# Solvency and Financial Condition Report

## Laguna Life dac (“LLDAC”)

## 2017

## Contents

## Executive Summary

This is the Solvency and Financial Condition Report (SFCR) Laguna Life dac ("LLDAC" or "the Company") for the year ended 31 December 2017. The purpose of the SFCR is to meet the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35.

This report quotes all figures in 000's as per Article 2 of ITS 2015/2452. All nominal amounts are presented in Euro 000's.

**Business Information**

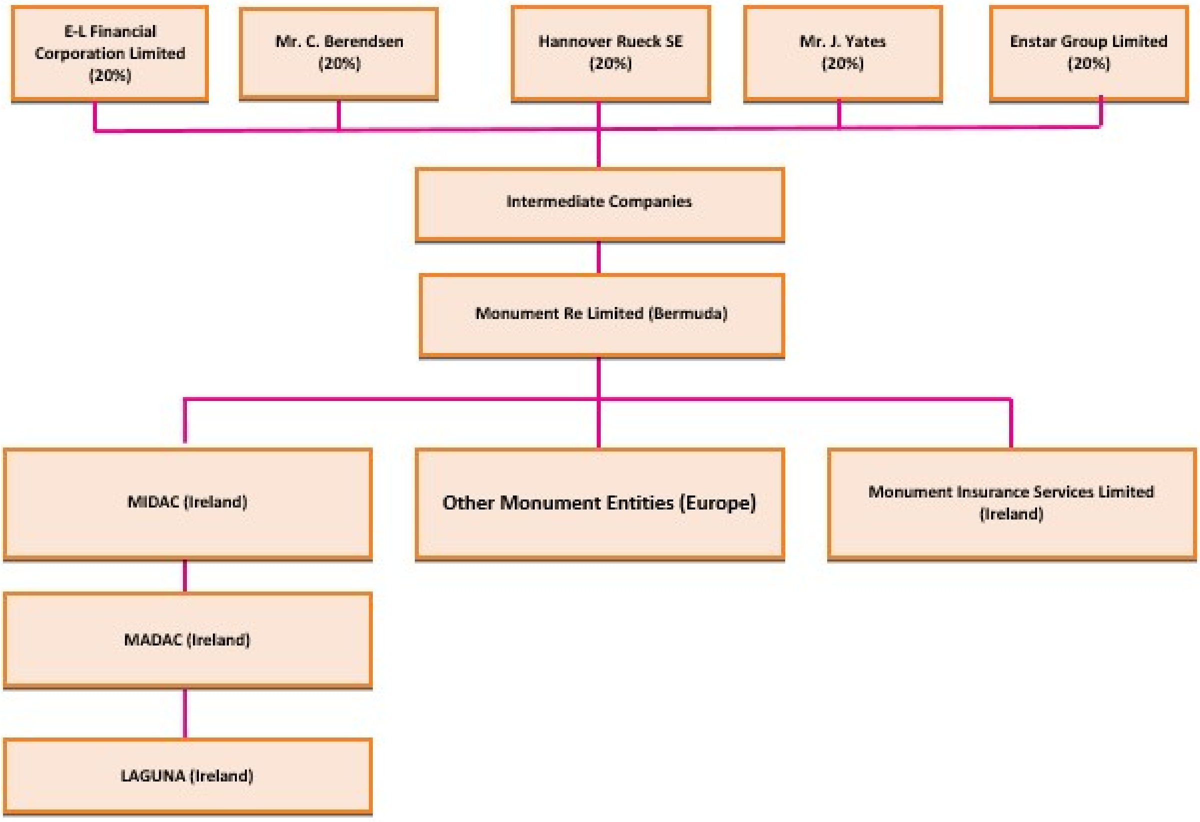
Laguna Life dac is authorised and regulated by the Central Bank of Ireland (CBI). Laguna holds a Class I license that allows the Company to underwrite life assurance and contracts to pay annuities on human life, but excluding contracts written in Classes II and III.

The Spanish product was launched in September 2000 at the establishment of the Company. The Company first accepted business in the UK in April 2003 and continued to issue policies until May 2007 when it closed to new business. The Company continued issuing new policies in Spain until November 2009 when the decision was made to close to new business and put the company into run-off. Policies were issued on a regular premium, level or decreasing term assurance, non-linked, single life basis.

The business continues to perform in line with the expected run-off of the business across all portfolios. The business strategy of the Company is focused on running off the existing closed book of policies and ensuring that high quality customer service remains a priority while seeking opportunities to grow the Company through acquisition of books of business in line with Monument Re Limited group strategy.

The Company was sold by Laguna Life Holding Limited, a subsidiary of Enstar Group Limited to Monument Assurance dac ("MADAC") a subsidiary of Monument Re Limited ("Monument Re") on the 29th August 2017. The Company's immediate parent MADAC is an insurance company registered in the Republic of Ireland and regulated by the Central Bank of Ireland.

The ownership structure and qualifying holdings are as follows (all participations are 100% unless otherwise stated):




Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset based risks within their risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- acquiring direct insurers, primarily those managing run-off portfolios of unit-linked savings or protection business, to drive risk diversification and create capital synergies.; and
- reinsuring long-dated guaranteed liabilities.

## Performance

The accounting year end is 31 December and this report is for the year ending 31st December 2017. Copies of the Company's financial statements may be obtained from the Companies Registration Office of Ireland.

The Company's results for the year are shown below in Section A. Business and Performance. The underwriting profit for the reporting year is €11,421 (2016: €529). The year on year increase in profits is due to the run-off of the business in line with expectations and the positive effect of the Company's updated operating model has had on the technical provisions for expenses.

The Company paid a dividend of €32,000 (2016: €nil) to its parent MADAC in October 2017.

The business has not seen any material changes in the run-off over the last year.

The Company's Own Funds measured on a Solvency II valuation basis decreased from €29,256 at 31 December 2016 to €6,332 at 31 December 2017. The main drivers of the movement of €22,924 is due the following:

- Gains during the year of €9,163 (2016 loss €427) as reported in the Company's audited financial statements which includes foreign exchange losses, investment income and positive technical results generated from movements in technical provisions net of claims paid and operating expenses incurred during the year, tempered by;
- A dividend paid to the Company's parent of €32,000

## Solvency position

The Company considers that the Standard Formula methodology prescribed by EIOPA is an appropriate basis for calculating the Company's Solvency Capital Requirement (SCR). Using this methodology, the Company's SCR is calculated to be €1,389 (2016: €5,146). This represents a material change over the year. The change is primarily caused by a reduction in the market risk and life underwriting risk modules:

| €000s | Dec-17 | Dec-16 |
|---|---|---|
| Market | 568 | 3,676 |
| Counterparty (default) | 67 | 103 |
| Life underwriting | 1,031 | 2,633 |
| Non-life underwriting | - | - |
| Health underwriting | - | - |
| **Basic Solvency Capital Requirement** | **1,317** | **5,061** |
| Operational Risk | 72.0 | 86 |
| **Solvency Capital Requirement** | **1,389** | **5,146** |

The following table shows the Company's solvency position as at 31 December 2017, with a comparison to the prior year.

| | **2017** | **2016** |
|---|---|---|
| Eligible Own Funds | 6,332 | 29,256 |
| Solvency Capital Requirement | 1,389 | 5,146 |
| Minimum Capital requirement | 3,700 | 3,700 |
| Ratio of Own Funds to SCR | 456% | 568% |
| Ratio of Own Funds to MCR | 171% | 791% |

Further details of the Company's Own Funds and SCR are provided in Section E.

## System of Governance

The Company has established a system of governance which is appropriate to the Company's business strategy and operations. There is clear delegation of responsibilities, reporting lines and allocation of functions through documented committee terms of reference and key function charters. The system of governance includes requirements relating to fitness and probity of persons responsible for key functions, remuneration practices and outsourcing activities. During the period the Company outsourced a significant portion of its operations and governance arrangements to the services company, Monument Insurance Services Limited ("MISL"). The Company and its related group companies Monument Insurance dac and MA DAC, are effectively jointly managed as one company from an operational point of view.

The Company's Board is comprised of a combination of executives, non-executives, and independent non-executives as per the requirements of the Corporate Governance Code in Ireland. All directors are selected based on their skills, competence and experience.

### Risk Profile

The Company's risk management system is proportionate to the nature, scale and complexity of the risks to which the Company is exposed. The system includes processes for the identification, assessment and reporting of all categories of risk. The risk management system includes the Own Risk and Solvency Assessment ("ORSA") which assists the Board in determining whether there are adequate Own Funds to cover the Company's risks over its business planning horizon.

### Other significant events during SFCR review

The Company has continued to perform in line with expectations and there are no other events of significance to report for 2017.

# A. BUSINESS AND PERFORMANCE

## A.1 *Business information*

### A.1 (a) Name and legal form of the undertaking

Laguna Life dac is a designated activity company incorporated in the Republic of Ireland in 2000 as a private limited company. The Company was sold by Laguna Life Holdings Limited, a subsidiary of Enstar Group Limited, to MADAC a company domiciled in Republic of Ireland. The ultimate parent of the Company is Monument Re, a company domiciled in Bermuda.

Name and registered office of the Company is:

**Laguna Life dac**
Europa House
Block 9
Harcourt Centre
Harcourt Street
Dublin 2
Republic of Ireland

### A.1 (b) Name and contact details of supervisory authority responsible for financial supervision of the undertaking

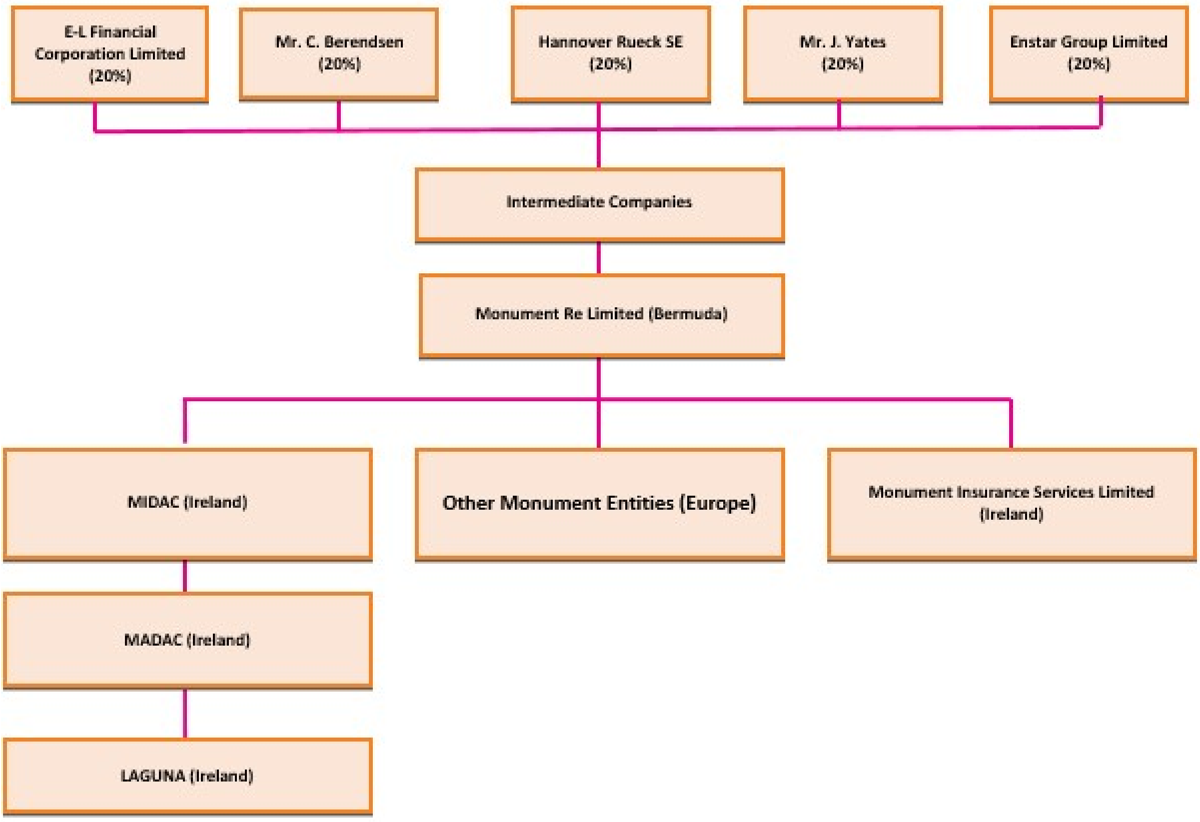
Local Supervisor:
**Central Bank of Ireland**
Insurance Supervision Division
Spencer Dock
North Wall Quay
Dublin 1
Republic of Ireland

Group supervisor of the group to which the Company belongs:
**Bermuda Monetary Authority**
BMA House
43 Victoria Street
Hamilton
Bermuda

### A.1 (c) Name and contact details of the external auditors of the undertaking

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1
Republic of Ireland

## A.1 (d) Description of the holder of qualifying holdings in the group




All holdings in subsidiaries are 100% participations unless otherwise noted.

Through a strategy of reinsurance and/or acquisition, Monument Re looks to assume asset based risks within their risk appetite, and efficiently operate these businesses or portfolios. The focus includes two principal areas, namely:

- acquiring direct insurers, primarily those managing run-off portfolios of unit-linked savings or protection business, to drive risk diversification and create capital synergies.; and
- reinsuring long-dated guaranteed liabilities.

Monument Re completed the acquisition of the Irish insurance subsidiaries of Barclays Bank PLC, on the 1st March 2017. The current portfolio is a closed book comprising of life and non-life protection risks and provided the ideal entry vehicle in Ireland for the Group.

On 29th August 2017 Monument Re acquired LLDAC from the Enstar Group through its subsidiary MADAC.

On the 18th September 2017, Monument Re acquired ABN AMRO Life Capital Belgium N.V. ("AALCB"), the Belgian life insurance subsidiary of ABN AMRO which received regulatory approval on the 28th March 2018. AALCB has been renamed as Monument Assurance Belgium N.V.

On the 29th January 2018, Monument Re acquired full ownership of Aspecta Assurance International Luxembourg S.A. (“Aspecta”), a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain, which was incorporated in 2000 as a 100% subsidiary of Talanx Group. This transaction is subject to regulatory approval.

### A.1 (e) position within the legal structure of the Group

Please see chart in Section A.1 (d).

### A.1 (f) Material lines of business and material geographical areas

All premiums are received from contracts underwritten from the Republic of Ireland, to cover risks located in the United Kingdom and Spain.

| Gross Earned Premium – by geographical segment | 2017 €'000 | 2016 €'000 |
|---|---|---|
| Spain | 1,111 | 1,327 |
| United Kingdom | 688 | 814 |
| **Total** | **1,799** | **2,141** |

The decrease in premium income is in line with expectation as the Company is in run-off and does not issue new policies.

The following table summarises how the benefits provided under policies issued by the Company are classified under Solvency II Lines of Business.

| SII Line of Business LLDAC | Benefits Provided under Term Life Assurance Policies |
|---|---|
| **D: Life Insurance Obligations** | |
| 32: Other Life Insurance | Life |

### A.1 (g) Significant business or other events which have occurred over the reporting period

On 29th August 2017, the Company was purchased by Monument Assurance dac (“MADAC”). On 1st September 2017, the Company outsourced its insurance administration activities to Monument Insurance Services Limited and contractually agreed to a fee on a per policy basis (“per policy fee”). The Company’s operating expenses comprise of fixed expenses incurred directly by the Company and a per policy fee payable to MISL. This is a change from the previous arrangements that were largely based on a fixed level of expenses.

Following the Brexit Vote in June 2016 (“Brexit”) it is unclear if whether the Freedom-of-Services basis, otherwise referred to as ‘passporting’, will continue once Britain leaves the EU as the timing and terms of withdrawal have yet to be agreed. If no agreement is negotiated on this, then Irish companies currently passporting into the UK may need to have separate authorisation in the UK. The Company will take the appropriate steps to ensure that the robust administration of its UK life obligations continues.

In March 2018 the Company submitted a material change of business plan to the Central Bank of Ireland with a view to obtaining permission to acquire an additional block of business in 2018, and is currently awaiting regulatory feedback on this request.

## A.2 *Underwriting Performance*

The following tables highlights the underwriting results for 2017 and compared to the previous year.

| | 2017<br>Spain<br>€'000 | 2017<br>UK<br>€'000 | 2017<br>Company<br>€'000 | 2017<br>Total<br>€'000 |
|---|---|---|---|---|
| Premium (net of reinsurance) | 635 | 216 | - | 851 |
| Claims and profit share | 96 | (21) | - | 75 |
| Reserves | - | (106) | 10,601 | 10,495 |
| Net underwriting performance | 731 | 89 | 10,601 | 11,421 |

| | 2016<br>Spain<br>€'000 | 2016<br>UK<br>€'000 | 2016<br>Company<br>€'000 | 2016<br>Total<br>€'000 |
|---|---|---|---|---|
| Premium (net of reinsurance) | 777 | 305 | - | 1,082 |
| Claims and profit share | (91) | (15) | - | (106) |
| Reserves | - | (618) | 171 | (447) |
| Net underwriting performance | 686 | (328) | 171 | 529 |

It should be noted that underwriting performance is net of reinsurance.

As expected, premiums have decreased as the book of business is in run-off. Due to the small volume of business and low claim frequencies, it is difficult to draw comparison year on year. Claims are accrued in full as notified. The large release in reserves in 2017 is primarily due to a reduction in the expense reserve resulting from the implementation of the MISL administration agreement.

The Company did not enter into any new reinsurance or Alternative Risk Transfers during the reporting period.

## A.3 *Investment Performance*

### A.3 (a) Income & expenses

The Company's investment income net of expenses as reported in the Financial Statements for the year was €277 (2016: €1,080) which is analysed in the following table:

| **Investment Income by asset class** | **2017<br>€'000** | **2016<br>€'000** |
|---|---|---|
| Bonds | 537 | 984 |
| Net Investment Expenses | (58) | (94) |
| Net realised gains and losses | 675 | (251) |
| Change in fair value | (877) | 441 |
| **Total** | **277** | **1,080** |

The Company's investments comprise mainly of short duration fixed income securities. The Company disposed of a large proportion of its bonds during the year to accommodate the dividend payment to its parent, this is reflected in the reduction in bond interest income year on year.

### A.3 (b) Gains and losses recognised directly in equity

Not applicable.

### A.3 (c) Investments in securitisation

Not applicable.

## A.4 *Other material income and expenses*

### A.4 (a) Performance of other activities

Operating expenses during the year were €1,063 (2016 €1,335) and comprise mainly management fees for outsourcing arrangements, actuarial, audit and other professional fees.

The Company reported a foreign exchange loss of €1,440 (2016 loss: €788) due to the weakening of the US Dollar against Euro in circumstances where the Company held a surplus US Dollars during the year. The Company has significantly reduced its exposure to US Dollars following the change in ownership.

## A.5 *Any other information*

The Company proposed and paid a dividend during 2017 of €32,000 (2016: €nil). The Company does not foresee any further dividends as at year end 2017.

There is no other material information regarding the business and performance of the insurance undertaking other than what has been reported in this section.

# B. SYSTEM OF GOVERNANCE

## B.1 *General information on the system of governance*

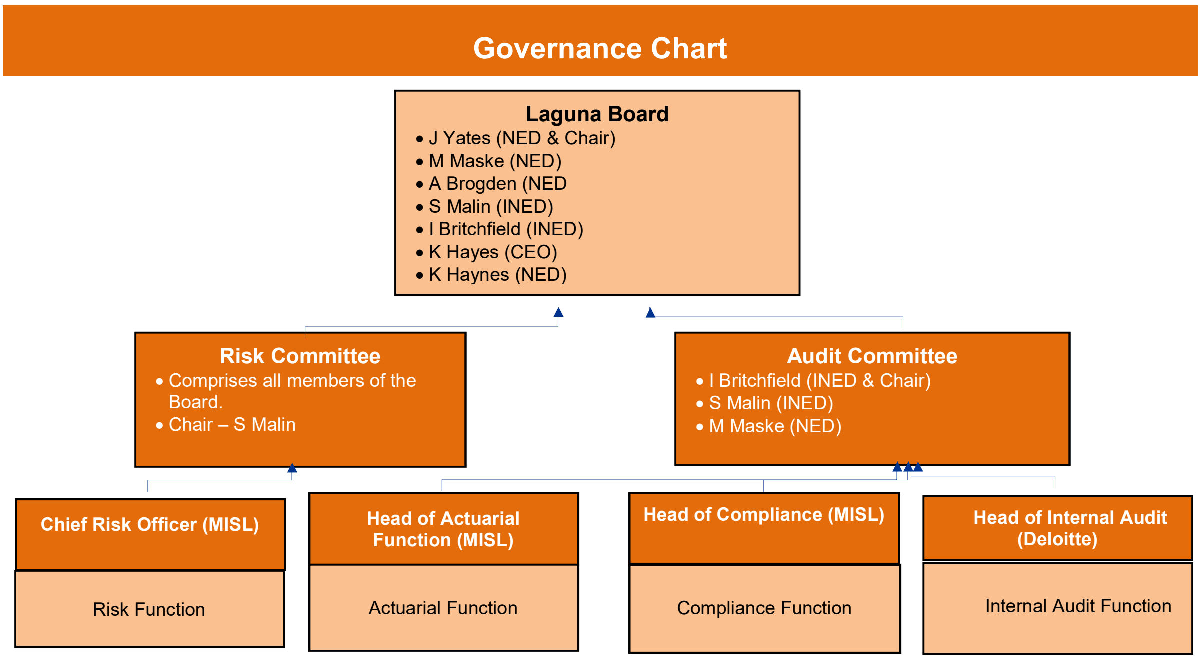
### B.1 (a) Structure of Board including description of main roles and responsibilities and segregation of responsibilities and committees

**Board**

As of the reporting date, the Board comprised the Chairman (a Non-Executive Director (NED)), two Independent NEDs (INEDs), Chief Executive Officer (CEO), and three additional NEDs. The Board is responsible for the effective, prudent and ethical oversight of the Company. The Board's responsibilities include establishing and overseeing:

- the business strategy;
- the amount and type of capital that is adequate to cover the risks of the business; and
- the strategy for the on-going management of material risks.

The Board has established and delegated responsibilities to its Audit Committee and its Risk Committee, to set the approach to internal controls and assist in its oversight of risk management and has delegated matters for review or approval as set out in their terms of reference. The Governance Chart below outlines the composition of the Board Committees and the reporting lines of key functions.




**Audit Committee**

The Audit Committee comprises the two independent non-executive directors and one non-executive director. The Head of Compliance and Head of Internal Audit are also standing attendees. The committee's main responsibilities are to review:

- the Company's accounting policies and financial reports and review management's approach to internal controls;
- the adequacy and scope of the external and internal audit functions; and
- the Company's compliance with regulatory and financial reporting requirements.

The Audit Committee may ask other members of the Company to attend the committee from time to time.

**Risk Committee**
The Risk Committee comprises all members of the Board and its main responsibilities are to:

- advise the Board on risk appetite and tolerances;
- oversee the risk management function; and
- advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, the amount and type of capital that is adequate to cover the risks of the Company.

**Key functions roles and responsibilities**
The Company established Solvency II control functions (risk management, compliance, internal audit and actuarial) in addition to other functions required to robustly run the business. During the year the Company outsourced the risk management and compliance functions to MISL. The internal audit function is outsourced to Deloitte in Ireland ("Deloitte") and the actuarial function is outsourced to MISL, with some activities outsourced to Milliman Ireland Limited ("Milliman") as part of year-end. These functions are described further below.

The risk management function, led by the Chief Risk Officer ("CRO"), is responsible for supporting the Board and its committees in discharging their risk management related responsibilities as outlined above. The risk management function also provides challenge to the business consistent with the Three Lines of Defence risk governance model outlined in section B.5 below.

The compliance function, led by the Head of Compliance, is responsible for identifying, assessing, monitoring and reporting compliance risk exposure, focusing on the compliance with applicable laws and regulatory requirements.

The internal audit function, led by the Head of Internal Audit, is responsible for developing and delivering an agreed internal audit plan and monitoring the control environment.

The actuarial function, led by the Head of Actuarial Function, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. In summary, the key responsibilities of the actuarial function are to review and validate the calculation of the technical provisions, provide opinions on the underwriting and reinsurance policies and assist the risk management function with certain tasks. Further details are included in section B.6.

## B.1 (b) Material changes in the system of governance

On 29th August 2017, the Company was sold by a subsidiary of Enstar Group Limited to a subsidiary of Monument Re. As a result, there were changes to the composition and membership of the Board. Following the sale, the Head of Internal Audit Function holder changed from Enstar Group Audit to Deloitte on 10th November 2017.

Following MADAC's acquisition of Laguna, the Boards of MIDAC, MADAC and LLDAC transitioned to a single board structure in December 2017. Since the reporting period, the actuarial function was transferred from

Milliman to MISL and is led by the Company's Actuarial Director, who was approved in the role of Head of Actuarial Function.

### B.1 (c) Remuneration policy and practices

During the period the Company outsourced its administration services to MISL and all the Company's employees at that date transferred to MISL.

**Principles of the remuneration policy**
The remuneration policy and practices have been developed to ensure the Company is able to attract, develop and retain high performing employees. The policy focuses on ensuring sound and effective risk management and recognises the long-term interests of the Company.

The remuneration policy is designed to meet the Company's regulatory requirements. The Company has identified and assessed the applicable Solvency II principles with respect to remuneration.

The Monument Re Group Board Remuneration Committee assists the Board in fulfilling its remuneration-related roles and responsibilities. The Committee is responsible for ensuring the Group complies with its commitments within the remuneration policy and that appropriate methods are adopted within the Group's reward practices to safeguard policyholders and customers.

**Performance criteria on variable components of remuneration**
Employees are eligible to participate in the Company's discretionary performance related bonus scheme. The reward is based on completion of individual objectives as well as Company performance. The discretionary performance bonus is based on performance against employee objectives and Monument values. The bonus schemes for the Group entities are approved annually by the Group Remuneration Committee.

**Pension scheme**
Employees are entitled to join the Company's Defined Contribution Pension Plan. There is no supplementary pension or early retirement scheme for members of the Board and other key function holders.

### B.1 (d) Material transactions

On 29th August 2017, the Company was sold by its previous shareholder, Laguna Life Holdings Limited, an Enstar Group Limited company, to MADAC.

On 1st September 2017 the Company outsourced its administration services to MISL under a management services agreement.

In October 2017 the Company paid a dividend of €32,000 to its parent MADAC.

## B.2 *Fit and proper requirements*

The Company is committed to meeting all of its fit and proper requirements. It ensures that staff members have the necessary qualifications, knowledge, skills and experience to carry out their role (fitness assessment); and is honest, ethical, financially sound and acts with integrity (probity assessment). The Fit and

Proper policy sets out the roles and responsibilities and procedures to assess fitness and probity of persons both on an initial and ongoing basis.

### B.2 (a) Specific requirements concerning skills, knowledge and expertise

Under the CBI's Fitness and Probity regime, the Company identifies staff members that carry out Pre-approved Controlled Function ("PCFs") and Controlled Function ("CFs") roles and ensures that they meet the CBI's standards for fitness and probity.

The Company requires a person who carries out a PCF or CF role to be able to demonstrate that he/she, among other items:

- has shown competence and proficiency to undertake the relevant function;
- has a sound knowledge of the business, and the specific responsibilities; and
- has a clear and comprehensive understanding of the regulatory and legal environment.

### B.2 (b) Process for assessing fitness and propriety

The fit and proper policy describes the level of due diligence required at recruitment stage. In addition, the Head of Compliance completes an annual review of the fitness and propriety of each PCF and CF role.

## B.3 *Risk Management System*

### B.3 (a) Description of risk management system (strategies, processes and reporting procedures)

**Strategy**

The Board considers the business strategy of the Company in determining the risk appetite of the Company. The Board has a risk appetite statement document, that outlines the Company's appetite for each type of key risk and its strategy for accepting, managing and mitigating these risks. Risk appetite is articulated in qualitative terms and/or quantitative metrics across the key risk categories and written policies have been established to address these risks.

**Risk Management Framework**

The Board is ultimately accountable to ensure the effective implementation of the risk management framework ("RMF"). The Risk Committee assists the Board by providing leadership, direction and oversight regarding the RMF and other risk matters. To this end, any changes to the RMF and key risk reports are reviewed and approved by the Risk Committee. Any matters considered significant are escalated to the Board, in line with escalation procedures formalised in the risk management policy.

The risk management function, which is outsourced to MISL and led by the CRO, supports the Board and its committees in discharging their risk management related responsibilities as outlined above. The risk management function also provides challenge to the business consistent with the Three Lines of Defence risk governance model outlined in section B.5.

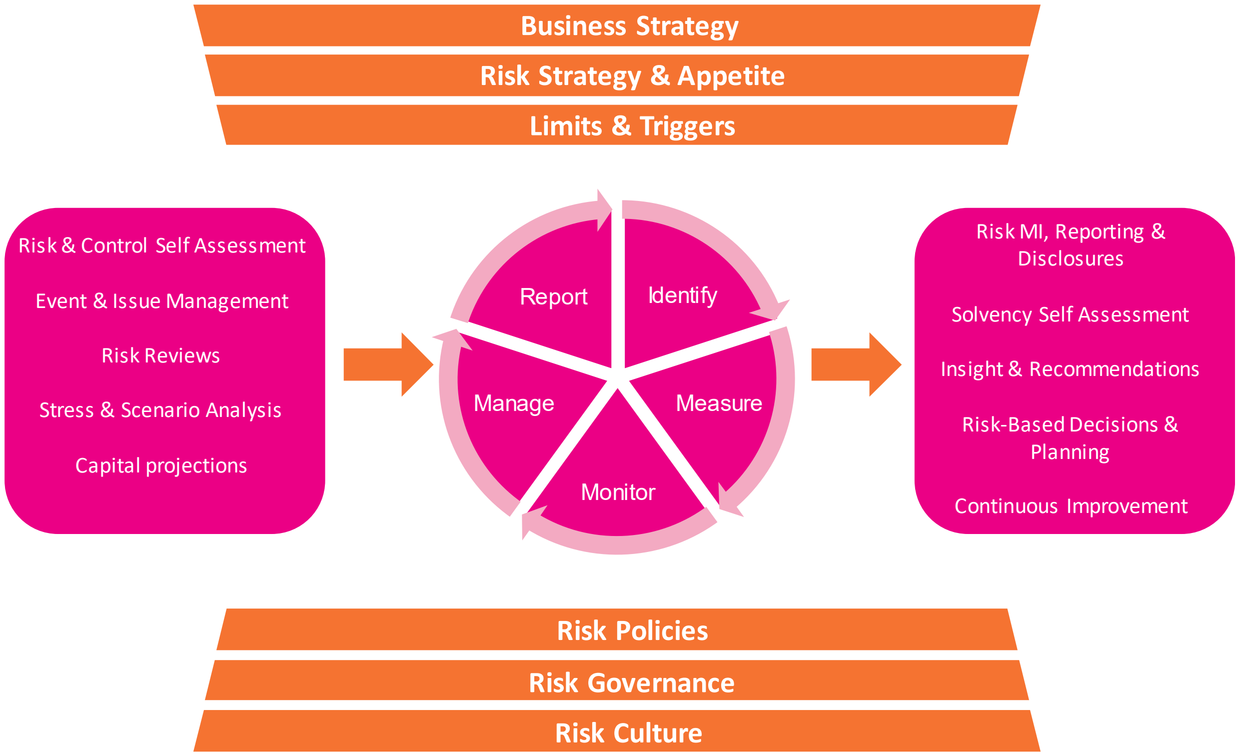
The RMF is approved annually by the Board of Directors, and is designed to:

- be fit-for-purpose;
- enable risk-based decision-taking;
- promote risk awareness and sound risk taking behaviour;

- ensure clear accountabilities;
- highlight when the Company is taking too much risk; and
- meet all regulatory requirements and market expectations for an Irish insurer.

The RMF includes the following overarching components:
- risk strategy and appetite, aligned to the Company's business strategy;
- risk tolerances, limits and triggers; and
- risk management policies and ongoing processes to identify, measure, monitor, manage and report risk.

The risk management framework is depicted below:




The material risks addressed by the risk management framework include:
- credit risk;
- group risk including reputational risk;
- insurance risk;
- market risk including liquidity risk;
- operational including legal and compliance risk;
- strategic risk; and
- emerging risk.

The RMF includes the following key risk management tools:
- Risk and Control Self-Assessment ("RCSA");
- event and issue management;
- risk reviews;
- stress and scenario testing; and
- capital projections.

The RMF is applied to newly acquired businesses such that there is proportionate and consistent application of a single risk framework across the Monument Group.

**Risk management process**
All key risks are recorded in the Company risk register and ownership is assigned to each risk. On an annual basis the risk owners carry out an RCSA. This involves identifying material inherent risks, identifying key controls to mitigate these risks, assessing the design and operating effectiveness of key controls and measuring the inherent and residual risk. A decision is taken as to whether to accept the level of residual risk or mitigate this further (e.g. through risk transfer or increasing controls). The risks are regularly monitored through the reporting of Key Risk Indicators ("KRIs") by the risk owners to the Risk and Controls Committee. The Risk and Controls Committee also monitors the status of actions arising from RCSA process.

The Board Risk Committee also considers risks from a top-down perspective. These risks are added to the highest residual risks identified from the RCSA process to form the Corporate Risk Register. This register is monitored by the Risk Committee.

**Reporting procedures**
KRIs are established which set measurable thresholds for each key risk in accordance with risk appetite. These are used to alert management when risk levels exceed acceptable ranges and drive timely decision making and action. These are reviewed regularly by the Risk and Controls Committee and a summary is reported to the Board Risk Committee.

### B.3 (b) Implementation and integration of the risk management system into the organisation structure and decision-making processes

The risk management system is implemented through adherence to the risk management policy. The policy sets out the roles and responsibilities, processes and procedures, and reporting requirements regarding risk management at Board and business levels. The risk management function, led by the CRO, supports the Board and business areas in discharging their risk management-related responsibilities. The risk management function provides challenge to the business consistent with the Three Lines of Defence model as outlined in section B.5.

## B.4 *Own Risk and Solvency Assessment*

### B.4 (a) ORSA process

The Own Risk and Solvency Assessment ("ORSA") process is a key element of the Company's risk management framework and is wholly embedded in the decision-making process and business planning for the Company. The ORSA evaluates the Company's risk profile and solvency position in relation to business operations, strategy and plan. The ORSA is a year-round collection of processes, integrating our RMF with capital management and business planning. It is the main link between our risk management system and capital management activities.

The Board has established an ORSA policy that sets out the roles and responsibilities for completing the ORSA. The Board takes an active part through steering how the assessment is performed and challenging the results. The Board reviews and approves the ORSA policy annually. The Board approves the internal ORSA report annually and considers the insights from the ORSA in its decision-making processes.

The CRO co-ordinates the ORSA process and prepares the ORSA report with support from relevant areas. The actuarial team assists the risk function in producing various aspects of the ORSA, in particular the capital projections and stress testing. The Risk Committee or Board reviews the ORSA report and the Board approves the report.

The Head of Actuarial Function provides an opinion on the ORSA process as per the CBI's requirements. The scope of the opinion includes the range of risks and the adequacy of stress scenarios considered, the appropriateness of the financial projections, and whether the Company is continuously complying with the requirements regarding the calculation of technical provisions and potential risks arising from the uncertainties connected to the calculation.

The Risk Management Framework provides for the continuous and forward-looking identification and assessment of the short- and long-term risks of the Company. On an annual basis, the Company performs an own risk and solvency assessment to assess whether it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions. The risk scenarios are based on the Company's risk profile. The conclusions drawn from the assessment are reviewed by the Board and potential management actions are agreed. The results of the ORSA are made available to the CBI. There are instances where an additional ORSA may be required and that it is the responsibility of the CRO to determine under which such situations might this apply.

The Board is actively involved in the process through its review of the approach, the choice of risks and scenarios to be included, and the review and challenge of the results of the assessment.

Decision-making is evident through the Board's review of the insights gained from the ORSA in approving the Company's risk appetite and limits, the Company's capital policy and capital requirements.

### B.4 (b) Frequency of ORSA

The regular ORSA is performed annually and is approved by the Board. A non-routine ORSA is performed following any significant change in the Company's risk profile.

### B.4 (c) Determination of own solvency needs

The ORSA includes an assessment of the Company's view of the capital required for the business, the own solvency needs, as distinct from the capital which is required under regulation.

The Company examines the appropriateness of the standard formula. It considers whether there are any significant risks that are not captured within the standard formula and whether there are any stressed scenarios by which the standard formula may not adequately capture the Company's own solvency needs.

## B.5 *Internal Control System*

### B.5 (a) Description of Internal Control System

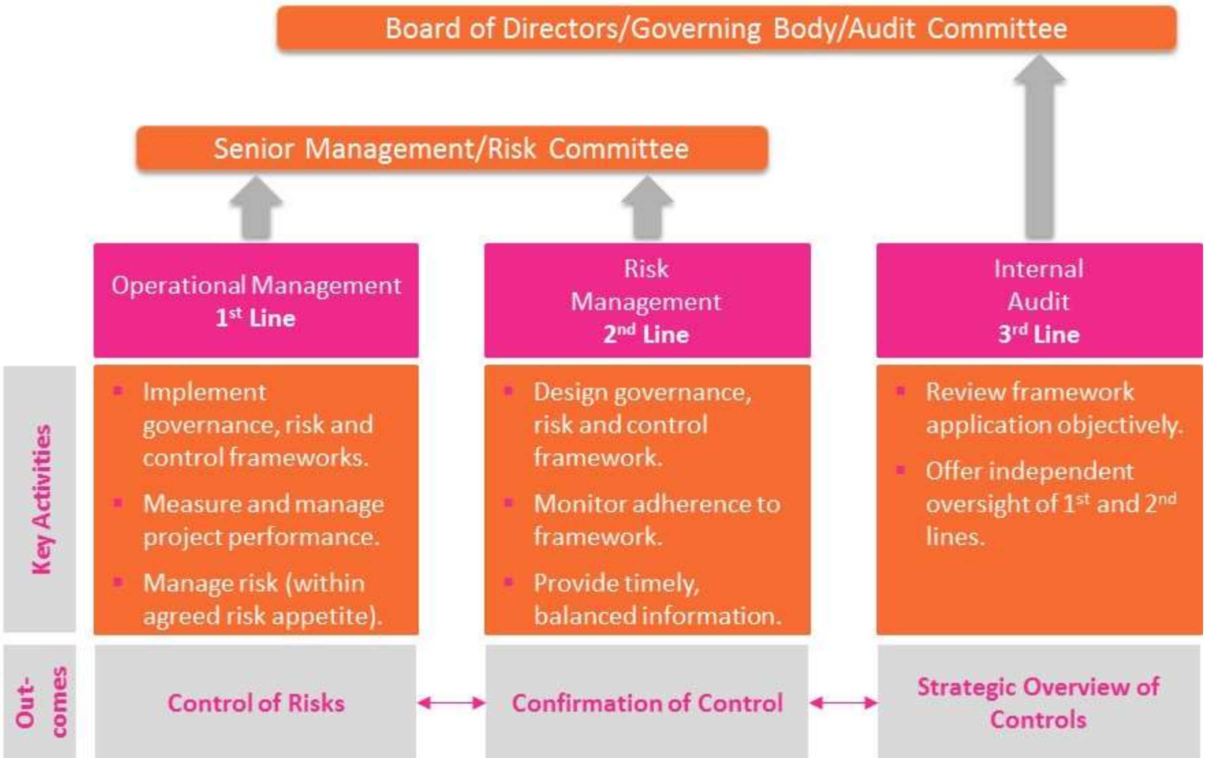
The internal control system encompasses the policies, processes and activities that contribute to the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with laws and regulations.

The Board has established an internal control policy that outlines the processes by which the internal control system is implemented to provide for and maintain the suitability and effectiveness of internal control. The policy outlines the roles and responsibilities, procedures and reporting requirements to be applied.

The internal control system combines the following aspects:

- Internal control environment,
- Risk assessment,
- Internal control activities,
- Communication,
- Monitoring and reporting.

The following table shows the Company's internal control framework which reflects the "Three Lines of Defence" model.




### B.5 (b) How the compliance function is implemented

The compliance function is part of the second line of defence and is led by the Head of Compliance. Responsibilities of the function are described in the "Compliance Function Charter" and summarised in B.1. above. The compliance function reports to the Audit Committee to provide assurance regarding the Company's adherence to laws, regulations, guidelines and specifications relevant to its business. This is provided through an annual compliance plan which is approved by the Committee and through the on-going reporting against that plan. At all times, the compliance function acts within the second line of defence and independently to the business. It provides the framework to allow the business to operate in a compliant manner with regards to all relevant regulatory, statutory and corporate governance obligations.

## B.6 *Internal Audit Function*

### B.6 (a) How the internal audit function is implemented

The internal audit function is outsourced to Deloitte and is governed by an internal audit charter. The internal audit function maintains a flexible risk-based audit plan. The Head of Internal Audit ("HoIA") is invited to attend each Audit Committee meeting and report on the status of the audit plan and results of individual audit reviews.

### B.6 (b) How independence and objectivity is maintained from the Company's activities

To provide for its independence, all internal audit staff report to the HoIA who in turn reports to the Audit Committee. The remuneration of the HoIA and internal audit staff is structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and is not directly or exclusively linked to the short-term performance of the Company.

## B.7 *Actuarial Function*

### How the Actuarial function is implemented

As at 31 December 2017, the actuarial function was outsourced to Milliman and governed by an agreement between Milliman and the Company. On 27th March 2018, the actuarial function was transferred to MISL and is led by Monument Insurance's Actuarial Director, and has submitted an Actuarial Opinion on Technical Provisions to the CBI, for the annual valuation of technical provisions. The role and responsibilities are described in an actuarial function charter and are summarised in section B.1.

The Board receives an annual report from the actuarial function which includes the results of the tasks undertaken, clearly identifying any deficiencies and giving any recommendations as to how such deficiencies could be remedied. The actuarial function operates under the ultimate responsibility of, and reports to the Board and, where appropriate, cooperates with the other key functions in carrying out its role. It is objective and free from the influence of other functions or the Board.

It provides its opinions in an independent fashion and can communicate on its own initiative with any staff member, or Board member, and obtains access to any records necessary to carry out its responsibilities.

## B.8 *Outsourcing*

### Description of outsourcing policy

When appropriate, we can outsource specific business functions to reduce or control costs, to free internal resources and capital, and to harness skills, expertise and resources not otherwise available to us. However, the Company's outsourcing of critical or important operational functions or activities shall not be undertaken in such a way as to unduly increase the Company's exposure to Operational Risk. An appropriate level of due diligence shall be conducted prior to completing the selection process. The Company must notify the relevant regulatory authority in writing of any outsourcing of a critical or important function.

All outsourcing agreements shall be monitored and reviewed to ensure that outsourced activities are conducted in adherence to terms set out in outsourcing agreements and to applicable regulatory requirements and reporting processes shall be in place to ensure outsourcing performance is managed in line with outsourcing agreements and the Company's strategy.

### Outsourcing and jurisdiction of critical or important operational functions or activities

The table below provides details of the outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located.

| Service provider | Activity | Jurisdiction |
|---|---|---|
| Monument Insurance Services Limited | Insurance administration services | Ireland |
| Conning Asset Management Limited | Investment management | UK |
| IBM | IT services | Ireland |
| Deloitte | Internal Audit Function | Ireland |
| Milliman Limited* | Head of Actuarial Function and actuarial function | Ireland |
| Monument Insurance Services Limited** | Head of Actuarial Function and actuarial function | Ireland |

*To 27 March 2018
** from 27 March 2018

## B.9 *Assessment of governance and any other disclosures*

The system of governance is considered appropriate for the Company. There is no other material information regarding the system of governance of the Company other than what has been reported in this section.

## C. Risk Profile

The Company operates a risk management framework (which includes the risk management and internal control systems). Effective risk oversight is an important priority for our Boards of Directors (both at the Company level and at a subsidiary level), and the Company places strong emphasis on ensuring we have a robust risk management framework to identify, measure, manage, report and monitor risks that affect the achievement of our strategic, operational and financial objectives.

The Company's risk management framework consists of numerous processes and controls that have been designed and managed by the business, with oversight by the Board of Directors and its committees. Risk assumption is inherent in the business (and supporting strategies) and appropriately setting risk appetite and executing business strategy in accordance therewith is key to performance.

The key components of the RMF are:

| | |
|---|---|
| Risk Management Strategy | The overall approach to risk and risk management and the commitment of the business to ensure there is risk management input into strategy, capital planning, projects and operations. |
| Risk Management Policy | The commitment of the Company to manage risk in the context of business objectives and risk profile. |
| Risk Management Governance | The role of the decision-making elements within the Company in overseeing the risk management framework. |
| Risk Management Process(es) | The identification, analysis, evaluation, treatment and monitoring of the risks faced by the business. |
| Risk Communication | The mechanisms utilised by the business to disseminate risk information and report to the staff, the Risk Committee and Board of Directors. |
| Risk Appetite | The degree of risk that the business is willing to accept in order to achieve objectives, both in terms of levels and types of risk that can arise in the business and its operations. |

This framework facilitates an efficient and effective way of ensuring a consistent approach to risk management across the Group. The centralised risk and control monitoring and reporting system also facilitates feedback and improvement on an on-going basis.

The Company uses its risk management capabilities in a strategic context to support the following activities related to the operations:

- Identify, assess and measure risks to understand risks and their associated risk levels;
- Establish a risk appetite and underlying risk tolerances for key risks undertaken for the purpose of maintaining and controlling risk levels to be aligned with the overall Group business strategy;
- Monitor and report risk levels and returns relative to those risk levels as a key means to evaluate business performance and business strategy.

The Company conducts a risk assessment process carried out on a quarterly basis. Controls are attested to quarterly and the assessment process is facilitated by the risk management team who review these risk assessments on a quarterly basis and consolidate the assessment to facilitate discussion and challenge and to assess the overall risk categories and related risk position. Risk management information is prepared and presented to senior management, the Boards of Directors and Risk Committee.

The Company's risk profile has changed during 2017 primarily due to changes in market risk, please refer to Section E.2 of this report for further explanation.

The Company's business model has changed over the reporting period. The current risk profile is summarised in the following key risks:

## C.1 *Underwriting Risk*

The Company assumes some insurance/underwriting risks in administering this run-off business. The Company's portfolio comprises term life assurance in Spain and term life assurance and accelerated critical illness cover in the UK. The insurance risks involved with administering this business include mortality risks, morbidity risks, lapse risks and expense risks.

The Company has reserves to cover these insurance risks. The Company has some tolerance for insurance risk in that it is prepared to retain and run off the portfolio and to accept the inherent volatility of such reserves. The Company is prepared to accept that there is a risk a loss could be made but this is tempered by the utilisation of reinsurance to ensure that the risk remains within tolerance levels set out in this risk management framework.

The Company is willing to accept underwriting risk through the purchase of additional books of business where sufficient capital is held to support the additional business under various stress scenarios as identified in the ORSA process undertaken as part of the purchase transaction.

The geographical analysis of insurance contracts is as follows:

| Country | 2017 Policy reserves Gross of reinsurance (€) | 2017 Policy reserves Net of reinsurance (€) | 2016 Policy reserves Gross of reinsurance (€) | 2016 Policy reserves Net of reinsurance (€) |
|---|---|---|---|---|
| Spain | - | - | - | - |
| UK | 895 | 800 | 819 | 693 |
| Total | 895 | 800 | 819 | 693 |

### C.1 (a) Mortality Risk

Mortality risk is the risk of loss occurring from an unexpected increase in mortality rates (death rates). The Company has some tolerance for mortality risk. The calculation of policy reserves requires assumptions of the future levels of mortality. Expected experience rates are sourced from the reinsurer of the business. Drawing on the wider experience of, and by passing this to the reinsurer limits the Company's exposure to this risk.

### C.1 (b) Morbidity Risk

Morbidity risk is the risk of loss occurring from increases in the rate of critical illness or waiver of premium claims. The Company has some risk tolerance for morbidity risk. The calculation of policy reserves requires assumptions of the future levels of morbidity. Expected experience rates are sourced from the reinsurer of the business. Drawing on the wider experience of the reinsurer limits the Company's exposure to this risk.

An increase of 15% in the mortality/morbidity rate would negatively affect the provisions of the Company by €841.

### C.1 (c) Lapse Risk

Lapse risk arises from unanticipated (higher or lower) rate of policy lapses, terminations, or changes to paid-up status (cessation of premium payment). Losses can occur when larger than expected lapse rates leave the Company unable to cover maintenance costs. The Company provides for on-going lapses based on observed rates within the portfolio to limit the exposure to this risk.

The Company accepts that while it is exposed to some degree of lapse risk it has implemented adequate operational measures to monitor such risk and where possible maintain the persistency of the business with strong service to its policyholders.

A 50% decrease in the lapse rate would negatively affect the company's provisions by €256.

### C.1 (d) Expense Risk

Expense risk is the risk of loss arising through increases in the company's expense levels, or expense inflation over time. Fixed expense risk against policy volumes is a significant risk for the Company, and one which it must accept as part of the run-off strategy of the Company. The Company monitors expense experience on an ongoing basis and has set limits for actual expenses relative to budgeted expenses. In 2017, the Company entered in to a Master Services Agreement ("MSA") with Monument Insurance Services Limited, outsourcing its policy administration for a fixed per policy fee. The MSA and the per policy fee has substantially reduced the Company's expense risk exposure.

A 10% increase in expenses plus an increase of 1% in inflation would increase expense provisions by €308.

## C.2 *Market Risk*

Market risk is the risk of loss resulting from fluctuations in the level of market prices of assets, liabilities and financial instruments. The Company has little appetite for market risk. The Company is willing to take on some risk, through allowing fund managers to invest in non-government fixed interest securities with a view to generating additional returns, subject to specific limits set by the Company's Board. These limits are designed to keep the Company's direct market risk within the risk tolerances set out in the risk management framework.

The Company's objective in managing its market risk, is to ensure risk is managed in a sound and prudent manner in line with the Company's risk profile and risk appetite. The Company does not hold any complex financial instruments such as derivatives or swaps and has no off-balance sheet positions.

### C.2 (a) Interest Rate Movement Risk

The Company is exposed to the risk of interest rate movements and movements in the yields of fixed interest securities. The Company has limited tolerance for direct interest risk and has determined an investment policy on that basis. The Company's investment policy focuses on the protection of capital over the return on investment. Investment policies and risk tolerances are set out in the investment policy.

Any change in yields will impact on the Company's asset values (bond prices), but will have an offsetting effect from a change in the valuation interest rate used in the calculation of liabilities. Put simply, a decrease in interest rates will increase the value of the liabilities, but this will be offset (somewhat) by an increase in bond prices.

Any one breach of investment policy will require remedial action within 30 days.

The Company seeks to mitigate interest rate risk by investing in fixed interest rate bonds that match the profile of the liabilities (future claims and expenses).

### C.2 (b) Exchange Rate Movement Risk

Currency risk is the risk of loss resulting from adverse movements in currency exchange rates. The Company has a limited tolerance for currency risk. The Company holds sufficient assets which match the currencies of its liabilities. The Company holds several months of estimated Euro and GBP claims and expenses in cash deposits. This limits the Company's exposure to exchange rate movement risk. The common Euro currency for Spain and Ireland expenses also leads to very little exchange rate movement risk.

The Company was a subsidiary of a US$ denominated parent until 29th August 2017 and held excess assets in USD ($). Following the takeover by Monument Re, the Company reviewed its capital requirements and sold its US Dollar denominated assets. Excess funds are now currently held in Euro.

The Company's net exposure to GBP (£) at the balance sheet date is an asset of £149 (in 2016 this was a liability of £399). Therefore, if Sterling appreciates by 10% relative to the Euro, the Company would experience a loss of £15 (gain of £40 in 2016).

The Company's net exposure to USD ($) at the balance sheet date is a liability of $66 (2016 asset: $11,800). If the Dollar depreciates by 10% relative to the Euro, the Company would experience a gain of $7 (2016 loss: $1,180).

The Company currently does not use foreign currency hedges to manage its foreign currency exchange risk due to the immaterial nature of the foreign exchange exposure.

### C.2 (c) Investment Mismatching Risk

The Company has a limited tolerance for investment mismatching risk. The investment strategy is to match all best estimate liabilities as closely as possible by currency and duration by investing in government bonds and highly secure corporate bonds.

Bond spread movements are mitigated by the investment policy of the Company. Compliance with the policy is monitored on an ongoing basis.

## C.3 *Counterparty & Credit Risk*

Credit risk describes the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and debtors to which the Company is exposed. Counterparty default risk reflects the risk of loss arising from a counterparty being unable to fully discharge an obligation to the Company. It will typically include counterparties to fixed interest securities, reinsurers and other parties that the Company is exposed to. The Company has limited tolerance for credit & counterparty risk.

Bad debt provisions are maintained as needed to offset known/anticipated reinsurance collection issues. Given that all business relates to the run-off of a mature portfolio, there is limited scope for changing reinsurance programs. The Company seeks to avoid excessive exposure to poorly-rated reinsurers. Overall the risk appetite for finance risk is low. The availability of funds to settle claims as and when they fall due is a fundamental business requirement.

The Company is also exposed to credit default risk on the assets invested. The Company's risk appetite for this risk is low. It manages this risk by holding a wide range of assets, with a preference for government bonds and highly secure corporate bonds with limited holdings with a credit rating below A as identified in the risk management framework. The Investment Policy requires a minimum average portfolio quality of BBB+ using Standard & Poor's ratings.

The Company's exposure to reinsurers will be monitored as appropriate. A minimum rating of BBB is required by the Company's Reinsurance Policy for all reinsurance counterparties.

### Investments

The Company is guided by its investment guidelines when making investments and the portfolio is monitored on a regular basis to ensure compliance. The guidelines seek to maximize Net Investment Income ("NII") while preserving invested capital subject to the requirements of the insurance business. Consequently, the Company seeks a weighted average credit quality of at least BBB+.

There were no significant concentrations in the debt securities portfolio of credit risk to any individual issuer at 31 December 2017 or 31 December 2016. The average credit rating of the bond portfolios is as follows:

| | **Euro** | **USD** |
|---|---|---|
| 31 December 2017 | A+ | - |
| 31 December 2016 | A+ | A+ |

The lowest rated investments held and exposures were as follows:

| | **Euro (BBB-)** | **USD (BBB+)** |
|---|---|---|
| 31 December 2017 | €190 | - |
| | **Euro (BBB-)** | **USD (BBB+)** |
| 31 December 2016 | €468 | $1,156 |

There were no debt securities that were past due or impaired as of 31 December 2017 (2016: nil). The Company does not hold any unquoted investments.

### Reinsurance

The Company has reinsurance treaties in place with two major reinsurers. The company has a reinsurance strategy in place that is reviewed annually by the Board. The strategy indicates that the reinsurers the company enters in to reinsurance with should be at least grade A+.

There are no off-balance sheet positions and no risk transfer transactions with special purpose vehicles, nor was there the previous year.

## C.4 *Liquidity Risk*

Liquidity risk is the risk arising from an inability to meet cash flow requirements. The Company has little tolerance for liquidity risk. Liquidity risk is mitigated by the Company's investment policy. The Company invests in high quality and liquid assets per the policy. Investment policies and risk tolerances are set out in the Company's Investment Policy.

In addition, the Company employs cash forecasting to identify any potential shortages in funds required to meet expected cash flows. Any negative forecasts must be reviewed with the CEO and where necessary funds must be recalled from the asset manager.

Where credit terms or claim payments are delayed by greater than 10 days remedial action will be required within 10 days. Where delays in settlements in excess of €250 are due to shortages of liquid available funds and the delay is in excess of 20 days will be deemed a material breach of the risk appetite.

All assets are investment grade and quoted on recognised exchanges thereby limiting the exposure to liquidity risk.

The regulations require us to state in this report the amount of expected profit included in future premiums. At year-end 2017, expected profit included in future premiums was €1,900 gross of tax, noting that this figure was €2,400 at the previous year-end. As this figure contributes to the Own Funds of the Company, it increases the assets we have available to cover our required capital.

When we assess whether our liquid resources are adequate, as described above, we do not count the expected profit included in future premiums as it is not a liquid asset.

## C.5 *Operational Risk*

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, third party service providers or from external events. The Company's operational risk appetite is low and is partly determined by the view that operational risks are capable of being managed to a large extent.

The Company has a detailed Anti-Money Laundering and Financial Crime Policy. Annual training is undertaken by all members of staff and is reported to Group. The Company continues to screen its active policyholder database on a weekly basis against the Office of Foreign Assets Control sanctions programs and information and against the Bank of England sanctions lists. Any potential hits are immediately discounted through reviewing and signed off by a relevant officer within the Company. Any positive hits are reported to the relevant authorities.

The Company employs a detailed risk register containing detailed schedules of identified potential risks, risk owner, acceptable levels of risk, required actions to manage acceptable risks and where escalation is required.

The risk register is an integral part of the risk management framework.

## C.6 *Other Material Risks*

## C.6 (a) Regulatory Risk

Regulatory risk (including compliance risk) is the risk arising from failure to comply with statutory or regulatory requirements. The Company's regulatory risk appetite is low. The Company has invested in people, systems and controls to minimize the possibility of failing to meet legal and regulatory obligations.

The Company regularly engages with its Head of Actuarial Function, Chief Financial Officer, group risk department, and various legal and professional advisors to ensure its continuing adherence to all regulatory requirements.

Acceptable levels of and required actions to ensure continuing compliance with all regulatory requirements are included in the risk management framework.

## C.6 (b) Tax Risk

Tax risk is the risk of the Company failing to comply with various tax filing requirements. The Company has no appetite for tax risk.

The Company seeks advice from tax advisors on an on-going basis thereby limiting its exposure to tax risk.

## C.6 (c) Group Risks (including Strategy, Regulatory, and Reputational Risks)

The Company's strategic risk appetite is low. The Company accepts strategic risk arising from external factors such as adverse changes in regulation or the actions of competitors. We mitigate this risk by obtaining expert advice and carrying out detailed due diligence and risk reviews e.g. on transactions and other strategic initiatives. We contribute to industry forums and engage with our regulators. We promote a transparent risk culture and strong corporate governance.

The Company has very low appetite for strategic funding risk, and mitigates this by ensuring that funding is secure before entering into new transactions.

Regulatory risk appetite is also low as the Company has a legal obligation to comply with regulation. There is zero appetite for non-compliance of legal, professional and regulatory obligations. Threshold and timelines have been set in place whereby breeches are notified to the risk management team and clear reporting lines in terms of roles and responsibilities are defined.

The Company's Ultimate parent company Monument Re continues to invest in building substance globally and as such continues to develop the necessary systems and controls to minimise reputational risk. The Company appreciates that potential target companies and books of business may have reputations risks attached due to actions or decisions taken by the former owners of the relevant business. The Company will seek to mitigate any future reputational risk by:

- engaging with policyholder groups;
- following professional and legal advice
- adhering to all regulatory and statutory requirements

The Company's own funds are entirely separated from other Group companies and are comprised of 100% Tier 1 capital

The Company's arrangements with Monument Re companies are conducted on an arm's length basis within certain group strategic objectives that relate to the effective management of the business. The main areas of interaction are through the shared services model which principally applies to:

- Policy administration
- Finance
- Risk management function
- Compliance function
- Actuarial function
- Group internal audit function

All such arrangements are conducted in accordance with the relevant internal policies and procedures and subject to the approval of the Company's Board of Directors which includes independent non-executive directors. The arm's length Master Services Agreements included various governance requirements that the provider must meet and is monitored against.

### C.6 (d) Outsourcing Risk

Business activities that are outsourced via Service Level Agreements (including to Monument Re companies) are reviewed on a regular basis to ensure that they are appropriate for the requirements of the business. Conduct risk is the risk that the Company's activities result in poor outcomes for policyholders.

Although the Company's internal audit and actuarial services are outsourced, the Board of Directors remains fully accountable for the risks inherent in the business in accordance with the Outsourcing Policy. Regular review of outsource providers is a control that is attested to quarterly.

### C.6 (e) Brexit

The Company underwrites insurance policies under the 'Freedom of Services' directive, otherwise referred to as 'passporting'. There is a risk that the Company will be required to have separate authorisation from the UK regulatory authorities and fails to do so by the date that the UK leaves the EU.

### C.6 (f) Acquisition and Integration Risk

The Group's strategy is to acquire and consolidate books of life assurance operations in the European market and the Company may play an active role in this. Risks associated with acquisitions and their integration into the business are mitigated by due diligence, capitalisation and change management.

There is no other material information regarding the risk profile of the Company other than what has been reported in this section.

# D. Valuation for Solvency Purposes

This section is about the Company's valuation of each asset and liability used for Solvency II purposes. The methods and assumptions used for the valuation of assets, technical provisions and other liabilities follow the approaches prescribed under Solvency II valuation rules and Irish GAAP, as appropriate.

The different accounting rules results in no differences in the value of assets, whereas the inclusion of margins for prudence with the Irish GAAP provisions leads to a higher figure for technical provisions in the financial statements. The following table provides for each major balance sheet category a comparison of the amounts reported in the Company's annual report which are reported under Irish GAAP principles and the amounts reported in the Solvency II balance sheet as at 31st December 2017.

**Table 1: Comparison of Irish GAAP and Solvency II Balance Sheets as at 31 December 2017**

| €000s | | Irish GAAP | Reclassification Differences | Valuation Differences | Solvency II |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| | Investments - Bonds | 7,275 | 74 | | 7,349 |
| | Other investments | 74 | | (74) | 0 |
| | Reinsurance recoverables | 95 | | | 95 |
| | Reinsurance receivables | 70 | | | 70 |
| | Cash and cash equivalents | 793 | | | 793 |
| | Any other assets | 40 | | | 40 |
| | **Total** | **8,347** | **74** | **(74)** | **8,347** |
| | | | | | |
| **Liabilities** | | | | | |
| | Technical Provisions | 3,513 | | (1,931) | 1,584 |
| | Reinsurance payables | 193 | | | 193 |
| | Insurance Payables | 72 | | | 72 |
| | Other payables | 168 | | | 168 |
| | **Total** | **3,946** | **0** | **(1,931)** | **2,017** |
| | | | | | |
| **Excess of assets over liabilities** | | **4,401** | **74** | **1,857** | **6,332** |

The following sections provide an explanation of the bases, methods and assumptions used for Solvency II valuation purposes for the main balance sheet categories, including an explanation where applicable, of the differences between the Irish GAAP financial statements and the Solvency II balance sheet.

## D.1 *Assets*

### D.1 (a) Investments

Investments consist entirely of investment grade, liquid, fixed maturity securities of short-to-medium duration. FRS102 requires the Company to classify financial instruments measured at fair value into the following hierarchy:

1. Instruments fair valued using a quoted price for an identical asset or liability in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

2. Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
3. Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

All government and corporate bonds (€7,349) at year-end 2017 were deemed to be values in line with Level 2, and this was the case at the previous year-end (€38,316).

The Company recognises and measures financial assets and financial liabilities in accordance with IAS 39 as permitted by FRS 102.

**a. Classification**

The Company has designated its investments into the financial assets at fair value through profit or loss category.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading which include Bonds.
- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes.

Financial liabilities that are not at fair value through profit or loss include accounts payable and claims payable.

**b. Recognition and measurement**

Purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset.

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in fair value recognised in the profit and loss account.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

**c. Fair value measurement principles.**

The fair value of the financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the Profit and Loss Account in the period in which they arise.

#### d. Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Investments in the Solvency II balance sheet include accrued interest which represents interest earned since the last coupon or interest payment date. Accrued interest is reported as a separate category in the Irish GAAP balance sheet. In all other respects, the amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

### D.1 (b) Reinsurance receivable

The Company cedes insurance premiums and risk in the normal course of business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct insurance business being reinsured. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

The reinsurance receivable amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

### D.1 (c) Receivables

Other non-insurance debtors and prepayments.

The amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

### D.1 (d) Cash & cash equivalents

This relates to deposits exchangeable for currency on demand at par and which can be used for making payments without penalty or restriction. The valuation of such deposits is equal to the actual amounts deposited with the bank.

### D.1 (e) Other assets

Other assets in the Irish GAAP balance sheet consist prepayments and receivables.

Reinsurance recoveries are calculated on a basis consistent with the technical provisions. They are equal to the present value of the projected amounts of claims recovered from reinsurers minus the present value of the reinsurance premiums paid.

The reinsurance recoveries in respect of the UK life business on an Irish GAAP basis are €26,000. These are valued at zero under Solvency II, as the reinsurance recoveries and the reinsurance premiums are calculated using the same mortality rates.

## D.2 *Technical provisions*

The following table provides an analysis of gross technical provisions by line of business including risk margin, under Solvency II and on an Irish GAAP basis.

**Table 2: Comparison of technical provisions as at 31 December 2017 and 2016**

| €000s | Solvency II | Irish GAAP | Difference |
|---|---|---|---|
| Best Estimate Liabilities | 1,312 | 3,231 | (1,919) |
| Risk Margin | 271 | 283 | (12) |
| **Total** | **1,583** | **3,514** | **(1,931)** |

The difference in the Best Estimate Liabilities reflects that not all profits expected on the book are allowed for within on an Irish GAAP basis. This allows for an explicit margin of prudence on the Irish GAAP balance sheet.

There is a minor difference in the risk margin used, reflecting the earlier cut-off for the values used in the Irish GAAP valuation. There was a minor revision made to the risk drivers underlying the Solvency II Risk Margin following this cut-off date.

### D.2 (a) Assumptions

The key assumptions underlying the calculation of the technical provisions are the claim rates (expressed as percentages of the reinsurers' mortality tables), expense budget, lapses rates and discount rates.

The Company has a service level agreement in place with another group entity, MISL to provide the administration of the Laguna business. There is an agreed fee between MISL and the Company based on a per policy cost. In addition, the Company incurs some direct costs. These expenses are projected in line with the best estimate lapse assumption. Expenses are then inflated using an assumption of 2% per annum.

The lapse rates are determined with reference to the Company's past experience. The lapse experience is analysed based on the duration in force and consequently the assumptions are also varied by duration. An assumption for future years of 6% per annum was used for the UK business while the Spanish assumption was 22.5% in policy year 8, reducing to an ultimate lapse rate of 10% in policy year 13.

The discount rates used in the calculation of the technical provisions is the risk-free term structure provided by EIOPA. No volatility adjustment or matching adjustment is applied to these rates and transition arrangements were not used. The UK cashflows were discounted using the GBP curve, while the Spanish cashflows and expenses were discounted using the EUR curve.

The only significant change to the assumptions over the course of the year, was to amend the per policy expense to reflect the services agreement with MISL, from the full direct expenses that Laguna would have been exposed to previously.

### D.2 (b) Methodology

The technical provisions for the Company equal the sum of the Best Estimate Liability ("**BEL**") and the Risk Margin ("**RM**"). The BEL is the present value of the future cashflows of the business calculated on a deterministic basis. The cashflows allow for premiums and claims on the business, policy lapses, and the Company's expenses.

The BEL calculation is carried out on a gross of reinsurance basis. However, the cashflows related to the reinsurance treaties are modelled so that the reinsurance recoverables can also be calculated.

The BEL is calculated policy-by-policy for all contracts in force at the valuation date that are within the definition of contract boundaries under Solvency II. As the UK accelerated critical illness business is considered to be outside of the contract boundary, it is not projected as part of the BEL. The discount rate is the risk-free interest rate term structure for the relevant currency.

The RM is the cost of holding the unhedgeable components of the SCR over the lifetime of the obligations (as defined in Solvency II). The cost of capital rate is specified in the regulations and is currently set to 6%. The RM is calculated according to the Solvency II cost-of-capital approach. A full projection of the applicable components of the SCR for each year in the future is not feasible given the long-term nature of the liabilities.

Article 58 of the Delegated Regulation allows for a simplified approach to be used when explicit calculation of the future SCR components is not practical. The Company uses a risk driver approach. The projected SCR is expected to move in line with the Company's projected BEL for the majority of the risk drivers, with the exception of the counterparty default and operational risk modules, which are expected to move in line with the future expected premium. The market components of the SCR are assumed hedgeable and are therefore excluded from the projected SCR in calculating the RM.

### D.2 (c) Indication of the level of uncertainty

There is inherent uncertainty in any estimate of technical provisions, as the ultimate cost of claims is subject to the outcome of events which are yet to occur, and the advent of Brexit has created additional uncertainty.

The main sources of uncertainty with regard to the future cost of claims include the following:

- Actual claims levels may increase
- The future economic environment may cause claims to increase
- Additional uncertainty stems from future expenses and premiums

An active approach is taken by management to identify sources of uncertainty, quantify them and take actions to mitigate their potential impact. The high level of reinsurance in place is indicative of management's approach in this regard.

### D.2 (d) Matching adjustment

A matching adjustment was not applied to the valuation of the technical provisions at year-end 2017, and was not applied at year-end 2016.

### D.2 (e) Volatility adjustment

A volatility adjustment was not applied to the valuation of the technical provisions at year-end 2017, and was not applied at year-end 2016.

### D.2 (f) Transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure was not applied to the valuation of the technical provisions at year-end 2017, and was not applied at year-end 2016.

### D.2 (g) Transitional deduction

The transitional deduction was not used by the Company at year-end 2017, and was not used at year-end 2016.

### D.2 (h) Change in assumptions

The main material change during 2017 in the relevant assumptions made in the calculation of the technical provisions of the Company was the change to the expense base.

### D.2 (i) Special Purpose Vehicle

There were no special purpose vehicles at 31st December 2017, and this was the case at the previous year-end.

## D.3 *Other liabilities*

### D.3 (a) Any other liabilities

Any other liabilities consist primarily of accruals for expenses and taxes incurred but not yet settled. Expenses are recorded for on an accrual basis in the period in which they are incurred.

The amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

## D.4 *Alternative methods for valuation*

Due to the nature of the Company's assets, SII valuation principles based on quoted market prices for identical or similar assets are not relevant. As stated in D.1, the inputs used to value assets are based on observable data for each individual asset and is consistent with how these assets are valued in the Company's financial statements.

## D.5 *Any other information*

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

# E. CAPITAL MANAGEMENT

This section describes the components of the Company's Own Funds as at 31 December 2017, as well as the policies and processes the Company uses to make sure it meets all regulatory capital requirements when it manages Own Funds.

## E.1 *Own funds*

'Own Funds' refers to the excess of the value of the Company's assets over the value of its liabilities, where the value of its liabilities includes technical provisions and other liabilities. Own Funds are divided into three tiers based on their permanence, and how well they can absorb losses. Tier 1 are of the highest quality.

### E.1 (a) Objectives, policies and processes employed by the undertaking for managing its Own Funds

One of the core objectives of the Company's strategy is to maintain its financial strength. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers. There were no material changes over the reporting period with regards to objectives, policies and processes employed by the Company for managing its Own Funds. The capital management policy sets out the objectives of the Company in this regard. The key objective of this policy is to ensure that the regulatory requirement for the Solvency Coverage is met by at least 100% on an ongoing basis. Processes and reporting are in place to meet this objective. The capital management policy outlines the actions available to the management and the Board at different levels of the reporting solvency ratio.

The Basic Own Funds for the Company are calculated quarterly through the production of the technical provisions and a valuation of the Company's balance sheet. The technical provisions are valued using the policyholder information at the end of the quarter and included in the valuation of the balance sheet. The value of the Own Funds is approved by the CFO on a quarterly basis, whilst annually, the Own Funds is approved by the Board in the annual filings to the CBI.

Between the quarterly production runs, an estimate of the Own Funds is calculated regularly to provide an input to an estimated SCR ratio. This uses the values from the ORSA to estimate the balance sheet position.

### E.1 (b) (c) (d) Information on Own Funds and the amount eligible to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

**Table 3: Breakdown of Own Funds as at 31 December 2017 and 2016**

| €000s | Total Own Funds | Total Own Funds | Tier | Eligible Own Funds to cover SCR | Eligible Own Funds to cover SCR | Eligible Own Funds to cover MCR | Eligible Own Funds to cover MCR |
|---|---|---|---|---|---|---|---|
| | Dec 2016 | Dec 2017 | | Dec 2016 | Dec 2017 | Dec 2016 | Dec 2017 |
| Ordinary Share Capital | 635 | 635 | 1 | 635 | 635 | 635 | 635 |
| Reconciliation reserve | (29,056) | (19,981) | 1 | (29,056) | (19,981) | (29,056) | (19,981) |
| Other Own Funds | 57,678 | 25,678 | 1 | 57,678 | 25,678 | 57,678 | 25,678 |
| **Total Basic Own Funds** | **29,256** | **6,332** | | **29,256** | **6,332** | **29,256** | **6,332** |

There are no restrictions on the availability of the Company's Own Funds other than to meet the MCR and SCR dictated by the Directive and subsequent Delegated Acts and implementing technical standards issued by EIOPA.

The Company's Equity as reported in its audited financial statements was €4,402 compared to Own Funds as reported above on a Solvency II basis of €6,332.

During the year the Company's Own Funds have decreased from €29,256 to €6,332, mainly stemming from the dividend paid by the Company to its parent of €32,000 and the introduction of the MISL services agreement, and its subsequent impact on the expenses capitalised in the value of the technical provisions.

All Own Funds were considered to be Tier 1 funds throughout the year.

### E.1 (e) Material differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for solvency purposes

The following table summarises the differences between Shareholders Equity reported in the Company's financial statements and the excess of assets over liabilities for solvency purposes. The main difference arises from the value of the technical provisions, whereby there are additional margins of prudence in the methodology applied to the provisions in the financial statements, which does not hold any additional capital buffers.

**Table 4: Financial Statements Equity versus Own Funds as at 31 December 2017 and 2016**

| €000s | 2017 | 2016 |
|---|---|---|
| **Shareholder Equity per financial statements** | **4,402** | **26,996** |
| Difference in the valuation of assets | 0 | 0 |
| Difference in the valuation of technical provisions | 1,930 | 2,260 |
| **Solvency II Excess of Assets over Liabilities** | **6,332** | **29,256** |

### E.1 (f) Basic own fund item subject to the transitional arrangements
The Company did not use any Solvency II transitional arrangements for year-end 2017 and 2016.

### E.1 (g) Ancillary Own Funds
The Company did not have any ancillary own fund items at year-end 2017 and 2016.

### E.1 (h) Material items deducted from Own Funds
There are no material items deducted from Own Funds, which is the same as last year.

## E.2 *Solvency Capital Requirement split by risk module*
The Company calculates the SCR using the standard formula. The SCR is the modelled value of a 1-in-200 year loss of Own Funds occurring in the next year. The SCR includes the Basic Solvency Capital Requirement, together with an SCR component in respect of operational risk. Given that the Company has a large amount of carried forward losses, no adjustment is made to allow for a reduction in the SCR for the loss-absorbing capacity of deferred taxes and technical provisions.

The Basic Solvency Capital Requirement is calculated via a set of EIOPA defined stresses, that are split into the following modules:

- Market
- Counterparty (default)
- Life underwriting
- Non-life underwriting
- Health underwriting

These modules are then combined using correlation factors as defined by EIOPA. The following table shows the split of the SCR at end December 2017 and at end December 2016.

**Table 5: Breakdown of SCR by risk module as at 31 December 2017 and 2016**

| €000s | 2017 | 2016 |
|---|---|---|
| Market | 568 | 3,676 |
| Counterparty (default) | 67 | 103 |
| Life underwriting | 1,031 | 2,633 |
| Non-life underwriting | - | - |
| Health underwriting | - | - |
| **Basic Solvency Capital Requirement** | **1,317** | **5,061** |
| Operational Risk | 72 | 86 |
| **Solvency Capital Requirement** | **1,390** | **5,146** |

The Non-life and Health modules do not apply to the Company, as its balance sheet is not exposed to these risks.

### E.2 (a) Use of simplified methods

The Company does not use any simplified calculations or undertaking-specific parameters to arrive at its SCR at year-end 2017, nor did it for the SCR as calculated at year-end 2016.

### E.2 (b) Undertaking specific parameters and capital add-ons

No capital add-ons apply to the Company at year-end 2017, nor did it at year-end 2016. The Company did not use undertaking specific parameters, nor did it last year.

### E.2 (c) MCR

The Company's MCR is €3,700, being the Absolute Minimum Capital Requirement. The "Linear MCR" is equal to 2.1% of the Technical Provisions plus 0.07% of the Capital at Risk, giving €60. The "Combined MCR" is equal to the lower limit of 25% of the SCR (with the upper limit being 45% of the SCR). This gives a "Combined MCR" of €350. The absolute floor of €3,700 therefore applies. This floor also applied for the previous year-end.

### E.2 (d) Changes since the previous reporting period

The SCR reduced during the year, going from a value of €5,146 to €1,389. This is mostly due to the payment of a dividend of €32,000 from the Company to its parent MADAC.

As the calculated MCR is less than a minimum floor, the Absolute Minimum Capital Requirement, as prescribed by EIOPA for Life Assurance Companies is applied. The MCR was set to €3,700 at year-end 2017, as was also the case at year-end 2016.

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

We do not use the duration based equity risk sub-module, nor did we use this measure last year.

## E.4 *Differences between the standard formula and any internal model used*

We use the standard formula to calculate the SCR, so there are no differences between the standard formula and our internal model, and we used the standard formula to calculate our SCR in the previous year.

## E.5 *Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement*

The Company remained compliant with the Minimum Capital Requirement and the Solvency Capital Requirement throughout the reporting period.

## E.6 *Any other information*

### E.6 (a) Capital transactions in 2017

The Company paid a dividend of €32,000 to its parent, MADAC during 2017.

## Appendix 1 – List of public QRT to be disclosed

Article 4 - Templates for the solvency and financial condition report of individual undertakings.

- Template S.02.01.02 of Annex I, specifying balance sheet information using the valuation in accordance with Article 75 of Directive 2009/138/EC, following the instructions set out in section S.02.01 of Annex II to this Regulation;

- Template S.05.01.02 of Annex I, specifying information on premiums, claims and expenses using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.01 of Annex II to this Regulation, for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;

- Template S.05.02.01 of Annex I, specifying information on premiums, claims and expenses by country using the valuation and recognition principles used in the undertaking's financial statements, following the instructions set out in section S.05.02 of Annex II;

- Template S.12.01.02 of Annex I, specifying information on the technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance ('health SLT') for each line of business as defined in Annex I to Delegated Regulation (EU) 2015/35, following the instructions set out in section S.12.01 of Annex II to this Regulation;

- Template S.23.01.01 of Annex I, specifying information on own funds, including basic own funds and ancillary own funds, following the instructions set out in section S.23.01 of Annex II;

- Template S.25.01.21 of Annex I, specifying information on the Solvency Capital Requirement calculated using the standard formula, following the instructions set out in section S.25.01 of Annex II;

- Template S.28.01.01 of Annex I, specifying the Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only life or only non-life insurance or reinsurance activity, following the instructions set out in section S.28.01 of Annex II;

## Appendix 2 - Glossary

**Absolute Minimum Capital Requirement:** This is an amount of money that the Company is obliged to hold as capital as an absolute floor. This is defined as €3.7m for the Company, as it is a life assurance company, under Regulation 140 of Statutory Instrument 485/2015.

**Aspecta Assurance International Luxembourg S.A.** ("Aspecta"), a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain, which was incorporated in 2000 as a 100% subsidiary of Talanx Group.

**Basic Own Funds:** According to art. 88 of Solvency II Directive 2009/138/CE, Basic Own Funds are defined as the sum of the excess of assets over liabilities measured on market consistent principles in accordance with art. 75 of Solvency II Directive 2009/138/CE and reduced by the amount of own shares held by the insurance or reinsurance undertaking, and subordinated liabilities.

**Best estimate liability:** The Best Estimate Liability represents the expected present value of future cashflows related to insurance and reinsurance obligations in force at valuation date. The Best Estimate Liability is calculated on a gross of reinsurance basis, i.e. without any deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

**Best estimate operating assumptions:** The assumptions on all those non-financial factors which can have an impact on future cashflows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions.

**Brexit:** abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU).

**Cash and cash equivalents:** the item includes cash and highly-liquid short-term financial investments (readily convertible in specific amounts of cash which are subject to an irrelevant risk of change in value). Furthermore, this asset class includes also short-term deposits and money-market investment funds, which are included in the Group liquidity management.

**Chief Risk Officer (CRO):** Chief Risk Officer of the Company, outsourced to Monument Insurance Services Limited.

**Combined MCR:** The Combined Minimum Capital Requirement is equal to the lower limit of 25% of the SCR (with the upper limit being 45% of the SCR).

**Compliance Function Charter:** The responsibilities of the compliance function are described in the Compliance Function Charter.

**Contract boundaries:** This is the limit beyond which relevant cash flows are excluded from the calculation of technical provisions. It is defined in line with Article 18 of the Delegated Acts, and refers to future dates where the insurance undertaking has a unilateral right either to terminate the contract, or to reject payable premiums or to amend the payable premiums or the benefits in such a way that the premiums fully reflect the risks.

**Control function (CF):** A control function is a function in relation to the provision of financial service which is prescribed by the Central Bank of Ireland as a control function.

**Correlation factors:** Factors which reflect the relationships between the risks included in the calculation of the Solvency Capital Requirement.

**Counterparty default risk adjustment:** The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover because of the possible default of the reinsurance counterparty at any point in time in the future.

**Delegated act:** As part of the Lisbon Treaty, the EU created a tool to put a law in place. They used an 'implementing act' for ruling on procedure and on how to follow legislation that already exists and use a delegated act for ruling on the content of legislation. The Solvency II requirement includes various implementing acts and delegated acts.

**Deloitte:** The Company's internal audit function is outsourced to Deloitte Ireland.

**Expected Profit Included in Future Premiums (EPIFP):** it is the expected present value of future cash flows, if positive, which results from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

**Fixed income instruments:** direct investments in government and corporate bonds, loans, term deposits other than those presented as cash and cash equivalents, and reinsurance deposits. Moreover, this asset class includes also investments funds mainly exposed to investments or risks similar to direct investments presented within this asset class.

**Head of Internal Audit:** The Company's head of internal audit is outsourced to Deloitte Ireland.

**Insurance contracts:** a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary [Appendix A, IFRS4].

**Investments properties:** direct investments in real-estates. Moreover, this asset class includes also investments funds mainly exposed to real-estate investments.

**Key Risk Indicators (KRI):** is a measure used in management to indicate how risky an activity is. Key risk indicators are metrics used by organisations to provide an early signal of increasing risk exposures in various areas of the enterprise.

**Linear MCR:** The Linear Minimum Capital Requirement is equal to 2.1% of the Technical Provisions plus 0.07% of the Capital at Risk.

**Laguna Life Limited (the Company, LLDAC):** The regulated entity to which this report pertains.

**Long term guarantee adjustments and transitional measures:** This expression refers to the matching adjustment (as set out in article 77b of Solvency II Directive 2009/138/EU), the volatility adjustment (as set out in article 77d of Solvency II Directive 2009/138/EU), the transitional measure on the risk-free interest rates (as set out in article 308c of Solvency II Directive 2009/138/EU) and the transitional measure on technical provisions (as set out in article 308d of Solvency II Directive 2009/138/EU).

**Master Services Agreement (MSA):** A master service agreement, or MSA, is a contract reached between parties, in which the parties agree to most of the terms that will govern future transactions or future agreements.

**Milliman:** The Company's actuarial function and Head of Actuarial Function providers to March 2018.

**Minimum Capital Requirement (MCR):** The Minimum Capital Requirement corresponds to an amount of eligible basic Own Funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk were insurance and reinsurance undertakings allowed to continue their operations. It corresponds to the Value-at-Risk of the basic Own Funds subject to a confidence level of 85% over a one-year period (Solvency II Directive 2009/138/CE, Art. 129).

**Monument Assurance designated activity company (MADAC):** parent company of Laguna Life dac

**Monument Insurance Services Limited (MISL):** outsourced service provider and related party.

**Net cash inflows:** it is an indicator of cash flows generation of the life segment. It is equal to the amount of premiums collected net of benefits paid.

**Other investments:** includes participations in non-consolidated Group companies, derivative investments and receivables form banks and customers, the latter mainly related to normal banking operations.

**Own Funds:** According to art. 87 of Solvency II Directive 2009/138/EU, Own Funds are defined as the sum of basic Own Funds and ancillary Own Funds.

**Per policy fee:** Administration fees charges by Monument Insurance Services Limited are charged monthly. The fee is a function of the number of policies and the agreed policy administration fee.

**Pre-approved Control Function (PCF):** Persons performing PCF roles must be pre-approved by the Central Bank of Ireland in order to take up the role.

**Premiums Reserves:** The Premiums Reserves (or Premium Provisions) are reserves for contracts that are either in force at the valuation date or for which a legal obligation exists to provide coverage.

**Reinsurance recoverables:** Reinsurance recoverables represent the amount of best estimate liability expected to be recovered via reinsurance treaties or special purpose reinsurance vehicles and correspond to the expected present value of the future cash flows referring to the in-force reinsurance agreements.

**Risk Appetite Framework (RAF):** The Risk Appetite Framework sets the overall risk strategy in terms of aggregate level of risk that the Company's board is willing to accept or avoid in order to achieve its business objectives.

**Risk Control Self-Assessment (RCSA):** is the process of identifying, recording and assessing potential risks and related controls.

**Risk Management Framework (RMF):** The Risk Management Framework is the structured process used to identify potential threats to an organisation and to define the strategy for removing or minimising the impact of these risks as well as the mechanisms to effectively control and evaluate actions.

**Risk Margin (RM):** The risk margin is the part of technical provisions that should ensure that the overall value of the technical provisions is equivalent to the amount a third party would theoretically require in order to take over and meet the insurance liabilities, taking into account the cost of capital required to support those liabilities over their remaining future lifetime and regarding non-hedgeable risks such as underwriting and operational risks.

**Solvency II ratio:** defined as the ratio between the Eligible Own Funds and the Solvency Capital requirement, both calculated according to the definitions of the Solvency II regime. The ratio has to be intended as preliminary since the definitive Regulatory Solvency Ratio will be submitted to the supervisory authority in accordance with the timing provided by the Solvency II regulations for the official reporting.

**Solvency Capital Requirement (SCR):** The Solvency Capital Requirement is determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that ruin occurs no more often than once in every 200 cases or, alternatively, that those undertakings will still be in a position, with a probability of at least 99.5%, to meet their obligations to policyholders and beneficiaries over the following 12 months (Solvency II Directive 2009/138/EU).

**Solvency and Financial Condition Report (SFCR):** The SFCR helps policyholders and other stakeholders better understand the Company's regulatory capital and financial position as required by the European-wide Solvency II regulations and regime.

**Standard formula:** The standard formula is a standard method defined by Solvency II Directive for the calculation of the Solvency Capital Requirement. The standard formula covers the following risks: non-life underwriting risk, life underwriting risk, health underwriting risk, market risk, counterparty default risk and operational risk.

**Technical provisions:** The technical provisions correspond to the sum of the best estimate liability and risk margin. In case where technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables net of the counterparty default adjustment is deducted from the technical provisions.

**Three lines of defence:** In the Three Lines of Defence model, management control is the first line of defence in risk management, the various risk control and compliance over-sight functions established by management are the second line of defence, and internal auditor is the third.