# Friends First Life Assurance Company



Friends First
Friends for life

friendsfirst.ie

## Solvency and Financial Condition Report 2017

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# Introduction

## 1. INTRODUCTION

### 1.1. FRIENDS FIRST

Friends First Life Assurance Company dac ("FFLAC", "Friends First" or "the Company") is an Irish life assurance company writing life and pensions business. It provides a range of life insurance and savings products in Ireland, including income protection, mortgage protection, pensions, investment bonds and regular premium savings products.

Friends First is currently fully owned by the Dutch insurance group Achmea. In November 2017 it was announced that Friends First and its subsidiaries are to be acquired by Aviva plc. At the date of finalising this report, the sale has been approved by the Competition and Consumer Protection Commission and is awaiting regulatory approval by the Central Bank of Ireland.

### 1.2. THIS REPORT

This Solvency and Financial Condition Report ("SFCR") has been prepared in line with the requirements of the Solvency II regulations, to assist the various stakeholders of Friends First Life Assurance Company dac in understanding the nature of its business, how it is managed and its solvency position. This report discloses the eligible own funds, required capital and solvency ratio of the Company according to the Solvency II Standard Formula for the period ending 31 December 2017.

The information as disclosed in this report is prepared in conformity with the Solvency II legislation and the guidance provided by EIOPA. This SFCR report covers the Business and Performance of the Company, its System of Governance, Risk Profile, valuation for Solvency Purposes and Capital Management. The party with ultimate responsibility for all of these matters is the Company's Board of Directors, with the assistance of various governance and control functions it has put in place to monitor and manage the business. The Solvency II Standard Formula is used throughout to determine the Solvency Capital Requirements.

The Company's financial year runs to 31 December each year and it reports its results in Euro. Amounts in this report are presented in €1,000's. Due to this, rounding differences may occur. These rounding differences have no material impact. Throughout this document, figures quoted are consistent with those previously reported to the Irish regulator.

### 1.3. EXECUTIVE SUMMARY

For a summary of each of the sections in this report, please refer to the following:

#### SECTION A. BUSINESS AND PERFORMACE

This section provides information on Friends First's business, organizational structure and financial performance. It also refers to significant events during 2017, including the transfer of business from a subsidiary, Friends First Managed Pension Fund dac, into the Company in March 2017.

#### SECTION B. SYSTEM OF GOVERNANCE

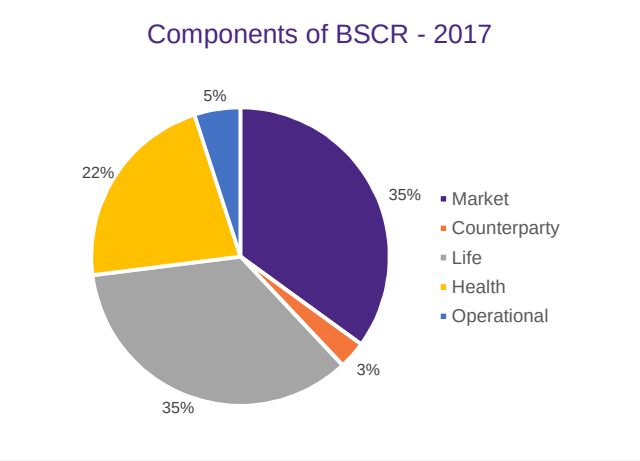
The Company's governance and risk frameworks are detailed in this section of the report. There have been no significant changes in the reporting period.

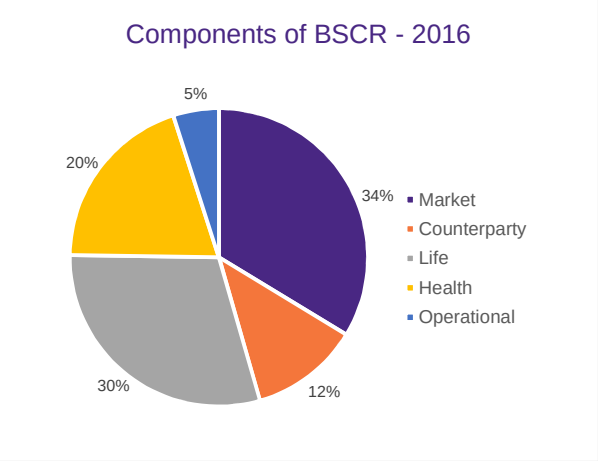
#### SECTION C. RISK PROFILE

This section explains the Company's main risk exposures together with how we assess, mitigate and monitor them. The risks outlined include underwriting, market, credit, liquidity and operational risk.

The Company's risk profile is measured by the Solvency Capital Requirement, which is calculated in accordance with the Standard Formula. The following charts provide a split of the Basic Solvency Capital Requirement (BSCR) by risk module for Year End 2017 and 2016, without allowing for diversification.

# Introduction




## SECTION D. VALUATION FOR SOLVENCY PURPOSES

This section deals with how we value the Company's assets and liabilities for the purposes of Solvency II and shows the values of these assets and liabilities at 31 December 2017 as compared with the prior year end.

## SECTION E. CAPITAL MANAGEMENT

The capital held by the Company is outlined in this section, together with the Solvency Capital Requirement.

The Company uses the Standard Formula to calculate its Solvency Capital Requirement (SCR). The Company's SCR at 31 December 2017 is €160.4m. This is covered by €252.8m of eligible capital, providing a Solvency II surplus of €92.4m and a Solvency II coverage ratio of 158%. During 2017, the Company declared and paid a dividend of €76.75 million to its parent company, Friends First Holdings dac.

€1.000

| | **2017** | 2016 | **Variance** |
|---|---|---|---|
| Eligible Own funds | 252,831 | 309,356 | -56,525 |
| Required capital | 160,410 | 163,375 | -2,966 |
| **Surplus** | **92,421** | **145,981** | **-53,559** |
| Ratio (%) | 158% | 189% | -32% |

# Business and Performance

## A. BUSINESS AND PERFORMANCE

This section of the report outlines business structure, activities and performance of Friends First Life Assurance Company over the year to 31 December 2017.

### A.1. BUSINESS

#### GENERAL

Friends First is an Irish life assurance company writing life and pensions business which has been helping our customers look after their protection, pension and investment needs for over 180 years. We are one of Ireland's most established life assurance companies with a reputation for reliability and efficiency and are committed to our approximately 250,000 Irish customers. We manage assets totaling €5 billion and generated total premiums of €744 million in 2017.

Friends First is a Designated Activity Company and all business is written within the Republic of Ireland. The Company's operating address and registered office is:

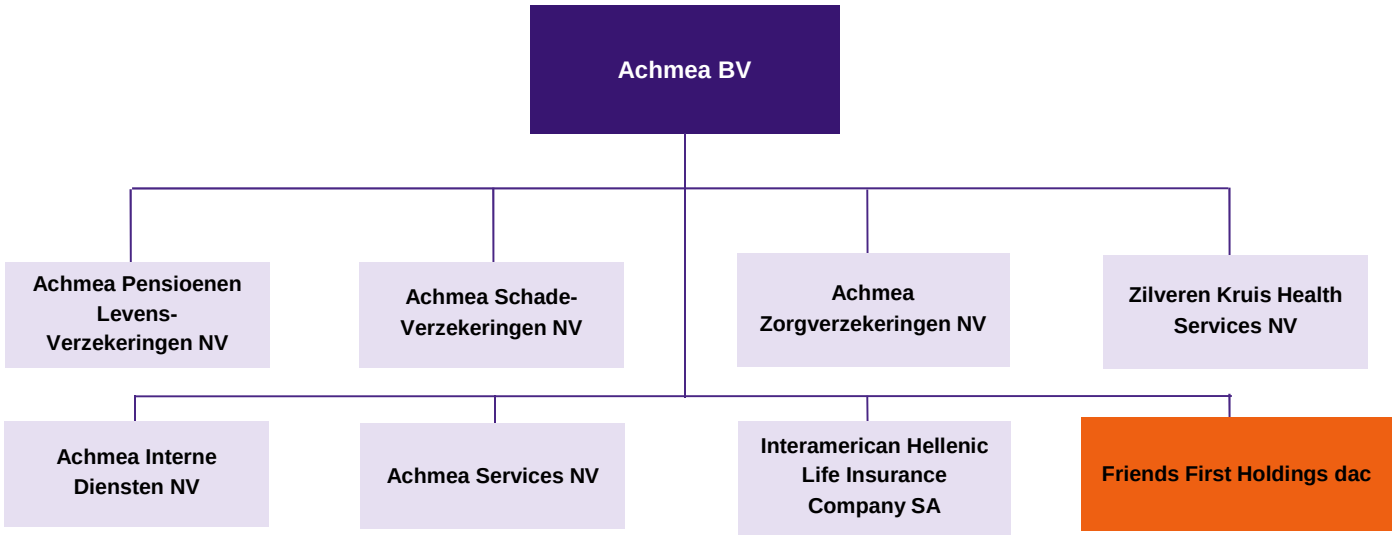
Friends First Life Assurance Company dac
Friends First House
Cherrywood Business Park
Loughlinstown
Dublin 18
Ireland

The Company is fully owned by its parent company, Friends First Holdings dac, which is owned by the Dutch Insurance Group, Achmea. Achmea is one of the largest mutual insurers in the world and the 3rd largest in Europe. Its head office is located at:

Handelsweg 2
3707 NH Zeist
The Netherlands

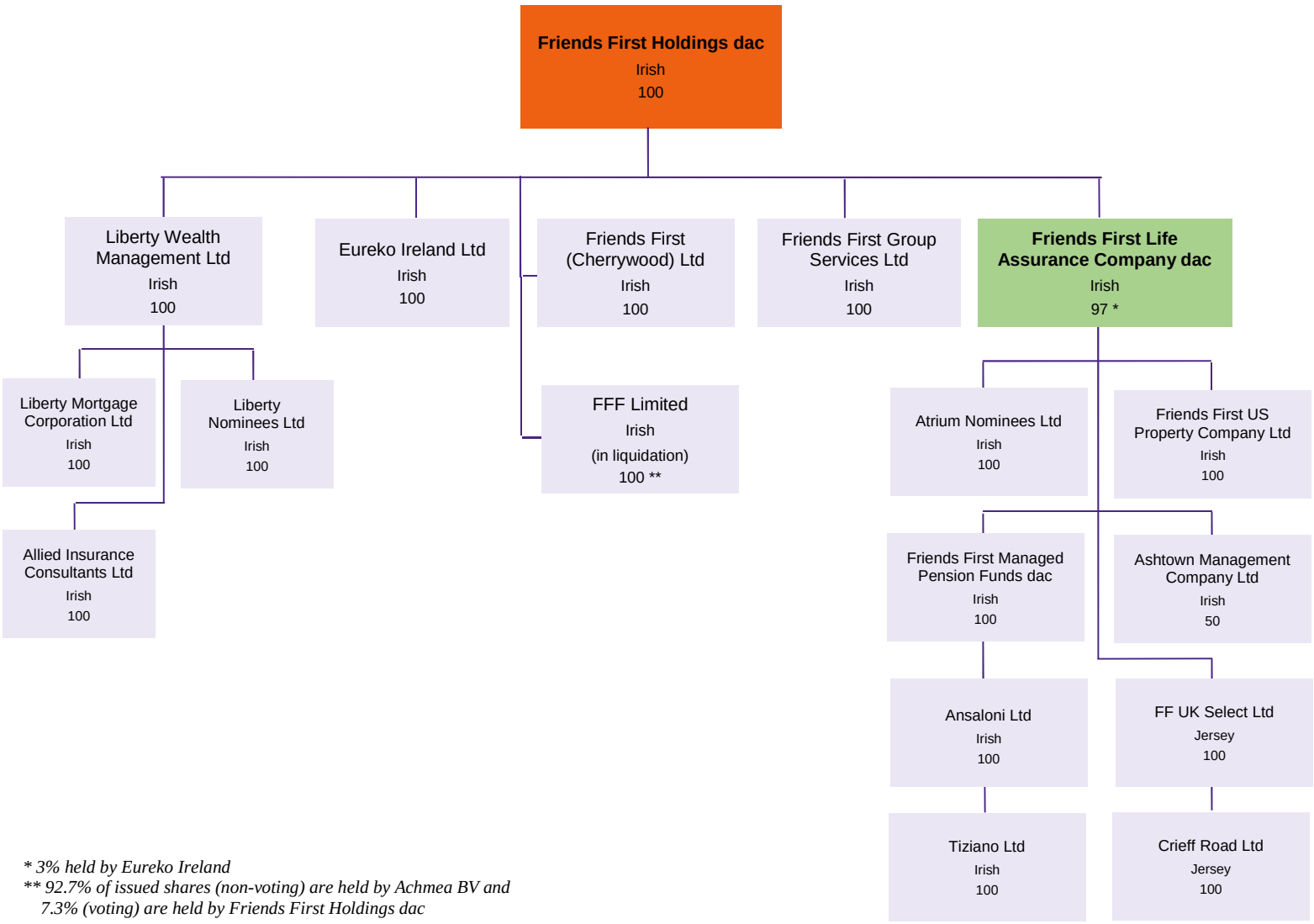
The group structure is summarised in chart 1 below, while chart 2 shows the structure of Friends First Holdings dac. Both charts are correct as at 31 December 2017.

**Chart 1: Group Structure - Achmea**



# Business and Performance

**Chart 2: Group Structure – Friends First Holdings DAC**




** 3% held by Eureko Ireland*
*** 92.7% of issued shares (non-voting) are held by Achmea BV and 7.3% (voting) are held by Friends First Holdings dac*

Friends First Life Assurance Company is regulated by the Central Bank of Ireland (CBI). The CBI's address is:

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1
Ireland

Achmea is regulated by De Nederlandsche Bank with an address at:

Westeinde 1
1017 ZN Amsterdam
The Netherlands

Friends First's external auditor for the financial year end 2017 was PriceWaterhouseCoopers (PwC), One Spencer Dock, North Wall Quay, Dublin 1.

# Business and Performance

## SIGNIFICANT EVENTS

In November 2017, the sale of Friends First Life Assurance Company dac and its subsidiaries to Aviva was announced. The sale has been approved by the Competition and Consumer Protection Commission and is awaiting regulatory approval by the Central Bank of Ireland which is expected by June 2018. Both Aviva Ireland and Friends First have respected brands with a distinguished heritage of working with brokers to deliver innovative products that protect the best interests of customers.

The Company also has a wholly owned subsidiary called Friends First Managed Pension Fund dac. On 31 March 2017, the transfer of the life assurance business of Friends First Managed Pension Funds dac to Friends First Life Assurance Company dac took effect. This was sanctioned by the High Court under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015. Friends First Managed Pension Funds dac wrote unit-linked pension-managed fund business. The Company used to reinsure a portion of its unit-linked policies with Friends First Managed Pension Funds dac, and as a result of the transfer of liabilities the reinsurance agreement ceased on 31 March 2017. This eliminated the counterparty exposure and significantly reduced counterparty default risk (refer to section E.2.1. for further information).

## BUSINESS ACTIVITIES

Friends First's key mission is to provide tailored protection, retirement and investment solutions that provide our customers with benefits when they need them most. We provide a range of flexible life and savings products, including:

- **Individual Income Protection**, providing an alternative income if illness or injury stops you from working long-term
- **Individual Mortgage and life insurance protection**, providing security in the event of illness, accident or death
- **Income Protection and life insurance protection for Groups** (usually employees of specific companies) known as group risk business
- **Pension funding products**, including group, personal and executive pensions, annuities and retirement drawdown products known as approved retirement funds (ARFs), allowing our customers to really enjoy their retirement when it comes
- **Savings and investment products**, including lump sum bonds and regular premium savings products, to help our customers fund the future they want

Friends First is the winner of the Irish Broker Association Award for "Best Income Protection Product" for the past 7 years.

Our products and services are introduced to customers solely by Financial Brokers who can help in identifying financial needs and provide advice on the right products to meet those needs now and in the future.

## BUSINESS DEVELOPMENT

The Irish economy continued its strong growth in 2017 but interest rates remain low, presenting an ongoing challenge for the Life and Pension industry. The economy is experiencing strong growth in consumer spending and unemployment has fallen back to pre-crisis levels. However the political landscape remains fragile as the minority government tries to mitigate damage to the Irish economy arising from the United Kingdom's departure from the European Union. Despite these Brexit concerns, the Irish economic landscape remains positive which has helped the insurance industry record an increase in 2017 of 21% in new sales, measured on an Annual Premium Equivalent (APE) basis, the industry benchmark.

The Company's recent business plans have focused on achieving broad sales growth with higher target growth rates in the following areas:

- Individually underwritten income protection,
- Group Risk business, and
- Single Premium Unit Linked Pensions and Investment Business.

Friends First's strategy, which is to focus on long term sustainable business, has resulted in an increase in new business of 19% from 2016 to 2017.

# Business and Performance

## A.2. UNDERWRITING PERFORMANCE

Gross premium income (insurance contracts) for the company fell slightly to €151.3m for the year from €154.0m in 2016. Contributions to Investment Contracts increased to €593.0m (2016: €431.9m) mostly due to increased sales of pensions single premium products. Gross claims incurred for 2017 amounted to €222.4m (2016: €227.3m). Gross consideration paid out in respect of investment contracts was €352.4m in the year (2016: €222.3m).

New sales were profitable on best estimate assumptions. Our full year 2017 value of new business was €6.4m which was ahead of budget (€4.2m) and well ahead of the 2016 results of €3.3m.

Overall, the company recorded a profit of €1.6m for the financial year (2016: €7.2m loss). We have considered the Company's performance in the year and, taking account of the economic background against which it is operating and measures that have been taken in sales strategy, cost control and persistency improvements, the directors consider the performance of the Company to be satisfactory in 2017.

The table below includes premiums, claims and expenses in relation to insurance and investment contracts, split by business line, in line with guidance on the contents of QRT S.05.01 Premiums, Claims and Expenses:

€ 1,000

| | HEALTH | | INSURANCE WITH PROFIT | | UNIT LINKED | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Gross written premiums | 52,042 | 51,908 | 8,313 | 9,757 | 606,776 | 445,990 |
| Net earned premiums | 47,611 | 48,399 | 8,332 | 9,707 | 489,768 | 13,531 |
| Claims incurred (net) | 32,921 | 33,885 | 62,048 | 64,950 | 313,441 | 8,332 |
| Expenses incurred | 13,108 | 11,311 | 3,196 | 3,822 | 44,252 | 25,998 |
| Other expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenses | 13,108 | 11,311 | 3,196 | 3,822 | 44,252 | 25,998 |

| | | | OTHER LIFE | | TOTAL | |
|---|---|---|---|---|---|---|
| | | | 2017 | 2016 | 2017 | 2016 |
| Gross written premiums | | | 77,150 | 78,228 | 744,282 | 585,884 |
| Net earned premiums | | | 53,786 | 55,362 | 599,497 | 126,999 |
| Claims incurred (net) | | | 40,771 | 43,003 | 449,181 | 150,170 |
| Expenses incurred | | | 15,640 | 14,256 | 76,196 | 55,387 |
| Other expenses | | | | | 0 | 0 |
| Total Expenses | | | 15,640 | 14,256 | 76,196 | 55,387 |

The main reason for this large increase in net premiums, claims and expenses over the year was the “Section 13” transfer effective 31 March 2017 which transferred the business of Friends First Managed Pension Funds dac into the Company.

## A.3. INVESTMENT PERFORMANCE

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

A significant portion of the Company's insurance business relates to unit-linked policies and policies written into with-profits funds. For these lines of business excess investment performance is effectively passed on to our policyholders. Outside of these lines of business the Company holds assets which are expected to perform in line with our Best Estimate Liabilities. Hence, any changes to asset values are 'matched' by changes to policyholder liabilities.

The following tables outline the investment performance of Friends First’s unit-linked and non-linked investments in 2017, with a comparison to the previous year. The tables are prepared as per the guidance for QRT S09.01.

# Business and Performance

## INCOME FROM UNIT-LINKED INVESTMENTS

€ 1,000

| ASSET CLASS | DIVIDENDS | INTEREST | RENT | TOTAL INCOME | GAINS AND LOSSES | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|
| Equity and Unit Trusts | 2,383 | 0 | 0 | 2,383 | 66,550 | 68,933 | 2,591 |
| Fixed Income | 0 | 3,705 | 0 | 3,705 | 5,562 | 9,267 | 465 |
| Property | 0 | 0 | 18,846 | 18,846 | -6,797 | 12,049 | 2,112 |
| Cash and deposits | 0 | -700 | 0 | -700 | -1,703 | -2,403 | -38 |
| Grand Total | 2,383 | 3,005 | 18,846 | 24,234 | 63,612 | 87,846 | 5,130 |

Total investment income for unit-linked investments in 2017 was €87.85m in comparison to €5.13m in 2016. The main reason for this large increase was the “Section 13” transfer effective 31 March 2017 which transferred the business of Friends First Managed Pension Funds dac into the Company.

## INCOME FROM NON-LINKED INVESTMENTS

€ 1,000

| ASSET CLASS | DIVIDENDS | INTEREST | RENT | TOTAL INCOME | GAINS AND LOSSES | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|
| Equity and Unit Trusts | 11,500 | 0 | 0 | 11,500 | 6,046 | 17,546 | 5,888 |
| Fixed Income | 0 | 40,428 | 0 | 40,428 | -34,440 | 5,988 | 75,183 |
| Property | 0 | 0 | 2,137 | 2,137 | -2,716 | -579 | 2,329 |
| Cash and deposits | 0 | -233 | 0 | -233 | 33 | -200 | -246 |
| Grand Total | 11,500 | 40,195 | 2,137 | 53,832 | -31,077 | 22,755 | 83,154 |

As can be seen from the above table, total investment income for non-linked investments in 2017 was €22.755m in comparison with €83.154m in 2016, the change being largely due to unrealised gains and losses in the fixed income portfolio.

Total investment return on unit-linked and non-linked investments has increased from €88.284m in 2016 to €110.601m in 2017.

Interest income on debt securities and other fixed income securities, loans secured by mortgages, other loans and deposits with credit institutions is recognised using the effective interest method.

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Rents and interest income and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments recognised in the year represent the difference between the fair value at the balance sheet date and their purchase price or, if they have previously been fair valued, their fair value at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

## A.4. PERFORMANCE OF OTHER ACTIVITIES

Nothing to report.

## A.5. ANY OTHER INFORMATION

The Company has no investment in securitisations at the end of 2017.

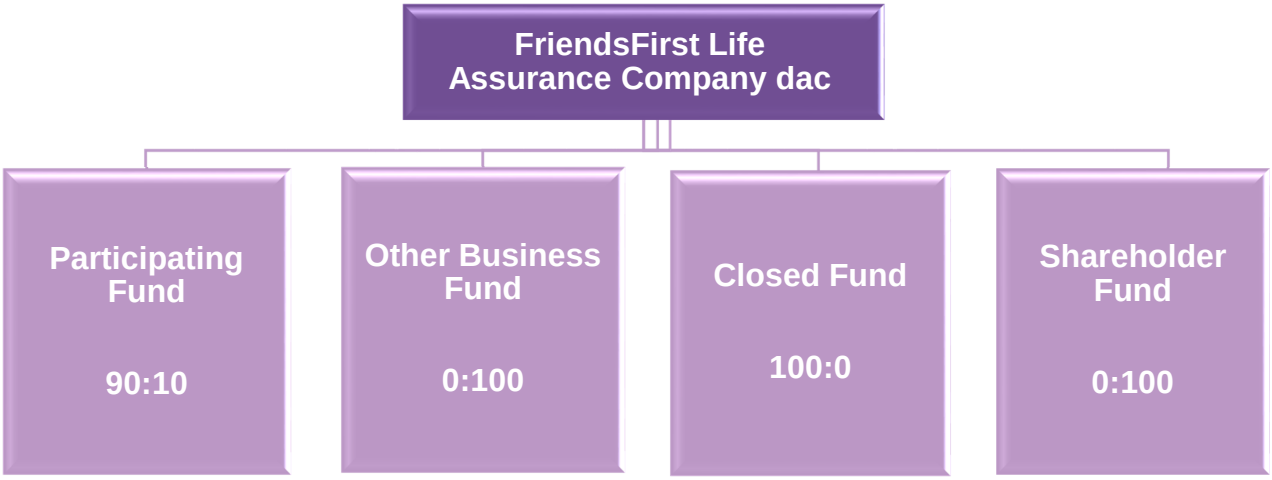
# System of Governance

## B. SYSTEM OF GOVERNANCE

### B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

#### COMPANY STRUCTURE

The Company has one policyholder fund with three sub-funds and a shareholder fund.




**Participating Fund (90:10)**

The business in the Participating Fund is conventional with profits business (both life and pensions), non-profit life assurance and pension business (written up to March 1996), and the unitised with profits investment component of unit linked policies written in the Other Business Fund. The fund continues to write increments to group life and pension schemes. It also continues to write immediate annuities.

The shareholders are entitled to transfers from the Participating Fund equal to 10% of the distributed surplus each year. However, the Shareholders are liable to meet any shortfall.

**Closed Fund (100:0)**

This is the conventional business taken over from National Mutual Life Assurance Company in 1995. The fund is closed to new business. The shareholders have no entitlement to any of the surplus in the Closed Fund. There are guarantees that limit the expenses and tax, which can be charged to the Closed Fund.

**Other Business Fund ("OBF") (0:100)**

This consists of conventional life and pension non-profit business written after March 1996 (except for immediate annuities and some group life risks), unit linked business and conventional Income Protection. Shareholders are entitled to 100% of any surplus arising at each statutory valuation. A "With Profits" fund choice is available on many policies. Where this fund is selected the investment component of each premium is passed to (reinsured into) the Participating Fund.

Some of the unit linked funds provide investment performance guarantees namely the "With Profits" fund funds and "Protected Equity" funds. The investment performance guarantees on Trackers and on most Protected Equity funds are provided by third parties – the Company is not obliged to meet the guarantees

The OBF continues to write regular and single premium unit-linked life and pension business. The OBF also writes regular premium term business (including critical illness), regular premium Income Protection business and group life and Income Protection risk schemes.

**Shareholders Fund (0:100)**

This fund holds the assets and liabilities not attributed to the long-term business funds.

# System of Governance

### Friends First Managed Pension Fund dac (0:100)

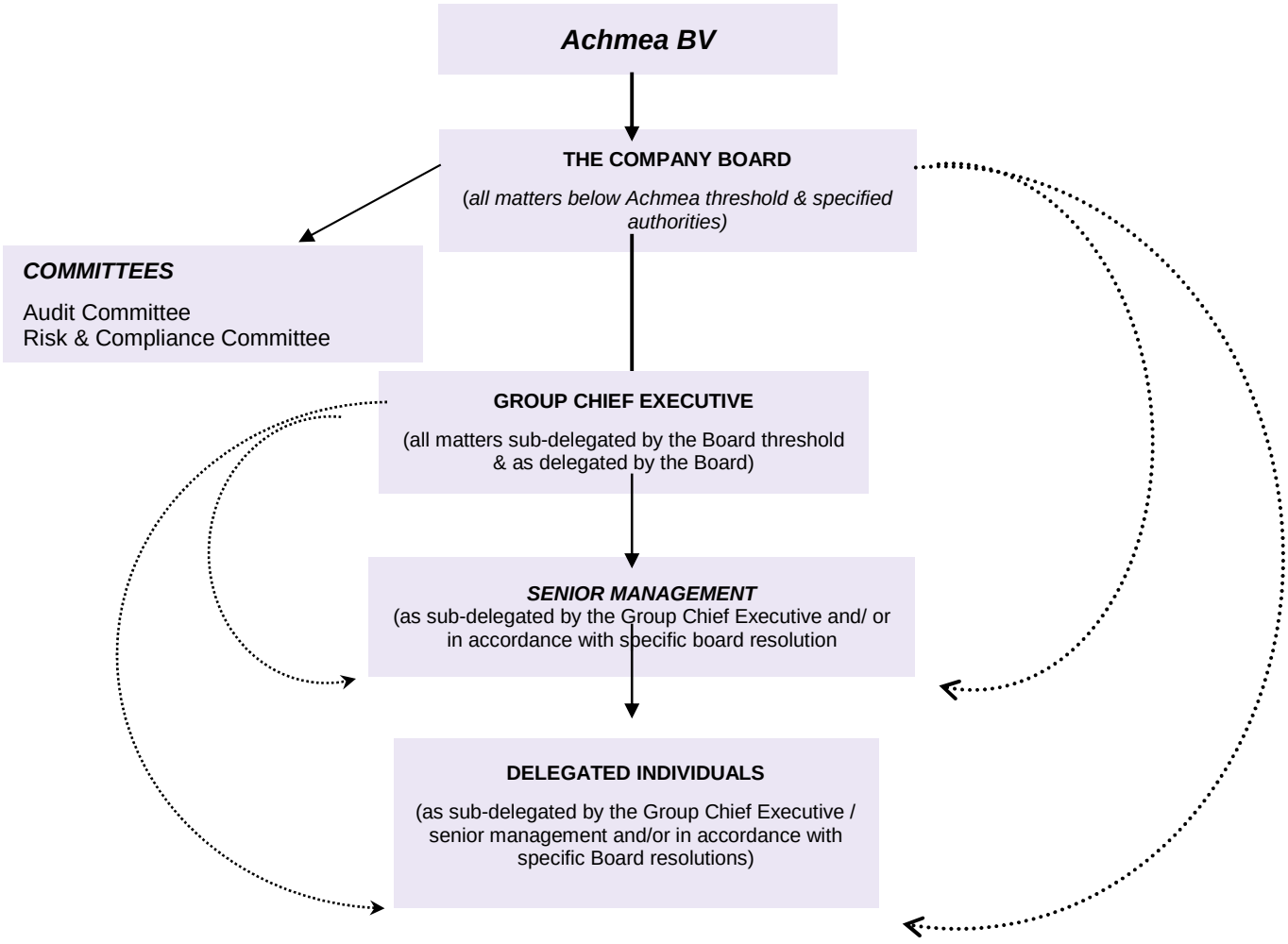
The Company also has a wholly owned subsidiary called Friends First Managed Pension Fund dac. The transfer of business from Friends First Managed Pension Fund dac into the Company by means of a 'Section 13' transfer was approved by the High Court on 21 March 2017 with an effective date of 31 March 2017. FFMPF subsequently requested that the Central Bank of Ireland revoke its authorisation under European Union (Insurance & Reinsurance) Regulations, 2015 and this process was completed on 12 December 2017. Therefore, FFMPF is therefore no longer considered to be an insurance entity.

## ORGANISATIONAL STRUCTURE

The structure of the Company (Friends First Life Assurance Company) is represented graphically in a subsection of Chart 2 in Section A.1. The Participating, Other Business, Closed and Shareholder Funds are included in the Company. All other companies (apart from FFMPF) exist for the purpose of managing property assets.

### Framework of the Board and its Committees

The Board operates in accordance with a detailed Board Charter and also in compliance with the Corporate Governance Requirements for Insurance Undertakings, 2015 as issued by the Central Bank of Ireland. In addition to setting out the duties and responsibilities of the Board and how it governs itself and its Committees, this Chart sets out how authority is delegated throughout the Company.
The delegated authorities framework sets out the system of governance in the Company in terms of the powers and responsibilities reserved by the shareholder or delegated by it to the Board, and thereafter delegated to the Group Chief Executive and management.




Delegations of authority are mechanisms by which the Company enables senior management and delegated individuals to act on

# System of Governance

behalf of the company and to fully understand their own authority levels and the limits under which they operate. This is a key element in the effective governance and management of the Company and provides formal authority to that officer to commit the Company and/or incur liabilities for the Company.

### The Company Board

The Board is the supervisory and management body of the Company. The Board ensures that the Company is operated to maximise stakeholder value and operated in accordance with local law, the articles of association of the Company, the Achmea International Governance Guide and the Friends First Board Charter (Legal Framework).

Where the Company adopts policies and procedures developed at group level, the Board satisfies itself that such policies or procedures meet all of the requirements of the Corporate Governance Requirements for Insurance Undertakings, 2015.

The Company Board Charter requires external representation by the Board or its members subject to any relevant requirements under Irish law, such as the Companies Act 2014 or regulations.

### General Roles and Responsibilities of the Board

The Board is responsible for overseeing and approving the Company's strategic and operating objectives. It also ensures that effective audit, risk management and compliance systems are in place to protect the Company's assets and to minimise the possibility of the Company operating beyond legal or ethical requirements or beyond acceptable risk parameters. The Board operates in accordance with the Board Charter which the Board reviews and updates at least annually and more regularly, if required.

The Board has:

- The necessary knowledge, skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out their duties;
- A full understanding of the nature of the Company's business, activities and related risks;
- A full understanding of their individual direct and indirect responsibilities and collective responsibilities; and
- An understanding of the Company's financial statements.

Part of the Board's responsibilities include:

- Determining and agreeing on the amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Company;
- Overseeing the strategy for the on-going management of material risks including inter alia liquidity risk;
- Ensuring the existence of a robust and transparent organisational structure with effective communication and reporting channels;
- Ensuring that the remuneration framework is in line with the risk strategies of the Company; and
- Ensuring the existence of an adequate and effective internal control framework that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.

Matters which are significant, which fall outside the normal course of business or which Senior Management believe the Board would need to be aware of, are presented on as a matter of course to the Board.

The Board agrees the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance at least quarterly. The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Board may delegate authority to sub-committees or management to act on behalf of the Board in respect of certain matters but, where the Board does so, it has mechanisms in place for documenting the delegation and monitoring the exercise of delegated functions. The Board does not abrogate its responsibility for functions delegated.

The Board is supported by the Audit Committee and the Risk & Compliance Committee in fulfilling its oversight responsibilities in relation to:

- The effectiveness of internal controls;
- The effectiveness of the internal audit function;
- The effectiveness of the external audit process;
- The integrity of financial reporting;
- The safeguarding of the Company assets;

# System of Governance

- The effectiveness of risk management;
- Compliance with laws, regulations and contractual obligations; and
- Compliance with Achmea's guiding principles and standards.

The role of each Committee is set out in a Terms of Reference for each, previously agreed by the Board and reviewed regularly, at least annually. The Board ensures that it receives timely, accurate and sufficiently detailed information from the Committees each quarter.

The Board Charter sets out the following waterfall of delegated powers:

1. Matters below Achmea thresholds along with all other powers in respect of the management and control of the Company's business are considered in practical terms to be delegated by Achmea to the Board.

2. The Board reserves certain matters for its own consideration and may then delegate on an ongoing basis certain aspects of its powers to the Group Chief Executive, established Committees (in line with their terms of reference), Senior Management or Delegated Individuals.

3. All legally binding contracts to be approved by the Company's Compliance Department and as appropriate or required, by legal advisors appointed by the Compliance Department for that purpose.

4. The Board shall be responsible for appointing a Chief Executive Officer and Senior Management with appropriate integrity and adequate knowledge, experience, skill and competence for their roles.

5. The Board shall be responsible for endorsing the appointment of people who may have a material impact on the risk profile of the Company and monitoring on an ongoing basis their appropriateness for the role.

In accordance with the Delegated Authorities which is regularly approved by the Board, the matters reserved for the decision of the Board can be summarised as follows:

- All matters which require the consideration of Achmea, as detailed in its retained powers, should first be submitted to the Board for its consideration;

- Principally thereafter, the matters which in the normal course of business are referred for a Board/Board Committee decision are set out below – this list is not exhaustive:

  - *Investment in new businesses*
  - *Disposals of businesses*
  - *Entering into new significant contracts – e.g. a new tied agency agreement etc.*
  - *Banking contracts*
  - *Funding contracts*
  - *Adoption of the Financial Accounts and report of Head of Actuarial Function*
  - *Capital Management Policy*
  - *Bonus recommendations of the Head of Actuarial Function*
  - *The Directors' Compliance Certificate for the life businesses*
  - *New Products or Product lines – as determined in accordance with Achmea BV guidelines*
  - *Reinsurance strategy*
  - *Conflict of Interest Policy*
  - *Board Appointment Policy*
  - *Outsourcing Policy*
  - *Compliance Policy*
  - *Gifts Policy*
  - *Incidents Policy*
  - *Anti-Fraud Policy*
  - *Fitness & Probity Policy*
  - *Reporting Policy*
  - *Risk Management Policy*
  - *Fit & Proper Policy*

- Such other matters as are considered in the view of the Board itself or Senior / Executive Management to warrant the Board's consideration.

# System of Governance

### Structure of the Board and its Committees

The structure of the Company Board and Audit/Risk and Compliance Committees is summarized in the table below.

| Director's Name | Status on Board | Membership and status on Sub-Committees |
|---|---|---|
| Uco Vegter (Dutch) | Chairman | - |
| Tom Browne (Irish) | Chief Executive Officer | Risk & Compliance – Member |
| Alan Rae (British) | Non-Executive Director | Audit – Member<br>Risk & Compliance – Member |
| Gary Kennedy (Irish) | Independent Non-Executive Director | Audit – Chairman<br>Risk & Compliance – Member |
| Matt Coffey (Irish) | Independent Non-Executive Director | Risk & Compliance– Chairman<br>Audit – Member |
| Christiaan Schonewille (Dutch) | Non-Executive Director | - |

In accordance with the Directors' Compliance Statement:

- The management of the Company believe that they have established such processes and procedures as are necessary to maintain proper records and that an adequate system of controls is maintained over these transactions and records.
- These procedures and controls have been subject to audit in 2017 by both the Group Internal Audit Function on an ongoing basis and external audit by PricewaterhouseCoopers through the year-end audit process. Audit reports by both have been circulated to the appropriate management and actions are tracked and reported to the Audit Committee. Additionally, the Company's compliance with the Corporate Governance Requirements is the subject of an Internal Audit and will be subject to another Internal Audit again for 2017.
- The financial results and balance sheet position are reported on a monthly basis to the shareholder and on a quarterly basis to the Board. These monthly returns undergo a high level of review at the different stages of their production to ensure that all figures are reasonable and accurate. These reviews have been consistently performed during 2017.

### Directors' Fees

Generally, directors who provide their services and do not otherwise receive a salary from the Company, or the Group, receive a fee for their services as disclosed in the Statutory Accounts.

### Remuneration Policy

The Company's remuneration policies are fully aligned with those of Achmea, with the Achmea values and philosophy of putting customer interests first and ensuring that, through its remuneration practices, excessive or adverse risk-taking is discouraged.

### Principles of the Company's Remuneration Policy

- Managers and staff receive variable rewards on the basis of results only. The results will have personal, corporate and Achmea Group components.
- Performance standards will be challenging and targets stretching.
- High performance is differentiated.

# System of Governance

- To motivate and retain staff and management a competitive market stance will be maintained for the total reward package.
- Career development opportunities are focused primarily on meeting the needs of high performers and on staff/management displaying potential for further development.
- No variable remuneration in any year may exceed the base pay in that year.

### Pension Arrangements

The Company operates a Defined Contribution Pension Scheme for all staff into which both employees and the Company contribute on an agreed basis. The Scheme is administered by Invesco on behalf of the Company.

Many staff also have deferred entitlements from a now frozen Defined Benefit Pension Scheme.

No supplementary pension or early retirement schemes are offered to Non-Executive Directors.

### Material Transactions with Shareholders during 2017

During the year the Company declared and paid dividends of €76.75 million to its parent company, Friends First Holdings dac.

There has been no material change to governance structures during 2017.

## B.2. FIT AND PROPER REQUIREMENTS

### Fit and Proper Policy

The Company has a '**Fit and Proper Policy'** (the 'Policy') which has been approved by the Board and is regularly reviewed with the last review having taken place in February 2018.

The purpose of this Policy is to formally set out the relevant policies and procedures to ensure that the members of the administrative, management or supervisory body collectively in the Company possess both the **Fitness**; appropriate qualifications, experience and knowledge about:

a) insurance and financial markets;
b) business strategy and business model;
c) system of governance;
d) financial and actuarial analysis; and
e) regulatory framework and requirements.

Relevant to their role; and **Probity**; honesty, ethical behaviour, financially sound and behaves with integrity; to effectively carry out their role.

It is the initial responsibility of Friends First's Human Resource function to determine if a role profile falls within the scope of the Fit and Proper Policy which is automatically applied to all employees in Control Functions (CFs) including Pre-Approval Control Functions (PCFs) as defined in the Central Bank Reform Act 2010 (Sections 20 and 22). PCF's also require the pre-approval of the Central Bank of Ireland prior to taking up their positions.

Under the Policy an assessment must be completed before a person becomes the holder of a PCF or CF role. Friends First makes all reasonable inquiries to obtain information, including collecting sensitive information that it believes may be relevant to an assessment of whether the person is fit and proper to hold the position the person is proposed to be appointed to. This includes, but is not limited to, verification of educational or professional qualifications, reference checks and a review of available public information in relation to directorships, judgements, bankruptcy etc.

The Policy also requires that all PCF and CF position holders must be in a position to comply with the Standards as set out in the Policy on an ongoing basis and a Fit & Proper self-declaration is completed by all PCF / CF individuals on an at least annual basis.

# System of Governance

## B.3. RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

### Company Risk Governance

The Board of the Company has the primary responsibility for supervising the management of and providing effective governance over the Company's business and affairs by assessing and monitoring the major risks facing the Company. In order to fulfil this responsibility, the Board has established a Risk and Compliance Committee which:

- ensures that risk is properly managed in the Company;
- establishes a documented Risk Appetite expressed in qualitative terms and including quantitative metrics to allow tracking of performance and compliance with agreed risk strategy;
- assesses and monitors the major risks facing the Company and ensures that an appropriate risk management framework is developed and implemented by management, to ensure compliance with policies and business strategies and is monitored on an ongoing basis;
- ensures that the risk management framework and internal controls reflect the Risk Appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on compliance with Risk Appetite;
- monitors the effectiveness and adequacy of internal controls; and
- reviews and approves the corporate governance standards and monitors compliance with the standards.

### Risk & Compliance Committee (RCC)

The Board is assisted by the RCC in fulfilling its responsibilities in relation to the oversight of the risk management function and the current risk exposures of the Company and the future risk strategy. The RCC is a delegated committee of the Company Board and is authorised by the Board to assist the Board in fulfilling its responsibilities by:

- advising the Board on current risk exposures and future risk strategy;
- advising the Board on proposed strategic solvency targets;
- advising the Board on the Risk Appetite and tolerance for future strategy, taking account of the Board's overall Risk Appetite, the current financial position of the Company and drawing on the work of the Audit Committee and External Auditor, capacity to manage and control risks within the agreed risk strategy;
- developing and monitoring the performance and effectiveness of the risk management function;
- ensuring the development and ongoing maintenance of a risk management system that is effective and proportionate to the nature, scale and complexity of the material risks inherent in the business;
- reviewing and approving risk management policies as specified by the Directive of the Parliament and of the Council on the taking up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- advising the Board on the effectiveness of the strategies and policies with respect to maintaining on an ongoing basis, amounts, types and distribution of both internal capital and Own Funds adequate to cover the risks of the Company;
- developing and monitoring the ORSA process (refer to page 19/20) and outcomes and ensuring that it is implemented effectively within the Company; and
- at least annually, reviewing the ORSA process, advising the Board on the effectiveness of such process, making any recommendations for revision or enhancement and ensuring that the process (for the time being and as revised from time to time) is appropriately documented.

The RCC is currently composed of two independent non-executive Directors (one of whom also acts as Chairman), a Non-Executive Director and the CEO. Attendance of non-members at RCC meetings is by invitation. The following individuals all have a standing invitation: CFO, CRO, Compliance Officer, Head of Actuarial Function and Internal Auditor. The RCC reports its activities and any findings and recommendations to each meeting of the Company Board.

### Three-line defence model

In addition to being advised by its delegated RCC, the Board operates a three-line defence model of risk management. The first line of defence comprises the Management Team and refers to the controls embedded in the business itself. The second line is composed of the Risk Management and Compliance function. The third line is through Internal Audit controls.

# System of Governance

### 1st line: Management Team

The Management Team is responsible for the identification, reporting and management of risks in their respective areas. The CEO has the primary responsibility for communicating the expectations of the Board in relation to the Company's business strategy, culture, values and behaviours. The CEO is also responsible for the implementation and operation of appropriate risk frameworks and for ensuring compliance with the policies and minimum standards set by the Company. All members of the Management Team have an equal and shared responsibility for managing risks within their respective business areas.

### 2nd line: Risk Management and Compliance functions

The Company has a Risk Management function which has been charged with oversight, review and supervision of identification, measurement, management, reporting and monitoring of risk within the organisation. The function is headed by the Chief Risk Officer (CRO), who:

- is responsible for developing and maintaining the Company's risk management framework;
- has independent oversight of all risk management activities;
- provides independent reporting to the RCC and Board (where required) on risk issues, including the risk profile of the Company; and
- provides independent assurance to the CEO and the Board that key risks are identified, reported to and managed by the Management Team.

The Company also has a Compliance Function which oversees and monitors the compliance level of the Company with legislation, regulation and the relevant Codes of Conduct. The function is headed by the Head of Compliance and Regulatory Affairs.

### 3rd line: Independent Assurance

Independent assurance on the effectiveness of the control and risk management systems is provided by the Internal Audit function. The key findings made by Internal Audit are summarised and are reported to the Audit Committee.

The process by which Friends First Life Assurance Company assesses, manages and reports on its risks to its Board is set out in its Risk Framework.

The people and processes underlying the Risk Framework comprise the following:

### The Board and Risk and Compliance Committee (RCC)

As described above, the Board is ultimately responsible for risk matters and the RCC monitors risk on its behalf.

### The Risk Function

The Risk Function currently consists of the Chief Risk Officer (CRO), the Operational Risk Manager (ORM) and the Financial Risk Actuary (FRA), who report to the CRO. The CRO is a member of the Company's senior management team.

### Operational Risk Management

This is carried out by the ORM. The ORM will engage with the business to assist the business in maintaining a strong focus on risk, to assess progress on risk mitigation actions, to perform quarterly and annual risk assessments in particular leading to the preparation of the Internal Control Statement. The ongoing engagement with and challenge of the first line ensures continual consideration, monitoring and reporting of risks to the RCC.

### Financial Risk Management

This is carried out by the FRA. The FRA will engage with the business to assist the business in maintaining a strong focus on risk, to assess progress on risk mitigation actions, to perform quarterly and annual risk assessments in particular leading to the preparation of the Internal Control Statement. The ongoing engagement with and challenge of the first line ensures continual

# System of Governance

consideration, monitoring and reporting of risks to the RCC. The FRA will also support the business in carrying out the Own Risk and Solvency Assessment process.

The Company's risk management strategies, objectives, processes and reporting procedures for each category of risk are set out in various documents that form its risk framework. These include:

### Risk Appetite Statement

The RAS sets out the risks the Company is willing to accept, limits to the acceptance of these risks and risks it wishes to reduce or avoid. The Board of the Company reviews it Risk Appetite Statements annually. These are key tools utilised in the steering and management of the company.

It sets out tolerances with regard to risks that arise from accepting such business (such as counterparty risks etc.). It uses a four level escalation system (Red, Orange, Amber, Green flags). Each level requires different levels of reporting to the Board.

### Risk Policies

These support the Risk Appetite Statement and set out procedures to follow for accepting risk at an operational level. Examples of policies would include reinsurance policy, underwriting policy etc.

### Risk Register

First line function managers are required to carry out frequent self-assessments of the risk control environment within their areas of operation and to assign risk scores to each process. Where appropriate the manager is expected to identify risk mitigation actions that would reduce risk scores. These self-assessments are recorded on the risk register and reviewed by the ORM, FRA and CRO for consistency and challenged where appropriate.

### Risk Reports

The CRO prepares a report each quarter for the Risk and Compliance Committee to give his view on current risk issues. The CRO is also in a position to call more frequent RCC meetings if required by the "Traffic Lights" reporting requirements.

### Internal Control Statement

This is a significant element of the control environment and forms part of the overall ORSA process. It is an annual statement prepared by the CRO in consultation with CFO and CEO. It gives a snap-shot view of the level of control over risk within the organisation under a wide range of headings. A quarterly update is also provided to RCC. Refer to Section B.4. below for further details.

### Own Risk and Solvency Assessment (ORSA)

The points below show, at a high level, the steps taken in performing, reviewing and documenting the ORSA.

- Friends First 'Blue Sky' Risk Workshop
- Strategic Risk Assessment discussion (Risk and Compliance Committee)
- Board Approval of Strategic Risk Assessment
- Preparation of ORSA Scenarios and Stress Tests
- Senior management approval of ORSA Scenarios and Stress Tests
- Risk and Compliance Committee discussion of Scenarios and Stress Tests
- Board review/approval of Scenarios and Stress Tests
- Preparation of draft ORSA report
- Review of the ORSA report by Executive Management
- Draft ORSA report presented to the Company Risk and Compliance Committee for review
- Review of draft ORSA by the Company Board
- Approval of Business Plan and ORSA by the Company Board of Directors

# System of Governance

The ORSA is reviewed annually. However, as part of its ORSA policy the Company Board has considered appropriate triggers for a "non-regular" ORSA report and has identified the following triggers as appropriate to the Company until the next review of this policy:

1. Change to business or investment strategy or other change to risk profile (e.g. increased market risk, strategic investment, large dividend payments) that is likely to increase SCR by 20% or reduce solvency coverage by 25% prior to next regular report.
2. Change to Eligible Own Funds due to loss event (e.g. catastrophe, market loss) that reduces solvency coverage by more than 25%.

These events will not trigger a non-regular ORSA if the solvency coverage after the change remains above the lower threshold for a "Tolerable" rating in accordance with the Risk Appetite Statements.
Although there was no event which would have triggered an ad hoc ORSA according to current policy, a non-regular ORSA was prepared in 2017 following the Section 13 transfer of the insurance portfolio of Friends First Managed Pension Fund dac into the Company.

As part of each ORSA report an assessment of overall solvency needs is carried out. In the most recent report it was concluded that the Standard Formula slightly overstates the capital required at a 1 in 200 year level for the Company, but the Company is satisfied that this is a reasonable level to meet its solvency needs. The Company believes that:

- The Standard Formula is appropriate (albeit slightly overestimating the SCR for the Company).
- The Company has no significant issues with the calibration of the Standard Formula
- Although the Standard Formula does not address all risks (as it is designed to apply across a range of European insurance companies) it is not expected that the risk profile of the Company will change significantly over the business planning horizon and so the Standard Formula will remain valid throughout.

As such the Company is of the opinion that the SCR calculated in accordance with the Standard Formula is appropriate for its needs at a 1 in 200 year level of cover over the business planning horizon.

The Board has approved a Capital Management Policy. This has established a threshold of 150% SCR (based on Standard Formula) for paying dividends. Thus the Company sees this as an appropriate limit in the short to medium term. This assessment was carried out in light of previous ORSA reports. While the Company believes that the Standard Formula is appropriate to it and provides sufficient capital at a 1 in 200 year level, it wished to maintain a higher level of capital.

### Responsibilities/Roles

The Board sets the risk appetite of the Company for various asset types/risks.

The Investment Oversight Group (a committee of Company management, chaired by the Head of Investment) is tasked, by the Board, with:

- Reviewing performance of external asset managers against agreed benchmarks, for both own-risk and unit-linked assets;
- Reviewing and proposing adoption by the Board and Group Finance and Risk Committee, if appropriate, taking into account policyholders' and shareholders' interests and taking into account any constraints imposed by regulatory bodies or recommended by the Head of Actuarial Function or the Committee having regard to solvency or other regulatory requirements or to risk management considerations;
- Reviewing progress of implementation of the Investment Plan;
- Reviewing and proposing adoption by the Board proposals relating to Investment matters of the own risk portfolio of assets;
- Reviewing compliance with the Group Investment Guidelines;
- Reviewing the appropriateness of Investment Mandates, for both linked and non-linked assets;
- Considering and, if appropriate, approving asset management and fee agreements;
- Reviewing the activities of the Investment Operations Group, a management committee that ensures proper operation of the day-to-day investment activities; and
- Reporting activities of the Committee to the Risk & Compliance Committee of the Board.

### Prudent Person Principle

The Prudent Person Principle, as defined in Solvency II regulations, stipulates that insurers can only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report.

Therefore we must only invest in products whose nature and risks we fully understand, thus we can always react appropriately to developments.

# System of Governance

The Company adheres to an Investment Policy that is approved by the Board. This policy ensures that our approach to investment management is in accordance with the prudent person principle. The policy relates to the investment of the assets of the Company. All assets (other than fixed assets and amounts due but not received) are in scope. The policy sets out the principles to follow to ensure that appropriate assets are held to match the liabilities of the Company. The assets held by a life insurance company expose it to many risks – market, counterparty, concentration, mis-match, interest, currency which in turn impact on solvency. The objective of the policy is to manage these risks.

## B.4. INTERNAL CONTROL SYSTEM

### Internal Control Statement

In order to assess risk management and the status of the risk and control levels, the Company has established a process, the outcome of which is the Internal Control Statement (ICS). The ICS is based, primarily, on the worldwide COSO (Committee of Sponsoring Organisations) standard for Enterprise Risk Management (ERM). The ICS is incorporated into a report in which the level of the risk and control level have been determined.

The ICS framework is based on a coherent approach to all risks (Enterprise Risk Management) and distinguishes three major control objectives of internal risk control systems, namely ensuring that:

- Strategic and operational objectives are achieved;
- Internal and external (financial) reports are reliable; and
- The organisation complies with applicable laws and regulations.

The final results of the ICS process are summarised in a scorecard. The scorecard is divided into an assessment of the risk and a determination of the actions taken to control identified risks.

In addition the ICS report sets out the following:

- A management summary, outlining the most important developments on risk management and control. It also highlights risk categories which require special attention from the Executive Board of Achmea and schedule the risk actions for the attention of the Board of the Company.
- The opinion of Risk Management function on the ICS / Risk Management Return process, as operated by Business and Senior Management.

### Compliance Function

The Company has a Compliance function which is established pursuant to Solvency II and the Compliance Policy of the Company. The Compliance function, which is led by a Head of Compliance and Regulatory Affairs along with a team of 4 staff members reports quarterly to the Risk & Compliance Committee on its activities and progress against its annual plan. The Compliance Function, amongst others, has the following roles which it carried out during 2017:

- Advising the Company in relation to compliance with laws, regulations or other administrative provisions;
- Assessing the impact of potential regulatory changes;
- Carrying out Compliance Monitoring Activities across the Company (on a risk basis) to ensure that the Company continues to operate in a materially compliant manner; and
- Assessing the adequacy of measures undertaken by the Company to avoid non-compliance with any law, regulation or administrative provisions.

The Company has a Compliance Policy which is reviewed regularly by the Board and sets out inter alia: the interacting responsibilities and reporting duties of the Compliance function and the Company. In addition, the Risk and Compliance Committee will approve the Compliance Plan for each calendar year and thereafter assess the performance of the function in achieving the plan, or otherwise.

# System of Governance

## B.5. INTERNAL AUDIT FUNCTION

The role of the Internal Audit function is defined in the Company's Internal Audit Charter. This Charter sets out Internal Audit's mission, function, independence, objectivity and expertise as well as defining the scope, authorities and responsibilities. The charter also defines the applicable behavior and professional conduct rules and the relationship with external parties. The current international standards for the professional practice of internal auditing and the requirements set by the external regulators for the internal audit function, which includes the *EIOPA Guidelines on System of Governance (Solvency II) and Corporate Governance Code for Credit Institutions and Insurance Undertakings*, served as the starting point in defining the charter.

Internal Audit is a permanent, independent function that provides additional assurance to the Board of Directors and the Audit Committee, and derived from this to the senior management of the Company, regarding the internal control, effectiveness, efficiency and compliance of the business operations. To fulfill this task Internal Audit systematically evaluates the processes related to internal control, risk management and governance and thereby has a pro-active signaling role with regard to the risks. In this way Internal Audit contributes to the improvement of the business operations and the achievement of the (strategic) objectives of the Company.

Internal Audit is an independent department within the Company. Its employees are objective in performing their activities. The independence of Internal Audit is guaranteed as the Head of the Company Internal Audit reports to the Chairman of the Company Audit Committee and has an open communication line with the Audit Committee of the Company and Achmea Internal Audit. The Internal Audit function is a permanent staff unit of the Company. Outsourcing of the Internal Audit function is not being considered. However, specific expertise can be hired by the Head of the Company Internal Audit for specific areas if needed.

The Head of Internal Audit is positioned directly under the CEO of the Company and has a direct line to the Chairman and members of the Audit Committee. Hereby Internal Audit is free to report all its findings and opinions without prejudice and intervention. The Head of Internal Audit has a functional line with the Achmea Internal Audit Director. The Internal Audit function does not carry out any other key functions.

The objectivity of Internal Audit is guaranteed as Internal Audit does not form part of the (daily) internal control measures and safeguarding of assets which are integrated into the various areas of the business processes and which is the responsibility of the line management. Internal Audit is also not responsible for the design and implementation of measures related to risk management, compliance and internal control. Senior management may request of Internal Audit to give an opinion on the internal control measures which are implemented or should be complied with.

The assessment by Internal Audit focuses, against the background of the risk profile of Friends First, specifically on the following:

- The defined risk appetite and the establishment hereof;
- The design and effectiveness of the governance, including the effectiveness of risk management, in particular with regard to the following aspects:
  - The design of the organisation including the three lines of defence;
  - The roles and responsibilities including segregation of duties;
  - The design and effectiveness of the second line of defence;
  - The content of mandates, authorisation matrices, policies and statutes;
  - Monitoring of the performance against and compliance with the risk appetite;
  - Capital and liquidity management including Own Risk and Solvency Assessment (ORSA) and/or the Internal Capital Adequacy Assessment Process (ICAAP) if applicable;
  - Model validation;
  - The environment in which complex valuations take place;
  - The design of the integrity policy;
  - Steering on improvement potential; and
  - The sanction policy in respect of non-compliance with laws and regulations.

  Within the framework of evaluating the operation of the governance structure, we evaluate the functioning of the Board of Directors and senior management. Here, the example and culture set by the Board of Directors ('tone at the top') is explicitly included.
- The internal control over critical business processes and projects. In particular, management of the identified key risks associated with these processes and/or projects by making use of the defined key controls. A business process is

considered to be critical when it has a strong relationship with the strategic objectives of the company, has a high inherent risk (e.g. due to the nature and/or complexity) or important requirements are set by laws and regulations with regard to the design of the process.

- The effectiveness and reliability of data processing processes aimed specifically at the Board of Directors and senior management important (financial) management information and key (external) reporting.
- Compliance with laws and regulations, including the functioning of the Compliance function
- Safeguarding of Company assets.

## B.6. ACTUARIAL FUNCTION

The Head of the Actuarial Function is appointed by the Board. The role is combined with the Chief Risk Officer role. These functions are second-line functions and have related objectives. The combination of the risk management function with the Actuarial Function ensures effective execution; better oversight of risks; better coordination, and avoids silo thinking. The Actuarial Function reviews the work carried out by the Finance function to ensure that the Technical Provisions comply with the regulations.

## B.7. OUTSOURCING

The Board has approved an Outsourcing Policy which must be followed in circumstances where the Company seeks to outsource any activities which, as a Life Assurance entity it might otherwise be expected to carry out itself. This Policy is cognisant of the Central Bank's Outsourcing Requirements.

The Policy sets out the requirements which must be followed prior to outsourcing such activities and the ongoing monitoring of these activities. This is to ensure that any Outsourcing activity is undertaken in accordance with a structured control process with appropriate and ongoing responsibility. Close management oversight and monitoring of Outsourced relationships is required under the policy. The Policy is also in compliance with local laws, regulations and best practice.

While the Company does not outsource any critical operational functions, a number of important operational functions are outsourced. These mainly relate to Investment Management but also include the provision of printing and mailing services for policyholder communications which are subject to monitoring and oversight. All such providers are based in the EU but primarily in Ireland and the UK.

## B.8. ANY OTHER INFORMATION

There is no other material information regarding the system of governance that should be explicitly mentioned in this section.

# Risk Profile

## C. RISK PROFILE

This section identifies the different risks to which the Company is exposed, the measures used to assess these risks, the techniques used to mitigate these risks and the processes to monitor the risk exposures. The appetite for different risks is set by our Board.

Risk assessment is carried out regularly. It is identified using management information, experience and trend analysis, information from the risk management function and risk committee and any external data available.

The Company holds capital in order to ensure that it can meet its obligations across a wide range of risk scenarios. The main basis used by the Company to determine the amount of capital to hold is the Solvency II Solvency Capital Requirement (SCR). This determines the capital needed if a 1 in 200 year loss event occurs. The Company has adopted the Standard Formula approach to determine the capital required based on its risk profile. An assessment has been carried out by the Company to confirm that its use of the Standard Formula is appropriate. The Standard Formula provides information on stresses to each of the risk types. Additional scenario based stresses are carried out as part of the ORSA. Based on these results, the company is satisfied that the Standard Formula is appropriate.

The Company notes that the vast majority of its Best Estimate Liabilities (BEL) relate to either unit-linked business or business within with-profits funds where the BEL reflects the value of the assets in the funds.

Scenario and stress testing are used in addition to the SCR to determine the target level of capitalisation.

The use of capital alone is not sufficient to mitigate risk. A variety of risk mitigation techniques are used in addition to reduce and manage risk, e.g. reinsurance, operational controls. These techniques are described in more detail below.

The risk mitigation techniques are constantly monitored and reviewed to ensure that they remain effective.

As at Q4 2017, the majority of non-linked assets held were invested in Sovereign Bonds, Corporate Bonds and Cash which produce regular income to meet outgoings. The Company considers these assets to be highly liquid and of an appropriate duration. Therefore, liquidity is not considered to be a key risk. Where appropriate the Company has used Reinsurance to mitigate against risk. All remaining risks are present mainly for the benefit of policyholders and are acceptable from the Company's point of view.

### C.1. UNDERWRITING RISK

#### DESCRIPTION

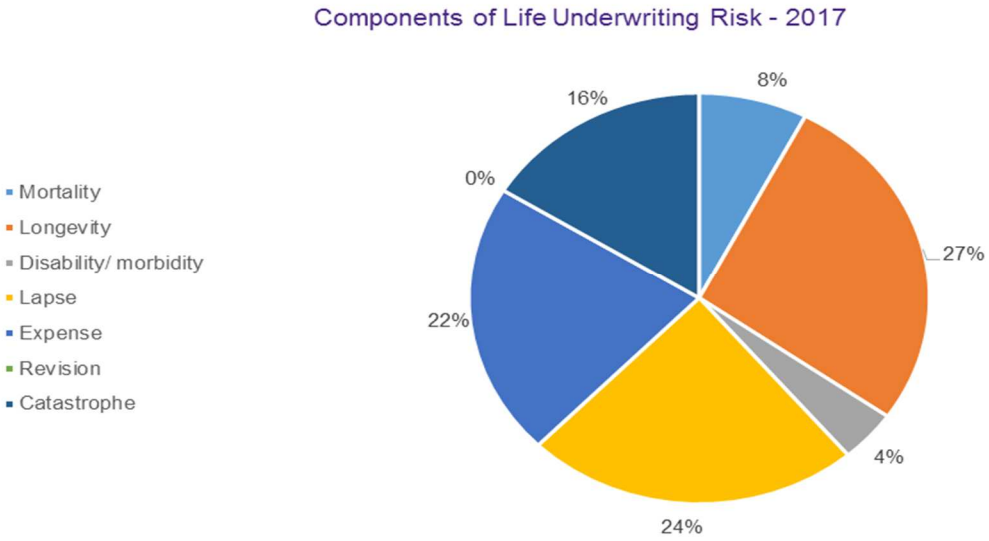
Underwriting risk is the risk of loss due to unexpected variation in the amount or timing of claims, premiums or expenses on the policies that we have underwritten. Friends First currently writes life insurance business which results in material exposures to the following risks:

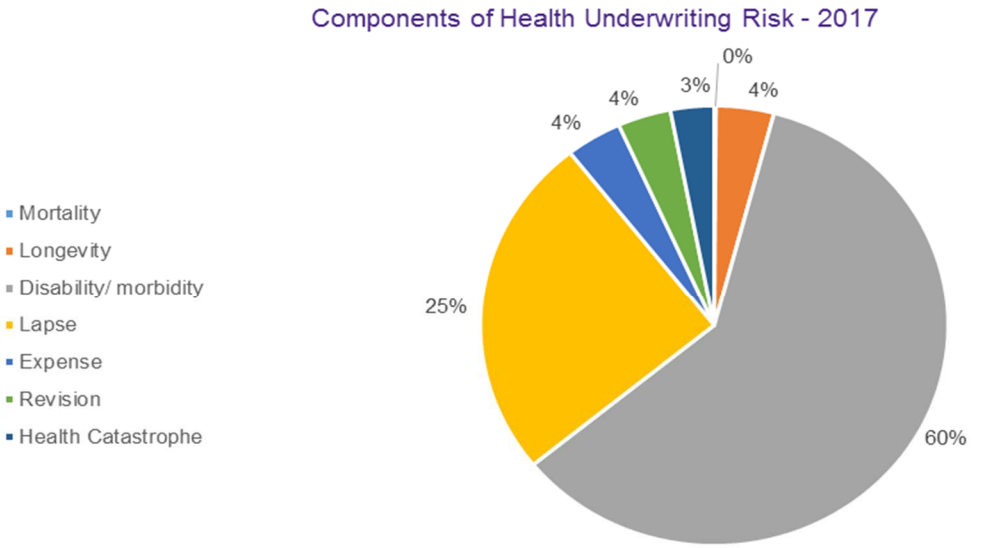
- Mortality - the risk of loss due to adverse deviations in the timing and amounts of claims due to higher than expected mortality rates
- Longevity - the risk of loss due adverse deviations in the timing and amounts of claims due to lower than expected mortality rates
- Morbidity - the risk of loss due to adverse deviations in the timing and amount of claims due to higher than expected claim rates or lower than expected recover rates
- Expense - the risk of loss due to adverse deviations in the timing and amount of expenses incurred by the business
- Lapse - the risk of loss due to policies surrendering earlier than expected
- Catastrophe – the risk of losses in the event of a catastrophic event, e.g. a pandemic
- Revision – the risk of adverse variation of an annuity's amount as a result of an unanticipated revision of the claims process.

Insurance products expose Friends First to one or more of these risks, we use our experience to identify, assess, manage and mitigate these risks.

# Risk Profile

The risks above have been quantified using the Standard Formula. The charts below shows the relative significance of each component on the life and health underwriting risks as at 31st December 2017.




## RISK MANAGEMENT

### Risk & Compliance Committee

See Section B.3 for details about this committee.

### Own Risk and Solvency Assessment (ORSA)

The ORSA describes the processes and procedures used by Friends First to identify, assess, monitor, manage and report the risks being faced and to determine the own funds necessary to ensure that overall solvency need are met at all times. This is required as part of Solvency II.

As part of this process we identify and assess all risks, both qualitatively and quantatively. Processes are devised to monitor and manage these risks. Stress tests are also carried out which will enable us to determine the level of risk we are exposed to. We also carry out projections to ensure that we meet solvency requirements in the future.

# Risk Profile

### Reinsurance

We use reinsurance to reduce our exposure to the risk of adverse claims experience. Our reinsurance limits are set by our Risk & Compliance Committee based on our risk appetite. We regularly review our reinsurance strategy and make changes when necessary.

### Underwriting

Our underwriting process allows us to assess the risks before we write a policy, and also at claim stage before we pay a claim.

### Product Pricing

When developing products risk is taken into consideration, the acceptable level of risk is determined in advance by our Risk & Compliance Committee. The experience of our products is monitored and compared to expectations and this information is used in the pricing of new products or in premium reviews.

We also monitor sales to ensure the volume and mix of new business are in line with expectations.

### Risk Concentration

All of our risk is insured in Ireland. This can lead to a concentration risk. Similarly we face concentration risk from our group risk schemes. Some of this risk is mitigated through reinsurance.

## C.2. MARKET RISK

### DESCRIPTION

Market risk is the risk of loss arising due to changes in the market price of assets. The main areas of market risk are as follows:-

Equity risk – the risk of loss arising from a fall in equity values. The Company is exposed to equity risk through direct equity holdings in non-linked funds, equity holdings in the defined benefit pension scheme and in respect of future management charges on the unit linked funds. The equity risk on unit linked funds is accepted by the Company on behalf of its policyholders

Property risk - the risk of loss arising from a fall in property values, either direct or indirect holdings. The Company is exposed to property risk through non-linked property holdings. In addition, the Company is exposed to property risk in respect of future management charges on the unit linked funds. The property risk on unit linked funds is accepted by the Company on behalf of its policyholders.

Currency risk - the risk resulting from the sensitivity of the values of assets and liabilities to changes in the level or volatility of currency exchange rates. The Company is exposed to currency risk through non-euro denominated non-linked and unit linked asset holdings. In addition, the Company is exposed to currency risk in respect of future management charges on the unit linked funds. The currency risk on unit linked assets is accepted by the Company on behalf of its policyholders.

Spread risk - the risk of loss or adverse change in the value of assets and liabilities, resulting from fluctuations in the credit standing of issuers of securities. The Company is exposed to spread risk through non-linked corporate bond holdings.

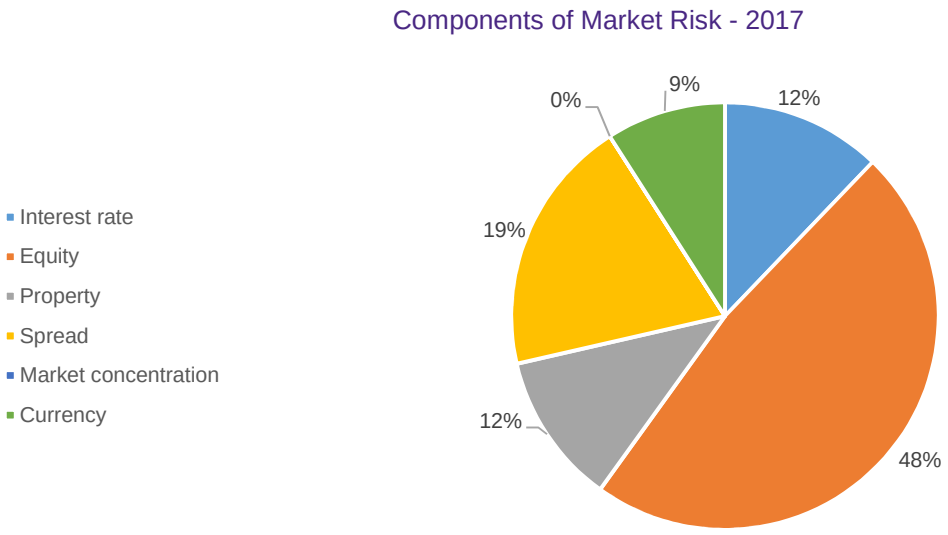
Interest rate risk - the impact of changes in interest rates on Own Funds. It relates to any mismatch of the durations of the assets and liabilities. It also includes any duration mismatch identified within the Company defined benefit pension scheme. Interest rate risk on unit linked funds is accepted by the Company on behalf of its policyholders.

Concentration risk – this arises on any single exposure or group of exposures with the same counterparty. Government bonds are not subject to concentration risk. Given the Company's large holding of government bonds, its concentration risk is zero

The above risks have been quantified using the Standard Formula.

The chart below shows the relative significance of each risk at 31 December 2017.

# Risk Profile




## RISK MANAGEMENT

### ORSA

As part of the ORSA process market risks are assessed. In addition stress tests are carried out which will enable us to determine the level of risk we are exposed to. This can help us to determine the best mitigation methods.

### Monitoring

Our investment oversight group regularly monitors market risk to ensure that the level or risk is within our risk limits. They can identify trends and deviations over time and take action to reduce the level of risk.

### Asset liability matching

All unit linked liabilities are matched with appropriate assets. Annuities are matched by bonds of appropriate nature and duration.

# C.3. CREDIT RISK

## DESCRIPTION

Credit risk is the risk of loss from a counterparty's unexpected inability to meet its contractual obligations or deterioration in credit standing. Our main source of counterparty risk is from our investments, namely government bonds, corporate bonds and bank deposits. We are also exposed to counterparty risk through our reinsurance arrangements.

Counterparty default risk has been quantified using the Standard Formula.

## RISK MANAGEMENT

### Investments

Investment in government bonds is diversified across the Eurozone. We invest in a range of sovereigns that are of sufficient credit quality. Our investment committee identifies these counterparties.
For bank deposits we have a range of approved institutions.
The investments are continually monitored to ensure that we are operating within our risk limits.

# Risk Profile

### Reinsurance

We only interact with reinsurers that have a satisfactory credit rating. We regularly monitor the credit rating of our reinsurers. Where possible we would enter into a collateral agreement in order to mitigate some of the risk. We also avoid large exposures to a single reinsurer where possible.

### ORSA

As part of the ORSA process stress tests are carried out which will enable us to determine the level of risk we are exposed to. This can help us to determine the best mitigation methods.

### Risk concentration

Our main sources of risk concentration arise from our investments in bonds and cash, and also our reinsurance arrangements. We try where possible to diversify to ensure that we are not overly exposed to any particular counterparty.

## C.4. LIQUIDITY RISK

### DESCRIPTION

Liquidity risk is the risk of loss due to the inability to meet a financial obligation to a policy holder or other creditor as it falls due. This can happen even when a company meets all its solvency requirements.
Liquidity risk is monitored regularly to ensure that the level of risk remains acceptable. We do not expect liquidity to be a key risk.

### RISK MANAGEMENT

### Investments

As at 31 December 2017 the majority of the non-linked assets are invested in sovereign bonds and cash, these produce regular income to meet outgoings. These are highly liquid assets and of an appropriate duration.
Adequate funds are held in cash for day to day expenses, these are reviewed regularly.

### Unexpected claims

This can result from higher than expected claims or policy surrenders. This is mitigated by investing in high quality liquid assets that can be realised over a short period.
Some policy conditions allow us to defer claim payments in the case of illiquid underlying assets.

### Stress testing

Stress testing is carried out to ensure that we have sufficient liquidity in extreme circumstances. This will enable us to reduce the liquidity risk.

### Risk concentration

As all of our insured risk is in Ireland, the concentration risk is that of excessive claims, which could lead to liquidity problems. Stress testing should highlight this risk.

### Expected profit included in future premiums

We are required by the regulations to state the expected profit included in future premiums. The total amount of expected profit included in future premiums (EPIFP) is set out in the table below.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| EPIFP Life insurance | 76,787 | 68,852 |
| EPIFP % Tier 1 EOF | 30% | 22% |

The EPIFP increased by almost €8m in 2017.

# Risk Profile

## C.5. OPERATIONAL RISK

### DESCRIPTION

Operational risk is the risk of loss caused by inadequate or failed internal processes, people and systems or from external events. It can also arise in a changing regulatory environment if we fail to demonstrate compliance in the event of a change.

Operational risk has been quantified using the Standard Formula. We accept a certain amount of operational risk as part of our business model.

### RISK MANAGEMENT

**Business Continuity Plan (BCP)**

The Company has a BCP in place. This plan includes an external site where the company can relocate in the event that the office or computer systems become unusable for a period. The plan is tested annually and each test includes scenarios as to the cause of the invocation of the external site. The most recent test took place in September 2016 and indicated that the company could bring its systems live at the external site within its target of 24 hours. The company considers this level of preparedness to be “Acceptable” (the best rating on its Internal Control Statement).

**Cyber risk security measures**

The Company's IT department has in place an extensive range of security measures to protect the integrity of the system and the security of the data. It also engages with the business to ensure awareness of the threats that exist. This includes conducting education sessions with all staff. IT engage with external experts to benchmark its security posture against best practice.

**Regulatory changes**

Regulations are monitored by the relevant departments in the company. Any changes will be reviewed and procedures put in place to ensure that we continue to demonstrate compliance.

**ORSA**

As part of the ORSA process operational risks are assessed. In addition stress tests are carried out which will enable us to determine the level of risk we are exposed to. This can help us to determine the best mitigation methods.

**Risk concentration**

All of our administration is carried out in our head office in South County Dublin, this represents a concentration risk. This has been significantly mitigated with our BCP mentioned above.

Other Operational risks are likely to result in a financial loss. The Company believes it has satisfactory processes and controls to address and manage its Operational Risk.

## C.6. OTHER MATERIAL RISKS

There is no other material information relevant to the risk profile of the Company.

# Risk Profile

## C.7. ANY OTHER INFORMATION

This section sets out indicative sensitivities to a range of key factors. For each sensitivity we show the impact of a change in that single factor while leaving all other factors unchanged. The factors examined are as follows:

- **Interest rates** – The impact of a 0.5% increase/decrease in interest rates on the value of both assets and liabilities.
- **Expenses** – The impact of a permanent 5% increase in all expenses and a 0.5% increase in expense inflation.
- **Lapses** – The impact of a permanent 10% increase in lapses.
- **Mortality** – The impact of a permanent 10% increase in the mortality rates (excluding annuitants).
- **Morbidity** – The impact of a permanent 5% increase in morbidity rates.
- **Annuitant Mortality** – The impact of a permanent 10% decrease in the mortality rate of people to whom we pay annuities.
- **Equity Values** – The impact of a 10% decrease in equity values on both assets and liabilities.
- **Property Values** – The impact of a 10% decrease in property values on both assets and liabilities.

The results of these sensitivities are as follows:

| **Base Solvency Coverage** | **158%** |
|---|---|
| **Sensitivity description** | **Impact on Solvency** |
| 0.5% increase in interest rates | +3% |
| 0.5% decrease in interest rates | -8% |
| Increase of 5% in expenses & 0.5% in inflation | -9% |
| 10% increase in lapses | -1% |
| 5% increase in mortality rates | -2% |
| 5% increase in morbidity rates | -7% |
| 5% decrease in annuitant mortality rates | -1% |
| 10% decrease in equity values | -5% |
| 10% decrease in property values | -1% |

# Valuation for Solvency Purposes

## D. VALUATION FOR SOLVENCY PURPOSES

The table below gives an overview of the Company's assets and liabilities as at 31 December in the Balance Sheet for Solvency II purposes in each of the last two years.

| BALANCE SHEET | | € 1.000 |
|---|---|---|
| **ASSETS** | **2017** | 2016 |
| Intangible Assets | 0 | 0 |
| Deferred tax assets | 3,326 | 3,399 |
| Property, Plant & Equipment held for own use | 3,568 | 0 |
| Investments (excl. index-linked and unit-linked funds) | 1,517,013 | 1,659,457 |
| Assets held for index-linked and unit-linked funds* | 2,905,283 | 60,624 |
| Loans & mortgages | 252 | 266 |
| Reinsurance recoverables* | 429,451 | 2,704,813 |
| Deposits to cedants | 0 | 0 |
| Insurance & intermediaries receivables | 8,674 | 4,455 |
| Reinsurance receivables | 27,678 | 36,378 |
| Receivables | 1,588 | 10,917 |
| Own shares | 0 | 0 |
| Cash and cash equivalents | 55,926 | 32,976 |
| Any other assets, not elsewhere shown | 11,161 | 26,670 |
| **Total assets** | **4,963,920** | 4,539,955 |

| BALANCE SHEET | | € 1.000 |
|---|---|---|
| **LIABILITIES** | **2017** | 2016 |
| Technical provisions - non-life (excl. health) | 0 | 0 |
| Technical provisions - health (similar to non-life) | 0 | 0 |
| Technical provisions - health (similar to life) | 225,371 | 257,163 |
| Technical provisions - life (excl. health/ UL) | 1,493,617 | 1,571,510 |
| Technical provisions - unit-linked | 2,844,927 | 2,253,170 |
| Contingent liabilities | 0 | 0 |
| Provisions other than technical provisions | 0 | 403 |
| Pension benefit obligations | 20,885 | 26,788 |
| Deposits from reinsurers | 0 | 0 |
| Deferred tax liabilities | 10,453 | 7,962 |
| Derivatives | 0 | 0 |
| Debts owed to credit institutions | 0 | 0 |
| Financial liabilities other than debts owed to credit institutions | 0 | 0 |
| Insurance & intermediaries payables | 14,434 | 4,137 |
| Reinsurance payables | 8,677 | 14,043 |
| Payables | 10,349 | 7,377 |
| Subordinated liabilities | 0 | 0 |
| Any other liabilities, not elsewhere shown | 79,135 | 84,618 |
| **Total liabilities** | **4,707,848** | 4,227,171 |
| | | |
| **Excess of assets over liabilities** | **256,072** | 312,784 |

* The significant movement in these figures from 2016 to 2017 is due to the "Section 13 Transfer" which was put into effect as at 31 March 2017

# Valuation for Solvency Purposes

## D.1. ASSETS

### D.1.1. KEY ASSUMPTIONS AND METHODOLOGY FOR ASSET VALUATION

The asset values shown in the Solvency II balance sheet presented above are at "economic value". In general the following definition is used for economic value:

- Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction
- Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction

The following hierarchy is used by the Company to derive the economic value of an asset or liability, excluding the determination of the economic value of insurance liabilities.

Level 1: The best evidence of the economic value is a quoted price in an active, deep, liquid and transparent market **(mark-to-market)** for identical assets or identical liabilities. If quoted prices exist for similar assets or liabilities, the value of these should be used with an adjustment to reflect the prices.

Level 2: If a quoted price does not exist or the market is deemed not to be active, the Company uses a valuation technique in determining the economic value. The Company will use a valuation technique which is commonly used in the industry (best practices) and will use **market observable inputs (mark-to-model)**. Level 2 also comprises market quotes for products with similar characteristics.

Level 3: If the key inputs of the valuation technique are not observable in the market or deemed not to be reliable, the Company will use its **own inputs** (if meeting the data quality requirements) as basis for the variables **(mark-to-model)**. If a model is used to value a (financial) liability, the input parameters regarding the own credit standing may not be changed after the initial assessment.

Level 4: In any other case, the Company will use **"expert judgment"** as basis for determining the economic value of assets or liabilities.

When measuring the economic value the Company will take into account any characteristic of the asset or liability including any restriction on the sale or use of the assets.

The table below shows the valuation hierarchy used to put a value on the Company's assets:

€1.000

| | Level 1 | Level 2 | Level 3 | **Total 2017** |
|---|---|---|---|---|
| Investment property | | 22,457 | | 22,457 |
| Holdings in related undertakings | | 4,283 | | 4,283 |
| Equities | | 2,946 | | 2,946 |
| Bonds | 1,409,272 | | | 1,409,272 |
| Collective investment undertakings | | 78,055 | | 78,055 |
| Assets held for index-linked and unit-linked contracts | 1,316,810 | 1,152,769 | 435,704 | 2,905,283 |
| Other financial investments | | 252 | | 252 |
| Cash and cash equivalents | | 55,926 | | 55,926 |
| **Total** | **2,726,082** | **1,752,352** | **40** | **4,478,474*** |

** Reflects the total of the following asset figures from the balance sheet on the previous page: Investments (excl. index-linked and unit-linked funds), Assets held for index-linked and unit-linked funds, Loans & mortgages, Cash and cash equivalents.*

When possible the "look through" principle is used, in order to group all investments with similar risks together at the same balance sheet item. A look through procedure considers an investment at the most granular level of detail and distinguishes all risks involved. The Company looks for the economic substance of the (financial) instrument.

# Valuation for Solvency Purposes

## D.1.2. COMPARISON OF FINANCIAL STATEMENTS AND SOLVENCY II ASSETS

The Financial Statements of the company are prepared in accordance with financial reporting standard 101 'Reduced Disclosure Framework' and the Companies Acts 2014.

When considering the definitions of economic value outlined above under Solvency II, it can be concluded that these closely match the current definitions as used within the International Financial Reporting Standards.

In the financial statements, the Company either measures or discloses the fair value of its investments. For most financial investments, since they are quoted on an active market, this is deemed to present a fair reflection for being an economic value. An active, deep, liquid and transparent ('ADLT') market for the asset or liability is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Transactions are taking place on a regular basis at arm's length.

## D.2. TECHNICAL PROVISIONS

### D.2.1. TECHNICAL PROVISIONS GENERAL

Technical Provisions", as outlined on the Solvency II balance sheet, represents the measurement of the obligations stemming from insurance contracts the Company has written. These are contracts in which the Company assumes the insurance risk from another party - a policyholder. From the perspective of Solvency legislation an insurance contract is defined as selling business according to one of the defined lines of business by an authorised life or non-life insurer. The definition of the lines of business describes which risks are transferred from the policyholder to the insurer. The following lines of business are used:

- Health insurance (direct business) without options and guarantees;
- Insurance with profit participation;
- Index-linked and unit-linked life insurance without options and guarantees;
- Index-linked and unit-linked life insurance with options and guarantees; and
- Other life without options and guarantees.

The Technical Provisions are the sum of a Best Estimate Liability and a Risk Margin. Each of these is calculated separately and dealt with in turn below.

**Best Estimate Liability**

"Best Estimate Liabilities" are the best estimate of the value of the Company's obligations under the policies it has written.

Best Estimate Liabilities are based on the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure. They are presented gross on the Balance Sheet (i.e. without deduction of the amounts recoverable from reinsurance contracts – see below).

Best Estimate Liabilities are calculated on a policy-by-policy basis.

**Risk Margin**

The "Risk Margin" reflects the extra premium another insurer would be expected to require to take over and meet the Company's insurance obligations.

The Risk Margin is calculated by determining the cost of providing an amount of Eligible Own Funds equal to the Solvency Capital Requirement (SCR) necessary to support the insurance obligations over their lifetime. The rate used to determine this cost is called the "Cost-of-Capital rate". It is set at 6% in the regulations.

# Valuation for Solvency Purposes

### Reinsurance Recoverables

Reinsurance reduces the Company's exposure to risks around variables such as mortality and longevity. "Reinsurance Recoverables" are netted off the Best Estimate Liabilities and Risk Margin. They are amounts:

1. the Company expects to recover from reinsurers based on recognised reinsurance contracts; or
2. already claimed from reinsurers based on previous or existing reinsurance contracts.

The valuation of the Reinsurance Recoverable consists of the following components:

- Best estimate of the recoverable of the reinsurance contract;
- Adjustment for timing differences; and
- Adjustment for the expected loss due to default of the counterparty.

For valuing the Reinsurance Recoverables, the Company applies a probability weighted average of the cash flows taking into consideration the probability of default and timing differences.

## D.2.2. TECHNICAL PROVISIONS 2017

As described above, under Solvency II the technical provisions relating to insurance liabilities are made up of the Best Estimate Liability and the Risk Margin. The table below breaks down these components as at 31st December 2017, together with the impact of Reinsurance Recoverables:

€1.000

| | Health | Life | Unit-Linked | 2017 Total |
|---|---|---|---|---|
| Best Estimate Liabilities | 208,235 | 1,473,105 | 2,831,414 | 4,512,755 |
| Risk Margin | 17,136 | 20,511 | 13,513 | 51,160 |
| Gross Technical provisions | 225,371 | 1,493,617 | 2,844,927 | 4,563,915 |
| Reinsurance Recoverables | 47,085 | 382,366 | - | 429,451 |
| Technical Provisions allowing for reinsurance Recoverables | 178,286 | 1,111,251 | 2,844,927 | 4,134,464 |

## D.2.3. KEY ASSUMPTIONS & METHODOLOGY IN DETERMINING THE TECHNICAL PROVISIONS

In order to value the technical provisions, as the future is uncertain assumptions are required for factors that are expected to vary. There are three main types of assumptions – demographic, economic and expense assumptions.

Demographic assumptions include when people are likely to die, how long people are likely to live and when are they likely to surrender their policies.

Economic assumptions include the discount rate, the rate of investment return and inflation.

Expense assumptions include policy maintenance expenses and investment expenses.

As well as assumptions, an actuarial model is also required to project future cashflows from each of the Company's insurance policies, including inflows such as premiums and outflows such as claims and expenses.

Please refer to section D.2.4. below for further information on the model and assumptions used.

## BASIC RISK FREE INTEREST RATE TERM STRUCTURE (RFR)

One of the economic assumptions required to determine the best estimate of the insurance liabilities is the relevant risk free interest rate (RFR) as published by EIOPA. The RFR includes the currency-specific (Euro) element of the Volatility Adjustment

# Valuation for Solvency Purposes

(see below), however the country-specific element of the Volatility Adjustment for Ireland is zero. No other long-term guarantee assessment (LTGA) measures (Matching Adjustment or Transitional Measures) are used by the Company.

### VOLATILITY ADJUSTMENT

The Volatility Adjustment (VA) is a reduction to technical provisions to reflect temporary distortions in spreads. It reduces the technical provisions by increasing the interest rate used to calculate the Best Estimate Liability. Volatility adjustments are prescribed by EIOPA on a currency and country basis.

The Company uses the VA when determining the best estimate of the insurance liabilities. The use of the VA is governed by a risk management assessment. The Central Bank of Ireland (CBI) determines whether the use of the VA is appropriate and it granted application of use of the VA for the Company in June 2016.

The Volatility Adjustment for the Euro at year end 2017 was determined by EIOPA as 0.04% (end of 2016 it was 0.13%).

### TECHNICAL PROVISIONS EXCLUDING VOLATILITY ADJUSTMENT

The following table shows the impact of the Volatility Adjustment on the technical provisions.

€ 1.000

| | Including Volatility adjustment | Excluding Volatility adjustment | Impact Volatility Adjustment |
|---|---|---|---|
| Technical provisions minus recoverables from reinsurance | 4,134,464 | 4,135,524 | -1,059 |
| Technical provisions – non-life (excluding health) | N/A | N/A | N/A |
| Technical provisions - health (similar to non-life) | N/A | N/A | N/A |
| Technical provisions - health (similar to life) | 178,286 | 178,860 | -574 |
| Technical provisions – life (excluding health and index-linked and unit-linked) | 1,111,251 | 1,111,647 | -396 |
| Technical provisions – index-linked and unit-linked | 2,844,927 | 2,845,016 | -89 |
| Technical provisions – non-life (excluding health) | N/A | N/A | N/A |

The Volatility Adjustment reduces net technical provisions by €1.1m in total (€0.6m reduction for Health, €0.4m reduction for Life and €0.1m reduction for Unit-Linked).

## D.2.4. UNCERTAINTY ASSOCIATED WITH THE TECHNICAL PROVISIONS

Valuation of the technical provisions requires the analysis of the underlying liabilities and the collection of qualitative and quantitative information. By its very nature, quantifying the level of uncertainty associated with the calculation of Technical Provisions is a difficult task. For the purposes of this report the Company have commented on this uncertainty under the following headings:

#### Assumptions

The choice of assumptions is the main source of uncertainty. As the future is uncertain, actual experience will be different to what is assumed.

The assumptions are best-estimate, determined based on internal or external data collected by the Company and are consistent with information provided by the financial markets and generally available data on insurance and reinsurance risks. Assumptions are subject to second line review (refer to section B.3) and the assumptions setting process is longstanding and well established. Assumptions are reviewed quarterly to ensure they remain appropriate.

The technical provisions relating to unit linked insurance contracts are mainly determined by the value of assets in the unit linked funds. This, therefore, limits the amount of uncertainty for these types of policies.

# Valuation for Solvency Purposes

### Model

An appropriate valuation method has been selected to ensure that the nature and complexity of the insurance technical risks have been appropriately addressed. The selection of the appropriate method is based on expert judgement which has considered, among other things, the quality, quantity and reliability of the available data and analyse all important characteristics of the business.

The limitations of the method are known (some of the simplifications used are set out below).

- The Company has two profit sharing funds. The best estimate liabilities for each of these funds should include any distribution of surplus. At present the distribution of surplus is approximated based on the current market value of the funds' assets relative to the corresponding best estimate liabilities modelled. This leads to adjustments to modelled figures.
- Individual member data is not available to enable a valuation on a member by member basis for Group Risk. Best estimate liabilities are modelled by applying a loss ratio. This leads to adjustments to modelled figures.
- Some very old group pensions business remained on a system managed by Friend Provident (UK) after the Company became a separate entity. This data was never transferred to the Company core systems. Best Estimate Liabilities are measured using a roll up methodology.

### Data

The stage of collecting and analysing the data requires compilation of appropriate data from internal operational systems and relevant external data. Data is subject to ongoing review by the first line (refer to section B.3). Furthermore the quality of policy data is subject to an annual data integrity check. This is to ensure completeness of data and also to check the validity of certain data items, namely:

- Policy Counts
- Annual Premiums
- Sum Assureds
- Secured Amounts (i.e. benefits on non-linked pension contracts)
- With Profit Bonus Amounts

## D.2.5. COMPARISON OF FINANCIAL STATEMENTS AND SOLVENCY II LIABILITIES

The table below shows the differences between the financial statements and Solvency II liabilities, for each material line of business as at 31 December 2017:

€ 1.000

| | Health | Life | Unit-Linked | 2017 Total |
|---|---|---|---|---|
| Gross Financial Statements Liabilities | 293,983 | 1,713,898 | 2,928,123 | 4,936,004 |
| Adjustment for Solvency II | -68,612 | -220,281 | -83,196 | -372,089 |
| Technical Provisions | 225,371 | 1,493,617 | 2,844,927 | 4,563,915 |
| Gross BEL | 208,235 | 1,473,105 | 2,831,414 | 4,512,755 |
| Risk Margin | 17,136 | 20,511 | 13,513 | 51,160 |

The main differences in the assumptions used for the financial statements and Solvency II are:

- In valuing the liabilities shown in the financial statements a valuation interest rate is used which is based on the yields of the assets held. Under Solvency II a risk-free yield (as prescribed by EIOPA) is used.
- Under Solvency II all liabilities are valued using best estimate assumptions. However, liabilities in the financial statements include margins to allow for adverse experience.
- The Solvency II liabilities include an allowance for the risk associated with them (the 'Risk Margin'). This is not included in the valuation of liabilities in the financial statements.
- Under Solvency II the discounted present value of all cashflows (up to the contract boundary) is included; the resulting liability may be negative or positive. In the financial statements the liability on any policy is subject to a floor of zero.

# Valuation for Solvency Purposes

- For Unit-linked and With-Profits business, the inclusion of all future cashflows will reflect profits arising from these lines of business – asset management charges (in the case of unit-linked) and shareholder transfers (in the case of with-profits). These future profits are not recognised in the financial statements and the liabilities are effectively set equal to the assets.

For more information on the comparison of financial statement and Solvency II liabilities, see section E.1.3 below.

## D.3. OTHER LIABILITIES

This section describes the following other liabilities which the Company has valued for Solvency II purposes, together with any differences in comparison with the financial statements:

- D.3.1. Provisions other than Technical provisions
- D.3.2. Contingent Liabilities
- D.3.3. Pension Benefit Obligations
- D.3.4. Payables
- D.3.5. Any Other Liabilities
- D.3.6. Deferred Taxes

### D.3.1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

A provision is recognised when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Outlined below are the “Other Provisions” shown in the Solvency II balance sheet for year end 2017 and 2016. No discounting has been applied to the 2016 figure which was deemed to be current. There are no significant differences in these figures in the financial statements.

€ 1.000

| | **Total 2017** | 2016 |
|---|---|---|
| Other Provisions as at 31 December | 0 | 403 |

### D.3.2. CONTINGENT LIABILITIES

The Company assesses at each reference date whether “contingent liabilities” are to be recognised. Based on these assessments contingent liabilities are zero at the end of 2017 and also at prior year end, both for Solvency II purposes and in the financial statements.

### D.3.3. PENSION BENEFIT OBLIGATIONS

Pensions Benefit Obligations are an employee benefit and are shown below. These relate to the difference between the liabilities and the assets in any pension plans the Company operates.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Pensions Benefit Obligations | 20,885 | 26,788 |

The Company presents other employee benefits (such as salaries, already declared bonuses) as part of the “other liabilities” on the Solvency II balance sheet (refer to D.3.5. below). Employee benefits are all obligations of the employer to employees or former employees.

The economic value of employee benefits is currently measured by reference to the value according to IAS 19R, which is included in the financial statements.

# Valuation for Solvency Purposes

## D.3.4. PAYABLES

Payables are measured in the Solvency II balance sheet as per the value presented in the financial statements. Payables due for a period less than three months are normally not discounted. However, if the contractual due period exceeds three months or the impact of not discounting is deemed to be material discount is applied. At the reference dates no discounting is applied.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Payables from direct insurance | 14,434 | 4,137 |
| Payables on reinsurance | 8,677 | 14,043 |
| Creditors | 1,262 | 851 |
| Taxes | 9,087 | 6,525 |
| Total | 33,460 | 25,556 |

## D.3.5. ANY OTHER LIABILITIES

All other liability balance sheet entries are presented under this heading. This includes:

- Accruals not related to investments or investment property;
- Claims accepted not yet paid out in relation to contracts no longer in force;
- Other liabilities as presented as part of the Financial Statements.

Other liabilities are measured at their economic value. The Company considers the value as presented in the Financial Statements to be a fair representation of this economic value. Presented below is a breakdown of the “Any Other Liabilities” figure shown in the balance sheets.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Accruals and deferred income | 6,342 | 6,199 |
| Claims accepted in relation to non in-force contracts | 70,758 | 71,420 |
| Other | 2,035 | 6,999 |
| Total | 79,135 | 84,618 |

## D.3.6. DEFERRED TAXES

Deferred tax is determined using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The principles as defined by IAS 12 are applied. Deferred tax is recognised on valuation adjustments made between the financial statements and the Solvency II balance sheet. The Company assesses the recoverability of these adjustments, in conjunction with the changes in the deferred tax position.

Each addition to the deferred tax due to the valuation differences is calculated as that change in valuation multiplied by the corporation tax rate in Ireland of 12.5%.

Deferred tax entries in the Solvency II balance sheet are outlined below:

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Deferred tax assets | 3,326 | 3,399 |
| Deferred tax liabilities | --10,453 | -7,962 |
| Net deferred tax liability/asset | -7,127 | -4,563 |

# Valuation for Solvency Purposes

## D.4. ALTERNATIVE METHODS FOR VALUATION

The Company does not use alternative valuation techniques.

## D.5. ANY OTHER INFORMATION

Nothing to report.

# Capital Management

## E. CAPITAL MANAGEMENT

### E.1. OWN FUNDS

#### E.1.1. CAPITAL ADEQUACY POLICY

The capital adequacy of the Company is governed by the Capital Management Policy. The main principles of this policy are as follows:

- The statutory board is responsible for the solvency of the Company;
- The Company aims to keep an adequate level of capital;
- Solvency II is the leading capital regime for the Company;
- The Company and the Board are satisfied that the Standard Formula states an acceptable level of capital for the company. Therefore, the minimum level is defined as the level where the Company is capitalised at 100% SCR;
- The Board has expressed that the capital in the Company needs to be set at a level to ensure solvency cover exceeds the minimum level in many but not all circumstances.

Every calendar year, management of the Company produces a Business Plan for a prospective 3-year period, which is discussed in meetings of the Board in the second half of the year and approved before the end of the year. Under normal circumstances, as the Board wishes to create value, the Basic Own Funds will increase in the Business Plan period.

The Board will, as part of the Business Planning process, also carry out an assessment on the company's own view of the risks it is exposed to and contains forward looking projections for Basic Own Funds and Solvency Capital Requirement under certain stressed scenarios other than those projected in the Business Plan.

On the basis of these investigations the Board has a satisfactory view of how the SCR-Ratio might develop in the future, under central Business Plan assumptions as well as stressed scenarios.

The corporate governance mechanism around the calculation of the SCR-ratio and potential declarations of dividends or requests for capital injections is set out in the Capital Management Policy. The Board will periodically, at least annually, assess the adequacy of this policy and make amendments where appropriate.

#### E.1.2. ELIGIBLE OWN FUND

Own funds represents the excess of the value of the assets over the value of the technical provisions plus other liabilities. The Company's own funds total €253m at 31 December 2017. The table below shows a breakdown of the Company's own funds at both 31st December 2017 and 31 December 2016.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Ordinary share capital (gross of own shares) | 96,559 | 96,559 |
| Share premium related to ordinary share capital | 0 | 0 |
| Preference shares | 0 | 0 |
| Share premium related to preference shares | 0 | 0 |
| Reconciliation reserve | 156,272 | 212,797 |
| Subordinated liabilities | 0 | 0 |
| An amount equal to the value of net deferred tax assets | 0 | 0 |
| Available own funds to meet SCR | 252,831 | 309,356 |
| Available own funds to meet MCR | 252,831 | 309,356 |
| Eligible own funds to meet SCR | 252,831 | 309,356 |
| Eligible own funds to meet MCR | 252,831 | 309,356 |

There was a significant drop in own funds during 2017. This is mainly as a result of a dividend payment of €76.7m to Friends First Holdings dac during the year.

# Capital Management

| | | € 1.000 |
|---|---|---|
| | **2017** | 2016 |
| Tier 1 capital | 252,831 | 309,356 |
| Tier 2 capital | 0 | 0 |
| Tier 3 capital | 0 | 0 |

### Tier 1 capital

Tier 1 capital is of the highest quality and is the most loss absorbent and permanent form of capital. It includes ordinary share capital, non-cumulative preference shares and the reconciliation reserve.

### Tier 2 capital

Tier 2 capital is likely to include cumulative preference shares and subordinated liabilities with a shorter duration.

### Tier 3 capital

Tier 3 capital includes any other capital that does fall into the tier 1 and tier 2 categories, including net deferred tax asset. Tier 3 is the lowest quality capital. In 2017, as also in 2016 the deferred tax liabilities were greater than the deferred tax assets, therefore the net deferred tax asset is zero.

Own funds must be eligible to cover the Solvency Capital Requirement and the Minimum Capital Requirement. The Solvency Capital Requirement must be backed by at least 50% tier 1 capital and no more than 15% tier 3 capital. The Minimum Capital Requirement must be backed by at least 80% tier 1 capital and no tier 3 capital.

As our capital is 100% tier 1, there are no issues with regards to capital eligibility.

### Reconciliation reserve

| | | € 1.000 |
|---|---|---|
| | **2017** | 2016 |
| Excess of assets over liabilities | 256,071 | 312,784 |
| Own shares (held directly and indirectly) | 0 | 0 |
| Foreseeable dividends, distributions and charges | 0 | 0 |
| Other basic own fund items | - 96,559 | -96,559 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | -3,239 | -3,427 |
| **Reconciliation reserve** | 156,272 | 212,797 |

## E.1.3. OWN FUND RESTRICTIONS/DEDUCTIONS

We do not calculate an SCR for the NM Defined Benefit pension scheme (this is a simplification in line with EIOPA guidance). As a result, this means the full amount of the NM Defined Benefit pension scheme surplus (€3.2m) is restricted and cannot be used to cover the SCR of the Company.

# Capital Management

## E.1.4. BRIDGE OWN FUNDS FINANCIAL STATEMENTS – BALANCE SHEET

The Company's financial statements are completed on a different valuation basis to Solvency II. The table below shows the difference between the equity in the financial statements and the Solvency II own funds as at 31 December 2017.

€ 1.000

| | **2017** | 2016 |
|---|---|---|
| Equity attributable to Equity holder | 178,654 | 240,265 |
| | | |
| Valuation differences | | |
| - In respect of assets | -215,819 | -275,380 |
| - In respect of technical provisions | 372,089 | 430,505 |
| - In respect of other liabilities | -78,853 | -82,606 |
| | | |
| Total of valuation differences | 77,417 | 72,519 |
| | | |
| Total SII excess of assets over liabilities | 256,071 | 312,784 |

The differences are explained by differences in the valuation basis from financial statements to Solvency II and also due to some reclassification of items between lines.

## E.1.5. SOLVENCY RATIO

Details of the Company's Solvency Ratio are shown in the table below, along with the impact of removing the volatility adjustment used.

There are restricted own funds of €3.2m (see E.1.3 for details).

### SOLVENCY RATIO

€ 1.000

| | **2017** | 2016 | Variance |
|---|---|---|---|
| Eligible Own funds | 252,831 | 309,356 | -56,525 |
| Required capital | 160,410 | 163,375 | -2,966 |
| Surplus | 92,421 | 145,981 | -53,559 |
| Ratio | 158% | 189% | -32% |

### IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO

€ 1.000

| | Including Volatility Adjustment | Excluding Volatility Adjustment | Impact Volatility Adjustment |
|---|---|---|---|
| Eligible Own funds | 252,831 | 251,772 | 1,059 |
| Required capital | 160,410 | 160,681 | -271 |
| Surplus | 92,421 | 91,091 | 1,331 |
| Ratio | 158% | 157% | 1% |

# Capital Management

## E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

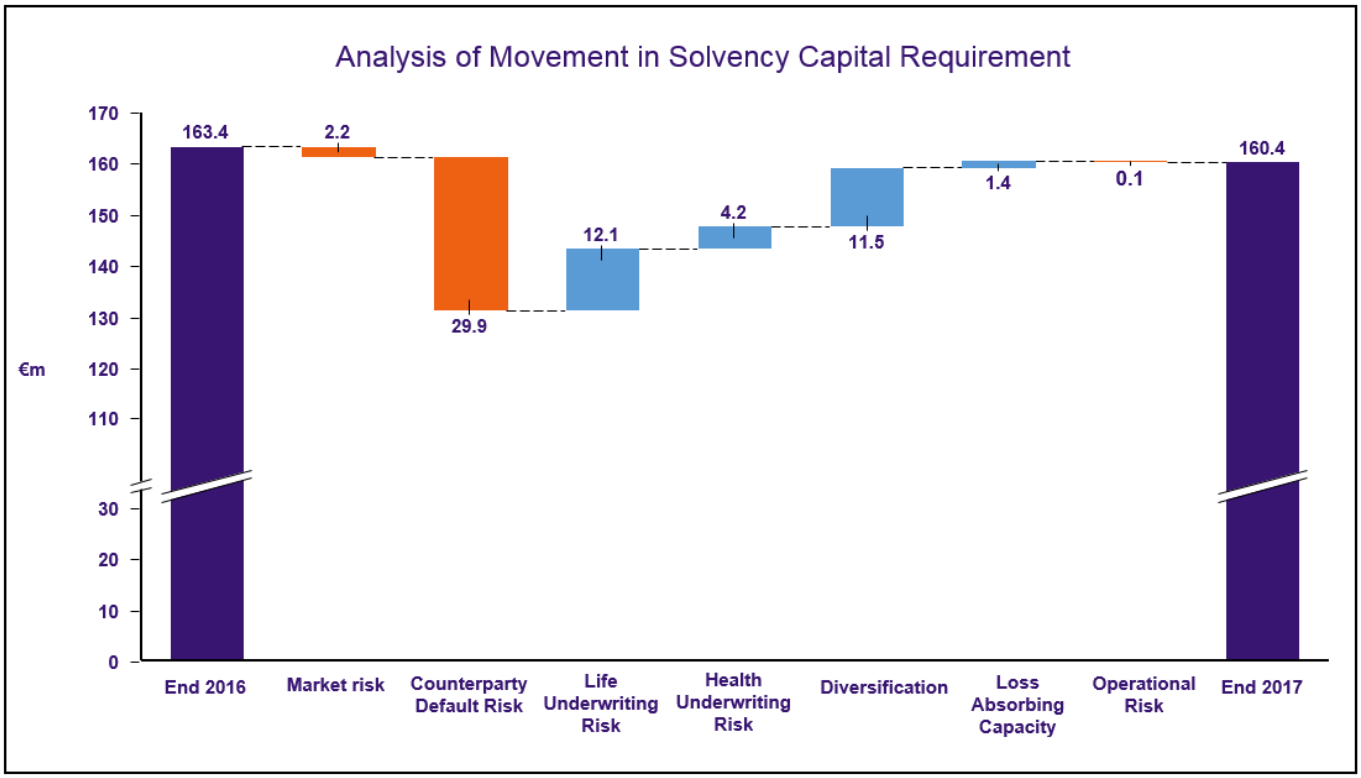
### E.2.1. SOLVENCY CAPITAL REQUIREMENT

Under Solvency II regulations, insurance companies are required to hold a risk-based capital amount for solvency purposes, which is calculated by considering the capital required for the company to withstand a number of different shocks. The next table presents the total solvency capital required (SCR) and breaks this down by risk sub-module.

SOLVENCY CAPITAL REQUIREMENT — € 1.000

| | **2017** | 2016 | Variance |
|---|---|---|---|
| Market risk | 104,522 | 106,693 | -2,171 |
| Counterparty default risk | 7,661 | 37,568 | -29,907 |
| Life Underwriting Risk | 104,337 | 92,208 | 12,129 |
| Health Underwriting Risk | 65,270 | 61,048 | 4,222 |
| Non-life underwriting risk | 0 | 0 | 0 |
| Diversification | -68,587 | -80,095 | 11,508 |
| Intangible asset risk | 0 | 0 | 0 |
| **Basic Solvency Capital Requirement** | **213,203** | **217,422** | **-4,219** |
| | | | |
| Operational risk | 13,895 | 14,035 | -140 |
| Loss-absorbing capacity technical provisions | -66,688 | -68,082 | 1,394 |
| Loss-absorbing capacity deferred taxes | 0 | 0 | 0 |
| Loss-absorbing capacity expected profits | 0 | 0 | 0 |
| **Solvency Capital Requirement** | **160,410** | **163,375** | **-2,965** |

The SCR reduced by approximately €3m. A graphical illustration of this reduction is as follows:



# Capital Management

The reasons for the reduction in the SCR are as follows:

- **Market risk:** Overall the market risk reduced by €2.2m. There was an increase in equity risk largely driven by reclassification of Friends First Managed Pension Fund dac from 'strategic participating' to an unlisted equity holding. This was offset by a reduction in property risk (sale of Merchant's Quay and of property in Corinthian fund) and in currency risk.

- **Counterparty Default Risk (CDR):** There has been significant reduction in Counterparty Default Risk of €29.9m, as the reinsurance agreement with Friends First Managed Pension Fund dac ceased on 31 March 2017.

- **Life risks**: Overall the life risks increased by €12.1m. This was largely due to removal of contract boundaries on some Unit-Linked products, the transfer of liabilities from Friends First Managed Pension Fund dac and assumption changes. These were offset by a reduction in Life Catastrophe risk in line with lower Sum Assured on group risk schemes.

- **Health risks:** Health risk has increased by €4.2m. This was mainly due to an increase in recovery rates for income protection products which was offset by increased mortality rates.

- **Diversification:** Diversification has decreased by €11.5m during the year. This was mostly due to changes in the risks in the Other Business Fund.

- **Loss Absorbing Capacity of Technical Provisions (LACTP):** Loss Absorbing capacity of Technical Provisions reduced by €1.4m. This reflects the reduced shocks in the Participating fund, which can be absorbed by changes to benefits.

- **Operational risk:** Operational risk reduced by €0.1m mainly due to lower technical provisions in the Participating fund. This was offset by an increase in Unit-Linked expenses in the Other Business fund.

# Capital Management

## E.2.2. MINIMUM CAPITAL REQUIREMENT

The MCR is a less onerous capital requirement than the SCR. It represents a minimum level below which the amount of financial resources should not fall. The MCR is based on a linear function of net technical provisions and capital-at-risk. It is subject to a floor of 25% of SCR and a ceiling of 45% of SCR.

The table below shows a comparison of the MCR to the own funds as at 31 December 2016 and 31 December 2017.

€ 1.000

| | **2017** | 2016 | Variance |
|---|---|---|---|
| Eligible Own Funds to cover MCR | 252,831 | 309,356 | -56,525 |
| MCR | 61,921 | 60,037 | 1,884 |
| Eligible Own Funds / MCR | 408% | 515% | 2% |

The MCR has increased by €2m during 2017.

## E.2.3. USE OF SIMPLIFIED CALCULATIONS

In calculating the life catastrophe risk SCR we use the simplification which is in line with the requirements of Article 96, Commission Delegated Regulation (EU) 2015/35.

## E.2.4. UNDERTAKING SPECIFIC PARAMETERS

We do not use undertaking specific parameters.

## E.3. DURATION-BASED EQUITY RISK SUB-MODULE

The Company does not use duration-based equity risk approach.

## E.4. INTERNAL MODEL INFORMATION

The Company does not use an internal model.

## E.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

The Company is compliant with both the Minimum Capital Requirement and Solvency Capital Requirement.

## E.6. ANY OTHER INFORMATION

Nothing to report.

# APPENDICES: QUANTITATIVE REPORTING TEMPLATES

The following pages contain Quantitative Reporting Templates (QRTs) for Friends First Life Assurance Company dac. All figures are presented in thousands of Euro with the exception of ratios that are in decimal. Please note that totals may differ from the component parts due to rounding. All items disclosed are consistent with the information provided to the regulators privately.

The following Individual QRTs are publicly disclosed:

| Code | Description |
|---|---|
| S.02.01.02 | Balance Sheet |
| S.05.01.02 | Premiums, claims and expenses by line of business |
| S.12.01.02 | Life and Health SLT (Similar to Life Techniques) Technical Provisions |
| S.22.01.21 | Impact of long term guarantees and transitional measures |
| S.23.01.01 | Own Funds |
| S.25.01.21 | Solvency Capital Requirement – for undertakings with Standard Formula |
| S.28.01.01 | Minimum Capital Requirement |

# APPENDIX 1: BALANCE SHEET

## (S.02.01.02)

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | 0 |
| Deferred tax assets | **R0040** | 3,326 |
| Pension benefit surplus | **R0050** | 0 |
| Property, plant & equipment held for own use | **R0060** | 3,568 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 1,517,013 |
| Property (other than for own use) | **R0080** | 22,456 |
| Holdings in related undertakings, including participations | **R0090** | 4,283 |
| Equities | **R0100** | 2,946 |
| Equities - listed | **R0110** | 0 |
| Equities - unlisted | **R0120** | 2,946 |
| Bonds | **R0130** | 1,409,272 |
| Government Bonds | **R0140** | 1,059,255 |
| Corporate Bonds | **R0150** | 350,017 |
| Structured notes | **R0160** | 0 |
| Collateralised securities | **R0170** | 0 |
| Collective Investments Undertakings | **R0180** | 78,055 |
| Derivatives | **R0190** | 0 |
| Deposits other than cash equivalents | **R0200** | 0 |
| Other investments | **R0210** | 0 |
| Assets held for index-linked and unit-linked contracts | **R0220** | 2,905,283 |
| Loans and mortgages | **R0230** | 252 |
| Loans on policies | **R0240** | 252 |
| Loans and mortgages to individuals | **R0250** | 0 |
| Other loans and mortgages | **R0260** | 0 |
| Reinsurance recoverables from: | **R0270** | 429,451 |
| Non-life and health similar to non-life | **R0280** | 0 |
| Non-life excluding health | **R0290** | 0 |
| Health similar to non-life | **R0300** | 0 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | 429,451 |
| Health similar to life | **R0320** | 47,085 |
| Life excluding health and index-linked and unit-linked | **R0330** | 382,366 |
| Life index-linked and unit-linked | **R0340** | 0 |
| Deposits to cedants | **R0350** | 0 |
| Insurance and intermediaries receivables | **R0360** | 8,674 |
| Reinsurance receivables | **R0370** | 27,678 |
| Receivables (trade, not insurance) | **R0380** | 1,588 |
| Own shares (held directly) | **R0390** | 0 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | 0 |
| Cash and cash equivalents | **R0410** | 55,926 |
| Any other assets, not elsewhere shown | **R0420** | 11,161 |
| **Total Assets** | **R0500** | **4,963,919** |

| Liabilities | | Solvency II value |
|---|---|---|
| | | C0010 |
| Technical provisions – non-life | R0510 | 0 |
| Technical provisions – non-life (excluding health) | R0520 | 0 |
| TP calculated as a whole | R0530 | 0 |
| Best Estimate | R0540 | 0 |
| Risk margin | R0550 | 0 |
| Technical provisions - health (similar to non-life) | R0560 | 0 |
| TP calculated as a whole | R0570 | 0 |
| Best Estimate | R0580 | 0 |
| Risk margin | R0590 | 0 |
| Technical provisions - life (excluding index-linked and unit-linked) | R0600 | 1,718,988 |
| Technical provisions - health (similar to life) | R0610 | 225,371 |
| TP calculated as a whole | R0620 | 0 |
| Best Estimate | R0630 | 208,235 |
| Risk margin | R0640 | 17,136 |
| Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 | 1,493,617 |
| TP calculated as a whole | R0660 | 0 |
| Best Estimate | R0670 | 1,473,105 |
| Risk margin | R0680 | 20,511 |
| Technical provisions – index-linked and unit-linked | R0690 | 2,844,927 |
| TP calculated as a whole | R0700 | 0 |
| Best Estimate | R0710 | 2,831,414 |
| Risk margin | R0720 | 13,513 |
| Contingent liabilities | R0740 | 0 |
| Provisions other than technical provisions | R0750 | 0 |
| Pension benefit obligations | R0760 | 20,885 |
| Deposits from reinsurers | R0770 | 0 |
| Deferred tax liabilities | R0780 | 10,453 |
| Derivatives | R0790 | 0 |
| Debts owed to credit institutions | R0800 | 0 |
| Financial liabilities other than debts owed to credit institutions | R0810 | 0 |
| Insurance & intermediaries payables | R0820 | 14,434 |
| Reinsurance payables | R0830 | 8,677 |
| Payables (trade, not insurance) | R0840 | 10,349 |
| Subordinated liabilities | R0850 | 0 |
| Subordinated liabilities not in BOF | R0860 | 0 |
| Subordinated liabilities in BOF | R0870 | 0 |
| Any other liabilities, not elsewhere shown | R0880 | 79,135 |
| **Total Liabilities** | R0900 | **4,707,848** |
| **Excess of Assets over Liabilities** | R1000 | **256,071** |

# APPENDIX 2: PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS

## (S.05.01.02.02)

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life-reinsurance | |
| | | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** | | | | | | | | | | |
| Gross | **R1410** | 52,042 | 8,313 | 606,776 | 77,150 | 0 | 0 | 0 | 0 | 744,282 |
| Reinsurers' share | **R1420** | 4,431 | -19 | 117,008 | 23,364 | 0 | 0 | 0 | 0 | 144,785 |
| Net | **R1500** | 47,611 | 8,332 | 489,768 | 53,786 | 0 | 0 | 0 | 0 | 599,497 |
| **Premiums earned** | | | | | | | | | | |
| Gross | **R1510** | 52,042 | 8,313 | 606,776 | 77,150 | 0 | 0 | 0 | 0 | 744,282 |
| Reinsurers' share | **R1520** | 4,431 | -19 | 117,008 | 23,364 | 0 | 0 | 0 | 0 | 144,785 |
| Net | **R1600** | 47,611 | 8,332 | 489,768 | 53,786 | 0 | 0 | 0 | 0 | 599,497 |
| **Claims incurred** | | | | | | | | | | |
| Gross | **R1610** | 39,791 | 67,390 | 384,560 | 80,987 | 0 | 0 | 0 | 0 | 572,729 |
| Reinsurers' share | **R1620** | 6,871 | 5,342 | 71,119 | 40,217 | 0 | 0 | 0 | 0 | 123,549 |
| Net | **R1700** | 32,921 | 62,048 | 313,441 | 40,771 | 0 | 0 | 0 | 0 | 449,181 |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | **R1710** | -9,920 | -70,258 | 330,664 | -97,090 | 0 | 0 | 0 | 0 | 153,396 |
| Reinsurers' share | **R1720** | -4,907 | -11,085 | 90,610 | -106,474 | 0 | 0 | 0 | 0 | -31,856 |
| Net | **R1800** | -5,013 | -59,174 | 240,054 | 9,384 | 0 | 0 | 0 | 0 | 185,251 |
| **Expenses incurred** | **R1900** | 13,108 | 3,196 | 44,252 | 15,640 | 0 | 0 | 0 | 0 | 76,196 |
| **Other expenses** | **R2500** | | | | | | | | | 0 |
| **Total expenses** | **R2600** | | | | | | | | | 76,196 |

# APPENDIX 3: LIFE AND HEALTH SLT TECHNICAL PROVISIONS

## (S.12.01.02)

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | Contracts without options and guarantees | Contracts with options or guarantees | |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0150** | **C0160** | **C0170** | **C0180** | **C0210** |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | **R0020** | | | | | | | | | | | | |
| **Gross Best Estimate** | **R0030** | 787,696 | | 2,793,341 | 38,074 | | 685,409 | 0 | 4,304,520 | | 208,235 | 0 | 208,235 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0080** | 26,616 | | 0 | 0 | | 355,750 | 0 | 382,366 | | 47,085 | 0 | 47,085 |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | **R0090** | 761,080 | | 2,793,341 | 38,074 | | 329,660 | 0 | 3,922,154 | | 161,150 | 0 | 161,150 |
| **Risk Margin** | **R0100** | 3,119 | 13,513 | | | 17,392 | | | 34,024 | 17,136 | | | 17,136 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | **R0110** | | | | | | | | | | | | |
| Best estimate | **R0120** | | | | | | | | | | | | |
| Risk margin | **R0130** | | | | | | | | | | | | |
| **Technical Provisions - TOTAL** | **R0200** | 790,815 | 2,844,927 | | | 702,802 | | | 4,338,544 | 225,371 | | | 225,371 |

# APPENDIX 4: IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES

## (S.22.01.21)

| | | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| Technical provisions | R0010 | 4,563,915 | | | 2,814 | |
| Basic own funds | R0020 | 252,831 | | | -1,059 | |
| Eligible own funds to meet Solvency Capital Requirement | R0050 | 252,831 | | | -1,059 | |
| Solvency Capital Requirement | R0090 | 160,410 | | | 271 | |
| Eligible own funds to meet Minimum Capital Requirement | R0100 | 252,831 | | | -1,059 | |
| Minimum Capital Requirement | R0110 | 61,921 | | | 290 | |

# APPENDIX 5: OWN FUNDS

## (S.23.01.01)

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 96,559 | 96,559 | | | |
| Share premium account related to ordinary share capital | R0030 | | | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | 156,272 | 156,272 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | | |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | 252,831 | 252,831 | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |
| **Total ancillary own funds** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 252,831 | 252,831 | | | |
| Total available own funds to meet the MCR | R0510 | 252,831 | 252,831 | | | |
| Total eligible own funds to meet the SCR | R0540 | 252,831 | 252,831 | | | |
| Total eligible own funds to meet the MCR | R0550 | 252,831 | 252,831 | | | |
| **SCR** | R0580 | 160,410 | | | | |
| **MCR** | R0600 | 61,921 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 157.6% | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 408.3% | | | | |

| | | C0060 |
|---|---|---|
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | **R0700** | 256,071 |
| Own shares (held directly and indirectly) | **R0710** | |
| Foreseeable dividends, distributions and charges | **R0720** | |
| Other basic own fund items | **R0730** | 96,559 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** | 3,239 |
| **Reconciliation reserve** | **R0760** | 156,272 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | 76,787 |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 76,787 |

# APPENDIX 6: SOLVENCY CAPITAL REQUIREMENT

## - FOR UNDERTAKINGS ON STANDARD FORUMULA (S.25.01.21)

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0100 |
| Market risk- | R0010 | 104,522 | - | |
| Counterparty default risk | R0020 | 7,661 | - | - |
| Life underwriting risk | R0030 | 104,337 | | |
| Health underwriting risk | R0040 | 65,270 | | |
| Non-life underwriting risk | R0050 | 0 | | |
| Diversification | R0060 | -68,587 | - | - |
| Intangible asset risk | R0070 | 0 | - | - |
| **Basic Solvency Capital Requirement** | R0100 | 213,203 | - | - |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 13,895 |
| Loss-absorbing capacity of technical provisions | R0140 | -66,689 |
| Loss-absorbing capacity of deferred taxes | R0150 | 0 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | 0 |
| **Solvency capital requirement excluding capital add-on** | R0200 | 160,410 |
| Capital add-on already set | R0210 | 0 |
| **Solvency capital requirement** | R0220 | 160,410 |
| **Other information on SCR** | | - |
| Capital requirement for duration-based equity risk sub-module | R0400 | 0 |
| Total amount of Notional Solvency Capital Requirement for remaining part | R0410 | 128,274 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | 32,136 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | 0 |

# APPENDIX 7: MINIMUM CAPITAL REQUIREMENT

## - ONLY LIFE OR ONLY NON-LIFE REINSURANCE ACTIVITY (S.28.01.01)

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| $MCR_{NL}$ Result | R0010 | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| Medical expense insurance and proportional reinsurance | R0020 | | |
| Income protection insurance and proportional reinsurance | R0030 | | |
| Workers' compensation insurance and proportional reinsurance | R0040 | | |
| Motor vehicle liability insurance and proportional reinsurance | R0050 | | |
| Other motor insurance and proportional reinsurance | R0060 | | |
| Marine, aviation and transport insurance and proportional reinsurance | R0070 | | |
| Fire and other damage to property insurance and proportional reinsurance | R0080 | | |
| General liability insurance and proportional reinsurance | R0090 | | |
| Credit and suretyship insurance and proportional reinsurance | R0100 | | |
| Legal expenses insurance and proportional reinsurance | R0110 | | |
| Assistance and proportional reinsurance | R0120 | | |
| Miscellaneous financial loss insurance and proportional reinsurance | R0130 | | |
| Non-proportional health reinsurance | R0140 | | |
| Non-proportional casualty reinsurance | R0150 | | |
| Non-proportional marine, aviation and transport reinsurance | R0160 | | |
| Non-proportional property reinsurance | R0170 | | |

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| $MCR_{L}$ Result | R0200 | 61,921 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 681,114 | |
| Obligations with profit participation - future discretionary benefits | R0220 | 79,966 | |
| Index-linked and unit-linked insurance obligations | R0230 | 2,832,399 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 490,673 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 15,352,848 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 61,921 |
| SCR | R0310 | 160,410 |
| MCR cap | R0320 | 72,184 |
| MCR floor | R0330 | 40,102 |
| Combined MCR | R0340 | 61,921 |
| Absolute floor of the MCR | R0350 | 3,700 |
| | | C0070 |
| **Minimum Capital Requirement** | R0400 | 61,921 |

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