt
Team Leader
Claims
N Candler
Receptionist
Accounts
Team
Claims
Team
Risk & Compliance
Manager
P Chalam
Actuarial Function
Holder
Mazars
Internal Audit
PKF Littlejohn
LLP
External
Audit
Grant
Thornton

Governance Management Functions

Mr Girish Radhakrishnan holds the PRA Senior Insurance Management Function of Third Country Branch Manager (SIMF19) and is supported by Mr Krishnamoorthy Venkat Raman.

Executive and Management Responsibilities

The senior members of the Executive and Management team are as follows:

- G. Radhakrishnan (Head of Third Country Branch Function Office – UK Branch)
- K. V. Raman (Deputy Chief Executive – UK Branch)
- A. Raj (Branch Manager Ipswich)
- A. Roy (Manager Ipswich)
- J. E. Day (Treaty Underwriter)
- P. G. Scott (Facultative Underwriter)
- P. J. Patel (Manager – Claims)
- P. Chalam (Manager - Accounts and Compliance)

In addition to the primary focus on risk and capital, the EMT manages the ongoing business and affairs of NIA – UK. This includes:

- Approving the strategy, plans and budgets of the Branch;
- Ensuring that the Branch has adequate systems of internal control and reporting;
- Ensuring compliance with regulatory requirements and overseeing the Own Risk and Solvency Assessment process (“ORSA”).
- Ensuring adequate risk and liquidity management procedures are in place.
- To effectively oversee the operations of the loss reserving function of the Branch.
- To control and manage the underwriting and reinsurance matters of the Branch and, where appropriate, to liaise with the claims team on claims.
- To develop the Branch culture and standards in relation to the day to day management of the Branch, carrying on the business, and also in the behaviours of the staff;
- To maintain independence, integrity and effectiveness of the Branch’s policies and procedures on whistleblowing and protect members of staff who raise concerns, from detrimental treatment.
- Ensuring adequacy of the Branch’s remuneration policies and procedures.

External Audit

The External Auditors are Grant Thornton LLP (”Grant Thornton”) who report directly to the Head of Third Country Branch on UK matters and NIA – India for group reporting purposes.

Responsibilities of the External Auditor

Grant Thornton conduct the non-statutory audit of the relevant elements of the Solo SFCR in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) including ISA (UK) 800 and ISA (UK) 805, and applicable law except for in respect of evaluating the overall adequacy of presentation.

In accordance with the ISAs (UK), Grant Thornton will communicate certain matters related to the conduct and results of the audit to those charged with governance. Such matters include:

- Grant Thornton’s responsibility under the ISAs (UK) for forming and expressing an opinion on the relevant elements of the Solo SFCR that have been prepared by management with the oversight of those charged with governance and that such an audit does not relieve management and those charged with governance of their responsibilities.
- An overview of the planned scope and timing of the audit including the type of work to be performed on the Solo SFCR.

- Any other findings on non-relevant components will be communicated to the management as a part of the audit.

Written representations requested from management and significant matters, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

B.1.2 Changes to the Governance Structure During the Year

NIA – UK has modified the governance structure during the financial year 2017/18 to include.

- PKF Littlejohn LLP - as internal auditor for 2017/18
- Appointing Mazars LLP to act as Solvency II advisors and also to calculate Solvency II technical provisions/UK GAAP reserves. Previously technical provisions/UK GAAP Reserves were calculated by Willis Towers Watson. Mazars actuary also play the role of Actuarial Function Holder of NIA - UK.

B.1.3 Remuneration Policy

The Remuneration Policy applies to all employees.

The purpose of the Remuneration Policy is to document the Branch's approach in setting remuneration for management and employees. The adoption of the Branch's Remuneration Policy and practices, which are fair, competitive and promote sustainable performance over the long-term, is a key responsibility of the EMT. In addition, the EMT ensure that the Branch's remuneration practices do not promote excessive risk taking but do promote sound risk management.

The Branch's Remuneration Policy supports the business strategy, objectives, values and long-term interests by aligning the objectives and incentives of staff with financial and non-financial performance.

The purpose of the NIA – UK's Remuneration Policy is to ensure that compensation practice:

- Reflects the risk strategy, profile and management practices
- Remains aligned with the Branch's' long-term business objectives, plan and strategy
- Promotes the Branch's culture and values
- Attracts, retains and motivates competent, experienced and skilled employees
- Minimises the risk of inappropriate behaviour, and
- Serves the best interests of the Branch, NIA – India, and its clients

The EMT is responsible for:

- Approving the Remuneration Policy
- Oversight of compensation practice to ensure that compensation is in line with the business plan and strategy.
- Recommending compensation of all staff.
- When appropriate agreeing any bonus payments to employees.
- Agreeing the terms of any staff benefit schemes
- Ensuring salary reviews and bonus payments are consistently applied throughout the Branch
- Ensuring employee performance in respective area(s) of responsibility is reviewed, monitored and assessed in a consistent manner across the organisation
- Communicating performance of overall units and individual employees under their respective areas of responsibility

Considering organisational and individual performance and ratifying actions to be taken within the annual compensation processes including promotional, merit and cost of living adjustments.

B.2 Fit and Proper Requirement

B.2.1 Processes

NIA - UK has put in place practical guidance on what the Branch needs to do in order to ensure all Relevant Employees of NIA – UK meet the Fit and Proper Standards set out in the Solvency II Directive and required by the PRA and FCA.

B.2.2 Relevant Employees

The following are NIA – UK's "Relevant Employees"

<u>Branch Executive and Management</u>

- Head of Third Country Branch
- Deputy Chief Executive – UK Branch
- Branch Manager - Ipswich
- Manager - Ipswich
- Chief Underwriter – Treaties
- Chief Underwriter – Facultative
- Manager – Accounts & Compliance
- Manager – Claims

<u>Key managers:</u>

Key Function Holders and others in key functions ("Key Managers") include persons who are responsible for the high-level decision making and formulating the strategies and policies of NIA - UK.

- Head of Third Country Branch
- Deputy Chief Executive – UK Branch
- Branch Manager - Ipswich
- Manager – Ipswich
- Chief Underwriter – Facultative
- Chief Underwriter - Treaties

Details of SIMFs, Key Function Holders and others in key functions are included within the NIA - UK Governance Map, which is reviewed and updated when required. Any changes to personnel included within the scope are advised to the NIA - UK supervisor via submission of the Governance Map.

All the required personnel meet the fit and proper requirements provided by the regulatory policies governing these functions.

B.2.3 Minimum Requirements of Key Persons

NIA – UK has implemented appropriate assessments to ensure that Relevant Employees meet the following minimum requirements both at appointment and on an on-going basis:

- Appropriate competence and capability, taking into account professional qualifications, training, knowledge and relevant experience including understanding of regulatory requirements to enable sound and prudent management (fit); and
- Propriety, taking into account reputation, financial soundness and personal characteristics such as integrity and transparency (proper).

B.3 Risk Management System, including Own Risk Solvency Assessment

A fundamental part of NIA – UK's risk management system is the development, implementation and maintenance of a risk management register ("the Risk Register"). The fundamental objectives of the Risk Register are to:

- Improve decision making by ensuring risk is considered in the formulation and implementation of business strategies so that they are designed to achieve an optimum balance between capital, risk and reward.
- Allow the identification of business activity where risks may arise and effectively manage those exposures to a level consistent with the Branch's risk appetite.

In addition, NIA – UK has put in place policies for key risks faced by the Branch which consequently represent the areas of focus for strategic business decisions and risk management activities.

The NIA – UK EMT holds ultimate responsibility for the effectiveness of the system of risk management including the related policies that provide additional process and governance.

B.3.1 Risk Strategy and Policies

The Branch's Risk Management Policy defines the key risk principles with regard to risk management within NIA - UK and also the categories of risk faced by the Branch.

The supporting policies approved by the EMT, set out how risk is managed, procedures and tasks to be undertaken, the implications for capital, risk appetite and frequency of stress testing. It is Branch policy that relevant scenario and stress tests are to be completed at least annually. Furthermore, ad hoc stress tests are to be considered when it is anticipated that the risk profile of the Branch may significantly change or at any time at the direction of the EMT.

B.3.2 Risk Management Function

Key risks are regularly identified taking the top 5 risks per residual risk rating. These are managed by adopting the following risk mitigation methods:

- Tolerate/Accept – acknowledge the existence of a particular risk and make a deliberate decision to accept it without engaging in special efforts to control it.
- Terminate/Avoid – adjust requirements or constraints to eliminate the risk
- Treat/Control – implement actions to minimise the impact or likelihood of the risk
- Transfer – reassign organisational accountability, responsibility, and authority to another stakeholder willing to accept the risk

Roles and Responsibilities:

The Head of Third Country Branch and the Deputy Chief Executive are responsible for monitoring the business performance, risk profile and risk management framework to promote:

- Compliance with this and the other risk processes;
- Operation within NIA - UK's risk appetite and stated risk limits;
- Identification of any breaches (or potential breaches) of the Risk Management Policy and risk limits, appropriate escalation and the development of corrective plans;
- The identification of changes to the operating environment as early as possible so that appropriate changes to risk strategy, risk appetite and risk limits can be made in a timely manner;
- Ensuring that controls are effective and efficient in both design and operation;
- Obtaining further information to improve risk assessment; and
- Analysing and learning lessons from events, changes, trends, successes and failures.

B.3.3 Integration of the Own Risk and Solvency Assessment into the Business

At least on an annual basis, NIA – UK completes an Own Risk and Solvency Assessment ("ORSA").

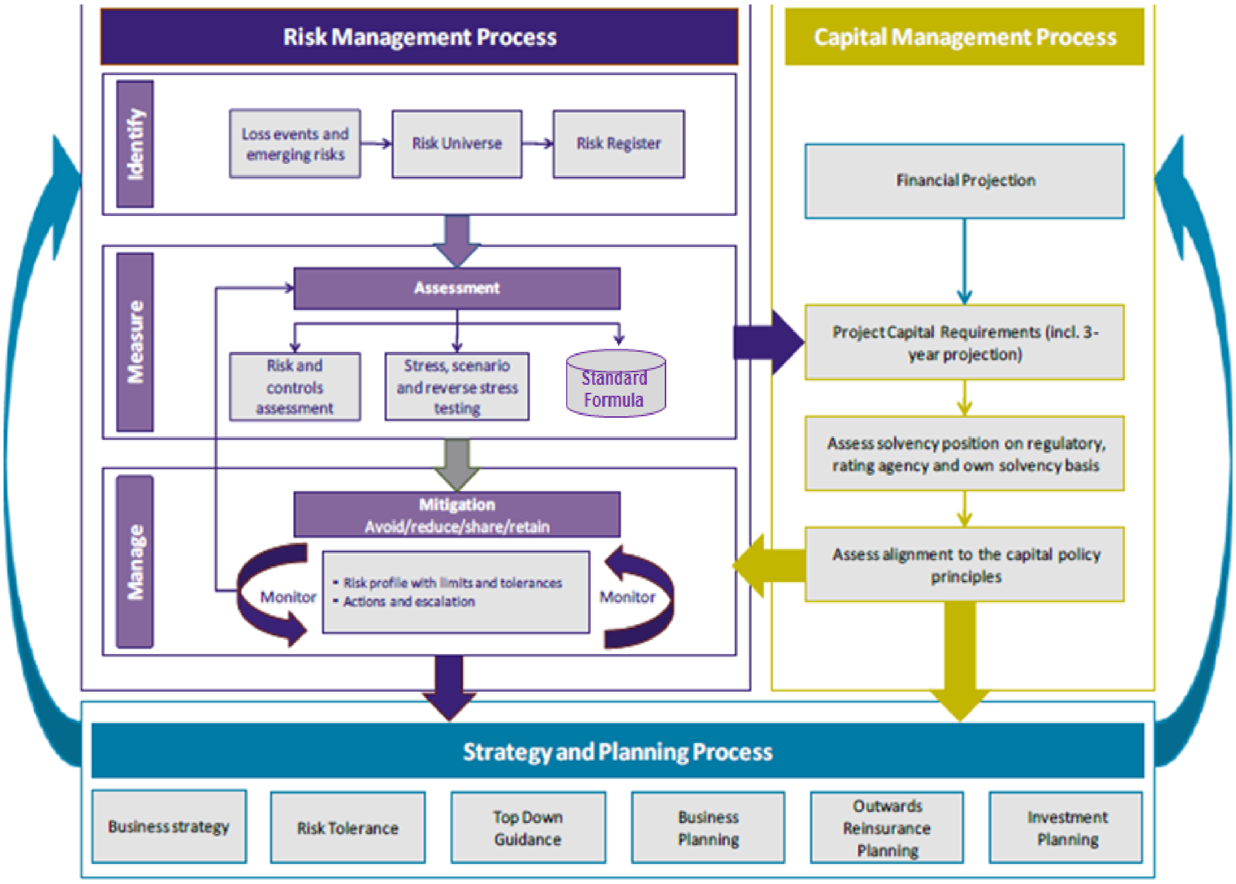
In performing the ORSA, the EMT takes responsibility for considering risk, capital and return within the context of the Branch's business strategy on a forward-looking basis. The main elements of the ORSA include the business strategy, an assessment of the risk profile, risk tolerances and an assessment of the Branch's solvency requirements.

The ORSA process performed by the NIA - UK considers all relevant Branch risks and establishes an "own view" of capital requirements for the Branch. These requirements are calibrated to a confidence level not less than 99.5% over a 1-year horizon. The "own view" process first considers all key risks relevant for the Branch and then considers the appropriateness of the Solvency II Standard Formula with regard to its suitability in determining "own view" capital requirements.

Stress testing is also completed regarding the Branch's resilience to withstand both plausible and extreme shocks over the planning horizon. The ORSA forms an integral part of the strategic assessment process and the medium-term planning process by taking a holistic view on relevant risks that threaten the achievement of strategic objectives in relation to future capital needs. NIA - UK monitors risk metrics with a view to ensuring continuous compliance with capital requirements. These metrics are focused on the key drivers of risk and risk capital and allow early identification of any potentially significant capital events.

The EMT directs the ORSA process, determining the selection and calibration of stresses, challenging the results and considering the ORSA report for approval. Key Branch decisions are considered from an ORSA perspective on an ongoing basis.

A diagram illustrating the overall process of the ORSA is set out below:



Risk Management Process

Risk management and the processes that form part of it enable the identification, measurement, monitoring and the management of risks on a continuous basis. These processes capture all risks, including those not part of the capital requirement, and enable NIA - UK to understand all risks that it is exposed to at any point in time.

The NIA – UK risk management process consists of the following three elements:

- The continual identification of risks and the assessment of mitigating controls including an assessment of the design and effectiveness of the controls. This also includes an assessment of the likelihood of the risk occurring and the potential impact to the Branch if the event was to occur. This is measured for both inherent and residual risk taking into account the mitigating controls.
- The measurement and the quantification of risks (risk and capital modelling): NIA – UK does this through a combination of modelling techniques, stress and scenario testing and qualitative analysis, using relevant internal and external data.
- The management and monitoring of the risks is used to improve how the business is managed and controlled and allows for the development, modification and delivery of the business plan.

The risk management policy (and associated risk policies) provides background on the key processes that embed risk management into NIA - UK along with setting out and defining each material category of risk.

The risk management process includes the implementation of the Risk Register and demonstrates the link between the identification and assessment of the risks NIA - UK is exposed to, the controls and mitigation actions taken to manage those risks, quantification of the risk profile and monitoring alignment with the desired risk appetite. As well as considering the current position, it also includes the forward-looking risk profile over the 3-year business planning period.

Risk Identification and Assessment

Risk Register

The risks faced by NIA - UK and entities are identified and set out in the Risk Register using the following categories:

Category	Description
Risk ID	Unique identifier and risk number
Risk category	Classification of risk
Risk Sub Category	Further classification of the risk category and defines the process risks.
Department	The specific NIA – UK department to which the risk is classified
Risk Description	Description of the risk
Strategic Owner	Individual responsible for strategic goal or objective at risk
Functional Risk Owner	Owner of understanding risk and executing mitigation
Inherent Risk	The risk to the organisation in the absence of controls measured on a likelihood -v- severity score
Current Oversight, Monitoring or Executive Controls	The mitigating controls that are in place to minimise the likelihood or the impact of the risk.
Residual Risk	The risk to the organisation taking into account the mitigating controls. Measured on a likelihood -v- severity score
Risk Impacts	Areas of the business to classify the categories impacted if the risk was to occur including financial, infrastructure, reputational & marketplace
Control Effectiveness	A measurement on the effectiveness of the current controls

Control Gap / Recommendations / Mitigation Measures	Any additional controls that may be required to reduce the risk
Remediation deadline	What is the deadline to implement further remediation controls
Maximum Loss Estimate (MLE)	An estimation of the impact should the risk be triggered measured by financial, infrastructure, reputational and marketplace impact

Emerging risks and loss events

Emerging risks are identified and assessed. Loss and near loss events are also identified. There are separate logs for recording emerging risks and loss events information. One such emerging risk is the potential failure to comply with the recent implementation of General Data Protection Regulation (GDPR) which came into effect on 25th May 2018. In order to mitigate this risk, NIA - UK have recognised the seriousness of GDPR and have proactively taken steps to be GDPR compliant. NIA – UK is on track to ensure compliance as per the laid-out timelines. GDPR is a regulation on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA). It also addresses the secure export of personal data outside the EU and EEA areas. The GDPR aims primarily to give control to citizens and residents over the usage of their personal data.

Risk Quantification

Risks are quantified using 3 tools:

- The Solvency II Standard Formula
- Risk and controls assessment
- Stress and Scenario testing

The Solvency II Standard Formula Model

The Standard Formula model is used to quantify risk and calculate capital requirements. This includes regulatory and business requirements which are used to project capital for future time periods. The risks identified as part of the risk universe are mapped to the Standard Formula which creates a risk profile for NIA - UK.

The Standard Formula is governed by policies and processes to ensure the model is well controlled, appropriately validated, fit for purpose and adequately reflects the risk profile. The model is used to calculate the baseline SCR and 3-year projection of cash flow, balance sheet and Solvency II capital requirements

The non-quantifiable risks are assessed qualitatively and the explanation of why no capital requirement is necessary is documented in the risk mapping. If the risk is assessed as requiring a capital charge it will be included in the final capital management actions.

Risk and controls assessment

The effectiveness of the controls is assessed using qualitative analysis which evaluates the level of residual risk after the application of the relevant mitigating controls. The emerging risks and operational risk events and near-misses are also tracked as part of risk and controls assessment.

Stress and scenario testing

Stress and scenario analysis is performed annually unless there is a change in the business plan and/or risk strategy. The analysis is used to assess the risk, capital and solvency position under stressed conditions considering a specific event and a combination of events. The stress and scenario tests are specific to NIA – UK's risk exposures and are linked to the risk appetite. The EMT provides input for the overarching scenarios and reviews and approves the results of stress and scenario testing.

NIA – UK and Mazars have defined and used various scenarios and stress test analysis to test the adequacy of the Branch's underwriting risk capital resources. The information below summarises some of the key stresses considered and the impact on underwriting risk capital.

a) Stress Test: Business growth faster than planned with a corresponding increase in claims

Rationale: The largest risk component to NIA – UK relates to premium/reserve risk, therefore NIA – UK stressed the largest contributing business lines to stress business growth faster than expected with a corresponding increase in claims from FAC, Treaty, and Liability business.

Premium growth was increased by 10%, with a corresponding increase in claims at an assumed loss ratio of 50% on new business, with an increase in reserves held against the increased volume of business. It was seen that this stress resulted in the largest impact to the SCR and demonstrates the importance of disciplined underwriting philosophy and controlling growth targets against available capital. NIA – UK maintains strict underwriting controls to ensure growth targets are kept within available capital and NIA – UK actively monitors the emergence of this risk on a regular basis.

b) Stress Test: Expenses increase faster than expected

Rationale: The value of future unpaid liabilities are sensitive to future expenses, NIA – UK therefore stressed the impact if management, claims department overheads, and run-off expenses on unpaid claims were to increase faster than expected.

The stress scenario was based on the following increases: claims department overheads increased by 5%, management expenses increased by 2% and run-off expenses as a percentage of gross unpaid claims increased to 6%.

Excess capital reduces due to the valuation of unpaid liabilities increasing in relation to available capital. Expenses are closely monitored and if this scenario were to begin manifesting, management actions would be taken to rectify this much sooner than within three years demonstrated in the scenario.

c) Stress Test: Impact of a bank counterparty default

Rationale: NIA – UK maintains liquidity by holding a significant proportion of assets in cash, therefore the impact of a bank default on our ability to meet policyholder liabilities with a confidence level of 99.5% was investigated.

Our stress scenario simulated the impact of an Indian State-owned bank failing, and it resulted in a decrease of solvency capital by 10%. However, as the bank is subject to guarantee by the Government of India, this is considered to be an extremely remote possibility.

Risk Monitoring and Reporting

Risk Appetite and Tolerance Setting

The Head of Third Country Branch and Deputy Chief Executive set the risk appetite and tolerance limits that define the amount of risk the Branch is prepared to accept for each of its major risks. This is set out in the Risk Appetite statement and is periodically monitored. Any breaches/near breaches are highlighted and management actions taken in response.

Risk Profile

The output from the Standard Formula is reviewed to monitor whether the probability distributions and SCRs generated, adequately reflect the risk profile of NIA and entities. Deviations against the risk profile and limitations are identified and reported in line with the use of the model.

Risk and controls assessment

The risk and control assessment that forms part of the Risk Register is monitored on an on-going basis and any issues arising are reported to the EMT. This includes reporting of any operational loss and near-miss events. The emerging risks are considered as part of the assessment of the future risk profile.

The Capital Management Process

The assessment of overall solvency needs reflects NIA - UK's view of capital required taking into account risk exposure, risk appetite and business strategy.

To ensure on-going capital adequacy of current and future (3 year projected) capital positions are calculated as part of the capital management process. The capital adequacy will be assessed on each of the bases below:

- Regulatory – Solvency II Capital ratio
- Internal Measures – management capital and capital principles

The capital management process is continuous and, in accordance with the Branch capital management policy, the capital requirements of NIA - UK, while being regularly monitored, are fully assessed annually or when a change in strategy, or an event occurs that has the potential to impact NIA - UK's capital adequacy.

Capital Management Policy

The Capital Management Policy sets out the amount of capital NIA - UK needs to hold. The economic capital for the Branch is set with reference to the overarching solvency risk tolerance as agreed by the EMT. Economic capital for the Branch also includes a capital buffer. NIA - UK's target is to hold capital in excess of 100% to ensure policyholder liabilities are met with a confidence level of at least 99.5%.

Capital Assessment

The Standard Formula is used to calculate regulatory and management capital requirements. This includes Standard Formula SCR and forms the basis for management capital. Capital Allocation Ratios ("CARs") are also produced and these are used to project capital requirements for the future planning period.

The EMT signs-off the Standard Formula results that are used for the capital setting purposes.

Solvency Monitoring

The financial projections are updated where appropriate and include the P&L and balance sheet over 3 years. This data forms the basis of the Standard Formula run and also provides the capital available (own funds) in order to assess the solvency position.

The capital update is undertaken at least annually by the Finance Team to allow for solvency monitoring. The Head of Third Country Branch and Deputy Chief Executive review this information to monitor the solvency position and risk appetite of the Branch. This process ensures continuous compliance with regulatory capital requirements on an ongoing basis.

Strategy and business planning (business processes)

Strategy and business planning is carried out on an annual cycle. High level strategy is set initially and then detailed planning is carried out in stages throughout the year. The following are examples of these key business decisions.

Strategy

The long term high level strategy is reviewed for the coming year, taking into account market conditions and internal and external factors. Any amendments to the overall strategy are agreed by the Head of Third Country Branch and the Deputy Chief Executive.

Risk strategy and tolerance

The Branch risk strategy sets out the tolerance for each risk and is expressed in terms of risk metrics. These are set by the Head of Third Country Branch and the Deputy Chief Executive to define the risk profile that the business must operate to.

Detailed business planning exercise

The detailed business planning by class is conducted to refresh the 3-year business plan. The next year of business is planned in detail with higher level versions for years 2 and 3. The capital ratio for each class of business is expressed as a percentage of premium (gross of reinsurance and net of acquisition costs) and sets out the capital required based on the plan.

Detailed Outward Reinsurance planning

After the overall business plan is set, detailed planning of the outwards reinsurance to be purchased is conducted. This is considered on an entity basis by the Head of Third Country Branch, Deputy Chief Executive and Treaty underwriter to manage net risk and to optimise profitability and return on capital. The Branch enhances its risk mitigation insurance programme thereby covering risks by the lines of business and distribution channels. There are different RI programmes bought with different retention limits, which are reviewed periodically by Head of Third Country Branch and Deputy Chief Executive.

Detailed investment planning

Investment planning is reviewed by the Head of Third Country Branch and Deputy Chief Executive. The asset mix is managed within the constraints set out to maximise return on capital in line with the approved risk appetite.

Assessment and ongoing compliance of technical provisions

The reserving process is run at least annually and includes the calculation of Solvency II technical provisions.

The Branch has outsourced the calculation of technical provisions to an independent consultant, Mazars, with whom the assigned Actuarial Function resides. Mazars review the data for internal consistency as part of the reserving/technical provision process, and the branch solvency is audited by Grant Thornton.

Reporting

The ORSA Process is forward looking and therefore an essential input into the production and revision of the strategic direction and business planning for NIA - UK.

The adequacy of capital available is reported by the Finance team to the Head of Third Country Branch and Deputy Chief Executive.

The annual ORSA report builds on this information and summarises annual risk management activity across the key business processes. The report is submitted to the regulator annually or as required by the regulator.

B.4 Internal Control Systems

B.4.1 Overview

The aim of NIA - UK's internal control system ("ICS") is to create a harmonised, comprehensive approach to risk control across all risk types with no overlaps and no gaps. The ICS focuses on effective identification, analysis and assessment, control, reporting and monitoring of all significant risks.

All risks are managed in the manner set out in the NIA - UK Risk Management Policy.

The Head of Third Country Branch and Deputy Chief Executive have ultimate responsibility for the governance, and hence risk management of the Branch. They, with the support of the Internal Audit function, have adopted the three lines of defence to carry out this responsibility as summarised in B.1.2.

B.5 Internal Audit Function

B.5.1 Overview

The internal audit function of NIA - UK was outsourced to PKF Littlejohn (PKF) LLP for 2017/18. Internal auditors independently and objectively reviewed the functions of underwriting, reinsurance and claims handling during the year ended 31st March 2017, and objectively reviewed finance, governance and investment policies during the year ended 31st March 2018. The internal auditors operate in accordance with the NIA - UK Internal Audit Terms of Reference. This allows the Branch access to a wider array of skills to carry out audits of different parts of the business. The Internal Audit Terms of Reference contains the following information on the roles of the internal auditor:

Internal auditors are authorised to:

- Have unrestricted access to all functions, records, property, and personnel relevant to a review.
- Have full and free access to the Head of Third Country Branch and all Relevant Employees.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of NIA - UK where they perform audits, as well as other specialised services from within or outside NIA - UK.

Internal auditors are not authorised to:

- Perform any operational duties for NIA - UK or its affiliates.
- Initiate or approve accounting transactions outside of the internal auditing function.
- Direct the activities of any Branch employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Have direct authority over, or responsibility for, any of the activities reviewed. Management retains full control over the implementation of Internal Audit recommendations.

During 2016/17 internal audit conducted a review of Branch underwriting, claims and reinsurance processes and the report has not identified any material breaches. The recommendations of this report do not demonstrate any critical or high-risk findings. Management consider that claims management procedures are adequate for the size and nature of the business and that they cover the entire cycle of claims.

During 2017/18 internal auditors have reviewed governance, finance and investment policies and the draft report has not identified any material breaches.

Internal Audit provides the EMT with assurance based on the highest level of independence and objectivity within NIA - UK. This is a higher level of independence than is available in the second line of defence. Internal Audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defence achieve risk management and control objectives. The scope of this assurance, which is reported to the EMT includes:

- A broad range of objectives, including effectiveness of controls within operations; safeguarding of assets; reliability and integrity of reporting processes; and compliance with laws, regulations, policies, procedures, and contracts.
- All elements of the risk management and internal control framework, which includes: internal control environment; all elements of an organization’s risk management framework (i.e., risk identification, risk assessment, and response); information and communication; and monitoring.
- All elements related to underwriting, which includes: reviewing policies and procedures documentation, levels of underwriting authorities, delegation and their approval limits.
- All elements related to reinsurance, which includes: policy documentation, reviewing reinsurance purchases made in controlled manner, purchasing authorised programs, contract wordings, reviewing the protection criteria applied before buying reinsurance programs.
- All elements for claims including compliance with claims authority limits, recording of paid and outstanding claims amount, review of claims reserves, due diligence process for appointment and performance of third parties and peer review results.

- Reviewing the Branch governance map for identifying the key individuals with their corresponding responsibilities and reviewing business plan.
- Reviewing the sufficiency of management information and reports provided to executive management and head office, and the effectiveness of communication with key stakeholders.
- Reviewing the established finance procedures, controls, and documentations including expense controls against budgets.
- Reviewing credit control, verification of financial information, and applications of earnings against recorded premium procedures to ensure reconciliation and validation with the relevant individuals and checking to ensure information is prepared on an appropriate basis.
- Reviewing any external regulatory reporting (e.g. Pillar 3 returns) prepared by the finance team which is not subject to external audit review. In particular, consideration of the extent to which manual adjustments and workarounds are used and ensure the adequacy of the controls and that an audit trail exists.
- Reviewing the adequacy of governance in relation to investment risk, and the processes by which investment decisions are taken, documented and controls established by authorised individuals whilst ensuring that mandates are up-to-date.
- Reviewing the process by which NIA – UK establishes and monitors short and long terms cash flow requirements. In relation to cash flow forecasts, the accuracy of data inputs and calculations and the validity of key assumptions used are to be reviewed.

B.6 Actuarial Function

B.6.1 Overview

NIA – UK benefits from the support of the actuarial expertise provided by Mazars LLP (Mazars) for purposes of Solvency II regulatory capital requirements and the calculation of both UK GAAP reserves and Solvency II technical provisions.

The Mazars actuarial team is subject to professional standards set out by the Institute and Faculty of Actuaries ("IFoA") and the Financial Reporting Council.

The actuarial function is kept free of external influence from the EMT, performing all regulated tasks as set out in Solvency 2 Directive: Article 48 and Delegated Acts: Article 272. The actuarial team naturally conduct many other tasks throughout the year. Many of these tasks further the knowledge and involvement of the actuarial team allowing them to fulfil the role of actuarial function more effectively.

The major responsibilities of the actuarial function include:

- Assessing the adequacy of the gross and net held reserves;
- In collaboration with the EMT, assessing the sufficiency and quality of the data used in the calculation of the technical provisions;
- Assisting in the preparation of various financial statements;
- Developing, maintaining, and implementing regulatory capital requirements;
- Providing an opinion on underwriting decisions and pricing; and
- Review of reinsurance arrangements.

B.6.2 Actuarial Contribution to Risk Management

The actuarial function is required to contribute to the effective implementation of the risk management system of NIA - UK, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

This naturally enables a high level of meaningful interaction between the actuarial function and the Head of Third Country Branch and Deputy Chief Executive. Risk management work is documented in an ORSA report which is produced annually. It is shared with the External Auditors and Internal Auditors.

The actuarial function is responsible for the recommendation of the technical provisions to the Head of Third Country Branch and Deputy Chief Executive. This is a key part of the overall governance and risk management framework.

Two aspects of NIA – UK's risk management processes are materially dependent on the technical provisions work conducted by the actuarial function, the calculation of the SCR as well as the assessment of own funds in the Solvency II balance sheet.

B.7 Outsourcing

NIA - UK recognises that outsourcing is a key element of its business and that there are associated risks. The Outsourcing Risk Policy covers the NIA - UK's approach and processes for outsourcing from the inception to the end of the contract.

Outsourced functions, services and activities are subject to the ICS framework in the same way as internal activities.

The way in which the requirements set out in the ICS framework are implemented in each area will vary depending on the type, size and complexity of the inherent risks.

B.7.1 Outsourced Functions

NIA - UK has outsourced the following key functions:

- Internal Audit function outsourced to PKF Littlejohn LLP
- Actuarial outsourced to Mazars LLP
- IT hardware maintenance, email servers and IT Security to Plan- IT
- Investment Management to Investec Wealth & Investment Limited
- Underwriting - of motor and home owners' insurances to MGAs
- Claims of direct business written at Ipswich Branch subject to set norms and controls as per the signed binding authority.

The purpose of Outsourcing Risk Policy is to ensure that all outsourcing arrangements involving any material business activities entered into by NIA - UK are subject to appropriate due diligence, formal approval and on-going monitoring and oversight. The EMT is satisfied the outsourced functions do not materially increase risk to the Branch or materially adversely affect its ability to manage its risks and meet its legal and regulatory obligations.

Although outsourcing may result in day-to-day responsibility for a business activity resting with the service provider, NIA - UK remain fully responsible for discharging their respective regulatory and legal requirements and having effective processes to identity, manage, monitor and report risks and maintain robust internal control mechanisms.

Where a key function is outsourced, a NIA - UK employee with overall responsibility, sufficient knowledge and experience is identified to manage the outsourced function and challenge the performance and results of the service provider.

B.8 Any other information

There is no other information to disclose under this heading.

C. Risk Profile

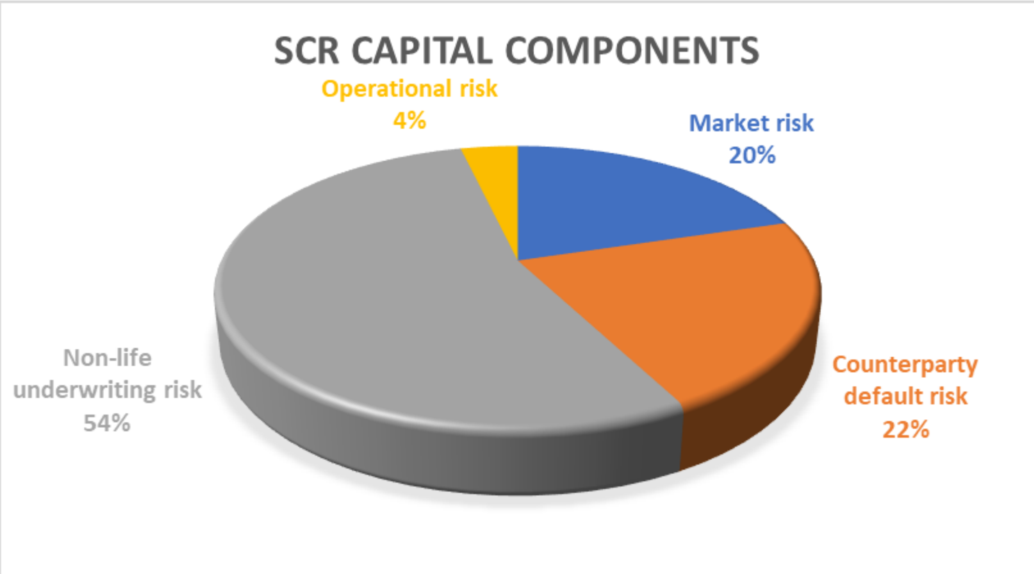
NIA – UK's risk appetite is set to medium to low risk when determining the acceptability and management approach to risk.

NIA - UK will only accept risks appropriate to the scale of its balance sheet and its business objectives within their risk appetite strategy.

NIA - UK continues to manage its business in a sensible, considered, and common-sense manner whilst taking considered and appropriate risks to develop the business and compete successfully against other insurers. Whilst risks to develop the business are necessary, NIA – UK does not take unnecessary or poorly judged risks which are not fully understood by senior management. NIA - UK will therefore act with necessary prudence in its business activities and approach.

Key risks for NIA - UK are direct (and reinsurance) underwriting risks, counterparty, catastrophe and currency risks. All of these risks are currently within NIA – UK's defined risk appetite.

The composition of key material financial risk categories NIA – UK is exposed to is provided in the capital break down below.



Additional non-financial risks (such as IT / cyber risk, reputational risk, strategic risk) are assessed as part of risk management processes.

NIA - UK has developed and continued to enhance its risk appetite in line with its business strategy during 2017/18.

The risk appetite statements are defined by the Head of Third Country Branch and the Deputy Chief Executive to set limits on the amount of risk NIA - UK should accept or tolerate during its daily business activities. The risk appetite is directly linked to business strategy and the principal risks to which NIA - UK is exposed. Any changes to business strategy as a result of the strategic review will be reflected in the risk appetite statements as necessary over the planning period. These will be a mixture of quantitative and qualitative measures.

The current risk appetite of NIA – UK remains the same as 2016/17 which is to continue to maintain moderate growth subject to the following categorised risk tolerances detailed below

Risk Category	Risk Appetite
Non-life underwriting risk	To maintain small growth of GWP by £10m per year and to ensure that the combined ratio shall not exceed 95%
Reinsurance risk	Ensure 100% of RI treaty orders are placed by the renewal period, with A-rated reinsurance counterparties, or as specifically agreed by the Head of Third Country Branch

Risk Category	Risk Appetite
Counterparty risk	Monitor any divergence from sovereign credit ratings with a view to maintain at least BBB rated counterparties (deposits with banks)
Investment risk	To receive an annual return of 2.5-3% consistent with an acceptable level of risk as defined in the risk appetite statement
Liquidity risk	Cash available within 10 days from investments and bank deposits/balances to cover 3 months of claims/management costs, and ensure 75% of its assets are in immediately realisable/readily tradable investments and bank balances
Credit risk	Ensure broker payments are recovered within the credit period (up to 90 days) agreed in a timely manner, and to continue to monitor receivables on a monthly basis.
Reserve risk	Always hold adequate reserves in liquid funds to cover the best estimate of unpaid claim liabilities at any point in time.
Solvency ratio	Targeted solvency ratio in excess of 100%
Reputational Risk	No appetite for Reputational risk
Regulatory Risk	No appetite for Regulatory risk

C.1 Underwriting Risk

NIA – UK aims to maintain small growth of GWP by £10m per year and to ensure that the combined ratio on net earned basis shall not exceed 95%.

The Branch achieves this by maintaining a clear underwriting philosophy that is supported by risk appetites set at the aggregate level as well as individual class and per risk, procedures and controls in relation to pricing, rigorous risk selection criteria and the ability to underwrite a diverse range of risks across multiple classes and geographies. The Branch’s main risk concentration relates to natural catastrophe exposure in Northern Europe (including UK).

Non-life risk

Non-life underwriting risk	**£ 000's**
SCR Non-Life Prem/Res Risk	47,714
SCR Non-Life Cat Risk	46,858
SCR Non-Life Lapse Risk	2,729
Sub total	97,301
Less Diversification	22,484
SCR Non-life risk	**74,817**

NIA – UK assesses these risks by having in place ongoing monitoring and exposure management, assessing individual and aggregate exposures. Exposures are assessed and tracked against risk tolerances and against a range of extreme events and stress tests. Furthermore, ongoing reviews of underwriting activities, including quarterly underwriting performance reviews, pricing adequacy reviews and rate monitoring supplement the oversight framework.

The insurance portfolios of NIA - UK are analysed and managed in order to maintain the most accurate and up to date information regarding asset and liability exposures, in particular with a focus on receiving suitable data to value the future premiums and technical provisions. This analysis enables efficient planning and successful implementation of relevant management actions when needed to value and control the exposures.

The Non-Life Standard Formula for NIA - UK allows for risk mitigation through reinsurance and retrocession programmes. Key features of the reinsurance programme are mentioned below.

- NIA - UK has an enhanced risk mitigation insurance programme which covers risks by the lines of business and distribution channels. There are different reinsurance programmes for the direct business each with different retention limits.
- The Retrocession treaties operate in different territories covering the exposure due to Facultative and Treaty business written worldwide

Current oversight, monitoring and executive controls

Underwriting risk is monitored based on various policies and procedures related to insurance underwriting, reserving and claims. Executive management oversight of controls is achieved via assessment of controls such as:

- Monitoring of attrition rates, conversion rates, retention rates for reinsurance business - both policy numbers and premium.
- Monitoring of target price realisation ratios
- Volatility in insurance portfolio, deterioration in performance of the account to be analysed for pricing adequacy
- Reinsurance business - principles for lead/follow pricing defined and documented.
- Determining factors, considerations for discretionary decisions etc to be included in underwriting - pricing policy
- Actuarial assessment of the adequacy of claims reserves including claims reported/not yet reported to ensure adequate reserves and capital for insurance portfolio and insurance risk management.
- Variations from the business plan are analysed and monitored to mitigate the effect of fluctuations against plan.
- Review and monitoring of outstanding claims
- Large loss management review
- Reinsurance recoveries follow-up

C.2 Market Risk

Market risk refers to the uncertainties arising from market movements a branch may be exposed to in relation to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets.

The Market risks that the branch believes it is exposed to are recorded in the Risk Register, and include risks relating to:

- Changes in interest rates
- Changes in the value of financial market instruments (such as bonds and other financial instruments) including those resulting from changes in credit spreads
- Exchange rate movements

The Branch’s market risk exposure for 2017/18 is indicated below:

Market risk	£ 000's
SCR Interest Rate	1,432
SCR Spread	109
SCR Equities	-
SCR Currency	27,693
SCR Property	-
SCR Concentration	101
SCR Countercyclical	-
Sub total	29,335
Less Diversification	1,220
SCR Market Risk	28,115

Currency risk remains the largest market risk exposure, which is actively monitored with the aim of matching assets and liabilities in respective currencies.

NIA - UK holds significant assets in money market instruments with no exposure to market value volatility albeit subject to credit risk which is monitored by NIA – UK.

The money market instruments are cash accounts held in Indian banks based in the United Kingdom. These accounts are denominated in Sterling, Dollars and Euro with the purpose of paying claims in the required currency based on regional exposure shown in £000's.

Risk Element GBP	2017/18	2016/17	Change
Cash and Deposits	255,340	280,292	(24,952)
Government Bonds	3,512	3,258	254
Corporate Bonds	820	1,113	(293)
Total	259,673	284,663	(24,990)

NIA – UK's Investment Committee reviews, at least annually, the investment strategy which is based on four key principles:

1. Preservation of capital;
2. Increase surplus;
3. Maintain liquidity; and
4. Optimise after tax total return on investments, subject to (1) -(3) above.

NIA - UK considers market risk in conjunction with liquidity risks (Section C4 below) and has developed a strategy to ensure that the Branch can pay its liabilities, including day-to-day cash requirements. NIA - UK aims to achieve this objective by holding investment assets types with highly secured, good quality and liquid nature such as cash and high rated bonds, where appropriate, so that NIA - UK can minimise investment credit risks and liquidity risks and focus its risk management activities to risks resulting from the movements in interest rates and exchange rates.

NIA - UK also seeks to balance the objective of minimising liquidity risk with the objective of obtaining appropriate returns and asset mix given the liabilities. Note that NIA - UK does not create segregated portfolios for asset liability management. Instead NIA - UK aims to manage risks arising from assets and liabilities in a coordinated manner on the whole portfolio. Further objectives of the market risk strategy include managing and controlling risk accumulations within tolerable limits by following risk appetite statements, thereby protecting NIA - UK's capital base and avoiding excessive volatility of the Branch's profits.

Current oversight, monitoring and executive controls

Executive Management has executed the following monitoring controls regarding market risks

- Provisions are made for increases in inflation
- Investments in fixed deposits with regulated banks
- Investments in A+ rated corporate bonds and government gilts
- Not investing in equities
- Regular monitoring of changes in financial markets

C.3 Credit Risk

Credit risk is the risk of loss or of adverse change in NIA - UK's financial situation, resulting from fluctuations in the credit standing of counterparties and any debtors to which NIA - UK is exposed. It includes concentration risk where a significant reliance is place on any counterparty.

Credit risk is assumed whenever NIA - UK is exposed to a loss if another party fails to perform its financial obligations to NIA - UK, including the failure to perform them in a timely manner.

Counterparty Risk	£ 000's
SCR Counterparty Type 1	28,508
SCR Counterparty Type 2	2,503
Sub total	31,011
Less Diversification	581
SCR Counterparty Risk	**30,431**

Counterparties include cedants/brokers, reinsurers, bond issuers and banks with whom we keep our cash balances. There have been no material changes in these assessment measures or in the concentrations and mitigations over the reporting period.

NIA - UK maintains a diversified strategy resulting in the spread of funds over multiple banks and the process of monitoring and reporting cash position to the Head of Third Country Branch.

The Branch continues to seek to reduce counterparty risk by transferring cash from "BBB" rated banks to higher rated banks whilst meeting investment target.

Concentration Risk refers to the risk arising from a lack of diversification by being exposed too heavily to a single counterparty. NIA – UK has established a diversified portfolio in order to manage counterparty risk.

Current oversight, monitoring and executive controls

The Branch is exposed to the following credit risks:

- Risk related to reinsurance company insolvency (resulting in delayed or failed recoveries)
- Third party credit risk materialised due to non-performance of contractual payment obligations

The Branch has put the following controls in place to manage those risks:

- Proactive claims recovery process
- Credit ratings of counterparties reviewed regularly
- Credit collection procedures including continuous follow-up with brokers
- Reinsurers are vetted and minimum credit rating ensured.
- Funds are well spread and no collateral assets held.

C.4 Liquidity Risk

Liquidity risk refers to the risk that the Branch, although solvent, does not have sufficient financial resources available to meet its obligations when they fall due, or is able to meet its obligations only at an excessive cost.

As the majority of NIA - UK's assets are held in short term deposits, the EMT believes liquidity risk to be easily manageable. Liquidity risk monitoring and cash flow forecasting is a key management tool that is performed on an ongoing basis through monthly cash reports.

Stress and scenario testing

NIA – UK has carried out stress and scenario testing as part of its approach to managing liquidity risk. Results have been reviewed by the EMT. NIA - UK does not consider liquidity to be a material risk for the Branch.

Prudent person principle applied to liquidity risks
The investment assets are prudently invested taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities. NIA - UK manages its liquidity risk by maintaining a diversified liquid investment portfolio fit to it business model.

Expected profit included in future premiums

Expected profits included in future premiums (EPIFP) result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received.

To estimate the EPIFP, we used the premiums receivable split out by line of business. We then applied a combined ratio to these premiums to measure the profit contained in them. The combined ratio took into account expense and claims ratios. If this resulted in a negative profit for a LOB, we defined the EPIFP to be 0, as mandated in EIOPA's methodology. We then took the sum over the LOBs to get the total EPIFP.

As at 31 March 2018, the branch total EPIFP was £8,7m.

C.5 Operational Risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including Legal, Strategic and Reputational risks.

The Operational risks that the Branch believes it is exposed to are recorded in the Risk Register.
Not all of NIA - UK's risk exposures are included in the current capital calculation by holding capital. For example, risk exposures associated with reputation, strategic or regulatory are mitigated through a combination of reliance on internal controls, monitoring of the risk management framework and future management actions. Risks which are not considered in capital calculation are not material
Operational risk within NIA – UK considers amongst other risks the following key areas:

- regulatory and legal risks - the risk of legal or regulatory sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice;
- financial crime, including internal and external fraud – this is the risk that the Branch might be used to further financial crime;
- financial and accounting – these are the risks associated with financial reporting and integrity of the financial information;
- people risk – this is the risk that people do not follow NIA - UK's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage the Branch;
- business continuity management – the risk associated with the failure to appropriately manage unforeseen events;
- Cyber/ IT system failures;
- Model risk; - the risk that the output from the models used by NIA - UK is incorrect or flawed due to errors in the design or operation or management's failure to understand the limitations in the output of the models;

- Outsourcing; failures relating to the outsourcing of key activities; and
- External events and other changes; failure to react to changes in the external business environment.

Executive management identify the key risks, causes and consequences together with relevant mitigating controls, within their function/ span of control, on an ongoing basis.

The results of the assessment are recorded in NIA - UK's Risk Register and reviewed by EMT and the Compliance team.

NIA – UK maintains an Operational Risk policy that sets out the approach to mitigating risks arising from Operational Risks. NIA – UK has no appetite for behaviour at any level which could compromise the effective operation of the business model, whether through inadequate or failed internal processes, failure of systems or poor capability of staff.

Key Controls
Key controls that aid in mitigating this risk include (but not limited to):

- Executive Management oversight;
- policies and procedures;
- service level agreements for outsourcing services; and
- purchase of insurances; and underwriting audits performed by internal audit.

NIA - UK does not have any material concentrations of operational risk.

C.6 Other Non-material Risks

Other non-material risks are as below:

C6.1 Emerging Risks

NIA - UK defines an emerging risk as a risk that is believed to have the potential to have a significant impact on the Branch and is newly developing or changing and hence, due to a lack of information, is difficult to quantify. As such, this emerging risk will not be allowed for in historical insurance terms and conditions, historical pricing, reserving and capital setting. These include:

- Underwriting and reserving risks, for example, new types of latent claim or new court rulings.
- Market Risk, for example severe global economic downturn.
- Liquidity Risk, for example as above.
- Operational risks, for example impact of developing regulatory framework e.g. new Prudential Regulatory Authority.

As new and emerging risks can come from a wide range of sources risk owners are assigned throughout NIA - UK. These risk owners are responsible for identification of new and emerging risks relevant to NIA - UK and to assess the implications to the business.

The risk owners maintain a watching brief on new and emerging risks throughout the year, which may include:

- Considering trends in the external environment.
- Attending industry discussion groups.
- Brainstorming sessions with the Risk Committee.
- NIA - UK staff and internal audit raising issues with the relevant risk owner.
- Via a review of qualitative reverse stress testing results, which helps determine additional key risks that would have a material impact on the business.

Once identified emerging risks are initially assessed to determine their significance to the business and stakeholders (both internal and external); potential impact and likelihood to materialise. In addition, the executive management team considers the assessment of correlations with other risks and in relation to NIA - UK's strategy and objectives. The scenario analyses performed will be based on the most severe but plausible worst cases NIA - UK could face and take into account any second order effects that may arise.

Any new or emerging risks are then tabled at the quarterly EMT meetings to ensure that all risks are captured and appropriate response strategies are put in place. Any new or relevant emerging risk is added to NIA - UK's Risk Register and, if applicable, the response strategy is recorded in the Risk Reduction Plan. NIA - UK can decide to accept the risk, monitor the risk or respond to it through mitigation or leverage actions. The risk response depends on NIA - UK's risk appetite, impact of the risk assessment on NIA - UK's risk profile including any opportunity potential.

C.7 Any other information

As at 31st March 2018 NIA – UK have opened letters of credit ("LCs") to the tune of £3.87m through Bank of India against the fixed deposits held with them. These LCs were opened as required by the brokers while treaty claims having exposure at US territories were reported to NIA – UK. These LCs will be closed as and when the corresponding claims are settled by NIA – UK.

NIA – UK does not consider there is any other material information to disclose on its Risk Profile.

D. Valuation for Solvency Purposes

Solvency II Balance Sheet as at 31 March 2018

Basis of preparation

NIA - UK's Solvency II balance sheet is prepared as at 31st March 2018. The balance sheet is prepared in compliance with the Solvency II Regulations.

The preparation of the balance sheet in accordance with Solvency II requires the use of estimates and assumptions. It requires a degree of judgement in the application of Solvency II principles described below.

Valuation differences between the Solvency II and UK GAAP balance sheets.

Solvency II requires a hierarchy of valuation methods to be applied to value assets and liabilities on the Solvency II balance sheet, as set out below:

1. The use of quoted market prices in active markets for the same assets or liabilities.
2. Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities are used, with adjustments made to reflect factors specific to the asset or liability.
3. Where the criteria above are not satisfied, alternative valuation methods are used, which make maximum use of relevant market inputs (adjusted for factors specific to the asset or liability under valuation). To the extent that observable inputs are not available, use is made of unobservable inputs reflecting the assumptions that market participants would use (including assumptions about risk in the valuation technique).

NIA – UK considers its policy on the fair value of investments to be consistent with the hierarchy of valuation methods required for Solvency II.

NIA - UK's investment portfolio as at 31st March 2018 contains only investments that are valued at fair value. There are accordingly no differences in valuation relating to financial investments between NIA - UK's Solvency II and UK GAAP balance sheets, with the exception that the value of investments in the Solvency II balance sheet includes interest accrued since the last coupon payment, compared to the presentation in financial statements which is accounted for separately within accrued interest.

NIA - UK defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants as at the measurement date.

Unless otherwise stated, the Branch's valuation principles have been consistently applied to all the periods presented.

The Solvency II balance sheet is presented in GBP, being the Branch's presentational currency. The Branch operates in the three main currencies of GBP/EUR/USD. All transactions in currencies different from GBP are translated into GBP at the actual rate prevailing on the date of transactions. Assets and liabilities resulting from transactions denominated in foreign currencies are translated at the local closing exchange rate.

For valuation of financial investments instruments, NIA – UK uses the investment manager, Investec Wealth & Investment Limited, although it maintains the responsibility that the methodology used and information provided by investment manager meets the objectives of fair value determination.

D.1 Assets

The table below summarises for each material class of assets, the value of the assets of the Branch according to Solvency II provisions together with the values of the assets recognized and valued on a Branch accounting basis as at 31st March 2018, shown in £000's.

		Solvency II value	Branch management accounts value
	Assets	C0010	C0020
R0020	Deferred acquisition costs		14,892
R0040	Deferred tax assets	2,193	0
R0060	Property, plant & equipment held for own use	121	121
R0070	Investments (other than assets held for index-linked a	253,012	244,029
R0130	*Bonds*	4,333	4,282
R0140	*Government Bonds*	3,512	3,493
R0150	*Corporate Bonds*	820	789
R0200	*Deposits other than cash equivalents*	248,680	239,747
R0270	Reinsurance recoverables from:	65,800	80,268
R0280	*Non-life and health similar to non-life*	65,800	80,268
R0290	*Non-life excluding health*	65,800	80,268
R0360	Insurance and intermediaries receivables	2,781	52,420
R0380	Receivables (trade, not insurance)	2,827	2,827
R0410	Cash and cash equivalents	6,660	6,660
R0420	Any other assets, not elsewhere shown	262	9,245
R0500	**Total assets**	333,656	410,462

There is no structural mismatch between assets and liabilities. The line of business written by NIA - UK are predominantly short tailed. The assets held are invested in cash and bonds, which are generally accepted assets to back those liabilities. To any extent that currency and duration is mismatched, we believe it has been adequately assessed in the appropriate risk modules of standard formula. There are no relevant risk-mitigating techniques, such as derivatives, used by NIA - UK on asset-liability management.

D1.1 Financial instruments

Basic financial assets, including trade and other receivables, cash and bank balances, bonds and similar debt instruments are recognised at Fair Value.

Valuations are based on quoted prices that are readily and regularly available in an active market, hence valuation of these instruments does not entail a significant degree of judgment.

Financial assets are derecognised when:

(a) the contractual rights to the cash flows from the asset expire or are settled; or

(b) substantially all the risks and rewards of the ownership of the asset are transferred to another party; or

(c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

NIA – UK's main assets are held in deposit other than cash equivalents followed by a significant amount in cash and cash equivalent. The Branch continues to deploy a conservative investment strategy with only £4.3m invested in fixed income instruments despite the agreed capacity to invest £25m in bonds and equities.

NIA - UK has no investments in equities as we currently have no appetite for equity risk.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses which is an approximation of market value.

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Receivables and payables are recognised at the amount expected to be received or paid when due.

The presentation of (re)insurance receivables and payables on the Solvency II balance sheet differs from Branch financial statements, since (re)insurance receivables and payables for financial reporting purposes include accrued premiums and claims which are included in Technical Provisions in the Solvency II Balance Sheet.

Other Receivables (Trade not Insurance)

The valuation and presentation of NIA - UK's other receivables and payables, in the Solvency II balance sheet, is consistent with the treatment for NIA - UK's internal financial reporting.

D1.2 Intangible Assets

The Branch has no intangible assets.

D1.3 Lease Assets

There are no lease assets.

D1.4 Valuation of Participations

The Branch owns no subsidiary companies or participations.

D1.5 Deferred Tax Assets

All of the differences between the Solvency II and GAAP balance sheets would give rise to a timing difference. After adjusting for the tax provision, the difference in the balance sheets is that the net assets under Solvency II are reduced by £12.1m for deferred tax purposes which, at 17%, gives rise to a deferred tax asset of £2.2m.

NIA - UK has historically generated an underwriting profit and profit due to investment income over the past five years including the year ending 31st March 2018. It is also observed that the difference between budgeting by the Branch and the actual performance of the Branch is not significantly different. The future business plans of the Branch are conservative and forecast a profit. As a result, the EMT consider it is probable there will be taxable profit to support the recognition of the deferred tax asset.

D.2 Technical Provisions

General Principles

NIA - UK holds technical provisions to represent the current amount a (re)insurer would have to pay to transfer of its obligations to another (re)insurer. This therefore represents the amount of money we would hold in reserve for claims and premiums for policies. The technical provisions are comprised of two key elements: the best estimate liability and the risk margin.

The best estimate liability corresponds to the probability-weighted average of future cash flows including policyholder's benefit payments, expenses, and premiums related to existing insurance and reinsurance contracts taking into account the time value of money (i.e. by discounting these future cash flows to present value). The calculation of the best estimate liability is based upon up-to-date reliable information and realistic assumptions. The cash-flow projection used in the calculation includes all the cash in- and out-flows required to settle the insurance and reinsurance obligations over their lifetime, whilst taking into account all bound but not incepted business ("BBNI") as at 31st March 2018, and legally obliged reinsurance contracts in effect between 31st March 2017 and 2018.

The best estimate liability gross of reinsurance is modelled, as well as the reinsurance recoverables resulting in a best estimate liability net of reinsurance ("BEL"). For the determination of recoverables from reinsurance contracts an adjustment is made for expected losses due to counterparty default through a reinsurance bed debt reserve. The best estimate liability is calculated using standard actuarial methods with method selection varying according to class of business, loss category and age of development. The two key assumptions feeding into the BEL outputs are the development pattern and initial expected loss ratio (“IELR”). Consideration is given to adding in further loads for Events Not in Data (“ENIDs”).

Each class of business is considered separately with each class being segregated into homogeneous risk groups with projections carried out in respect of each class to consider all cash in-flows and out-flows discounted as at the year end. The risk margin is defined as the cost of non-hedgeable risk, i.e. a margin in addition to the expected present value of liability cash flows required to manage the business on the basis of transferring the liabilities to a willing buyer in an arms’ length transaction. It is deemed to be the present value of the cost of future economic capital requirements for non-hedgeable risks.

The risk margin represents an allowance for the cost of capital necessary to support the policies NIA - UK is obligated to at the valuation date over their lifetime. It is calculated by taking 6% of future capital requirements attributable to the policies and discounting back to the relevant balance sheet date using risk free discount rates.

The cost of capital is a premium over the risk-free rate that represents the reduction in economic "value" (cost) linked to the risks considered.

The preparation of NIA – UK Solvency II Technical Provisions has been undertaken by Mazars LLP in accordance with the applicable principles of Technical Actuarial Standards (“TAS”) 100 and TAS 200 as issued by the Financial Reporting Council.

Technical Provisions split by Solvency II class

A breakdown of the Technical Provisions, split by Solvency II reporting class is given below, shown in £000’s.

SII Line of Business	Gross Best Estimate	Risk Margin
Motor Vehicle Liability	44,302	2,187
Other Motor Insurance	5,513	272
Proportional Fire & Other Damage to Property	32,739	1,616
General Liability Insurance	29,336	1,448
Non-Proportional Property Reinsurance	57,519	2,839
Total	**169,407**	**8,362**

The best estimates are calculated at a reserving classes as per UK GAAP, we have used appropriate assumptions and methodologies to derive the best estimate. The reserves are then mapped into Solvency II classes. The bases, assumptions and methodologies used by UK GAAP and Solvency II valuations are consistent with each other.

The Motor Vehicle Liability, Other Motor Insurance and General Liability Insurance classes of business directly map to the UK GAAP reserving classes and are all in GBP as they relate to the Ipswich business.

The motor premiums have to be split for reporting purposes and the premiums are allocated in line with ultimate claim amounts for liability and own damage components.

Ipswich Property maps directly into Proportional Fire & Other Damage to Property and is also all in GBP.

London Direct, Facultative and Treaty have been split between the two Solvency II classes; Proportional Fire & Other Damage to Property and Non-Proportional Property. The allocation is based on proportion of the outstanding reserves. The London book has also been split by currency which is based on the proportion of each currency of the outstanding reserves.

Although both insurance and reinsurance business are underwritten, there are no dependencies between these classes.

The base methodology for calculating the losses on earned exposure is the same as is carried out for UK GAAP calculations. The allocation of currency of the London business is done in line with the split of the outstanding claims for attritional IBNR and in line with the case estimates for catastrophe IBNR.

The losses on the unearned exposure are calculated by using the UK GAAP ultimate loss ratios (by reserving class) on the unearned business. This approach is different to last year, where the ultimate loss ratios used for unearned exposure were more cautious than the corresponding ultimate loss ratios used for earned exposure.

Bound but not incepted ("BBNI") business has been projected in line with the most recent underwriting/accident year GAAP loss ratios for London/Ipswich business respectively.

Future reinsurance costs have been allowed for in terms of recoveries and premiums/costs to be paid. This has been allocated to GAAP reserving class and then converted to Solvency II class in line with other items above.

Another area in which the technical provisions deviate from the GAAP provisions is in the inclusion of a provision for events not in the data ("ENID"). This is calculated using a truncated log-normal distribution based on number of exposure years, which was judgmentally selected for each Solvency II line of business. The methodology used last year was based on a fixed loading approach, we believe the approach used this year is more appropriate to the classes of business written.

The Solvency II expenses are derived from historic expense figures. An expense amount was taken forward as an annual provision and scales down in line with the run off of the claims reserves. Last year, the expense assumption included the entire cost of underwriting and management overheads, however this year the assumption only includes the costs related to the run off of all the policies already bounded as at 31 March 2018.

The risk margin was calculated in line with the principles above. The allocation by line of business was calculated by allocating the risk margin in line with the Best Estimate of Liabilities. The differences in the assumptions used in risk margin methodology compared to last year's valuation are as follows:

- Last year, the SCR run off includes the catastrophe and lapse risk after the first year, compared to this year where the catastrophe and lapse risk is assumed to be fully run off after one year
- Last year, the run off pattern applied to the SCR was based on the square root of the run off payment of the technical provisions. This year the run off pattern is assumed to be the run off payment of the technical provisions.

Technical Provisions are all Non-life. There are no Life Technical Provisions relating to Periodic Payment Orders or "PPOs". The table below summarises the Branch's liabilities under Solvency II as at 31 March 2018, shown in £000's:

		Solvency II value	Branch management accounts value
	Liabilities	C0010	C0020
R0510	Technical provisions - non-life	177,769	237,881
R0520	*Technical provisions - non-life (excluding health)*	177,769	237,881
R0530	*TP calculated as a whole*	0	
R0540	*Best Estimate*	169,407	
R0550	*Risk margin*	8,362	
R0820	Insurance & intermediaries payables		5,987
R0840	Payables (trade, not insurance)	4,882	4,882
R0900	**Total liabilities**	182,651	248,750

Uncertainty Associated with the Value of Technical Provision

The main sources of uncertainty in the valuation of the technical provisions are around the assumptions used for:

- Uncertainty on the claims performance (both number and severity). From the UK GAAP reserve review we estimated, using traditional stochastic reserving techniques, that the 75th percentile reserves lied circa 22% above the best estimate reserves; and
- Uncertainty on the level of expenses.

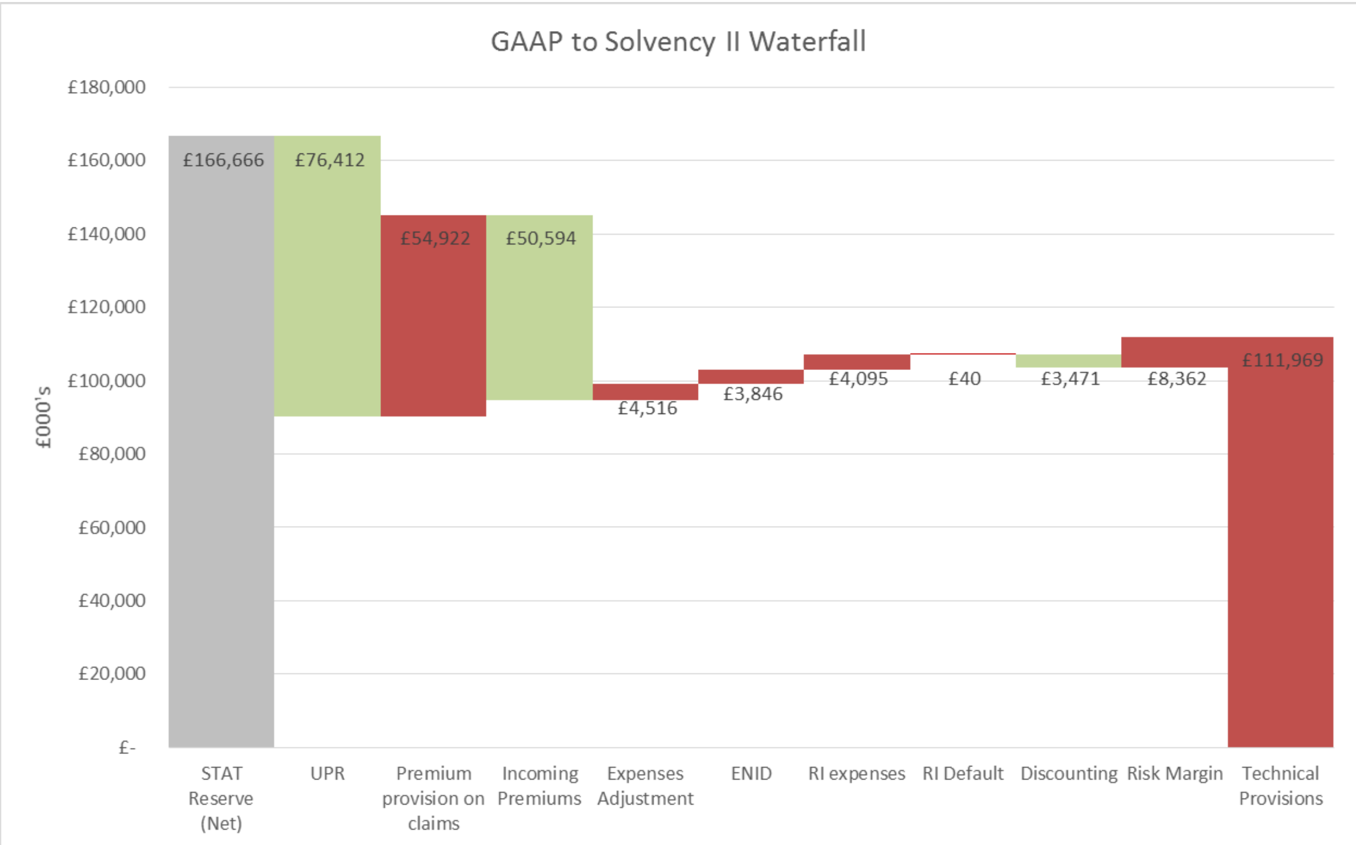
The assumptions are the best estimate assumptions based on the Branch's own experience. Although NIA – UK has more than 10 years of experience, the data only includes the limited outcomes of the underlying distribution. Therefore, there are possible events that have not been experienced by the Branch and thus cannot be captured for the analysis.

Specific uncertainties include:

- Owing to current weak underwriting conditions in many lines, it should be understood that the potential for adverse development in our projections for the most recent underwriting years could be higher than at times of strengthening rates and terms and conditions. Whilst consideration has been given to the expected effect of rate changes on IELR selections, unadvised or unanticipated effects due to weakening terms and conditions could lead to adverse reserve movements in future years as the reserves mature.
- An explicit assumption for future claims inflation has not been made. The projection methods that have been selected implicitly assume that historical trends will persist in the future. As there has been a sustained period of relatively low inflation, downside risks from unanticipated increase in inflation may be higher than historically expected.
- There is the potential for late development of large bodily injury claims on the Motor Vehicle Liability lines of business.
- The recent Ogden rate change has been considered for motor and liability lines of business. Future government announcements into a further consultation on the rate could lead to an increase/decrease in future Ogden discount rates.
- An ENID allowance has been applied by taking into account the nature of the portfolio, in reality, losses arising from events not previously seen before are by definition uncertain and could fluctuate significantly.

The UK GAAP reserves are adjusted in the following manner to convert to a net Solvency II basis as at 31st March 2018:

Waterfall chart mapping net technical provisions under UK GAAP to net technical provisions on a Solvency II basis, shown in £000's:



The chart explains the conversion from a GAAP basis to the Solvency II basis. The main differences are as follows:

- Unearned premium reserve of £76.4m is deducted from the UK GAAP reserve
- £54.9m has been included to allow for the premium provision on claims which incorporates the losses on unearned exposures.
- £50.6m credit for future premium receipts from premiums written at the valuation date. Of which £9.0m are related to BBNI.
- £4.5m allowance for expected management, acquisition and claims handling expenses (Solvency II expenses) to settle implied claim obligations (including in respect of unearned business).
- A £3.8m loading to the best estimate to allow for ENIDs. This is calculated using a truncated log-normal distribution based on number of exposure years, which was judgmentally selected, which taking into account the nature of the portfolio is believed to be reasonable
- An allowance of £4.1m is made in respect of reinsurance costs. This allowance is in respect of expected reinsurance costs for outwards reinsurance cover on inwards business exposures that are expected to continue beyond 31st March 2018 and are not covered by legally-obliged outwards reinsurance contracts.
- £0.04m allowance is made for credit risks in respect of counterparty default through a reinsurance bad debt reserve.
- £3.5m adjustment made to the net Technical Provisions in respect of discounting. All cashflows are discounted back to the valuation date using published discount curves from EIOPA as at 31st March 2018.
- A risk margin of £8.4m is added. This is intended to be equal to the amount of funds over the best estimate technical provisions required by a knowledgeable third party to assume the insurance obligations of an undertaking in an arm's length transaction because of the uncertainty affecting the cashflows.

Other notes regarding the Technical Provisions

The following are not applied by the Branch:

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

D.3 Other Liabilities

There are no material differences between the bases, methods and main assumptions used by the Branch for the valuation of other liabilities for solvency purposes and those used for their valuation in financial statements.

D.4 Alternative Valuation Methods

There were no alternative methods required or considered for the valuation of the Branch's assets or liabilities.

D.5 Any other information

There is no other material information to be disclosed regarding the valuation of the Branch's assets and liabilities for solvency purposes.

Contingent Liabilities

Contingent liabilities are:

- Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or
- A present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Under Solvency II, contingent liabilities that are material are recognised as liabilities, unlike FRS 102 where they are only disclosed. Contingent liabilities are material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgment of the intended user of that information, including the supervisory authorities.

As at 31st March 2018, NIA – UK holds letters of credit to the tune of £3.87m discussed in section C.7.

E. Capital Management

The PRA Rulebook describes the different categories of capital available to a branch and the valuation of that capital for solvency purposes.

With the exception of the deferred tax asset, NIA - UK's capital is "Core Tier One" and as such is fully admissible. If the Branch was to source capital in instruments other than Core Tier One, then this would need prior approval from NIA - India.

The Branch's admissible capital is then subject to adjustments to reflect any solvency valuation requirements in respect of the Branch's underlying assets and liabilities.

The Branch's capital is comprised of a Long Term Inter Branch Funding Account and Retained Earnings. There are other sources of capital available to the Branch which include:

- Capital injection from NIA – India (e.g. capital contribution);
- Contingent capital from NIA - India

The Branch has a variety of working capital management options available, including:

- Reinsurance purchased either from a third party or intergroup;
- Credit facilities on a stand-alone basis or supported by a parental guarantee.

NIA – UK has additional risk mitigation techniques which can be employed to manage emerging risks, including:

- NIA – UK monitors the credit ratings of all counterparties during the year, to ensure that counterparty exposures remain within current risk tolerance. NIA – UK seek to maintain counterparty under control by selecting counterparties with credit ratings of A- and above where possible.
- Risk appetite is controlled by monitoring types of business written against risk-based capital requirements during the process of Own Risk and Solvency Assessment (ORSA) and underwriting is controlled within NIA – UK tolerance against available capital.
- NIA – UK conduct business in three predominant currencies GBP, USD and EUR, and have large deposits in each to maintain liquidity to meet policyholder liabilities when they fall due. This can expose NIA – UK to fluctuations in the value of cash deposits held, NIA – UK manage these risks by actively matching assets to liabilities currencywise during the course of business.

E.1 Own Funds

The Branch has a Capital Management Policy and a Medium Term Capital Management Plan which outline the overall aim and approach to be taken for capital management, together with the standards and parameters which must be adhered to and reporting requirements and responsibilities.

The objective is to ensure that the Branch has sufficient capital resources to remain solvent on both a regulatory basis (Solvency II Pillar I) and an economic basis (Solvency II Pillar II).

The capital projections shown in the ORSA over the 3-year business planning period facilitate Executive discussion on the capital requirements for the Branch.

There have not been any material changes to the capital management policy or processes during 2017/18, shown in £000's:

Description	31/03/2018	31/03/2017
Total Assets	333,656	326,361
Total Liabilities	182,651	199,623
Basic Own Funds	151,005	126,738
SCR	110,299	107,598
MCR	27,575	30,345
Ratio of Eligible own funds to SCR	136.90%	117.79%
Ratio of Eligible own funds to MCR	539.67%	388.26%

**Ratio of eligible own funds compared to MCR exclude deferred tax assets.*

E1.1 Capital Structure

With the exception of the deferred tax asset, the Branch's own funds are classified as Tier 1 high quality unrestricted capital, i.e. assets which are free from any foreseeable liabilities and are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up. This has been the position over the whole of 2017/18.

E1.2 Own Funds

NIA - UK will hold capital that is at least equal to 100% of the economic capital of the Branch.

Where the regulatory capital ratios exceed the risk measures in the Risk Appetite and Risk Tolerance/Limit Policy, this will be notified to the Executive along with any mitigation plans proposed by the Deputy Chief Executive.

NIA – UK is not authorised to issue share capital. Additional funds can be provided from NIA – India if there is solvency requirement of NIA – UK.

The Branch's economic capital model will be updated at least quarterly including scenarios that stress test that capital.

Where the economic capital requirement exceeds the risk measures in the Risk Appetite and Risk Tolerance/Limits Policy, the Deputy Chief Executive will present any proposed capital/working capital changes to the EMT.

Tier 3 The own fund items classified as Tier 3 for NIA – UK consist of the deferred tax asset.

E1.3 Tiering of Capital

With the exception of the deferred tax asset, all of the Branch's own funds are classified as Tier 1 high quality unrestricted capital, i.e. assets which are free from any foreseeable liabilities and are available to absorb losses due to adverse business fluctuations on a going-concern basis and in the case of winding-up. This has been the position over the whole of 2017/18.

Tier One capital issuance requires prior approval by the Executive in conjunction with ratification by NIA - India.

E1.4 Reconciliation to UK GAAP

Below is an explanation of material differences between NIA - UK's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes:

2017-18	£'1000's	Explanation
UK GAAP Net Assets	161,712	
Change in:		
Net DAC	(14,892)	Valued at Nil under Solvency II

2017-18	£'1000's	Explanation
Insurance receivables	(49,639)	Moved to Technical Provisions
Reinsurance recoverables	(14,467)	Moved to Technical Provisions
Insurance & intermediaries payables	5,986	Moved to Technical Provisions
Technical provisions (Best Estimate Liabilities	51,750	Change in valuation between UK GAAP and SII Technical Provision
Risk Margin	8,362	Value of SII risk margin (valued at nil under UK GAAP)
Deferred Tax Asset	2,193	Recognised as Tier 3 in Own Funds
Solvency II Net Assets	151,005	

E.2 Solvency Capital Requirement and Minimum Capital Requirement

General Principles

The Solvency II directive provides for two separate levels of solvency margin: (i) the Minimum Capital Requirement (MCR), which is the amount of own funds below which policy holders and beneficiaries are exposed to an unacceptable level of risk should the Branch be allowed to continue its operations, and (ii) the Solvency Capital Requirement (SCR), which corresponds to a level of eligible own funds that enables insurance and reinsurance companies to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made.

E2.1 SCR

SCR components by risk type

The SCR risk module components using the Standard Formula approach as at 31st March 2018 are as follows:

SCR	£ 000's
Market risk	28,115
Counterparty default risk	30,431
Non-life underwriting risk	74,817
Diversification	-28,147
Basic Solvency Capital Requirement	105,216
Operational risk	5,083
Solvency capital requirement	110,299
Minimum capital requirement	27,575

The final amount of the SCR is still subject to supervisory assessment. In any case, the PRA do not require the entities in its jurisdiction to disclose the capital add-on during a transitional period.

The most material movement over the reporting period is an increase in the Market risk.

This is largely driven by currency risk due to the increase in currency mismatch. There has also been a methodology change compare to last year, whereby this year the currency risk is calculated by individual currency. Last year the currency risk was calculated by combining all non-balance sheet currency assets and liabilities together.

There has also been a change in methodology in the calculation of the interest rate risk. This year, the interest rate risk allows for the assets and liabilities to be split by currencies and discounted by corresponding yield curves.

E2.2 MCR

The Minimum Capital Requirement is meant to ensure a minimum level below which the amount of financial resources should not fall. That amount is calculated in accordance with a simple formula, which is subject to a defined floor and cap based on the Solvency Capital Requirement of the Branch in order to allow for an escalating ladder of supervisory intervention, and that it is based on the data which can be audited.

For non-life entities, the Minimum Capital Requirement uses a factor-based formula taking into consideration the amounts of Best Estimate Liabilities net of the amounts recoverable from reinsurance contracts and special purpose vehicles, and written premiums for each line of business. Different factors are applied to those amounts according to each relevant line.

The MCR is restricted by a cap and a floor, being 45% and 25% of the SCR respectively, with an absolute floor of €3.7m (Euros).

E2.3 Simplifications

Operational Risk

The actuarial model makes no assumptions or judgements for the calculation of the operational risk charge and the BSCR.

Gross Technical Provisions

- Calculation is in the base currency instead of being calculated separately for cash flows in different currencies as stated in article 33 of the delegated act, as a simplified approach.
- Cash flow projection used in the calculation of the best estimate adheres to cash flows outlined in article 28.
- Rate of Inflation on run-off expenses individually assumed for year 2 and 3 respectively, however all following years assume same rate given the uncertainty surrounding long-term rate of inflation.
- Technical provisions paid on a uniform basis across the year and are therefore on average the payment will be made mid-way through the year. We therefore discount accordingly.

Reinsurance Recoveries

- Article 33 outlines that the best estimate shall be calculated separately for cash flows in different currencies. As a simplified approach the model calculates the best estimate in the base currency only.
- The average loss resulting from a default of a counterparty is assumed to be 50% which adheres to Article 42.
- Counterparty probability of default for each credit quality step is in line with article 199.
- Credit bond ratings are used to provide the probability of default for a reinsurer.
- Ceded expenses assumed to be zero.

Risk Margin

- The risk margin calculation is only intended to estimate the risk margin for non-life business as per the Delegated Acts.
- We have applied simplified approach outlined by Article 58 of the Delegated Acts. The user is responsible for ensuring that the simplified approach is appropriate for their business.
- Catastrophe risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include catastrophe risk.
- Lapse risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include lapse rise.
- When multiplied by a factor, the gross technical provisions become valued as at end of year, and therefore the op risk charge is discounted correctly.
- Risk margin assumes one year off on unearned premium reserve.
- Risk margin for premium and reserve risk is calculated using the volume measure for the reserve risk but for premium risk it is based on the unearned premium only, whereas SCR non-life is calculated using the full premium definition under the Delegated Acts when not calculated for the risk margin.
- Technical provisions paid on a uniform basis across the year and are therefore on average the payment will be made mid-way through the year. We therefore discount accordingly.

- The Premium Risk Volume measure used for the calculation of the risk margin res/prem component is the unearned premium. It is assumed that the risk-taker could justify a premium risk charge based on the unearned business.
- Future year risk charges adhere to the level 3 simplification of the risk margin whereby the whole SCR for each future year is approximated by using a proportional approach: CEIOPS-DOC-72-10 Section 3.276(3).

Operational Risk

- 30% of BSCR will always be larger than the basic capital requirement for operational risk charge, and therefore the formula in Article 204(1) is not included in the calculation in the model. Operational risk calculation will always be smaller.
- The model also assumes that the technical provisions are a more appropriate measure of the operational risk, in the context of the risk margin, than the earned premiums.

Solvency capital requirement for future years

- Catastrophe risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include catastrophe risk.

Lapse risk charge does not extend past the first year i.e. payment for everything is due within 1 year as policies are assumed to be 1 year, and therefore future year risk margin does not include lapse rise.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This is not applicable for NIA - UK.

E.4 Differences between Standard Formula and any Internal Model used

NIA - UK does not operate an approved Internal Model.

E.5 Non-compliance with Solvency Capital Requirement and Minimum Capital Requirement

The Branch has complied with the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2017/18 and does not expect to breach the requirements over the Branch's planning period.

E.6 Any other information

NIA - UK does not use any undertaking specific parameters for purposes of SCR calculations