# Laguna Life DAC

Directors' Report and Financial Statements

**Registered number 325795**

**Year ended 31 December 2017**

# Laguna Life DAC

## Report and financial statements

*Contents*

# Laguna Life DAC

## Directors and other information

| | |
|---|---|
| **Directors** | Kieran Hayes (Ireland)<br>Keith Haynes (Ireland)<br>Alex Brogden (United Kingdom) (appointed 29 August 2017)<br>Jonathan Yates (United Kingdom) (appointed 29 August 2017)<br>Manfred Maske (Germany) (appointed 29 August 2017)<br>Sheelagh Malin (Ireland) (appointed 29 August 2017)<br>Ian Britchfield (Ireland) (appointed 29 August 2017) |
| **Secretary & Registered office** | Keith Haynes<br>Europa House<br>Block 9<br>Harcourt Centre<br>Harcourt Street<br>Dublin 2<br>D02 WR20 |
| **Independent auditor** | PricewaterhouseCoopers<br>One Spencer Dock<br>North Wall Quay<br>Dublin 1 |
| **Bankers** | Citibank International plc<br>1 North Wall Quay<br>Dublin 1 |
| **Reporting Actuary** | Dermot Mannion<br>Europa House<br>Block 9<br>Harcourt Centre<br>Harcourt Street<br>Dublin 2 |
| **Registered number** | 325795 |

# Laguna Life DAC

## Directors' report

Company number 325795

The directors present their annual report together with the audited financial statements for the year ended 31 December 2017.

**Review of the business**

The principal activities of Laguna Life DAC ("Laguna" or "the Company") are the run-off of life assurance policies written before the Company closed to new business in November 2009 and the purchase and consolidation of life assurance books. On 29 August 2017 the Company was sold by Enstar Group Limited to Monument Assurance DAC, an Irish registered company. Monument Assurance's ultimate parent is Monument Re Limited a Bermuda registered company.

The key financial and other performance indicators during the year were as follows:

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Gross premium income | **1,798,877** | **2,140,722** |
| Gross claims charge | **(390,075)** | **(887,732)** |
| Investment income | **536,955** | **983,921** |
| Investment (losses)/gains | **(202,148)** | **190,203** |
| Profit/(loss) after tax | **9,405,297** | **(297,307)** |
| Equity shareholders' funds | **4,401,609** | **26,996,312** |

Laguna continued to service the in-force block of business within service standards. We continued to see a decrease in in-force policies during 2017, although at a lesser rate than the previous year. The main driver for this decrease was the continued lapse by policyholders.

The results for the year and the balance sheet are set out on pages 11 to 15. The Company experienced a profit for the financial year of €9,405,297 (2016 loss: €297,307).

Premium income for the year amounted to €1,798,877 (2016: €2,140,722) a decrease of 16%. Of the 2017 gross written premium €1,110,675 (2016: €1,327,154) was written in Spain, with €688,202 (2016: €813,568) written in the UK.

Investment income for the year amounted to €536,955 (2016: €983,921). Losses on investments for the year are €202,148 (2016: gains €190,203). All investment income is interest earned on high quality Government bonds, corporate bonds, or deposit interest earned on short term deposits placed with various financial institutions.

The Company, through its parent, continues to actively seek opportunities within the run-off space.

**The Company's approach to financial risk and capital management**

(i) Governance framework

The primary objective of our risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. We recognise the critical importance of having effective and efficient risk management systems in place. To this end, the Company complies with the various Group requirements and the Corporate Governance Code for Credit Institutions and Insurance Undertakings issued by the Central Bank of Ireland in 2010 and updated in 2015. The Company is not required to comply with the additional requirements for major institutions. The Company's key operational indicators and key operational policies and guidelines are periodically reviewed and approved by the Board.

## Directors' report *(continued)*

(ii) Integration of financial risk and management

The business is subject to numerous regulatory requirements, which prescribe the type, quality and concentration of investments, and the level of assets to be maintained in order to meet insurance liabilities.

(iii) Management of financial risk and non-financial risk

The Company has established a number of policies focusing on the management of financial and non-financial risks. The Company also monitors a set of specific risks on a regular basis. This enables the Company to assess the overall risk exposure and to determine which risks and what level of risk the Company is prepared to accept and the adequacy of planned mitigating actions. The Company has exposure to a number of both insurance and financial risks. Further discussion of these risks and how these are managed are outlined in notes 21 and 22.

**Human resources policy**

The Human Resources policy is to equip our management and staff with all the necessary skills to ensure that the Company attains its organisational objectives.

The Company places emphasis on communication with employees, particularly on matters relating to its business and its performance. This is achieved in a number of ways, including periodic meetings and regular updates. All staff members transferred to Monument Insurance Services Limited under TUPE arrangements on 29 August 2017.

**Dividend**

The Company paid an interim dividend of €32,000,000 in 2017 (2016: €nil). The directors do not propose a final distribution for the year ended 31 December 2017 (2016: €nil).

**Directors of the Company**

The current directors are shown on page 2.

Manfred Maske, Alex Brogden, Jonathan Yates, Caspar Berendsen, Ian Britchfield and Sheelagh Malin were all appointed to the Board on 29 August 2017. Caspar Berendsen resigned from the Board on 7 December 2017. David Allen, Alastair Nicoll and Paul Thomas resigned from the Board on 29 August 2017.

The directors and secretary who held office at the 31st December 2017 had no interest in the shares, debenture or loan stock of the Company or Group other than those noted below:

| Name of Director | Name of Company and Description of Instrument | Interest at year end | Interest date of appointment |
|---|---|---|---|
| Jonathan Yates | Monument Insurance Group Limited Ordinary Shares | 200,000 | 200,000 |
| | Monument Insurance Group Preference Shares | 5,910,000 | 5,910,000 |

**Future development**

The Company continues to seek opportunities to expand its operations, and has submitted a change of business request to the Central Bank of Ireland to extend the current conditions of authorisation.

## Directors' report *(continued)*

**Post balance sheet events**

The Company has filed an update to the scheme of operations/material change in business plan with the Central Bank, with an objective to extend the conditions of authorisation.

The Company received €20m from its parent in March 2018. The funds are non-recourse once approved as tier one capital for Solvency II purposes by the Central Bank of Ireland.

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, its financial position and solvency are reviewed on an ongoing basis by senior management and the directors of the Company. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**Political donations**

The Company did not make any political donations during the year (2016: €nil).

**Accounting records**

The directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act, 2014 with regard to the keeping of adequate accounting records by employing personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at Europa House, Block 9, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

**Directors' Statement on Relevant Audit Information**

The Directors confirm that:

(a) so far as the Directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware, and

(b) the Directors have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

**Auditor**

PWC, Chartered Accountants and Register Auditor have been appointed as auditors during the year and have signified their willingness to continue in office in accordance with Section 383 (2) of the Companies Act 2014.

On behalf of the Board

Keith Haynes
*Director*

Kieran Hayes
*Director*

# Laguna Life DAC

## Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

On behalf of the Board

Keith Haynes
*Director*

Kieran Hayes
*Director*

pwc

# *Independent auditors' report to the members of Laguna Life DAC*

## Report on the audit of the financial statements

### Opinion

In our opinion Laguna Life DAC's financial statements (the "financial statements"):

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the directors' report and financial statements, which comprise:

- the balance sheet as at 31 December 2017;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

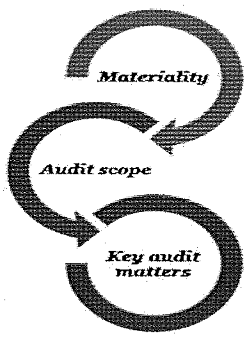
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

Other than those disclosed in the directors' report and financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

## Our audit approach

*Overview*




Materiality

- EUR44,000 – based on 1% of net assets

Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels

Key audit matters

- Valuation of life assurance business provision

### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of life assurance business provision**<br>*Refer to note 1, note 11 and note 22 to the financial statements*<br><br>The life assurance business provision is an estimate of the non-linked liabilities and amounts to EUR3.5 million at 31 December 2017.<br><br>The life assurance business provision is determined using standard actuarial methodologies and assumptions regarding future mortality, expense inflation, persistency and interest rates.<br><br>We focused on this balance as its calculation basis is complex and involves the use of detailed methodologies, multiple assumptions and significant judgements. | We assessed the design and operating effectiveness of controls surrounding the appropriate selection and determination of the methodologies applied, assumptions used and judgements reached with the assistance of our actuarial specialists. We assessed and challenged the bases used to set the underlying assumptions with reference to company experience, published mortality tables and wider market practice.<br><br>We assessed the calculations underpinning the life assurance business provision which are determined based on management's actuarial models by:<br><br>• checking that the data and the assumptions input into the actuarial models were in agreement with those that we had evaluated; and<br><br>• assessing management's controls over the output of the calculations including comparison and understanding of how that output compares to management's detailed estimations of the sources of profit within the principal classes of business; and<br><br>No matters were noted as a result of these procedures. |

*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall materiality* | EUR44,000 |
| *How we determined it* | 1% of net assets |
| *Rationale for benchmark applied* | Net assets is considered an appropriate benchmark given that the company is no longer writing business |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 5% of overall materiality or EUR2,200 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## Reporting on other information

The other information comprises all of the information in the directors' report and financial statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the directors' report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

- In our opinion, based on the work undertaken in the course of the audit, the information given in the directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

## Responsibilities for the financial statements and the audit

*Responsibilities of the directors for the financial statements*

As explained more fully in the statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at:https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

### Companies Act 2014 exception reporting

*Directors' remuneration and transactions*

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

### Appointment

We were appointed by the directors on 7 December 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 1 years, being the year ended 31 December 2017.

**Paraic Joyce**
**for and on behalf of PricewaterhouseCoopers**
**Chartered Accountants and Statutory Audit Firm**
**Dublin**

**30 April 2018**

# Laguna Life DAC

## Profit and loss account: technical account – life assurance business for the year ended 31 December 2017

| | *Note* | **2017** | **Year ended 31 December 2017** | 2016 | Year ended 31 December 2016 |
|---|---|---|---|---|---|
| | | **€** | **€** | € | € |
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | *3* | **1,798,877** | | 2,140,722 | |
| Outward reinsurance premiums | | **(947,362)** | | (1,058,541) | |
| **Earned premiums, net of reinsurance** | | | **851,515** | | 1,082,181 |
| **Claims incurred, net of reinsurance** | | | | | |
| **Claims paid** | | | | | |
| Gross amount | | **(390,075)** | | (887,732) | |
| Reinsurers' share | | **320,475** | | 786,026 | |
| Net claims paid | | **(69,600)** | | (101,706) | |
| **Change in provision for claims** | | | | | |
| Gross amount | 16 | **295,240** | | (42,842) | |
| Reinsurers' share | 16 | **(241,119)** | | 38,652 | |
| Change in the net provision for claims | | **54,121** | | (4,190) | |
| **Claims incurred, net of reinsurance** | | | **(15,479)** | | (105,896) |

# Laguna Life DAC

## Profit and loss account: technical account – life assurance business for the year ended 31 December 2017 *(continued)*

| | Note | 2017 € | Year ended 31 December 2017 € | 2016 € | Year ended 31 December 2016 € |
|---|---|---|---|---|---|
| **Change in other technical provisions, net of reinsurance** | | | | | |
| Life assurance provision | | | | | |
| Gross amount | 16 | **10,525,232** | | (524,472) | |
| Reinsurers' share | 16 | **(30,420)** | | 77,083 | |
| | | | **10,494,812** | | (447,389) |
| Net operating expenses | 5 | | **(1,062,579)** | | (1,335,240) |
| **Allocated investment return transferred (to)/from the non-technical account** | | | **(1,105,370)** | | 1,233,832 |
| **Balance on the technical account – life assurance business** | | | **9,162,899** | | 427,488 |

# Laguna Life DAC

## Profit and loss account: non technical account for the year ended 31 December 2017

| | Note | Year ended 31 December 2017 € | Year ended 31 December 2016 € |
|---|---|---|---|
| **Balance on the technical account - life assurance business** | | **9,162,899** | 427,488 |
| **Investment income** | | | |
| Net investment income | *4* | **536,955** | 983,921 |
| Net investment expense | *4* | **(57,519)** | (93,761) |
| Net realised gains/(losses) | *4* | **674,862** | (250,586) |
| Changes in fair value | *4* | **(877,010)** | 440,789 |
| Foreign exchange loss | | **(1,440,177)** | (788,177) |
| Other income | | **299,917** | 216,851 |
| Allocated investment return transferred from/(to the technical account – life assurance business | | **1,105,370** | (1,233,832) |
| **Profit/(Loss) on ordinary activities before taxation** | | **9,405,297** | (297,307) |
| Tax on profit on ordinary activities | *8* | **-** | - |
| **Profit/(Loss) for the financial year** | *9* | **9,405,297** | (297,307) |

There were no recognised gains or losses other than those dealt with in the profit and loss account.

The notes on pages 17 to 33 form an integral part of these financial statements.

# Laguna Life DAC

## Balance sheet as at 31 December 2017

| | Note | **2017** | **2017** | 2016 | 2016 |
|---|---|---|---|---|---|
| | | **€** | **€** | € | € |
| **Assets** | | | | | |
| **Investments** | | | | | |
| Debt securities and other fixed income securities | *12* | | **7,275,461** | | 37,910,925 |
| **Reinsurers' share of technical provisions** | | | | | |
| Life assurance provisions | *16* | **95,134** | | 125,554 | |
| Claims outstanding | *16* | **-** | | 263,891 | |
| | | | **95,134** | | 389,445 |
| **Other assets** | | | | | |
| Tangible assets | *10* | **-** | | - | |
| Cash at bank and in hand | *12* | **793,097** | | 3,232,426 | |
| | | | **793,097** | | 3,232,426 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest | *15* | **73,510** | | 405,136 | |
| Amounts arising out of reinsurance operations | *14* | **70,151** | | 729,454 | |
| Other prepayments and accrued income | *15* | **39,773** | | 28,686 | |
| | | | **183,434** | | 1,163,276 |
| **Total assets** | | | **8,347,126** | | 42,696,072 |

# Laguna Life DAC

## Balance sheet *(continued)*
### *as at 31 December 2017*

| | *Note* | **2017** **€** | **2017** **€** | 2016 € | 2016 € |
|---|---|---|---|---|---|
| **Liabilities and shareholders' funds** | | | | | |
| **Capital and reserves** | | | | | |
| Called up share capital presented as equity | *19* | **635,000** | | 635,000 | |
| Capital contribution | *20* | **25,677,720** | | 57,677,720 | |
| Profit and loss account | *11* | **(21,911,111)** | | (31,316,408) | |
| **Shareholders' funds** | *11* | | **4,401,609** | | 26,996,312 |
| **Technical provisions** | | | | | |
| Life assurance provisions | *16* | **3,513,201** | | 14,038,433 | |
| Claims outstanding | *16* | **-** | | 297,114 | |
| | | | **3,513,201** | | 14,335,547 |
| **Creditors (due within one year)** | | | | | |
| Arising out of direct insurance operations | *17* | **192,504** | | 950,539 | |
| Other creditors including tax and social welfare | *18* | **239,812** | | 413,674 | |
| | | | **432,316** | | 1,364,213 |
| **Total liabilities** | | | **3,945,517** | | 15,699,760 |
| **Total liabilities and shareholders' funds** | | | **8,347,126** | | 42,696,072 |

The notes on pages 17 to 33 form an integral part of these financial statements.

On behalf of the Board

Keith Haynes
*Director*

Kieran Hayes
*Director*

# Laguna Life DAC

## Statement of changes in equity
*as at 31 December 2017*

| | **Called-up share capital** | **Capital contributions** | **Profit and loss account** | **Total** |
|---|---|---|---|---|
| | **€** | **€** | **€** | **€** |
| **At 1 January 2016** | 635,000 | 57,677,720 | (31,019,101) | 27,293,619 |
| Loss for the financial year | - | - | (297,307) | (297,307) |
| At 31 December 2016 | 635,000 | 57,677,720 | (31,316,408) | 26,996,312 |
| Profit for the financial year | - | - | 9,405,297 | 9,405,297 |
| Dividends paid on equity shares | - | - | (32,000,000) | (32,000,000) |
| Transfer from capital contribution reserves | - | (32,000,000) | 32,000,000 | - |
| **At 31 December 2017** | **635,000** | **25,677,720** | **(21,911,111)** | **4,401,609** |

# Notes forming part of the financial statements

## 1 General information

Laguna Life DAC is a company incorporated in Ireland authorised by the Central Bank of Ireland to carry out life assurance business. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the operating and financial review on pages 3, 4 and 5.

## 2 Significant accounting policies

### I. Basis of accounting

The financial statements have been prepared under the historic cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) issued by the Financial Reporting Council, and promulgated for use in Ireland by Chartered Accountants Ireland. The Company is also subject to the requirements of the Companies Act, 2014 and the European Union (Insurance Undertakings: Financial Statements Regulations, 2015.

As at 31 December 2017 the Company was ultimately a wholly owned subsidiary of Monument Insurance Group Limited, which prepares a consolidated cash flow statement in the prescribed format, and whose consolidated financial statements are publicly available. Therefore the Company is availing of the exemptions available under Financial Reporting Standard 102 and is not preparing a cash flow statement. The entity has applied the FRS102 paragraph 33.1. A exemption in relation to related party transactions.

### II. Change in accounting policy

The Company had no changes in accounting policy in 2017.

### III. Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### IV. Foreign currencies

The financial statements are prepared in Euro (€), which is the currency of the primary economic environment in which the Company operates. Transactions during the year are translated into Euro using the rate of exchange at the end of each month with exchange gains and losses included in either the technical account or the non-technical account according to the type of transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences are recognised in the profit and loss in the period in which they arise except when they relate to items for which gains and losses are recognised in equity.

### V. Revenue recognition

a) Premiums

Premium income is credited to the technical account when due. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business.

b) Investment income and charges

Interest income is accounted for on an accruals basis. The investment return also includes the realised and unrealised gains and losses on investments which are disclosed separately in the profit and loss account.

c) Allocation of investment return

Investment income, realised and unrealised gains and losses, expenses and charges are reported in the non-technical account. An allocation is made to the technical account reflecting the return on assets backing the insurance business.

**VI. Taxation**

The charge for taxation is based on the results for the year. The Company is subject to corporation tax at the standard rate of 12.5%.

**VII. Deferred taxation**

Provision is made for deferred tax using the liability method to recognise timing differences between profits stated in the financial statements and profits computed for taxation purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A deferred tax asset is recorded where it is more likely than not to be recoverable. The recoverability of deferred tax assets is assessed annually by the directors.

The Company currently has no deferred tax provision.

**VIII. Tangible assets**

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life. Depreciation rates are as follows:

| | |
|---|---|
| Computer equipment | 33.33% |
| Computer software | 20% |
| Leasehold Improvements | 20% |

**IX. Retirement benefit costs**

The cost of providing benefits in the defined contribution plan is charged to the profit and loss account in the year to which the expense relates.

**X. Financial assets and liabilities at fair value through profit or loss**

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 of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of 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 or cancelled, or expire.

**XI. Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result of the Company's decision to implement the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement, the fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date.

**XII. Cash**

Cash comprise cash on hand and demand deposits, and other highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

**XIII. Leases**

Rentals relating to operating leases are charged to the profit and loss account over the period of the lease and accounted for on an accruals basis.

**XIV. Claims**

Death and disability claims are recorded on the basis of notification received. Provision is made at the year end for the estimated costs of claims incurred but not yet settled at the balance sheet date.

**XV. Reinsurance**

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 reinsurance 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.

**XVI. Technical provisions**

Technical provisions are included at values calculated by the Actuarial Director on assumptions approved by the directors. The technical provisions are calculated in accordance with the Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), but with some modifications in accordance with accounting standards.

**XVII. Expenses**

Expenses are recorded on an accruals basis in the period in which they are incurred. Expenses are gross of €209,764 (2016: €211,412) recovered from Group companies under secondment and service arrangements. The sum recovered is included in other income.

## 3 Segmental information - premium

All business consists of recurring premiums written in the European Union.

| *By geographical segment* | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Spain | 1,110,675 | 1,327,154 |
| United Kingdom | 688,202 | 813,568 |
| | 1,798,877 | 2,140,722 |

## 4 Net investment return

| | Net investment income 2017 € | Net investment expense 2017 € | Net realised gains and losses 2017 € | Changes in fair value 2017 € | Net investment result 2017 € |
|---|---|---|---|---|---|
| Bonds | 536,955 | (57,519) | 674,862 | (877,010) | 277,288 |
| **Total** | **536,955** | **(57,519)** | **674,862** | **(877,010)** | **277,288** |

| | Net investment income 2016 € | Net investment expense 2016 € | Net realised gains and losses 2016 € | Changes in fair value 2016 € | Net investment result 2016 € |
|---|---|---|---|---|---|
| Bonds | 983,921 | (93,761) | (250,586) | 440,789 | 1,080,363 |
| **Total** | **983,921** | **(93,761)** | **(250,586)** | **440,789** | **1,080,363** |

## 5 Net operating expenses

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Net operating expenses | 1,062,579 | 1,335,240 |
| Net expenses include: | | |
| Audit fee | 46,500 | 31,000 |
| Depreciation | - | 698 |

## 6 Statutory and other information:

| Amounts paid to the Auditor are analysed as follows: | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Audit of statutory financial statements | 27,000 | 31,000 |
| Tax advisory services | - | 8,610 |
| Other assurance services | 19,500 | 19,700 |
| Other non-audit service | - | 1,235 |

## 7 Staff numbers and costs

| | **Year ended 31 December 2017** | Year ended 31 December 2016 |
|---|---|---|
| The average number of staff employed during the year was as follows: | | |
| Management | 1 | 2 |
| Administration | 1 | 2 |
| | 2 | 4 |

In aggregate, payroll costs of these persons were as follows

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Wages and salaries | 47,065 | 145,587 |
| Social welfare costs | 4,265 | 15.133 |
| Pension contributions | 4,112 | 12,160 |
| | 55,442 | 172,880 |
| Directors' salaries | 324,897 | 347,991 |
| Directors' fees | 13,838 | 18,450 |
| Directors' pension contributions | 10,044 | 17,348 |
| | 404,221 | 556,669 |

## 8 Tax on profit on ordinary activities

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Taxation charge on profit/(loss) on ordinary activities | - | - |
| Profit\(Loss) on ordinary activities before taxation | 9,405,297 | (297,307) |
| Tax credit at the standard rate of 12.5% | (1,175,662) | 37,163 |
| Loss relief carried forward | 1,175,662 | (37,163) |
| | - | - |

The Company has cumulative tax losses carried forward of €21,954,700 (2016: €31,359,997). It is not anticipated that the cumulative tax losses will be utilised in the foreseeable future as the Company is in run off and the generation of future profits is uncertain. On this basis no deferred tax asset has been recognised in respect of the unutilised tax losses. The amount of the unrecognised deferred tax asset is €2,744,338 (2016 €3,920,000).

## 9 Profit for the year

Profit for the financial year has been arrived at after charging/(crediting)

| | **Year ended 31 December 2017** | Year ended 31 December 2016 |
|---|---|---|
| | **€** | € |
| Staff costs and other expenses | 391,659 | 525,759 |
| Recharged to Group companies | (209,764) | (216,851) |
| Reinsurance profit share adjustment | (90,152) | - |
| Auditors remuneration | 46,500 | 31,000 |
| Professional fees | 420,046 | 366,409 |
| General administration costs | 261,893 | 412,071 |

## 10 Tangible fixed assets

| | **Fixtures & Fittings** | **Total** |
|---|---|---|
| | **€** | **€** |
| ***Cost or valuation*** | | |
| At beginning of year | 10,458 | 10,458 |
| Additions in year | - | - |
| Disposal in the year | (10,458) | (10,458) |
| At end of year | - | - |
| ***Accumulated depreciation*** | | |
| At beginning of year | 10,458 | 10,458 |
| Charge for year | - | - |
| Disposal in the year | (10,458) | (10,458) |
| At end of year | - | - |
| ***Net book value*** | | |
| At 31 December 2017 | - | - |
| At 31 December 2016 | - | - |

## 11 Movement in shareholders' funds

| **2017** | **Share Capital** | **Profit & Loss Account** | **Capital Contributions** | **Total** |
|---|---|---|---|---|
| | **€** | **€** | **€** | **€** |
| At the beginning of the financial year | 635,000 | (31,316,408) | 57,677,720 | 26,996,312 |
| Profit for the financial year | - | 9,405,297 | - | 9,405,297 |
| Dividends paid | - | (32,000,000) | - | (32,000,000) |
| Transfer from capital contribution reserve | - | 32,000,000 | (32,000,000) | - |
| **At the end of the financial year** | 635,000 | (21,911,111) | 25,677,720 | 4,401,609 |

| **2016** | **Share Capital** € | **Profit & Loss Account** € | **Capital Contributions** € | **Total** € |
|---|---|---|---|---|
| At the beginning of the financial year | 635,000 | (31,019,101) | 57,677,720 | 27,293,619 |
| Loss for the financial year | - | (297,307) | - | (297,307) |
| Dividends paid | - | - | - | - |
| Transfer from capital contribution reserve | - | - | - | - |
| **At the end of the financial year** | 635,000 | (31,316,408) | 57,677,720 | 26,996,312 |

An interim distribution of €50.39 per share (amounting to a total of €32,000,000) was proposed and approved at the board meeting on 14 September 2017. No further dividends are proposed for the year ended 31 December 2017.

## 12 **Financial instruments**

The carrying value of the Company's financial assets and liabilities are summarised by category below:

| | **Year ended 31 December 2017** € | Year ended 31 December 2016 € |
|---|---|---|
| **Financial assets** | | |
| Measured at fair value through profit or loss | | |
| - Debt securities and other fixed income securities | 7,275,461 | 37,910,925 |
| Measured at cost | | |
| - Cash and cash equivalents | 793,097 | 3,232,426 |
| Measured at undiscounted amount receivable | | |
| - Other debtors | 113,282 | 433,822 |
| - Reinsurance receivable | 70,151 | 729,454 |
| Total financial assets | 8,251,991 | 42,306,627 |
| **Financial liabilities** | | |
| Measured at undiscounted amount payable | | |
| - Creditors | 157,900 | 332,156 |
| - Claims outstanding | - | 297,114 |
| - Insurance creditors | 274,418 | 734,943 |
| Total financial liabilities | 432,318 | 1,364,213 |

### 13 Fair value of financial instruments

FRS 102 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.

As at 31 December 2017

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| Bonds | - | 7,275,461 | - | 7,275,461 |

As at 31 December 2016

| | Level 1 € | Level 2 € | Level 3 € | Total € |
|---|---|---|---|---|
| Bonds | - | 37,910,925 | - | 37,910,925 |

### 14 Debtors arising out of reinsurance operations

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Due from reinsurers | 70,151 | 729,454 |

### 15 Other debtors

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Accrued interest | 73,510 | 405,136 |
| Prepaid expenses | 2,070 | 5,735 |
| Other debtors | 37,703 | 22,951 |
| | 113,283 | 433,822 |

## 16 Technical provisions

| | Life assurance provision € | Claims outstanding € | Total € |
|---|---|---|---|
| **Gross amount** | | | |
| As at 1 January 2017 | 14,038,433 | 297,114 | 14,335,547 |
| Movement in the provision | (10,525,232) | (295,240) | (10,820,472) |
| Foreign exchange | - | (1,874) | (1,874) |
| As at 31 December 2017 | 3,513,201 | - | 3,513,201 |
| **Reinsurance amount** | | | |
| As at 1 January 2017 | 125,554 | 263,891 | 389,445 |
| Movement in the provision | (30,420) | (241,119) | (271,539) |
| Foreign exchange | - | (22,772) | (22,772) |
| As at 31 December 2017 | 95,134 | - | 95,134 |
| **Net technical provision** | | | |
| As at 31 December 2017 | 3,418,067 | - | 3,418,067 |
| As at 31 December 2016 | 13,912,879 | 33,223 | 13,946,102 |

| | Life assurance provision € Restated | Claims outstanding € | Total € Restated |
|---|---|---|---|
| **Gross amount** | | | |
| As at 1 January 2016 | 13,513,961 | 265,675 | 13,779,636 |
| Movement in the provision | 524,472 | 42,842 | 567,314 |
| Foreign exchange | - | (11,403) | (11,403) |
| As at 31 December 2016 | 14,038,433 | 297,114 | 14,335,547 |
| **Reinsurance amount** | | | |
| As at 1 January 2016 | 48,471 | 234,362 | 282,833 |
| Movement in the provision | 77,083 | 38,652 | 115,735 |
| Foreign exchange | - | (9,123) | (9,123) |
| As at 31 December 2016 | 125,554 | 263,891 | 389,445 |
| **Net technical provision** | | | |
| As at 31 December 2016 | 13,912,879 | 33,223 | 13,946,102 |
| As at 31 December 2015 | 13,465,490 | 31,313 | 13,496,803 |

The method and assumptions for the calculation of the technical provisions have been calculated by the Head of Actuarial Function on assumptions approved by the directors and are discussed further in note 21.

Gross technical provisions have decreased by €10,525,232 over the year. This decrease was primarily caused by the implementation of a per policy cost of administration which has reduced the expense base of the Company.

The reserve for future expenses is based on the per policy expense of €69.43 as per Company's agreement with Monument Insurance Services Limited ("MISL"), together with fixed direct expense schedule of €325,523 in 2018; €261,245 in 2019; €266,185 in 2020 and €271,229 in 2021, following these direct expenses are expected to cease. These are both inflated by reference to the inflation rate assumption of 2.00%.

Gross claims outstanding have reduced due to efficient claims handling process, a decrease in the number of claims notified and due to the Company being in runoff. The reinsurers share has decreased by a similar proportion.

## 17 Creditors arising out of insurance operations

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Due to reinsurers | 192,504 | 950,539 |

## 18 Other creditors

| | **Year ended 31 December 2017 €** | Year ended 31 December 2016 € |
|---|---|---|
| Tax and social security | - | 12,583 |
| Other creditors | 239,812 | 401,091 |
| | 239,812 | 413,674 |

## 19 Called up share capital presented as equity

| | **2017 €** | 2016 € |
|---|---|---|
| ***Authorised*** | | |
| 30,000,000 (2016: 30,000,000) Ordinary shares of € 1 each | 30,000,000 | 30,000,000 |
| ***Allotted*** | | |
| Issued, called up and fully paid | | |
| 635,000 (2016: 635,000) Ordinary shares of € 1 each | 635,000 | 635,000 |

### 20 Capital contributions

No capital contribution was received during the year (2016: Nil).

| | **2017** | 2016 |
|---|---|---|
| | **€** | € |
| At beginning of year | 57,677,720 | 57,677,720 |
| Transfer to profit and loss account | (32,000,000) | - |
| At end of year | 25,677,720 | 57,677,720 |

### 21 Life assurance business disclosures

| **Capital statement** | **2017** | 2016 |
|---|---|---|
| | **€** | € |
| Shareholders' funds | 4,401,609 | 26,996,312 |
| Difference between statutory and regulatory basis | 1,930,314 | 2,259,935 |
| Total capital available to meet regulatory capital requirements (Own Funds) | 6,331,923 | 29,256,247 |

The Company has received confirmation from the Central Bank of Ireland that its capital contributions meet the legal requirements to be considered as Tier 1 capital.

**Liabilities and capital**

Capital requirements are determined in accordance with the Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The solvency capital requirement for the Company stands at the MCR or €3,700,000 (2016 SCR: €5,146,449). The calculated SCR at 31 December 2017 stood at €1,389,330.

The Company accepts recurring premiums on existing term assurance business (in level and decreasing sum assured form) in the Spanish market and accepts recurring premiums on existing term assurance business including Accelerated Critical Illness in the UK market. The Company closed to new business in the UK market during 2007 and to new business in the Spanish market in November 2009.

The policy reserves were determined using a discounted cash-flow method of valuation. Each policy was valued individually.

Sensitivity to interest rates was considered. The increase and decrease in yield curves outlined by EIOPA (for the purposes of calculating the Standard Formula basis SCR) were considered. Own Funds (Solvency II basis) would reduce by €211,496 following an increase in the yield curve (of 1% at all durations) to the extent it impacts on assets to a greater extent than the liabilities. A reduction in the yield curve would increase Own Funds as the positive asset impact exceeds the liability impact. As there are premiums still payable on this portfolio, the net liability duration is lower than the duration of the underlying asset portfolio.

The Company did not invest in equities at year end 2017 or 2016 so the sensitivity to the equity market is nil.

**Mortality/Morbidity risk**

The Company has a formalised reinsurance strategy that is reviewed annually by the Board. This reduces the company's exposure to mortality/morbidity risks.

**Determination of assumptions**

There are no "options" in the Company's contracts as there are no options and guarantees whose potential value is affected by the behaviour of financial variables.

There are waiver of premium benefits that are not currently modelled and would not be material to the calculation of the life assurance provision.

Interest rates used are based on the Solvency II yield curve. This is the basic risk-free interest rate term structure produced by EIOPA as at 31 December 2017. The cash-flows on the Spanish business and the expenses were discounted using the EUR curve, while the cash-flows on the UK business were discounted using the GBP curve. No allowance is taken for any part of the long-term guarantees package.

Mortality/Morbidity Assumptions: For both the UK and Spanish term assurance business, the mortality tables used to calculate the reserves were based on reinsurance rates and it can be noted that the residual mortality exposure is relatively minor.

The lapse assumption used in the reserve calculation is based on the persistency experience of the Company over a number of years. For the UK business the lapse rate is assumed to be 6% in all future years. The Spanish ultimate lapse rate is 10% per annum, with lapse rates being initially higher for policies which are in force for shorter durations.

The reserve for future expenses is based on the per policy expense of €69.43 as per Company's agreement with Monument Insurance Services Limited ("MISL") company, together with fixed direct expense schedule of €325,523 in 2018; €261,245 in 2019; €266,185 in 2020 and €271,229 in 2021, following these direct expenses are expected to cease. These are both inflated by reference to the inflation rate assumption of 2.00%.

### 22 Financial risk management – objectives and policies

**Credit risk**

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the Company or otherwise failing to perform as agreed.

- 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 to have 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 | €190,077 | - |
| | **Euro (BBB-)** | **USD (BBB+)** |
| 31 December 2016 | €468,440 | $1,156,109 |

There were no debt securities that were past due or impaired as of 31 December 2017. 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 deals with should be at least grade A+. Refer to note 16 for the amount of reinsurance exposure at the balance sheet date.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. The Company maintains sufficient assets in a readily realisable form to meet all obligations as they fall due.

As the Company has no borrowing, the Company is not exposed to any significant liquidity risk on the liability side. All assets are investment grade and quoted on recognised exchanges thereby limiting the exposure to liquidity risk.

Analysis of contract liabilities maturities

| | **2017 Claims (€)** | **2017 Expenses (€)** | **2017 Total (€)** | 2016 Claims (€) | 2016 Expenses (€) | 2016 Total (€) |
|---|---|---|---|---|---|---|
| Less than 1 year | 903,534 | 531,654 | 1,435,188 | 957,984 | 1,164,185 | 2,122,169 |
| 1-2 years | 734,557 | 441,145 | 1,175,702 | 782,368 | 1,193,290 | 1,975,658 |
| 2-3 years | 678,020 | 424,588 | 1,102,609 | 723,072 | 1,223,122 | 1,946,194 |
| 3-4 years | 630,775 | 410,209 | 1,040,984 | 667,604 | 1,253,700 | 1,921,304 |
| Over 5 years | 3,389,103 | 547,518 | 3,936,622 | 3,989,665 | 7,578,966 | 11,568,632 |

**Market risk**

Market risk is the risk of losses arising from movements in market prices.

There are three elements to the Company's market risk:

- Currency risk:

The Company's principle transactions are carried out in Euro (€), GBP (£) and USD ($). The Company seeks to mitigate currency risk by ensuring both its major assets and liabilities are in matching currencies. The Company reviews assets and liabilities by currency to ensure they are matched where possible and that cash is available to discharge liabilities in their respective currency.

The Company's net exposure to GBP (£) at the balance sheet date is an asset of £149,680 (in 2016 this was a liability of £399,000). Therefore, if Sterling appreciates by 10% relative to the Euro, the Company would experience a loss of £14,968 (a profit of £39,900 in 2016).

The Company's net exposure to USD ($) at the balance sheet date is a liability of $66,384 (2016 asset: $11,798,000). If the Dollar depreciates by 10% relative to the Euro, the Company would experience a gain of $6,638 (2016 loss: $1,179,800).

- Interest rate risk:

The Company seeks to mitigate interest rate risk by investing in fixed interest rate bonds as this matches the expected return and maturity of the underlying insurance policies.

- Price risk:

The Company seeks to mitigate price risk by ensuring all bonds invested in are on a weighted average credit quality of at least grade BBB+.

**Insurance risk**

Insurance risk refers to fluctuation in timing, frequency and severity of insurance events, relative to expectations of an entity at the time of underwriting. Insurance risk can also refer to fluctuations in timing and amount of claim settlements. The Company underwrites life and critical illness policies. The vulnerability of claim severity is reduced by using reinsurance such that the maximum exposure on any one life is small. The vulnerability of risk is reduced by diversification of risk to a large portfolio of contracts. The Company has a large portfolio of diversified policyholders and sums assured are limited. As a result, concentration risk is not a material issue for the Company.

*Geographical Analysis Insurance Contracts*

| | | **2017** | | 2016 |
|---|---|---|---|---|
| **Country** | **Technical Provisions Net of Risk Premium Gross of reinsurance (€)** | **Technical Provisions Net of Risk Premium Net of reinsurance (€)** | Technical Provisions Net of Risk Premium Gross of reinsurance (€) | Technical Provisions Net of Risk Premium Policy reserves Net of reinsurance (€) |
| Spain | - | - | - | - |
| UK | 894,910 | 799,776 | 818,977 | 693,423 |
| **Total** | **894,910** | **799,776** | **818,977** | **693,423** |

The Company is also exposed to the risk of future premium lapses resulting in product margins less than the total costs of running the Company. The technical provisions include an allowance for this by assuming future lapses at an average future rate of lapse based on the past experience of the Company.

Analysis of additional sensitivities are summarised as follows:

| 31-Dec-17 | **Change in Assumption** | **Impact on Profit before tax (€)** |
|---|---|---|
| Mortality | +15% on rates | (460,554) |
| Lapse rates | -50% on rates | (629,331) |
| Expenses | 10% increase plus increase of 1% in inflation | (307,701) |

These sensitivities are the same as used in the Company's SFCR for year-end 2017.

**Strategic Risk**

There remains uncertainty regarding the final legal and regulatory arrangements to be determined as a result of the United Kingdom's vote to exit from the European Union. Monument insures its UK customers through Irish entities and the operational impact of Brexit is expected to be limited for the Group. Monument Re continues to keep abreast of ongoing developments and will continue to review its action plan and take account of significant changes in the course of Brexit.

## 23 Post balance sheet events

The Company has filed an update to the scheme of operations/material change in business plan with the Central Bank, with an objective to extend the conditions of authorisation.

The Company received €20m from its parent in March 2018. The funds are non-recourse once approved as tier one capital for Solvency II purposes by the Central Bank of Ireland.

## 24 Pension

Pension obligations for employees are funded through an external pension scheme, which is a defined contribution PRSA scheme. The assets of the scheme are vested in independent trustees for the sole benefit of those employees and their dependants. The total cost to the Company for the year ended 31 December 2017 was €10,742 (2016: €16,377) and contributions amounting to €nil (2016: €nil) were outstanding at the year end. The Company also has a defined contribution pension scheme. The total cost to the Company for the year ended 31 December 2017 was €3,414 (2016: €13,132) and contributions amounting to €nil (2016: €1,354) were outstanding at the year end.

## 25 Cash flow statement

As at 31 December 2017 the Company was ultimately a wholly owned subsidiary of Monument Insurance Group Limited, which prepares a consolidated cash flow statement in the prescribed format, and whose consolidated financial statements are publicly available, it is availing of the exemptions available under Financial Reporting Standard No.102 and is not preparing a cash flow statement.

## 26 Related party transactions

The entity has applied the FRS102 paragraph 33.1 A exemption in relation to related party transactions.

Related party balances outstanding at the end of the year were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **€** | € |
| Monument Insurance Services Limited | (79,850) | - |
| Monument Insurance dac | (17,248) | - |

## 27 Commitments

At 31 December 2017 the Company had a commitment to invest €10m in a NNIP Dutch Residential Mortgage Fund (2016: nil).

## 28 Ultimate and immediate parent undertakings

As at 31 December 2017 the Company's ultimate parent undertaking is Monument Insurance Group Limited, a company incorporated in Bermuda. The largest group in which the results of the Company are consolidated is that headed by Monument Insurance Group Limited and the consolidated financial statements may be obtained from Monument Insurance Group Limited, Victoria Place, 31 Victoria Street, Hamilton, HM10, Bermuda. The Company's immediate parent is Monument Assurance dac, Europa House, Block 9, Harcourt Centre, Harcourt Street, Dublin 2.

## 29 Approval of financial statements

The Financial Statements were approved by the Board on 9 April 2018.