NEW IRELAND
ASSURANCE

Solvency and Financial Condition Report
2017



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31 December 2017

NEW IRELAND ASSURANCE

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REGISTERED OFFICE
11-12 Dawson Street
Dublin 2.

PARENT COMPANY
Bank of Ireland Life Holdings Ltd
11 – 12 Dawson Street
Dublin 2.

GROUP PARENT COMPANY
Bank of Ireland Group plc
40 Mespil Road
Dublin 4.

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

AUDITORS
PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1.

BANKERS
Bank of Ireland
2 College Green
Dublin 2.

Introduction



Michael Murphy
Managing Director

One of Ireland's leading life and pensions providers, New Ireland Assurance (the Company) was established one hundred years ago on the 5 January 1918. The company was the first wholly Irish-owned life assurance company to transact business in Ireland and our story is deeply entwined with the origins of the state. A key early objective was to keep Irish money in Ireland, for the benefit of the nation and the economy. We are very proud of our 100-year heritage of protecting and serving Irish customers, their families and wider communities – providing good value, excellent service and strong financial security for our customers.

Today we remain Irish-owned and our objectives remain similar - to enable customers, colleagues and communities to thrive by protecting your family, investing your money and securing your future. The Company has funds under management of €16.7 billion and is part of the Bank of Ireland Group, a diversified Irish financial services group with total assets on its balance sheet of €123 billion.

The Company sells a broad range of protection, investment and pension products to individual and corporate customers in the Republic of Ireland. Its liabilities are predominantly unit linked and it has a multi-channel distribution strategy selling products through the Bank of Ireland customer network, the independent broker market, a tied agent channel (financial advisors) and corporate partnerships.

New Ireland has a strategy that is founded on customers, colleagues, efficiency and delivering strong, sustainable growth. We continue to invest to be a business which can be a market leader for the next 100 years, improving how we do things to meet the demands of a rapidly changing marketplace, the evolving needs of our customers and ultimately enabling us to be the financial services partner of choice for Irish customers. Our values are critical to the delivery of this strategy and require us to work as one team, to operate in an agile way, to always focus on serving customers brilliantly and to always be accountable for delivering to customers.

Life and pensions is a long-term business and financial security is critical to ensure that customers' money is safe and companies can meet future obligations to policyholders. This report will help you better understand our regulatory capital and financial position. It is the second reporting year of the new Solvency II regulations introduced on 1 January 2016. The appendix to this report also details specific quantitative reporting templates (QRTs) for the company in the predefined format required under the regulations. This report has separate sections covering the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management.

Business and performance

Section A, Business and Performance, outlines the overall corporate structure and regulatory environment in which the Company operates. It covers the overall financial and investment performance of the Company and details the statutory financial statements of the Company.

During 2017, we changed the way in which we value the liabilities on our insurance contracts. The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements. Details of this change are included in Section A.2. As a result, we classify certain 2016 comparisons in this document as 'restated'. The statutory financial statements show a decline in the technical account profit for the year 2017 to €70 million (2016 restated: €95 million) which is primarily due to the impact of a pension credit to operating expenses in 2016 and the more positive impact in 2016 of changes in assumptions relating to future experience in business variables.

The Company remain profitable and well capitalised, with substantial assets under management for its customers. The key 2017 financial variables are shown in the following table:

	31 December 2017 €m	31 December 2016 €m
Profit	70	95*
Solvency Capital Requirement	583	544
Excess Funds	313	280
Solvency Ratio	154%	152%
Assets under Management (€bn)	16.7	16.2

*restated

System of governance

Section B, System of Governance, outlines the corporate governance structure of the Company. It details the Board, committee and management structures. The section also outlines the three lines of defence model in the organisation and the functions within each.

Risk profile

Section C, Risk Profile, sets out information regarding the risk profile of the Company, including the exposures to each material category of risk, the measures used to assess these risks and the techniques used to mitigate and monitor these risks. At an overall level, there has been no material change to the risk profile of the Company during 2017 arising from its own business operations and external conditions.

Valuation for solvency purposes

Section D, Valuation for Solvency Purposes, gives an overview of the Company's solvency balance sheet. It also outlines the valuation methods and principles used in valuing the assets and technical provisions of the Company. This section also provides a reconciliation between the financial statements and the solvency balance sheet.

Capital management

Section E, Capital Management, provides details of the Company's own funds position. It also gives a breakdown of the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). At the end of 2017 we reported eligible own funds of €896 million. This was 1.54 times or €313 million above the Solvency Capital Requirement (SCR) of €583 million. A dividend of €120 million was paid to Bank of Ireland Life Holdings Ltd during 2017 (2016: €115 million).

The Board reviewed and approved this report on 24 April 2018.



Michael Murphy
Managing Director

NEW IRELAND
Securing your future

1918 2018 100 Years

A. Business and Performance

A.1 Business

A.1.1 Overview

Established one hundred years ago, the Company was the first wholly Irish-owned life assurance company to transact business in Ireland. It is a wholly-owned subsidiary of the Bank of Ireland Group, has a new business market share of circa 19% and is a market leading life and pension provider in the Irish market. The Company sells a broad range of protection, investment and pension products to individual and corporate customers in the Republic of Ireland. Its liabilities are predominantly unit linked and it has a multi-channel distribution strategy selling products through the Bank of Ireland branch network, the independent broker market and a tied agent channel (financial advisors).

As at 31 December 2017 the Company has over €16.7 billion in assets under management. It is well positioned to benefit from a growing investment and pension market.

A.1.2 Corporate structure

The Company is an insurance undertaking authorised to carry out life insurance activities in Ireland under S.I. No. 485/2015 - European Union (Insurance and Reinsurance) Regulations 2015 and is the principal operating company within the corporate structure set out in the chart below.

The Company's immediate parent company is Bank of Ireland Life Holdings Ltd (BILH), a company registered in the Republic of Ireland. BILH has 100% interest in the equity capital of the Company. The ultimate parent company is Bank of Ireland Group plc (BOIG). BOIG is incorporated in the Republic of Ireland.

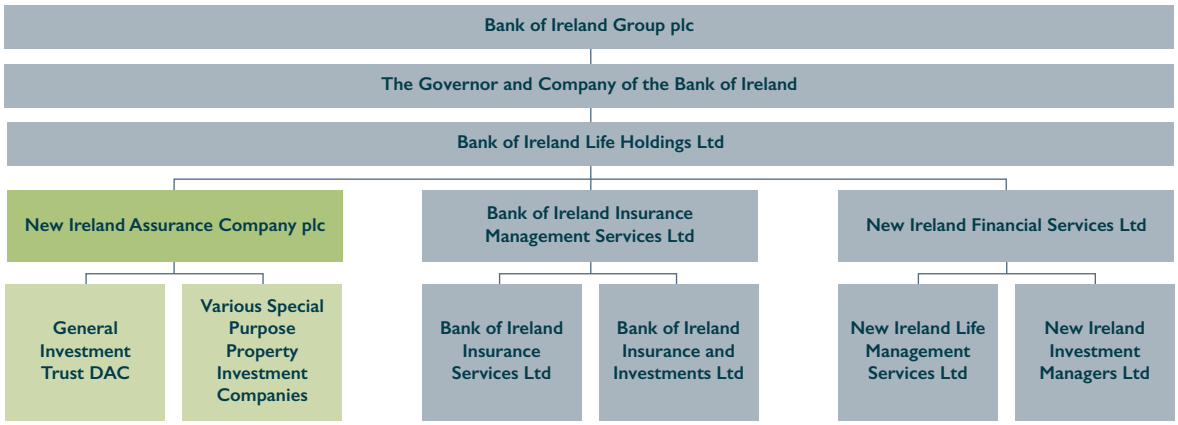
The Company is regulated by the Central Bank of Ireland (CBI), New Wapping Street, North Wall Quay, Dublin 1. It is authorised as a Registered Administrator by the Pensions Authority and offers Personal Retirement Savings Accounts approved by the Pensions Authority.

BILH also owns 100% of the shares in New Ireland Financial Services Ltd (NIFS) and Bank of Ireland Insurance Management Services Ltd (BOIIMS), are holding companies and sister companies of the Company.

NIFS in turn owns 100% of the shares in both New Ireland Investment Managers Ltd (NIIM) and New Ireland Life Management Services Ltd (NILMS). NIIM is one of the appointed investment managers of the Company while NILMS provides administration and other services to the Company.

BOIIMS holds 100% of the shares in Bank of Ireland Insurance Services Ltd (BIIS) and Bank of Ireland Insurance and Investments Ltd (I&I). As part of the BOIG corporate realignment, I&I no longer operates as the Group's banassurance unit. The Governor and Company of Bank of Ireland (GovCo) is now a tied agent of the Company.

Figure: A.1.1



The special purpose property investment companies are set up to hold investment properties. The value of the companies and their underlying assets, and any changes in that value, is wholly attributable to policyholders.

General Investment Trust DAC is a company whose sole purpose is the provision of trustee services to trust-based pension funds. It is regulated for the purposes of The Criminal Justice (Money Laundering and Terrorist Financing) Act, 2010 by the Central Bank of Ireland.

A.2 Underwriting performance

A.2.1 Statutory performance

The statutory financial statements, excerpts from which we detail below, have been prepared on a going concern basis and in accordance with Irish GAAP, (accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014). The financial statements comply with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101), and the Companies Acts 2014.The Company's business is all carried out in the Republic of Ireland.

In 2017 the Company has voluntarily changed its accounting policy for the valuation of insurance contract liabilities. This change in accounting policy has been applied retrospectively as required under IAS 8 and the comparative periods have been restated to reflect this change. Under the new valuation basis, the Company's financial statements measure insurance contract liabilities with due regard to the applicable actuarial principles recognised in the European Framework for the prudential and financial monitoring of direct life assurance business. The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements.

The statutory financial statements show a decline in the technical account profit for the year 2017 to €70 million (2016 restated: €95 million) which is primarily due to the impact of a pension credit to operating expenses in 2016 and the more positive impact in 2016 of changes in assumptions relating to future experience in business variables.

Movements in the key financial metrics are as follows:

- Total premiums received in the year, €1.8 billion, were 7% higher than 2016 (€1.7 billion). Premiums accounted for as insurance contracts were 10% higher than 2016 at €1.4 billion (2016: €1.3 billion) mainly due to higher pension annual premium volumes.
- Total investment return was €0.9 billion (2016: €0.9 billion) reflecting positive investment market growth across all asset classes. 2017 was a successful year for most of the world's stock markets. Solid economic data enabled some of the major central banks to raise interest rates and taper asset purchases. Markets largely shrugged off concerns regarding German Federal elections and continuing Brexit negotiations in Europe and, in general, risk assets pushed higher. Total assets grew by 3% to €17.7 billion (2016: €17.1 billion).
- Gross claims paid increased by 10% to €1.8 billion (2016: €1.7 billion), Persistency trends continued to improve during the year. Gross claims accounted for as insurance contracts increased by 27% to €1.3 billion (2016: €1.0 billion).
- Net technical provisions increased by €0.8 billion (2016 restated: increase €1.0 billion), due mainly to the increase in value of policyholders' investments.

The statutory financial statements as at 31 December 2017 are detailed below:

Table: A.2.1

Technical Account - Life Assurance Business	31 December 2017 €m	Restated[1] 31 December 2016 €m
Earned premiums, net of reinsurance		
Gross premiums written	1,424	1,299
Outward reinsurance premiums	(86)	(80)
	1,338	**1,219**
Income and realised gains on investments	905	657
Unrealised gains on investments	(7)	208
Other technical income, net of reinsurance	66	137
Total technical income	**2,302**	**2,221**
Claims incurred, net of reinsurance		
Claims paid - gross amount	(1,268)	(1,000)
Claims paid - reinsurers' share	92	92
	(1,176)	**(908)**
Change in the provision for claims - gross amount	(22)	(17)
Change in the provision for claims - reinsurers' share	2	(3)
	(20)	**(20)**
	(1,196)	**(928)**
Life assurance business provision, net of reinsurance		
- gross amount	40	(39)
- reinsurers' share	(24)	(12)
	16	**(51)**
Technical provisions for linked liabilities	(822)	(921)
	(806)	**(972)**

Technical Account - Life Assurance Business (continued)	31 December 2017 €m	Restated[1] 31 December 2016 €m
Net operating expenses	**(191)**	**(177)**
Investment charges	(11)	(13)
Interest on loans and borrowings	(5)	(5)
Tax charge attributable to the life assurance business	(23)	(31)
	(230)	**(226)**
Balance on the technical account - life assurance business	**70**	**95**

[1] Comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

The table below gives a breakdown of premiums accounted for as insurance contracts across lines of business for 2017 and 2016:

Table: A.2.2

	31 December 2017			31 December 2016		
Gross Premium Written	**Regular €m**	**Single €m**	**Total €m**	**Regular €m**	**Single €m**	**Total €m**
Individual Life	200	287	487	197	281	478
Individual Pensions	109	644	753	101	556	657
Group Contracts	143	41	184	123	41	164
Total Gross Premiums	**452**	**972**	**1,424**	**421**	**878**	**1,299**

The statutory balance sheet as at 31 December 2017 is given below:

Table: A.2.3

Assets	**31 December 2017 €m**	**Restated[1] 31 December 2016 €m**
Investments		
Land and buildings	2	25
Assets classified as held for sale	28	-
Other financial investments	1,729	1,762
	1,759	**1,787**
Investments for the benefit of life assurance policyholders who bear the investment risk	**14,848**	**14,251**
Reinsurers' share of technical provisions		
Life assurance business provision	740	764
Claims outstanding	16	14
	756	**778**
Debtors		
Debtors arising out of direct insurance operations - policyholders	76	60
Due from fellow subsidiaries	-	2
Other debtors	7	3
	83	**65**
Other assets		
Tangible assets	11	10
Deferred taxation	8	8
Cash at bank and in hand	22	11
	41	**29**
Prepayments and accrued income		
Accrued interest and rent	28	33
Other prepayments and accrued income	1	1
Deferred acquisition costs	181	192
	210	**226**
Total assets	**17,697**	**17,136**

[1] Comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Balance sheet (continued)

Table: A.2.4

Liabilities	31 December 2017 €m	Restated[1] 31 December 2016 €m
Capital and reserves		
Called up share capital	23	23
Share premium account	26	26
Capital reserve	43	43
Non - distributable reserve	244	306
Profit and loss account	89	73
Shareholders' funds - equity interests	**425**	**471**
Technical provisions		
Life assurance business provision	1,973	2,013
Claims outstanding	175	153
	2,148	**2,166**
Technical provisions for linked liabilities	**14,657**	**14,077**
Accruals and deferred income	29	37
Deferred taxation	5	10
Creditors - Amounts falling due within one year		
Creditors arising out of direct insurance operations	97	85
Due to fellow subsidiaries	11	14
Bank overdraft	28	26
Other creditors including tax and social security	51	44
	187	**169**
Creditors - Amounts falling due after one year		
Loans and Borrowings	186	142
Total liabilities excluding pension liability	17,637	17,072
Pension liability	60	64
Total liabilities including pension liability	**17,697**	**17,136**

In 2016 the introduction of Solvency II changed the Company's approach with respect to the calculation of Technical Provisions and Capital for regulatory/solvency reporting purposes. In 2017 the Company has voluntarily changed its accounting policy for the valuation of insurance contract liabilities. This change in accounting policy has been applied retrospectively as required under IAS 8 and the comparative periods have been restated to reflect this change. Under the new valuation basis, the Company financial statements measure insurance contract liabilities with due regard to the applicable actuarial principles recognised in the European Framework for the prudential and financial monitoring of direct life assurance business. The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements.

Liabilities under unit linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets.

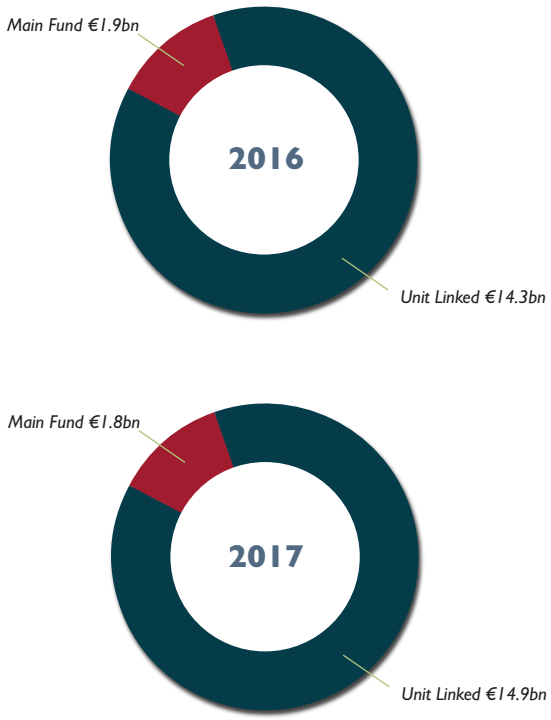
[1] Comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

A.3 Investment performance

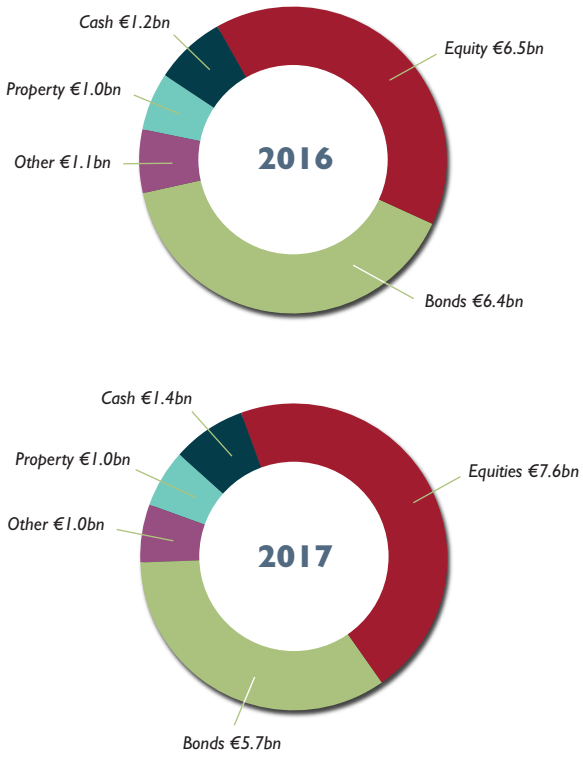
The Main Fund holds assets relating to both non-unit linked policyholder liabilities and shareholder funds. The total investment portfolio of €16.7 billion (2016: €16.2 billion) is broken down into Main Fund and Unit Linked funds and across asset classes as shown in the two charts below:

Figure: A.3.1

Asset split by Unit Linked and Main Fund



Asset breakdown by Class



All financial investments held to cover unit linked liabilities are categorised as held at fair value through the profit and loss account. Fair values for investments are based on quoted prices on the balance sheet date, determined from independent sources including recognised external pricing services, broker or dealer price quotations, and prices provided by valuation agents.

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses. It also includes investment expenses and charges and interest payable.

The investment return as outlined in the Company's statutory financial statements is detailed in the table below:

Table: A.3.2

Investment Income	31 December 2017 €m	31 December 2016 €m
Income from land and buildings	36	35
Income from listed investments	198	225
Income from other investments	25	38
	259	**298**
Net gains on realisation of investments	646	359
	905	**657**
Net unrealised (losses) / gains	(7)	208
	898	**865**
Investment management expenses	(11)	(13)
Interest payable on financial liabilities	(5)	(5)
Total investment return	**882**	**847**

None of the investment income is derived from investments in any other group undertakings of BILH, the Company's immediate parent.

Income from investment properties includes rental income of €44 million (2016: €44 million) less property expenses of €8 million (2016: €8 million).

The realised and unrealised gains and losses arising on investments during the year are in respect of property and financial investments, classified at fair value through the profit and loss account. The total value for 2017 is €639 million (2016: €567 million).

The investment return arising in relation to investments which are directly connected with the carrying on of long-term business is credited to the long-term business technical account. This investment return arises both on investments of the long-term business funds and investments attributable to the shareholder.

The Company has no investments in securitisations.

A.4 Performance of other activities

The Company has no other material income or expense incurred in the period covered in this report.

A.5 Any other information

A number of agreements are entered into between the Company and other Group undertakings in the normal course of business. These agreements are subjected to continuous review and oversight. Related parties with which the Company had operations, and which are relevant, for the financial period under review, are detailed below including the amounts and terms and conditions of each agreement.

A.5.1 Loans

The Company issued subordinated debt of €80 million to GovCo in November 2017, bringing the total outstanding subordinated debt to €160 million at an average interest rate of 4.45%. The subordinated debt terms include mandatory interest payments to the note holder, a step up in the rate charged after a defined period and a restriction on dividend payments to shareholders while any interest repayments are outstanding. The interest accrued not yet paid at the end of December 2017 was €1.9 million (2016: €1.7 million). The interest paid in July 2017, in respect of the debt to GovCo, was €3.9 million (2016: €3.9 million).

A.5.2 Investments held/managed by other Group entities

All current account bank balances are held with Bank of Ireland. All transactions on these accounts relate to the normal banking activities of the Company.

In addition to this, a portion of the Company's own funds along with assets for the benefit of linked policyholders is held with Bank of Ireland Global Markets (BOIGM). The overall value of assets held in this way amounts to €0.8 billion.

A.5.3 Agreement to share costs

The Company has an agreement with NILMS to pay for a share of its costs. NILMS provides administration and other services to the Company.

The Company has outsourced the investment management of certain funds to State Street Global Advisors (SSgA). The investment management fee is based on the size of funds under management.

A.5.4 Financial Reinsurance

The Company and an external third party executed a Financial Reassurance agreement in 2014 whereby the Company received ceding commission of €120 million secured against a defined block of the in force book of business. Under the agreement, the Company has an obligation to repay the loan along with a risk premium over the term of agreement but the obligation is contingent on the surpluses arising from the defined portion of the value of in force emerging in the future. The risk premium was set at 1.75% in 2014 and the first repayment of ceding commission was made in 2016. The outstanding amount payable at 31 December 2017 is €24 million (2016: €60 million).

A.5.5 Pension

The Company operates a defined benefit pension scheme, which is closed to new members and covers the significant number of the Company's employees. The assets of the scheme are held in a separate trustee-administered fund.

The latest actuarial assessment of the New Ireland Assurance pension scheme was at 31 March 2016. At the date of the latest actuarial valuation, the market value of the scheme's assets was €217.3 million. The actuarial value of the assets was less than the accrued liabilities based on current earnings, and was equivalent to 90% of the liabilities allowing for expected future increases in earnings.

An assessment of the Funding Standard and Funding Standard Reserve position was completed at 31 December 2017 and the assessment confirmed that the scheme met the Funding Standard and the Funding Standard Reserve at that date.

B. System of Governance

B.1 General information on the system of governance

B.1.1 Governance structure

The Board has primary responsibility for the system of governance within the Company. The Board has approved a Board Charter and a schedule of matters for which authority is reserved by the Board.

The Board operates the following committees:

- Audit
- Investment
- Remuneration
- Nomination and Governance
- Risk.

Further details in relation to these committees are given in section B.1.3 below.

Each committee of the Board is subject to Board-approved terms of reference which detail the authority delegated to the committee, how it should be exercised and the means by which the committee reports to the Board. The Board delegates executive management of the Company to the Managing Director.

B.1.2 Board

The Company's Board has primary responsibility for the corporate, management, risk and other governance structures and processes within the Company. The manner in which the Board's business is conducted is set out in the Board Charter, the Company's Memorandum and Articles of Association, and in the Directors' general duties. Authority is reserved by the Board for certain matters which may not be delegated. Board governance documents are reviewed at least annually.

The Company is subject to the requirements of the CBI's Corporate Governance Requirements for Insurance Undertakings 2015, including those additional requirements for 'High Impact' institutions (the Company has been designated as such by the CBI).

This code imposes minimum standards on all insurance undertakings authorised by the CBI and additional requirements on 'High Impact' institutions, so as to ensure that an appropriate and robust corporate governance framework is in place and implemented to reflect the nature of the undertaking's business and its risk profile.

The make-up and membership of the Company's Board is set out in the Board Charter and is consistent with the above requirements.

Key points are as follows:

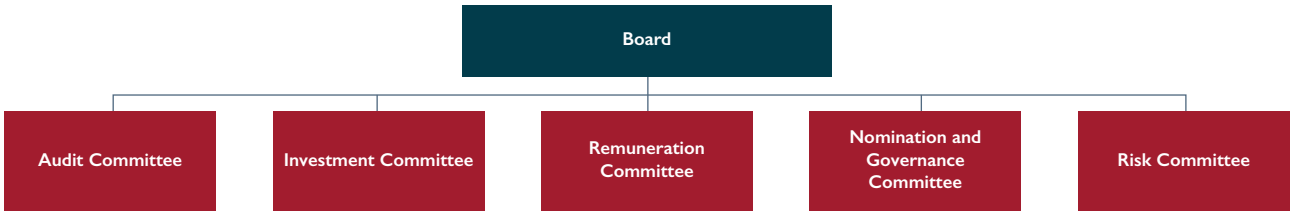
- The minimum number of Directors is seven, with the number of Directors at 31 December 2017 being nine. The membership comprises Independent Non-executive Directors, Executive Directors and Non-executive Directors from the Group
- The Chairperson of the Board must be an Independent or Non-executive Director. In relation to the Board Committee Chairpersons, they must be Independent Non-executive Directors. The Chairperson of the Board may not be the Chairperson of the Audit or Remuneration Committees
- Between them, Independent and Non-executive Directors make up the majority of Directors
- Independent Non-executive appointments to the Board are for a period of up to three years, which may be extended for a further period of three years, provided the Board member still meets the criteria for membership of the Board. In rare circumstances, further service may be requested.

Key responsibilities of the Board members include determining the Company's objectives and strategy. While retaining ultimate responsibility the Board delegates responsibilities in accordance with relevant corporate governance standards. The Board is responsible for establishing and maintaining a framework of risk management and internal controls, strategies, policies and procedures which enable the strategic, financial and other risks of the Company to be managed.

B.1.3 Board Committees

The Board has approved the current committee structure as set out in the chart below:

Figure: B.1.1



The following table notes the Directors' names, titles and their membership of the Board committees. Details are correct as at 31 December 2017.

Table: B.1.2

Director	Category of Director	Date of Appointment	Committee memberships
Pat Healy	Independent Non-executive and Chairman	April 2010 (Appointed Chairman April 2014)	Nomination and Governance, Remuneration
Michael Murphy	Executive Director and Managing Director	July 2017	Investment and Risk
Tony O'Riordan	Executive Director and Chief Financial Officer	January 2017	Investment and Risk
Ashok Gupta	Independent Non-executive	January 2013	Risk (Chair), Audit
Tom Barry	Independent Non-executive	April 2014	Nomination and Governance (Chair), Remuneration (Chair), Audit (Chair), Risk
Éilish Finan	Independent Non-executive	November 2014	Investment (Chair), Audit
Des Crowley	Group Non-executive	November 2009	-
Liam McLoughlin	Group Non-executive	February 2011	Audit, Nomination and Governance, Remuneration
Sean Crowe	Group Non-executive	July 2014	Investment, Risk

Audit Committee

The committee has responsibilities relating to the integrity and disclosure of financial and related information, oversight of the effectiveness of internal controls and the Company's relationship with, and expectations of, internal and external auditors. The committee monitors and reviews the effectiveness of the Company's internal audit function, and ensures that it operates in an independent manner. It also monitors the external auditor's independence and objectivity, the effectiveness of the audit process and of the Company's disclosure and reporting policy and processes. The committee also oversees the Company's compliance function.

Notes to Table B.1.2
Following 31st December 2017 the following changes have occurred:
- Liam McLoughlin resigned as a Non-Executive Director on 31 January 2018.
- Des Crowley was appointed as a member of the Nomination & Governance and Remuneration Committees on 16 February 2018.

Investment Committee

The committee has responsibility for oversight and the provision of advice to the Board on matters including governance in respect of the Company's investments, monitoring of the investments of the Main Fund and the Unit Linked funds, the overall level of investment risk, and the consistency of relevant investments with policyholders' reasonable expectations. It is responsible for the appointment and oversight of investment managers and custodians, in line with the Board's outsourcing policy, and for reviewing investment activity, performance and strategy.

Remuneration Committee

The committee has responsibility for oversight and the provision of advice to the Board on matters including making recommendations in respect of the remuneration policy for Directors, senior management and other employees and framing remuneration policies, giving full consideration to the principles and provisions of the relevant regulatory and corporate governance codes.

Nomination and Governance Committee

The committee has responsibility for oversight and provision of advice to the Board on matters including making recommendations in respect of nominations to the Board, Board committees and key management positions. It monitors developments in corporate governance, assessing the implications for the Company and advising the Board accordingly. It prepares reports on the effectiveness and performance of the Board.

Risk Committee

The committee has responsibility for oversight of and the provision of advice to the Board on matters including the effectiveness of the Company's systems of risk management in identifying, assessing, measuring and reporting on its risk profile, taking into account the nature, scale and complexity of the operation of the Company. It has oversight of risk governance, risk appetite and limits for current and future risks, risk strategy, material risk exposures and the Own Risk and Solvency Assessment (ORSA) process, including the ORSA report. The committee oversees the Company's risk management function.

B.1.4 Management structure

The Managing Director is the principal executive officer of the Company and is accountable to the Board for the Company's performance relative to operational and strategic targets, operations and compliance. The role has responsibility for ensuring that corporate governance remains consistent with Board policy and that there is effective oversight in the Company over corporate and risk governance.

The role of the Managing Director, in conjunction with the Senior Management Team (SMT), is to manage the Company's business on a day-to-day basis, subject to the authorities reserved for the Board, the Board Charter, Board committees' terms of reference and limits to authority set by the Board.

The Company's business is managed by the Managing Director and seven management functions, with the heads of each function reporting to the Managing Director. Leaders of these functions are members of, or attend, relevant Board and management committees.

The heads of the actuarial and risk control functions have operational and day-to-day management reporting lines to the Managing Director, as per the chart below (the head of the compliance function reports to the Chief Risk Officer). However, in line with the control function mandates, all heads of control functions have a direct reporting line and responsibility to relevant Board Committees for oversight matters.

The management structure in place at 31 December 2017 was as follows:

Figure: B.1.3



B.1.5 Control functions

The Company has independent control functions in place covering risk management, compliance, actuarial and internal audit. This is consistent with the requirements of the Solvency II Directive and the Corporate Governance Requirements for Insurance Undertakings 2015.

These control functions are responsible for providing oversight and challenge to the business and for providing assurance to the Board in relation to the Company's overall risk management and internal control frameworks.

Further detail in relation to these control functions is given in section B.3.8.

B.1.6 Governance documentation and delegation of responsibilities

A suite of governance documents supports the structure outlined above. These set out the authority and delegations of responsibilities of the Board, subcommittees and management.

The Board reserves authority for certain matters set out in the Board Charter, in areas covering strategy and management, company structure and capital, financial reporting and controls, risk management and internal controls and specified contracts. Matters which the Board considers suitable for delegation to committees of the Board and to the Managing Director are set out in written terms of reference of each of the Board committees.

The Company and management are required to operate under the provisions of a number of key policies which set out the delegation of authority given by the Board. These are approved on an annual basis by the Board or, through delegation, a committee of the Board. Key policies are those which have a particular bearing on the risks to which the Company is, or may be, exposed or on its governance arrangements and which are required under the Solvency II Directive or the CBI's Corporate Governance Requirements for Insurance Undertakings 2015.

In addition to the key policies, the Company operates under a number of other policies, and where appropriate, it will adopt those of its ultimate parent, BOIG.

B.1.7 Remuneration and risk

This section summarises the Company's remuneration policy and provides information on the decision-making policies for remuneration and the links between pay and performance.

The Company's Remuneration Committee holds delegated responsibility from the Board for the oversight of the company-wide remuneration policy with specific reference to Executive Directors, members of the Company's SMT and other employees. The Company's parent BOIG is currently operating under a number of remuneration restrictions which cover all Directors, employees and certain service providers across the Group. These constraints are reflected in the Company's remuneration policy.

Individual performance measures and targets are agreed for each employee using a balanced scorecard approach through the Company's performance management process. The four key result areas, each with a minimum weighting of 10%, are as follows:

- Customer
- Leadership and People Development
- Financial/Revenue/Cost/Efficiency
- Risk (covering all areas of Risk including Financial, Regulatory, Operational and Conduct Risk).

The Company's remuneration policy aims to support the Company's objectives of long-term sustainability and success, sound and responsible risk management and good corporate governance. In addition the Company's remuneration policy seeks to ensure that;

- the Company's efforts are aligned with, and contribute to, the long term strategy, sustainability, value creation and success of the Company
- the Company has the necessary remuneration philosophy, strategy and frameworks to attract, retain and motivate high calibre employees
- the Company offers a competitive remuneration package in a cost effective manner
- remuneration frameworks, policies and practices are simple, transparent, easy to understand and implement
- sound and effective risk management is reflected in performance management and remuneration frameworks and their alignment to performance targets and governance structures

- remuneration frameworks, policies and practices are applied in consideration of and in alignment with the Company's Risk Appetite Statement and overall risk governance framework
- risk-adjusted financial performance is an important measure when evaluating performance
- business and individual performance measures and targets are aligned with business objectives at either a Group, Company or local business level, ensuring alignment with business strategy, risk measures and priorities
- the Company is compliant with all applicable regulatory remuneration requirements as they relate to the Company
- remuneration frameworks, policies, processes, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial, customer and public interests.

Due to remuneration constraints all variable remuneration frameworks (annual bonus and long term incentive plans) have been suspended. Commission schemes for sales staff continue to operate within the Company and these are designed to meet relevant regulatory requirements.

The pension policy of the Company is to be a participating employer in the GovCo pension schemes.

The Company's remuneration arrangements do not include any supplementary pension or early retirement schemes for members of the Board or other key function holders. The Company has a number of defined benefit and defined contribution schemes in place. All staff members have the choice of making additional contributions into these schemes.

The following risk adjustment principles apply to remuneration in the Company:

- There is appropriate cross membership between the Remuneration Committee and the Risk Committee to ensure full objectivity and transparency for risk and remuneration decisions
- The Chief Risk Officer (CRO) attends the Remuneration Committee in an advisory capacity as required
- The Remuneration Committee engages the support of control functions, including internal audit and Group Human Resources (HR), to ensure the remuneration policy is adhered to and applied consistently across the Company
- One of the four key result areas for the Company covers all aspects of regulatory, operational, conduct and other risks as well as compliance with internal procedures.

B.1.8 Material changes in system of governance

The following changes took place with regard to senior management in the Company and the Board over the period from 1 January 2017 to 31 December 2017:

- Mick Sweeney resigned as an Executive Director and Managing Director (interim) on 3 July 2017;
- Michael Murphy assumed the positions of Executive Director and Managing Director on 3 July 2017;
- David Roberts stood down as Head of Finance on 1 January 2017 having assumed the position of Commercial Director. David Roberts stood down as an Executive Director and Commercial Director on 6 October 2017;
- Tony O'Riordan assumed the positions of Chief Financial Officer on 1 January 2017 and Executive Director on 9 January 2017;
- Alison Anderson stood down as Head of Human Resources on 30 September 2017;
- Denis Kelleher stood down as an Executive Director on 20 June 2017 and Head of Sales on 30 June 2017;
- Niall O'Callaghan assumed the position of Commercial Director on 1 November 2017 having stood down from the position of Head of Sales (interim), a position which he had assumed on 20 June 2017; and
- Ray McKenna assumed the position of Distribution Director on 27 November 2017.

Additional appointments made following the 2017 calendar year reporting period are as follows:

- Oonagh Kelly assumed the position of Head of HR on 28 February 2018.

B.1.9 Material transactions

The Company paid a dividend of €120 million to its parent, BILH, in 2017. It paid additional amounts to the Group in respect of services received, and interest due on subordinated debt, amounting to €15.6 million in total.

The Company issued a subordinated debt instrument in the amount of €80 million in 2017 with GovCo as the counterparty. No other material transactions took place with any other party in 2017.

No contract of significance existed at any time during the year in which a Director or key manager was materially interested or which requires disclosures as a related transaction.

B.2 Fitness and probity

The CBI's fitness and probity standards apply to all Directors and a number of other key roles within the Company, including those relating to the control functions. The holders of specific roles which are designated as Pre-approved Controlled Functions (PCF) require the advance approval of the CBI.

Minimum standards of fitness and probity apply to all persons performing the functions covered by the fitness and probity standards, including those requiring the pre-approval of the CBI, in the areas of competence and capability, acting honestly, ethically and with integrity and being financially sound.

The Company has in place a procedure for assessing the fitness and probity of those persons who come within the scope of the CBI standards. The procedure, which is carried out annually, includes an assessment of qualifications, experience, financial soundness, references and a range of due diligence and validation checks.

During 2017, there were four new PCF appointments, namely the Managing Director, the Chief Financial Officer (CFO), the Head of Investement and the Head of Internal Audit. On joining, both the Managing Director and the Chief Financial Officer also assumed the role of Executive Director.

At the end of 2017, there were 252 individuals fulfilling fitness and probity coded roles.

The Company is also subject to the CBI's Minimum Competency Code 2011 which covers all employees who are acting in certain specified roles. The code requirements include ongoing continuing professional development requirements. All personnel who fall within the code are also subject to the Company's fitness and probity policy.

The Company keeps a register of all employees who are accredited persons as defined in the Minimum Competency Code 2011. As at 31 December 2017, 164 employees in this category were recorded on the Company's register.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Introduction

The Company's risk management framework sets out its approach to understanding and managing the risks to which the Company is subject, ensuring that all material classes of risk are taken into consideration in the context of the Company's overall strategic objectives and goals.

The objectives of risk management are to enable the Board and management to appropriately identify, assess, measure and report risks as determined by its strategic objectives and goals and subject to any regulatory obligations that apply.

The Company's core strategic objectives include the protection of its capital and reputation. The acceptance of risk, through the products and services it provides to its customers, and the management of these and other risks to which the Company is subject, are the methods by which the Company achieves its overall objectives and goals.

The risk management framework sets out the core elements and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management practices and activities across the Company. It provides a context within which business and risk strategies are considered and developed.

The risk management framework is enabled by people, processes and technology, and is underpinned by a prudent and balanced risk management culture as articulated through the defined Risk Appetite Framework and Statement which are approved by the Board.

B.3.2 Risk management system

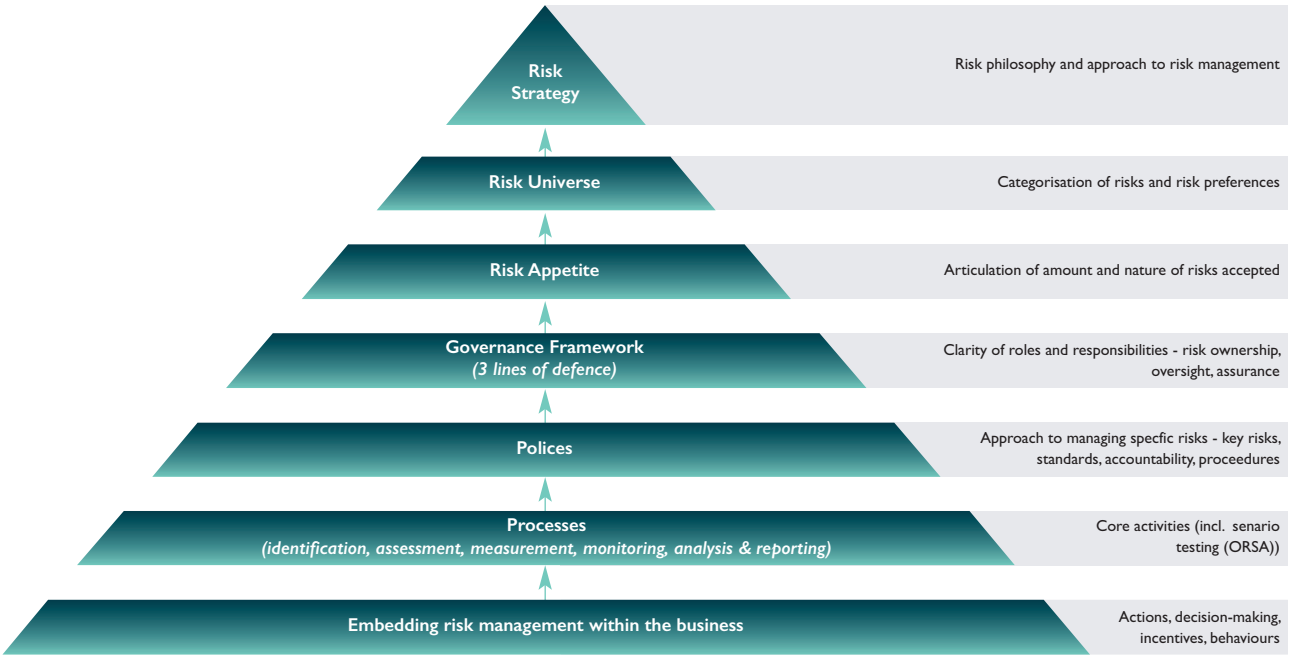
The Board is responsible for the overall risk management system of the Company. It has delegated the management and oversight of a number of risk activities to the Risk Committee, which in turn has a number of management risk committees reporting into it. These management committees are led by the Executive Risk Committee (ERC) which is chaired by the CRO and whose membership consists of senior staff including the Managing Director.

In support of its overall Risk Strategy, the Company operates a governance framework based on the three lines of defence model, which provides oversight and assurance to the Board with coverage across the independent control functions.These control functions, across risk management, compliance, actuarial and internal audit, have specific responsibilities as part of the overall risk management system. See section B.3.8 for more information.

The management structures, and related committees, support the overall risk management system with clear reporting lines for the risk management and control functions.

The core elements of the risk management framework are as follows:

Figure: B.3.1



B.3.3 Risk strategy and appetite

The overall Risk Strategy of the Company is to ensure that all material risks, both current and on a forward-looking basis, are considered in arriving at and maintaining the strategic commercial objectives of the Company and that these objectives are consistent with the Board approved Risk Appetite Statement of the Company.

The Company is committed to providing a high quality and efficient service and product proposition to its customers, ensuring that it keeps to its commitments, while also seeking to protect the interests of its shareholder. The Company pursues an appropriate return for the risks taken and operates within the stated Risk Appetite Statement. In doing so, the Company seeks to be fair to its customers, both new and existing, and to operate a strong risk management framework and risk culture.

The Company has a preference for risks that it understands well and is in a position to manage appropriately, and it pursues an appropriate return for the risks taken. It seeks to engender a prudent and balanced risk management approach across the Company and to ensure that its risk management structures are appropriate to the nature, scale and complexity of its business.

The Risk Appetite Statement of the Company defines the amount and nature of the risks that the Company is prepared to accept in pursuit of its strategic objectives. In addition, it notes the risks that are accepted in the course of the Company's business activities but which the Company seeks to mitigate, and those risks that we seek to avoid or transfer. The Risk Appetite Statement is defined in qualitative and quantitative terms, in respect of the key risk categories, within a framework that facilitates monitoring and appropriate action at Board and management levels. The Risk Appetite of the Company is reviewed at least annually on the advice of the Company's risk management function.

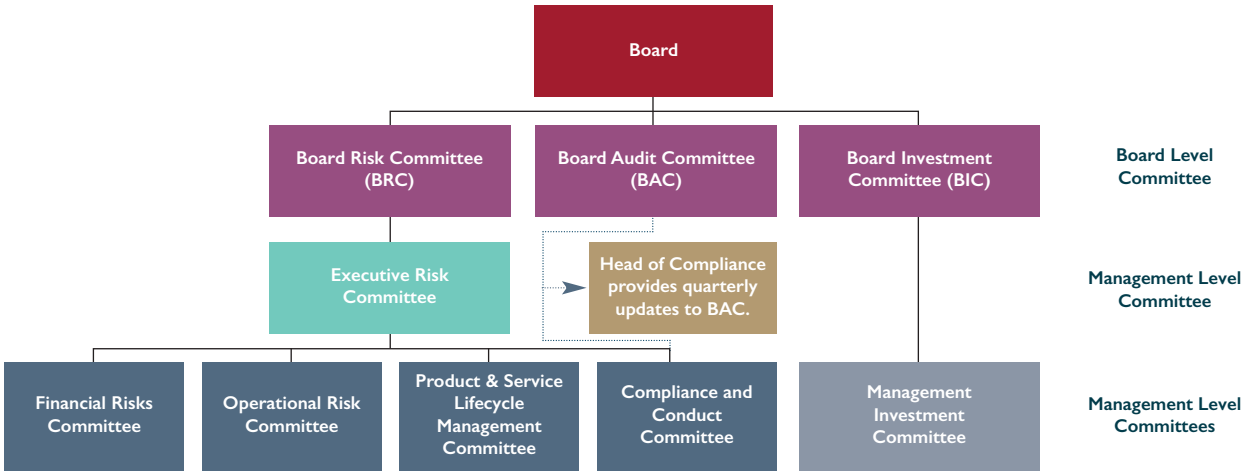
B.3.4 Governance policies

As outlined in section B.1.6, there is a suite of key governance policies and related procedures which underpin the risk management system. The documents set out the policy, process, procedures and related authorities and responsibilities across the key risks impacting the Company.

B.3.5 Management committees

Management committees with specific responsibilites for the control functions report into the Risk and Audit committees, with some cross-reporting, as outlined below. These form a key part of the overall governance framework. The Investment Committee is also supplemented by a management investment committee. The reporting lines between management and Board committees in place as at 31 December 2017 were as follows:

Figure: B.3.2



These committees cover all material risk categories for the Company and each is subject to defined terms of reference. Representatives from across the business, and the control functions, including appropriate senior management representatives, are members of the committees. The committees make recommendations and report on the proceedings of each meeting. Any material findings are reported to the Board level committee. Management committees may be supported by sub-committees, which have a more targeted remit, as appropriate.

The key responsibilities of the management committees are shown below:

Executive Risk Committee

- Monitor the risk profile of the Company, including the identification and reporting of breaches to risk limits, and to advise and monitor appropriate actions;
- Review and recommend the Company's Risk Management Framework, including the Company's Risk Strategy, to the Risk Committee;
- Advise the Risk Committee in relation to appropriate risk mitigation for material risk exposures;
- Review and recommend policies to the Risk Committee or Board, as appropriate, for its approval;
- Review the ORSA process, scenarios and ORSA report, for recommendation to the Board; and
- Review a risk assessment in relation to any material transaction or event impacting, or likely to impact, the Company's risk profile.

Financial Risks Committee

- Monitor the assets backing the Technical Provisions, the free assets and solvency of the Company, asset liability management (ALM), market movements, investment strategies, liquidity risk and shareholder exposure in the policyholder linked funds;
- Review the Company's financial risk exposures against the Risk Appetite Statement on a quarterly basis; and
- Advise the Risk Committee on the Company's overall reinsurance strategy.

Operational Risk Committee

- Review the effectiveness of the Company's systems of operational risk management;
- Identify, assess, measure and report on current and future operational risks accounting for the nature, scale and complexity of the operational risk to which the Company is subject; and
- Review and report on the Company's management of its operational risk appetite and limits for current and future risks, the alignment of operational strategy with operational risk appetite, and the activities and internal processes for managing operational risk, including the IT systems supporting them.

Product and Service Lifecycle Management (PSLM) Committee

- Establish and approve standard procedures, including controls and authorisations, for developing new products and for any substantial change to existing products;
- Monitor the adequacy of the Company's pricing and the profitability of new business; and
- Ensure when proposing a product for approval or seeking approval to proceed to a further stage in the development of a product, that all required authorisations have been received, documentation is in conformity with relevant legislation and that required systems, processes and procedures are in place.

Compliance & Conduct Risk Committee

- Monitor the effectiveness of the Company's compliance with regulatory and legal obligations;
- Consider the Company's approach to regulatory risk management, its ability to identify, assess, measure and report on current and future risks and its strategy to react to forward looking changes in the nature of regulatory risk; and
- Review the standards by which the Company is conducting business including adherence to conduct-related policies.

Investment Committee

- Make recommendations to the Board Investment Committee concerning the appointment and retention of investment managers and custodians for the Main Fund and the Unit Linked funds;
- Carry out reviews of the investments and related guidelines;
- Assess the remit, effectiveness and resourcing of the investment oversight function;
- Consider any changes to unit pricing procedures; and
- Keep under review the effectiveness of the Company's internal controls as they relate to investment matters.

B.3.6 Management structure - Three lines of defence

As part of the risk management framework, the Company operates a 'three-lines of defence' model. This is intended to mobilise and embed risk management practices across the business, in a way that provides appropriate assurance to the Board, in relation to the risks that might hinder the achievement of strategic goals. The model operates as follows:

1st line of defence

The 1st line of defence consists of front line business functions such as customer service, sales and distribution, product management, information technology, finance, marketing and human resources. Primary responsibility and accountability for risk management lies with these functions. They are responsible for the identification and management of risks that affect the Company at business unit level, and for implementing appropriate controls and reporting consistent with the Company's risk management framework.

2nd line of defence

The 2nd line of defence consists of the compliance, risk management and actuarial functions. These control functions formulate risk frameworks and policy and provide oversight, monitoring and challenge to the operation of the risk framework within the Company. The actuarial function also provides assurances to the Board in relation to the adequacy of the Company's provisions in respect of its obligations.

3rd line of defence

The 3rd line of defence consists of an independent internal audit function that provides independent, reasonable assurance to key stakeholders on the effectiveness of the Company's risk management and internal control framework. Internal audit carry out risk-based assessments covering the Company's businesses and functions (including outsourcing providers). Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against actions and completion dates.

Figure B.3.3 - Three lines of defence

1st Line	2nd Line	3rd Line
• Customer service and operations • Product management and marketing • Sales and Distribution • Human Resources • IT infrastructure • Actuarial (operational) • Finance • Legal	• Risk management • Compliance • Actuarial (assurance activities)	• Internal Audit

B.3.7 Risk management function

The risk management function is responsible for maintaining and monitoring the effectiveness of the Company's overall risk management system, and for its ongoing development. Its key activities include the following:

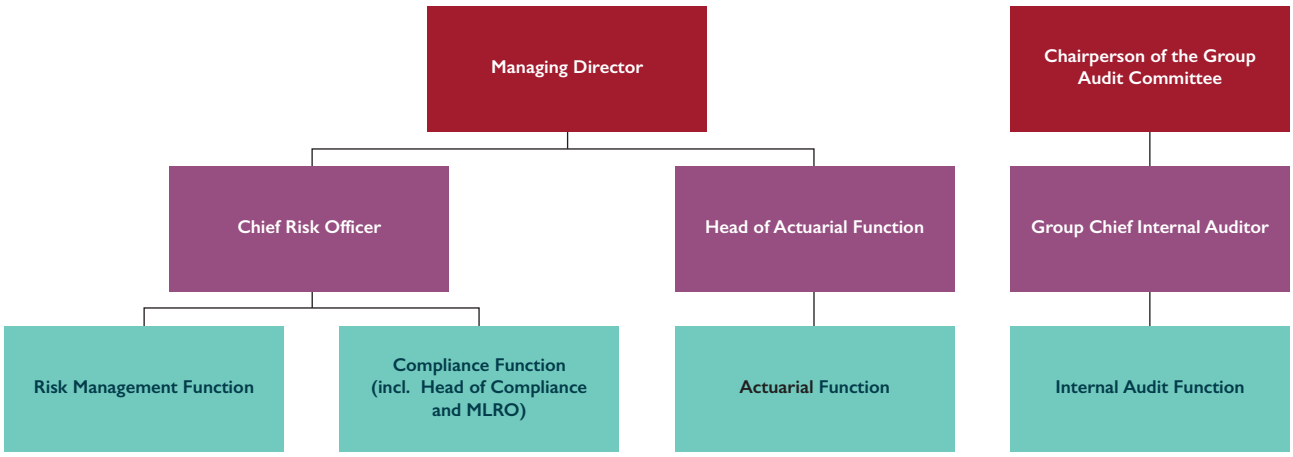
- Design of key risk management frameworks and related policies, including processes to identify, measure, monitor, manage and report on the entity-wide risks to which the Company is subject
- Co-ordination of the Company's ORSA
- Preparation and review of the Company's Risk Appetite Statement
- Monitoring of the risk management system including oversight and challenge with regard to the effectiveness of its operation
- Preparation of an annual plan for submission to the Risk Committee.

The risk management function is led by the CRO who is a member of the SMT reporting to the Managing Director. The CRO also has responsibility for the compliance and legal functions within the Company.

B.3.8 Control functions

As noted in Section B.1.5, the Company has established key control functions which make up part of the overall governance system. Further details in relation to the compliance, internal audit and actuarial functions are given in Sections B.5, B.6 and B.7.The principal reporting lines in relation to the control functions are as follows:

Figure B.3.4 Control functions as of 31 December 2017



The CRO has direct access to the Chair of the Risk Committee and the Head of Actuarial Function (HoAF) to the Chair of the Audit Committee. Both the CRO and the HoAF are in attendance at Board meetings.

B.3.9 Identification of key risks (risk universe)

The Company's risk management system requires that the Company identifies and assesses the risks to which it is exposed, i.e. the Risk Universe. The risks are categorised in order to enable the Company to appropriately manage the individual risks and their interactions. This categorisation supports the Company's risk management activities at all levels and enables risks to be clearly and consistently identified, assessed, managed and reported to key stakeholders. The Company has defined the following as its key risk categories:

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Business and strategic risk
- Operational risk
- Pension risk
- Regulatory risk
- Conduct risk
- Reputation risk
- Capital adequacy risk

Risks assumed or faced by the Company typically fall into the following categories:

- Risks that the Company intentionally takes on as part of its business activities in order to earn an appropriate return and in pursuit of its overall objectives. Risks falling into this category would include insurance risk, market risk and credit risk
- Risks that the Company faces as a direct or indirect consequence of its business activities. Risks falling into this category would include operational risk, regulatory risk and conduct risk.

The Company's Risk Appetite Statement provides coverage across all the key risk categories.

B.3.10 Reporting and monitoring of key risks

Through the risk management system the Company identifies, assesses, measures and reports on the key risks.

Risk identification and assessment

Risk identification and assessment are carried out using a combination of top down and bottom up activities. The outcome of the risk identification and materiality assessment process is the risk universe, described in more detail in section B.3.9 above.

Risk measurement and reporting

The management committees in place have oversight of the respective risks under their remit, and review the effectiveness of the Company's internal controls for those risks. Identification of issues relating to the key risks are brought to the attention of the Risk Committee by the relevant oversight committee accompanied by appropriate recommendations to address the issue.

B.3.11 Integration of the risk management system organisational structure and decision making process

The Board, its committees and the management committees and structures provide the framework for decision making. Decisions are made under direction of the Board and are set out in documents such as the strategic plan, operating plan, budget and the Risk Appetite Statement.

The Company's governance processes operate to provide clear lines of authority and clear accountability for decision making. The processes aim to ensure that significant decisions are approved by two or more people with the appropriate authority prior to implementation.

Board committee meetings must have the required quorum and number of Non-executive Directors present as set out in their terms of reference. Each committee is required to maintain minutes of meetings. The business of the meeting and any decisions made are reported to the Board. Agreed actions are noted and progress reported at subsequent meetings.

B.4 Own Risk and Solvency Assessment

The ORSA process is at the heart of the Company's risk management system and informs the Company's strategic plan. It is intended to enable the Board to consider plausible risks to the business and the capital required to withstand those risks within the context of its business plans. The ORSA report, which is produced as part of the ORSA process, is the formal documentation of this assessment. The analysis and evaluations from the report are intended to give the Company a deeper understanding of the interactions across capital, solvency, risk profile and business plans.

While a significant proportion of the ORSA report is dedicated to the assessment of the Company's solvency and ability to meet policyholder obligations following severe risk events and scenarios, the process also considers less quantifiable risks in order to assess their impact on the Company, for example those relating to regulatory or operational risks.

The Company carries out an ORSA process on an annual basis. The financial projections, which take account of the Company's risk profile and financial position, are determined at an appropriate point in time and extend out over a time horizon consistent with the business planning period. A base case projection, consistent with the Company's business plan, forms the core of the financial assessment. Any known material transactions which follow that date are allowed for in the assessment.

The risk events or scenarios chosen for the assessment are designed to test 'extreme but plausible' events or scenarios. They must take into account adverse changes to the internal and external environment relative to the base case, and the impact that these changes have on the material risks of the Company over the planning period. The scenarios should demonstrate the interaction of different risk exposures and the projections should consider the development of the scenarios over the business planning period.

Overall responsibility for the ORSA process lies with the Board. Functional ownership of the process sits with the risk management function under the guidance of the Company's CRO. The Board takes an active role in this process which includes reviewing and challenging the inputs to the process, notably the scenarios being assessed, and then reviewing the findings and output from the process. The Board also initiates appropriate actions to remediate any adverse findings or to progress proposed risk management enhancements following the assessment.

Key stages in the Company's ORSA process are as follows:

- The process for carrying out the ORSA is governed by the Company's ORSA Policy which is approved by the Board. This policy is reviewed by the risk management function, taking account of any new or revised guidance, and re-submitted annually to the Board for approval
- The preparatory assessment of internal and external inputs is undertaken by the risk management function in order to propose an initial range of potential risk events and scenarios for management and Board review ahead of inclusion in the ORSA assessment. The risk management function facilitates meetings with 1st line management to seek appropriate senior level input on the development of the scenario set. The scenario set is also presented to the Financial Risks Committee (FRC) and ERC, before being submitted to the Board for discussion, challenge and approval
- The actuarial and risk management functions co-ordinate on the calculation of the financial projections ensuring that appropriate data and methodologies are in place to produce reliable results
- The ongoing appropriateness of the Company's regulatory capital requirement, which uses the standard formula approach under Solvency II, is re-examined to ensure suitability given the Company's current and expected risk profile. The Company's assessment of its own capital adequacy requirements is also re-examined and used to inform the Company's Risk Appetite Statement
- The risk management function, taking input from subject matter experts and risk appetite metrics, considers and documents the Company's exposures to non-financial risks, and the measures currently in place to manage these
- The results of the financial projections and the assessment of non-financial risks are documented in a draft report which includes recommendations for actions to address any concerns which may have arisen as a result of the analysis. This draft report is presented to the ERC for discussion to include the proposed management actions to be taken on foot of the recommendations being made
- The draft report is submitted to the Risk Committee for discussion and challenge. This will then undergo further levels of iteration involving Risk Committee and Board review, subsequent re-drafting by the risk management function and re-submission to the Risk Committee and Board.
- The draft report for approval is submitted to the Board on the recommendation of the Risk Committee for further discussion and challenge. The draft report includes an opinion from the HoAF on the range of risks considered and the adequacy of the financial projections used to derive conclusions. Following the Board's approval, the ORSA Report is submitted to the CBI.

The Company may also carry out an out-of-cycle or 'ad-hoc' ORSA in the event that a material change to the Company's risk profile has occurred or is anticipated. The CRO will make a proposal for a full, or partial, ad-hoc ORSA process to be conducted if it is believed that this is appropriate. The report will be proportionate to the scale and impact of the change in risk profile or events that led to the process being triggered. The Board may request that an ad-hoc ORSA be carried out at any interim date.

B.5 Internal control system

B.5.1 Introduction

The Company's system of internal control encompasses processes and structures which are intended to provide reasonable assurance to the Board regarding the achievement of objectives which relate to the following areas:

- Operational - effectiveness and efficiency of the Company's operations, including operational and financial performance goals and safeguarding assets against loss
- Financial reporting - availability, timeliness and reliability of financial and non-financial information, and any other requirements or standards to which the Company is subject
- Compliance - adherence to applicable laws and regulations to which the Company is subject.

The system of internal control is an integral part of the overall risk management framework of the Company. The risk management framework is broader than internal control and focuses on the identification and management of the full spectrum of risks impacting the Company.

The principal elements of the internal control system are the following:

Governance structures and policies: This encompasses the overall governance structures of the Company through the Board, management and committee structures as outlined previously. It also includes the policies and procedures which set out the manner in which certain risks are managed within the Company.

Risk Assessments: The Company undertakes processes for identifying and assessing risks, and their associated controls. This also encompasses the impact of changes to the external environment and within its own business model that may render internal control partially or completely ineffective.

Control activities and functions: The Company has put in place policies and procedures which are designed to help mitigate the identified risks. These encompass activities such as authorisations, reconciliations, management reviews and independent validations. Segregation of duties is built into the selection and development of control activities. The oversight of the internal control system is undertaken by the four control functions.

Reporting: This is the process of providing timely, quality and relevant information to support the components of the internal control system.

Monitoring activities: This is the process of ongoing evaluation to ascertain that the components of the internal control system are present and functioning. Ongoing evaluations are built into business processes in order to provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency. Deficiencies are communicated to management and the Board, as appropriate.

Internal control is overseen across the four control functions, namely:

- Risk Management function
- Compliance function
- Actuarial function
- Internal Audit function.

The system of internal control is intended to support the Company in achieving its strategic and business objectives, while operating within the requirements set out in its key policies and within the laws and regulations which apply. A robust internal control environment enables the Company to deal effectively with changes to the external environment, the needs of key stakeholders including customers, shareholders and regulators and within an evolving business and regulatory landscape.

The principal reporting lines in relation to the control functions are as shown in figure B.3.4.

The Company has put in place a comprehensive control framework to ensure the Company's financial statements are materially correct. These comprise entity level controls, process controls, IT controls and end user application controls. These controls are subject to, at least annual, testing and audit by the Company's external auditors. The results of this testing are presented to the Audit Committee on an annual basis together with any deficiencies arising and recommendations on how such deficiencies could be remedied.

B.5.2 Compliance function

The Board is ultimately responsible for ensuring the Company's compliance with its regulatory obligations. The compliance function, a control function of the Company, supports the Board in the discharge of this responsibility and reports on a regular basis to the Compliance and Conduct Risk Committee ERC and the Risk Committee.

The purpose of the compliance function is to direct the regulatory risk and conduct risk agendas of the Company.

The compliance function carries out independent compliance monitoring and assessment activity based on an annual plan of work approved by the Audit Committee. The plan of work is based on a consideration of the regulatory and conduct risk environment in which the Company is operating.

Advice and support is provided to the Company by the compliance function for both existing and future obligations relating to current and any proposed new or amended business processes and procedures.

Forward-looking assessments of regulatory risk are provided by monitoring of emerging legislation, market practice and regulatory communications. New risks identified are communicated to the Company and, where relevant, representations are made in response to consultation processes initiated by regulatory bodies.

A quarterly report is prepared by the compliance function based on the output of monitoring undertaken in the period. This report includes details of recent regulatory activity and an analysis of key upstream developments. This is advised to management and the Audit Committee.

The Board has approved a compliance policy in order to ensure that the Company has implemented effective ways of managing compliance and associated compliance risk. The policy is reviewed on an annual basis by the Audit Committee.

B.6 Internal audit function

Internal audit operates as the 3rd line of defence providing to the Company with independent, reasonable assurance on the effectivess of the risk management and internal control framework through the delivery of an annual plan of work agreed with the Audit Committee. A risk based approach is taken to the work to be completed under each annual plan, having considered the activities, risks and priorities of the Company and its systems of governance. Internal audit may be requested to carry out special assignments or investigations outside of its plan of work should the need arise.

The internal audit policy, a key policy of the Company, is approved on an annual basis by the Audit Committee. The policy provides that internal audit shall not be subject to influence by the Company and that it shall operate in an independent and impartial manner. The internal audit function is required to ensure that any internal audit conflict of interest that arises or may arise is brought to the attention of the Chairperson of the Audit Committee.

Internal audit provides a written and verbal report to the Audit Committee on the progress of the agreed plan at each Audit Committee meeting. Progress on actions agreed following issues identified in any internal audit report are also reported to the Audit Committee.

Internal audit services are provided under contract, and supported by a service level agreement, from GovCo.

B.7 Actuarial function

The tasks of the actuarial function are set out in Article 48 of the Solvency II Directive and the CBI's Domestic Actuarial Regime and Related Governance Requirements. The HoAF has overall responsibility for ensuring compliance with the relevant requirements of the actuarial function and formally reports to the Board in that regard at least annually. The HoAF is a PCF under the Central Bank of Ireland's fitness and probity regime.

The actuarial function carries out the following activities:

Technical provisions

- The coordination of the calculation of technical provisions
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions
- Comparing best estimates against experience
- Informing the Board of the reliability and adequacy of the calculation of technical provisions
- Providing an Actuarial Report on Technical Provisions (ARTPs) to the Board
- Providing a formal Actuarial Opinion on Technical Provisions (AOTPs) to the Central Bank of Ireland.

Opinions to the Board

- Opining on the overall underwriting policy
- Opining on the adequacy of reinsurance arrangements.

Contribution to the risk management system

- The calculation of the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)
- Risk modelling underlying the Company's ORSA process
- Opining on the ORSA process and results for the Board.

Other

- Monitoring compliance with policyholder disclosure requirements
- Reporting on issues relating to Policyholders' Reasonable Expectations (PRE)
- Opining on how discretionary elements of policy conditions have been applied
- Advising the Board on transfers from the life assurance fund and dividend payments
- Establishing a reserving policy for the Company.

B.8 Outsourcing

The Company engages with specialist providers to fulfil some aspects of its commercial and operational requirements while concentrating the Company's own resources on its core competencies. The Company seeks to ensure the effective management of third parties in order to continue to deliver reliable high quality services to our customers.

The Company has in place an outsourcing and supplier policy which sets out the risk management parameters within which the Company pursues its strategic objectives of leveraging the specialist capabilities of third parties. A key principle of the policy is to ensure that outsourcing arrangements do not diminish its obligations nor impede effective supervision.

The policy is approved by the Board on an annual basis and relevant management information in relation to critical outsourcing arrangements and key suppliers is presented to the Risk Committee on a regular basis.

The following table details the critical activities that the Company has outsourced.

Table B.8.1

Outsourcing relationship type	Geographic location
Customer documentation print management	Republic of Ireland
Custodian services and fund administration	Republic of Ireland
Investment management activities	Republic of Ireland
IT services and infrastructure	Republic of Ireland (part internal to Bank of Ireland Group)
IT services and infrastructure	United Kingdom
Internal audit and AML/CFT and support services	Republic of Ireland (internal to Bank of Ireland Group)

The Company has a procurement process in place that applies to all outsourcing and key suppliers and includes a review of the providers' ability to provide the relevant service by ensuring, for instance, that legal requirements are in place prior to engagement.

Each outsourcing arrangement and key supplier is assigned to an SMT member to ensure that there is effective management of these critical arrangements.

B.9 Any other information

The Company is committed to high standards of governance, and has assessed its overall system of governance as appropriate given the nature, scale and complexity of the operations of the Company. The system of governance is designed to protect the long-term interests of the Company's stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Company's system of governance is to ensure compliance with applicable legal and regulatory requirements. The introduction of the Solvency II regulations, as well as the continually evolving regulatory environment, has placed additional requirements on companies in this regard, and the Company has invested significant resources to ensure that it meets the required standards.

C. Risk Profile

C.1 Introduction

This section sets out information regarding the risk profile of the Company, including the exposures to each material category of risk, the measures used to assess these risks and the techniques used to mitigate and monitor them.

As noted in Section B, the Company's risk management framework sets out the approach to understanding and managing the risks to which the Company is subject, and to ensure all material classes of risk are taken into consideration in the context of the Company's overall strategic objectives and goals.

The Company is committed to providing a high quality and efficient service proposition to its customers and ensuring that we keep to our commitments. It pursues an appropriate return for the risks taken and aims to operate within its Risk Appetite Statement. In doing so, it seeks to be fair to its customers and to operate a strong risk management framework and risk culture.

The Company holds capital to ensure that it can meet its obligations across a wide range of risk scenarios. The regulatory framework underpinning the capital requirements and assessment is the Solvency II Directive which came into effect from 1 January 2016. Further detail on the level of capital held by the Company, relative to the amounts required to ensure ongoing solvency requirements are adequately met, is given in Section E.

The Company has adopted the use of the standard formula, as set out under Solvency II regulations, to determine the required capital with respect to its risk profile. An assessment has been carried out by the Company to confirm that its use of the standard formula is appropriate. A combination of the standard formula with further scenario and stress testing is used by the Company to determine its target level of capitalisation.

Holding levels of capital appropriate to the risk profile of the Company is an important element of the Company's strategy for managing risks. The use of capital is not a standalone risk mitigant and the Company employs a detailed risk management framework and internal control system which defines roles and responsibilities relevant to the oversight of risks.

Information relating to the risk profile of the Company is set out in this section under the appropriate risk headings below. At an overall level, there has been no material change to the risk profile of the Company during 2017 arising from its own business operations and external conditions.

The Prudent Person Principle

The Prudent Person Principle, as set out under Solvency II, requires that the Company only invests in assets for which the risks can be properly identified, measured, monitored, managed and controlled. In the case of a conflict of interest the Company ensures that investments are made in the best interest of policyholders and beneficiaries.

The Company's market risk policy sets out how market risk is to be managed. Included in this policy is the requirement for the Prudent Person Principle to be applied in all aspects of the Company's asset management. The Board has delegated responsibility for the market risk policy, including the application of the Prudent Person Principle, to the Risk and Investment Committees.

Core activities of these committees enabling the Prudent Person Principle to be implemented by the Company are as follows:

- Review and approve the investment guidelines for the Company's own investments and its constituent parts, as recommended by management. These investment guidelines are required to be consistent with the Company's ALM policy, credit risk policy and market risk policy.
- Review and approve the investment guidelines for Unit Linked funds, as recommended by management. Review and approve, if considered appropriate, any other changes to investment guidelines, including new investment guidelines recommended by management from time to time. The guidelines in respect of Unit Linked funds will be consistent with the Company's market risk and credit risk polices.
- An asset and liability matching analysis focusing on the duration of the assets and the liabilities is carried out regularly. This exercise considers the impact of changing interest rates and relevant market yields on the capital and profitability of the Company. The results of the analysis are reported to the FRC to provide insight to the effectiveness of the Company's approach.

Stress and scenario testing

The Company monitors its risk profile on an on-going basis and reports on changes to the nature and scale of risks regularly.

The Company is required to make assumptions about future cash flows that are expected to arise as it meets its obligations to its customers. Typically these assumptions will be benchmarked against past experience, but the Company will also allow for instances where past experience may not be an appropriate guide to future experience. These assumptions are then used to calculate a best estimate provision amount and assets valued at this amount must be held in respect of these obligations. There is a risk that the future customer obligations may exceed those suggested by the assumptions used which would result in the provision being insufficient. To prevent the Company holding an insufficient provision, an additional amount over and above the best estimate provision is required to be held. This additional amount is assessed by stress testing those assumptions, as well as the value of the assets held, in such a way as to determine the additional provision that would be required to ensure that all obligations can still be met following a series of extreme but plausible events impacting adversely on the finances of the Company.

Each year, or more frequently if deemed necessary, the Company carries out stress and scenario testing covering the Company's business planning horizon. This is known as the ORSA and it covers a holistic view of the risks faced by the Company, whether they are quantifiable or not. The assessment includes an analysis of those risks discussed later in this section. The process associated with the ORSA has been detailed in Section B.

The Company holds assets in excess of the minimum regulatory requirement. The Company's strong capital base is supported by the outcome of recent ORSA processes. In the latest ORSA process it was concluded that the Company's financial position remains strong and continues to generate profits and an appropriate addition to its capital, within the boundary conditions of its Risk Appetite Statement. The core conclusions of this year's ORSA process confirm the resilience of the balance sheet to a wide range of extreme but plausible stress events and scenarios. In every scenario tested the Company is able to meet its policyholder liabilities.

Sensitivities

The table below illustrates the sensitivity of the Company's solvency ratio to changes in key risk types. The solvency ratio is the ratio of the Company's available assets, known as own funds, to the SCR under Solvency II. At year-end 2017 the solvency ratio stood at 154%, with further details on this provided in Section E.

Figure C.1.1

Risk type and sensitivity description		Change in Solvency Ratio 31 December 2017 %
Mortality	A 10% decrease in assured life mortality rates	1%
Longevity	A 10% decrease in annuity mortality rates	(5%)
Morbidity	A 10% decrease in morbidity rates	2%
Lapse	A 10% increase in lapse rates	(1%)
Expenses	A 10% decrease in renewal expenses	3%
Interest rates	A 1% decrease in interest rates	(12%)
Credit Spreads	A 0.5% increase in credit spreads	(12%)
Equity and property	A 10% decrease in the value of equities and property	2%

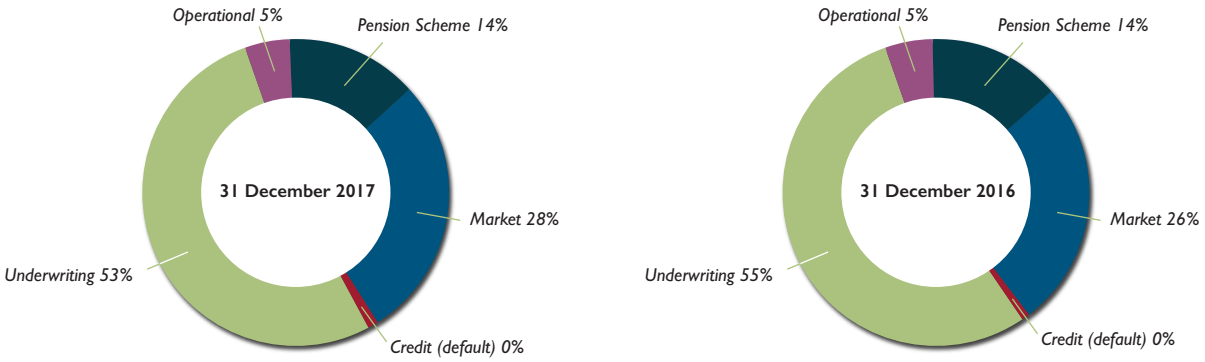
The changes in the solvency ratio incorporate the impact on the assets and liabilities of the Company and are net of reinsurance and tax. The negative impact of a decrease in interest rates is largely due to the Company's defined benefit pension scheme exposure while the negative impact due to increasing credit spreads results in a fall in asset values which is not fully matched by an equivalent fall in the value of the corresponding liabilities.

Sensitivity analyses such as those shown above are used by the Company to identify areas of risk and to inform decision-making. It forms part of the overall stress and scenario testing which is a core element of the Company's Risk Management Framework.

Risk Profile

The breakdown of the Company's risks at the end of 2017 and 2016 by risk category, as included in the SCR, is shown in the following graphs:

Figure C.1.2



There has been no material change to the relative level of exposure to each of the risk types, as measured by the standard formula, over the year. The Company, in line with industry standards, does not hold capital in respect of liquidity risk which is managed according to the Company's liquidity risk policy. An overview of the risk profile of the Company under each of the risk headings now follows.

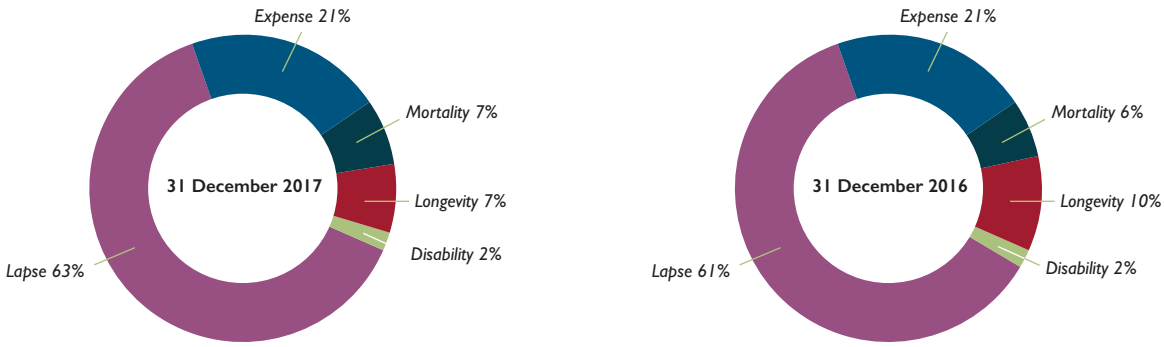
C.2 Underwriting risk

Underwriting risk is the risk of unexpected variation in the amount or timing of claims. The Company currently writes life insurance business which results in material exposures to the following risks:

- Mortality - the risk of deviations in the timing and amounts of cash flows due to the incidence of death being higher than expected
- Longevity - the risk of deviations in the timing and amounts of cash flows due to life expectancies being greater than expected
- Morbidity - the risk of deviations in the timing and amount of cash flows due to the incidence of disability and sickness being higher than expected
- Lapse - the risk to profitability if policies surrender early as the Company will lose the future income streams on those contracts
- Expense - the risk to profitability arising if expenses differ to expectation.

The breakdown of the underwriting risk exposure into its component parts is shown below. Lapse risk is the most significant exposure. There has been little change to the relative levels of exposure during 2017. The relative exposure to longevity risk has fallen largely due to the application of a revised set of assumptions relating to the life expectancy of annuitants.

Figure C.2.1



All products sold by the Company result in exposure to one or more of these risks. The Company actively seeks exposure to these risks as their management is a core competency of the Company. The exposures to these risks can arise from the sale of distinct policyholder benefits, for example the sale of annuities introduces longevity risk, or the risks can arise in combination, for example the sale of some investment products can introduce lapse and mortality risks.

The Company's contracts with policyholders will present varying degrees of exposure to the above underwriting risks. The Company must use its experience to accurately estimate the claims that will arise from these policies, allowing for risk mitigation techniques being applied. In 2017, for example, the Company paid approximately €111.3 million in claims to customers following death or illness. The Company must ensure that appropriate provisions are held to meet these claims with risk mitigation and sufficient capital in place should the future level of claims be in excess of those expected.

The Company maintains an underwring risk policy, which is updated annually, and a number of risk mitigation techniques are employed in line with this policy. The core underwriting risk mitigation techniques and an overview of each are set out below.

Risk Governance

The PSLM Committee is a sub-committee of the ERC with delegated responsibility for the establishment and approval of a standard procedure, including controls and authorisations, for developing a new product and for any substantial change to an existing product. Where there is a proposed material change to the risks assumed by the Company, the PSLM Committee will refer the request for approval, with appropriate analysis, to the Risk Committee. having first been reviewed by the ERC.

The potential risks associated with the advice given to customers in respect of the sale of financial products has come into focus of regulators in recent years and has been the subject of significant regulation. A Compliance and Conduct Risk Committee, supported by members of staff with responsibility for oversight of conduct risk, has been put in place to ensure that the Company acts appropriately in pursuit of its business and in line with its commitments to its customers and any associated regulatory requirements. This includes the monitoring of sales practices and that customers are being targeted appropriately for each product.

Reinsurance

Reinsurance strategies are used to transfer underwriting risk. Reinsurance has a number of benefits such as reducing the financial impact of individual large claims and the impact of catastrophe events, as well as other efficiencies and pricing benefits. The FRC, supported by a sub-committee with responsibility for reinsurance, actively monitors the appropriateness of the reinsurance strategy for both new and existing products and reports its findings to the Risk Committee.

Medical and financial underwriting

Medical and / or financial underwriting is used by the Company where appropriate to achieve an understanding of the risks prior to writing a policy. The Company may also apply underwriting techniques, as appropriate, at other stages in the lifetime of a policy such as as when changes are being made the amount of cover or at the claims stage.

Pricing principles

The goal of the Company's pricing strategy is to achieve target profits, in the context of the Company's overall strategic plans and risk strategy, as detemined by the Board. This is achieved by generating sustainable long term profit within each product line subject to appropriate levels of risk and due consideration for the needs of the customer.

The Company actively monitors the underwriting risks that it has accepted. The Company's persistency experience and lapse risk across products and sales channels is monitored regularly. The information provided by these monitoring activities is then used to inform the pricing strategy in the future. The volume of sales and the on-going profitability of the various product lines are also monitored.

Product features

Product features may also protect the Company against risks that may emerge in the future, for example periodic reviews of premium adequacy.

C.3 Market risk

Market Risk is the risk of loss arising from movements in market prices. The Company accepts significant exposure to market risk. The main areas of market risk to which the Company is exposed are as follows:

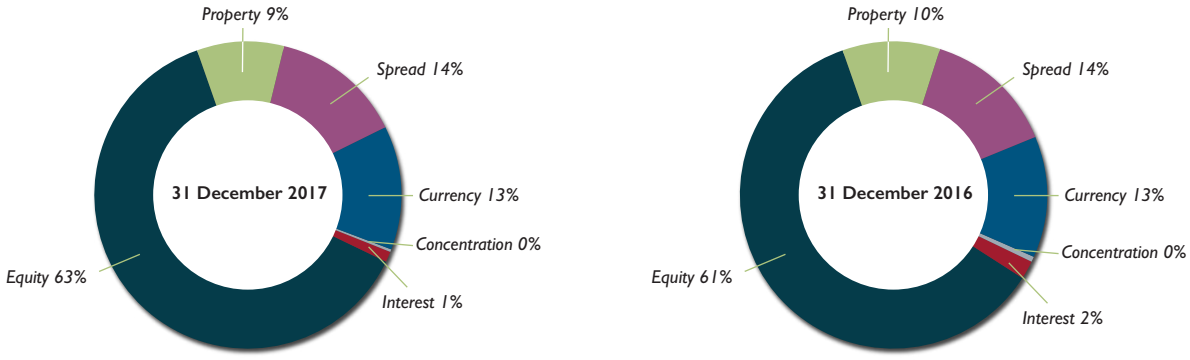
- Interest rate risk – the risk of loss arising from a change to actual or expected interest rates. The prevailing interest rates will be a significant factor in determining the value of the Company's obligations as well as the expected income that will be generated from investments
- Spread risk – the risk of loss arising from the yield on a bond increasing, resulting in a fall in the bond's value, without an equal increase in the benchmark interest rate. Bonds are a core investment asset for the Company
- Equity and property risk – the risk of loss associated with falling equity or property values. This may arise from assets held directly by the Company or as a result of lower fees which are linked to the value of customer investments in these assets
- Currency risk – the risk of loss associated with a change in currency values
- Concentration and contagion risk – the risk that the Company is overly reliant on a single counterparty or that the Company's counterparties are interrelated such that significant losses arising from a single counterparty are unlikely to occur in isolation.

The Company's exposure to these risks arises from three main sources:

- Exposure actively entered into by the Company in order to protect against fluctuations in the value of guarantees, typically relating to annuity products
- Exposure that the Company takes as a result of customer investments, typically relating to unit linked products where the Company's fee income is related to the value of the customer's investment
- Exposure actively entered into by the Company as it seeks an acceptable level of risk-adjusted return.

The breakdown of the market risk exposure into its component parts is shown below. It can be seen that equity risk is the most significant exposure which is largely related to the fee income expected to arise on unit linked contracts. There has been little change to the relative levels of exposure over the year.

Figure C.3.1



As with underwriting risk, the Company maintains a strong governance framework in the area of market risk. The Company maintains and regularly updates policies relating to market risk, concentration risk and ALM. While the Board retains ultimate responsibility for these risks, the responsibility for the implementation of the provisions within these policies and the day-to-day management of these risks is delegated to a number of Board and management sub-committees as well as senior management.

The principal market and concentration risk mitigation techniques and an overview of each are set out below.

Unit linked matching

The Company holds approximately €14.9 billion in unit linked assets on behalf of its customers. The risk arising from market-related movements in these asset values is borne by the customer. The Company matches all customer unit linked investments with the appropriate assets and processes are in place to rebalance the assets held as customers enter into, or make changes to, their policies. This ensures that the Company is not invested in assets which it would otherwise not hold on its own behalf.

Hedging of investment guarantees

The Company, from time to time, sells structured products such as tracker bonds which contain investment guarantees. It is the policy of the Company to hedge all tracker guarantees with a third party. On sale of the product, it is made clear to the customer that the guarantee is being provided by the third party, and that the risk of there being a shortfall in the amount paid by the third party is borne by the customer. Any proposed customer offering with an investment guarantee must be approved by the FRC prior to launch.

Annuity matching

The matching of assets and liabilities is a technique used by the Company to hedge the movement in the annuity portfolio liability. The value of an annuity liability and an appropriately chosen bond are expected to change by the same amount given a change in interest rates. The Company holds a portfolio of bonds which are aligned to its annuity liability, such that changes to the value of the annuity liability are expected to be matched by an equal change in the value of the bonds. The matched position is updated regularly.

Avoidance of concentration risk

It is the Company's policy to invest its own assets in such a way as to avoid concentration risk. Government bond investments are diversified across the Eurozone. However, due to the overall size of the bond portfolio (approximately €1.5 billion), large exposures to individual governments can arise. The Company actively monitors changes to the value of the government bond holdings against limits as well as the outlook for the security of those holdings. The Company has taken steps in 2017 and into 2018 to reduce its largest exposures and is satisfied that the size of these individual counterparty exposures is justified given the associated risks.

In order to further diversify the Company's assets, a portfolio of diversified corporate bonds, and smaller holdings of property, equity and cash are also held.

C.4 Credit risk

Credit Risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Company in respect of loans or other financial transactions. The Company does not actively seek credit risk. However, exposures are accepted for a number of reasons. The main reasons are as follows:

- Credit risk which is accepted as a residual risk arising from strategies employed to reduce other risks, reinsurance for example
- Credit risk arising from an investment in assets for an acceptable rate of return
- Credit risk which is unavoidable, but short term in nature, arising from the day-to-day operation of the business, overnight bank exposure for example.

The Company maintains and regularly updates its credit risk policy. This policy requires that the suitability of new counterparties is reviewed and approved prior to engagement. The Company also maintains an appropriate level of understanding of changes to the risk relating to third parties as well as limits to its exposure to key counterparties such as reinsurers. While the Board retains ultimate responsibility for this risk, the responsibility for the implementation of the provisions within these policies and the day-to-day management of these risks is delegated to the Risk Committee and senior management.

Government bond investments are diversified across the Eurozone. It was noted above that the Company has a concentration of market risk attaching to Eurozone government debt due to the size of the bond portfolio. These holdings also result in a concentration of credit risk exposure. The credit ratings of all government bond holdings are monitored regularly. The FRC is tasked with performing regular reviews of these holdings, with consideration given to the credit quality of the holdings.

A concentration of credit risk can also arise through the Company's reinsurance arrangements where the Company has a large exposure to a single counterparty. This credit exposure is mitigated by collateralisation agreements where the Company has access to assets which would compensate the Company should the reinsurer fail to meet its obligations. The credit quality of reinsurers as measured by the various credit ratings agencies is also monitored on a regular basis.

Credit risk also arises as a result of exposure to banking counterparties via short term deposits of cash assets. This risk is mitigated by spreading exposures across a range of pre-approved counterparties.

C.5 Liquidity risk

Liquidity risk is the risk that the Company, though solvent, experiences difficulty in meeting its obligations as they fall due. The Company maintains and regularly updates its strategy with respect to liquidity risk within the liquidity risk policy. While the Board retains ultimate responsibility for this risk, the responsibility for the implementation of the provisions within these policies and the day-to-day management of these risks is delegated to the Risk Committee and senior management.

The Company maintains appropriate financial control processes and monitors and mitigates the potential for liquidity risk by focusing on a number of areas which are set out below. The effective management of this risk will ensure that the Company can meet its obligations to its customers on an on-going basis.

Cash investment

The Company invests an amount in short-term cash deposits as a liquidity buffer which can be redeemed at short notice. The liquidity balance is monitored on a daily basis, to ensure that this amount is sufficient, allowing for inflows and outflows.

New business

The Company currently generates more cash from the existing business than is required to pay for the costs associated with writing new business. This provides the Company with liquidity on an on-going basis.

Stress testing

The total liquidity needs in the short and medium term are tested by considering certain scenarios which would reduce the amount of cash available to the Company. If additional buffers are required to withstand a liquidity shortfall in the future, these will be identified in these scenarios.

Unit linked business

In the case of unit linked business, liquidity risk can arise when unit linked assets cannot be sold quickly enough to meet surrender values. The managers of the unit linked funds maintain a liquidity balance as appropriate to allow for surrenders. This is kept under regular review allowing for the expected inflows and outflows and taking into consideration the investment guidelines and liquidity of the funds's assets.

The Company makes a provision in the policy conditions for unit linked products that allows for the deferral of surrender payments, for a stated period of time, in circumstances where the underlying assets are illiquid.

Structured products

Where structured products are issued, the Company will ensure that the policy conditions state that the policyholder can only surrender the policy at the end of the term, and that the value will be equal to the amount received by the Company from the maturing asset. Early surrenders are not usually permitted.

Claims projection

As part of the regular annuity matching exercise referred to under Section C.3 'Market risk', the cash flows from assets and liabilities are projected into the future to identify mismatches which could result in a liquidity strain.

Income from future premiums

When the Company calculates the future fees that it expects to generate for solvency purposes it incorporates fees that are expected to arise from certain premiums that have not yet but are expected to be paid. The future expected fees from these premiums amounted to €136 million, in present value terms, at year-end 2017.This amount is expected to be available to the Company, based on our best estimate assumptions, in the future, adding to the amount of available liquid assets.

C.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes losses from across a wide spectrum of areas such as IT systems, fraud, human error, legal, business disruption, outsourcing and human resources.

Operational risks are not risks which the Company seeks to take on in the pursuit of value, but it accepts an amount of operational risk as an inevitable part of its business model.

The Company's governance of operational risk management is set out in its Operational Risk Management Framework (ORMF). The aim of the framework is to provide an effective methodology to enable appropriate operational risk management at all levels within the Company. The ORMF plays an important role in the internal control system of the Company. The purpose of the ORMF is to:

- Enable the Company to maintain a comprehensive and coordinated approach to operational risk management, given its risk profile
- Promote the use of a common language to describe the broad range of measures and activities required for effective operational risk management and measurement
- Provide clear roles and responsibilities for sound management of operational risk within the Company and within the parameters the Risk Appetite Statement.

The Company has developed indicators relating to the movement in key operational risks and the performance of key controls. These indicators, along with control testing, are the key sources of assurance that the operational risk controls are performing as expected. Risk and control indicators are becoming an increasingly important tool, even more so than traditional control testing, because of the speed with which problems can occur in the current risk environment. Therefore monitoring indicators and responding to these is likely to result in more timely intervention than responding based on control testing which is by its nature a lagging indicator of the risk profile.

Sources of operational risks which have been given particular attention by the Company in recent times are outsourcing, where third parties have been engaged to perform activities on the Company's behalf along with cyber risk and business continuity risk. These areas of risk are described in some further detail below.

Outsourcing and key providers

The Company manages its outsourcing and key provider risk within the controls set out in its outsourcing and supplier policy. The statement of policy sets out general requirements which must be met as well as contractual and service level agreement requirements and the necessary on-going oversight and monitoring. The required oversight and monitoring of outsourced and key service providers is as follows:

- Ongoing oversight commensurate with the criticality and scale of the outsourced activities, the value of the business operations and the risk involved
- Assess the risks and identify strategies for mitigating the risks
- Sufficient, reliable, consistent, timely and relevant reporting of exposure information of the Company to individual service providers is prepared on a regular basis. This includes providing the Board with an annual review of the suitability of critical or important service providers
- Procedures and controls in each relevant functional area of the Company to ensure compliance with this policy, set out in sufficient detail to allow all relevant staff understand and operate the Company's processes, procedures and controls for outsourcing.

Outsourcing can introduce a certain amount of concentration risk for the Company. The Company relies on BOIG for certain services which it outsources under service level agreements. These include services in respect of information technology (IT), internal audit, HR and certain activities relating to anti-money laundering requirements. Of these, the reliance in relation to IT services is the most critical from a risk perspective. The relationship with BOIG, for activities outsourced to them, is managed through a Master Services Agreement. There is a regular outsourcing management meeting held in which a set of key risk indicators are tracked and monitored.

Cyber risk / Information security

Cyber risk is the risk is loss or damage arising out of unauthorised access to, use of, disclosure of, disruption of, modification or destruction to information and information systems. Cybercrime refers to individuals, working alone or in organised groups, with the intention of extracting money, data or causing disruption. Cybercrime can take many forms, including the acquisition of bank account data and intellectual property, and impairing the operations of a website or service.

Cyber criminals use sophisticated and tailored techniques to infiltrate enterprises and social networks. Therefore, there is a need to understand the cyber threats and safeguard against them. These can include:

- Opportunistic or unsophisticated threats from individuals or groups
- Organised criminals striving to extort money from the Company and its customers
- Malicious activism/hacktivism and politically motivated threats
- Social engineering and data harvesting.

Cyber risk has been a key focus area for the Company in recent times. The Company has increased its resourcing and has made continuous improvements in building its defences against cyber risks, and in improving its overall understanding and governance of its management of this risk. Cyber risk, in keeping with all other risks to which the Company is subject, is managed through the Company's risk management framework with reporting into the Risk Committee and Board.

Business continuity management

Business continuity management is the Company's approach to managing the risk of business disruption, i.e. the risk of customer detriment, reputational damage and/or losses caused by a disruption to regular business processes or system failures.

A critical objective of the risk management framework is to ensure the continuity of normal business operations and services. The risks associated with business continuity are deemed a material risk within the Company's ORMF. Expected or unexpected large-scale and extreme disruptions can include:

- Natural disasters
- Pandemic
- Sabotage
- Systems failure

Were these risks to materialise they have the potential to lead to various adverse impacts on the Company, its customers and the public at large. They have the potential to directly impact the achievement of the Company's business objectives and more specifically the quality and continuity of the services the Company provides to customers, resulting in financial loss and reputational damage.

Whilst it is acknowledged that disruptions can and will occur, the Company has implemented control measures which include a detailed business continuity plan and on-going continuity testing, that minimise foreseeable impacts while enabling timely recovery within the bounds of reasonable investment in contingency and resilience arrangements.

C.7 Other material risks

Overviews of other material areas of risk for the Company are set out below.

Pension scheme risk

The Company operates a defined benefit pension schemes for a cohort of its employees. The scheme is closed to new entrants since 2006. The scope for the Company to manage the risks associated with its pension scheme obligations differs from other exposures and as such this risk is being noted here as a whole, although the risk can be broken down into constituent parts such as longevity and market risk.

The trustees of the pension scheme are entrusted primarily with the protection of the members' interests in the scheme. Decisions with respect to investment strategy and risk management made by the trustees will be made in the context of the best interests of the members. As such the Company's ability to actively change or adapt the risk profile of the scheme as a means of managing the associated risks is limited.

The outcome of risk events can impact both the value of assets and the value of liabilities of the scheme. This can lead to balance sheet impacts, in terms of any deficit arising which is reflected on the Solvency II balance sheet, but also impacts in terms of the level of required ongoing contributions.

Despite the Company's defined benefit pension scheme being closed to new entrants, it is expected that the exposure will remain material in the medium to long term.

The exposure to the pension scheme is regularly monitored and reported on alongside the Company's other risks. The exposure is also subject to stress testing, including through the ORSA process and a capital is held by the Company to protect it from the risks which are identified.

Regulatory risk

Sudden or unexpected changes in the regulatory or legal environment may result in losses for the Company or an increase in solvency requirements. This may arise from a number of sources such as interpretations of, or changes to, the Solvency II Directive or other relevant obligations, changes in definitions of the risks that the Company insures or more structural impacts on the markets in which the Company participates, for example pensions regulations. It is likely that such changes would impact the insurance industry as a whole, as opposed to being necessarily specific to the Company.

As the Company develops new products, processes and systems and employs new technologies, it is of increasing importance that the Company anticipates known regulatory developments in ensuring that it is sufficiently well placed to meet current and likely future regulatory demands. This is a key part, and base enabler, of the Company's strategy.

Key areas of focus in the current regulatory environment include:

- Pension reform
- Product oversight and governance
- Sales and advice processes
- Remuneration and incentives
- Conflicts of interest management
- Anti-money laundering
- Data Protection
- Solvency II.

Business strategy risk

Strategic risk represents a material risk for the Company either directly through specific decisions or actions or indirectly through missed opportunity. The rate of change in the external environment is marked and increasing, and over the business planning period it is expected that this will continue. The Company reviews its strategy regularly and strategic considerations are also taken into account in the ORSA process.

Special purpose property investment vehicles

The structure of the Company includes a small number of special purpose vehicles (SPVs). These SPVs were set up to hold property investments whose interest, and the risks in that interest, are wholly attributable to policyholders.

D. Valuation for Solvency Purposes

D.1 Assets

An overview of the Company's solvency balance sheet is set out in the table below:

Table D.1

Solvency II Balance Sheet	31 December 2017 €m	31 December 2016 €m
Assets (D.1)	17,545	17,016
Technical Provisions (D.2)	(16,147)	(15,639)
Other Liabilities (D.3)	(662)	(632)
Excess of Assets over Liabilities	**736**	**744**

Each of the elements above is outlined further in this section. The excess of assets over liabilities is described in more detail in section E (Capital Management)

D.1.1 Information on valuation of assets

The breakdown of the assets is set out in the table below:

Table D.1.1

Breakdown of Assets	31 December 2017 €m	31 December 2016 €m
Unit-linked assets	14,848	14,251
Other investment assets	1,788	1,867
Reinsurance recoverable	787	807
Other assets	122	91
Total Assets	**17,545**	**17,016**

The bases on which these asset categories are valued are detailed below.

D.1.2 Unit-linked and other investment assets

Total assets are €17.5 billion, of which €14.8 billion is in unit-linked funds where the investment risk is borne by policyholders. The other investment assets, €1.8 billion, covers technical provisions (other than unit-linked liabilities), the pension scheme deficit, solvency capital requirements and excess own funds.

The Company's Valuation policy sets out the basis of valuation of assets and liabilities (other than technical provisions). This policy ensures that valuation estimates of assets and liabilities are reliable and appropriate to ensure compliance under Solvency II with Article 75 of Directive 2009/138/EC of the European Parliament and Council.

The policy states that a process is in place to verify that market prices or valuation model inputs are appropriate and reliable. It also outlines that the Company will ensure that assets shall be valued at the amount for which they could be exchanged between willing parties in an arm's length transaction.

Where the valuation methods to be used require the use of International Financial Reporting Standards, as adopted by the EU Commission, the Company will ensure that the valuation approach is consistent with those accounting standards.

Where alternative valuation methods are used those methods and assumptions are documented.

Portfolio investments primarily include:

- Investment fund shares/units
- Equities
- Corporate and government bonds
- Currency and deposits.

All financial investments are classified at fair value. Financial assets are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Movement in fair value is recognised in the Income Statement.

Fair values for investments are based on quoted prices on the balance sheet date, determined from independent sources including recognised external pricing services, broker or dealer price quotations, and prices provided by valuation agents. For investments which are not listed, an independent valuation is obtained from the manager of those funds, or valuation techniques are adopted. If no realistic value can be obtained, an investment will be measured at cost less any impairment provision, as this is considered best estimate of fair value.

Derivative financial instruments include foreign exchange contracts, which include spot and forward contracts. These represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Gains and losses are recognised in the profit and loss account based on the exchange rate on date of settlement or balance sheet date.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. Loans and receivables are included at the amount of the advance outstanding at the balance sheet date, less a provision for any irrecoverable amount. This basis of valuation is viewed by the Directors as being prudent with regard to the likely realisable value.

Impairment

Investments are reviewed regularly on an individual basis to determine their impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, security held, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal.

Currency and deposits

Currency and deposits comprises cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

D.1.3 Reinsurance recoverable

The Company's Solvency II balance sheet shows technical provisions gross of reinsurance and a reinsurance recoverable asset separately. The reinsurance recoverable asset was €787 million as at 31 December 2017.

To value the reinsurance recoverable asset, cash flows are discounted using the risk-free yield curve (with any allowable adjustments), using the same assumptions as for the Best Estimate Liability (BEL), with an adjustment to allow for the expected losses due to default of the reinsurance companies.

D.1.4 Other assets

Other assets include material items such as premiums due, reinsurance receivables and cash and cash equivalents. Computer equipment and software are intangible assets on the Solvency II basis, and as such are valued at nil.

D.2 Technical provisions

The Company's technical provisions have been calculated under the principles and methodologies as laid out in the Solvency II Directive, the Delegated Regulations, and the additional guidelines and technical information provided by the European Insurance and Occupational Pensions Authority (EIOPA).

The Solvency II technical provisions of the Company are made up of:

- The unit reserves on unit-linked business
- Gross BEL, which are the policyholder liabilities other than unit reserves calculated on best estimate assumptions with no allowance for reinsurance
- Risk margin (RM), which is a margin above the BEL and is the capital cost of providing the Solvency Capital Requirement (SCR) over the lifetime of the insurance obligations
- Reinsurance Recoverable (RR), which is the amount of the BEL that relates to business ceded to the Company's reinsurance partners. On the Solvency II balance sheet, the RR is treated as an asset rather than a reduction to liabilities.

The table below summarises the Company's technical provisions by each line of business as at 31 December 2017.

Table D.2.1

Line of Business - 2017	Unit reserves A €m	Gross BEL B €m	Risk margin C €m	Total TP's (gross) D=A+B+C €m	RR E €m	Total TPs (net) F=D-E €m
Unit linked	14,657	(376)	78	14,358	-	14,358
Life (excluding unit linked)	-	1,561	74	1,635	739	896
Health	-	148	5	153	48	105
Total	**14,657**	**1,333**	**157**	**16,147**	**787**	**15,360**

Line of Business - 2016	Unit reserves A €m	Gross BEL B €m	Risk margin C €m	Total TP's (gross) D=A+B+C €m	RR E €m	Total TPs (net) F=D-E €m
Unit linked	14,077	(331)	72	13,818	-	13,818
Life (excluding unit linked)	-	1,599	86	1,684	765	920
Health	-	133	4	137	42	95
Total	**14,077**	**1,400**	**162**	**15,639**	**807**	**14,832**

D.2.1 Unit reserves

For liabilities which can be fully hedged using assets which have an observable market value, the technical provisions can be calculated as the market value of those assets. This is the case for the unit reserves on unit-linked policies where the value of the reserves is equal to the value of the underlying unit-linked assets. Policyholders bear the investment risk on these policies based on the funds selected as the policy reflects the value of the underlying assets in the fund. In this case, the technical provisions are considered to be 'calculated as a whole'.

The Company does not provide investment guarantees on its unit-linked products. There are structured products sold by the Company which have investment guarantees provided by BOIGM, and this is stated clearly in the policy conditions. Therefore the Company has neither market risk exposure to these guarantees, nor any counterparty default exposure to BOIGM.

However, the present value of future surpluses on unit-linked policies cannot be replicated by a financial instrument, and therefore this element is calculated as BEL plus RM in line with the technical provisions for all other lines of business.

D.2.2 Best Estimate Liabilities (BEL)

A deterministic model is used to calculate the best estimate cashflows on a policy-by-policy basis. The model projects forward all inflows (e.g. premiums, premium charges, management fees) and all outflows (e.g. claims, expenses) using the best estimate assumptions. The model calculates the net present value of the future cashflows based on the Solvency II discount curve to determine the BEL for each policy. There are no simplified methods used by the Company in calculating the technical provisions for any material line of business and the methods used have not changed between 2016 and 2017.

In order to perform these projections the Company needs to make assumptions around the future experience in certain business variables (e.g. the level of future claims, lapses, interest rates, investment performance etc.). These assumptions are based on the Company's best estimate of future experience using past experience, market data and expert judgement and therefore there is a level of subjectivity in setting the assumptions for the BEL. The Company updates its assumptions regularly in light of emerging experience and changing business, economic and demographic factors. Each type of product will be more significantly reliant on different assumptions. The main assumptions for each line of business are discussed below.

Unit-linked

A key element of the BEL is the expected future management fee income on the funds under management. Therefore the key assumptions for the BEL are the expected future growth in assets and the assumed lapse rates on these policies.

Life (excluding unit-linked)

This category includes predominantly annuities and non-linked protection policies. For annuity business the Company receives a single upfront payment in return for paying the policyholder an agreed amount for the remainder of his/her life. Non-linked protection policies require the policyholder to pay a regular premium, in return for which the Company provides cover in the event of death or serious illness during the term of the contract. The key assumption for annuities relates to longevity whereas the key assumptions for non-linked protection are the future level of claims and lapse rates. The Company reinsures a significant portion of the mortality, longevity and serious illness risk on annuities and non-linked protection policies.

Health

These liabilities mainly relate to future amounts payable in relation to policies that provide disability or illness-related claim payments. The future value of these claims is impacted by the inception and recovery rates. Policyholders recovering faster or slower than expected will alter the BEL.

Actual experience will differ from assumptions over time and this may result in the Company changing assumptions in the future. Therefore there is inherent uncertainty in the value of the BEL at any time, which in turn has an impact on the solvency position of the Company. The table in section C1 sets out the impact on solvency of a number of sensitivities.

D.2.3 Risk margin

The risk margin is included on top of the unit reserves and BEL to give the market value of the Company's technical provisions. The risk margin is the cost of providing the solvency capital required to support the insurance obligations over their future lifetime where the cost of capital rate is assumed to be 6% per annum. In calculating the projected SCR over the lifetime of the business, all risk modules are included with the exception of market risks. Only material non-hedgeable market risks are required to be included in the calculation.

Solvency II allows a number of different approaches to calculate the risk margin, where the most complex approach involves the full recalculation of SCR over the future lifetime of the covered business, and the simplest approach is to approximate risk margin by calculating it as a percentage of the best estimate. The Company calculates its risk margin using the second most sophisticated approach, which involves projection of future SCR at sub-module level based on a set of risk drivers. Given the nature of business written by the Company and the stability in future business plans, this approach is appropriate.

D.2.4 Reinsurance Recoverable (RR)

The Company reinsures some of its mortality and critical illness risk with a number of reinsurance partners. The Company pays a premium to the reinsurers and in return the reinsurers pay a proportion of the policyholder claims. The RR is the change in BEL to allow for these reinsurance payments. On the Solvency II balance sheet, the RR is treated as an asset rather than a reduction in liabilities.

D.2.5 Comparison of technical provisions under Solvency II and in financial statements

The technical provisions reported in the financial statements, as per Section A in this report, are prepared under the European Communities (Life Assurance) Framework Regulations, 2015. This states that technical provisions should be calculated with due regard to the actuarial principles laid down in the Insurance and Reinsurance Directive (Solvency II).

Although the financial statements are now more aligned to Solvency II, there are differences in the technical provisions calculated and this is shown in the table below. The differences in methods and assumptions result in the Solvency II technical provisions (gross of reinsurance) being lower by €483 million than those shown in the financial statements. This results in a higher net asset value under Solvency II. However, the solvency capital requirements are calculated by applying stresses to this higher net asset value (see Section E.1).

Table D.2.2

	31 December 2017			31 December 2016		
Technical Provisions (Gross of reinsurance)	**Financial statements €m**	**Solvency II €m**	**Difference €m**	**Financial statements €m**	**Solvency II €m**	**Difference €m**
Unit-linked						
- Unit Reserves (Calculated as a whole)	14,657	14,657	-	14,077	14,077	-
- Non-unit reserve/BEL	44	(376)	(420)	52	(331)	(383)
Life (other than unit-linked)	1,650	1,561	(88)	2,237	1,599	(638)
Health	151	148	(3)	199	133	(66)
Risk margin	129	157	28	-	162	162
Total Technical Provisions	**16,630**	**16,147**	**(483)**	**16,564**	**15,639**	**(925)**

There are a number of differences in the bases, methods and assumptions used in the valuation of technical provisions under the Solvency II basis, and in financial statements. The main differences are set out below:

Minimum reserves

The minimum reserve for any individual policy is zero in the financial statements. However, negative reserves are permitted under Solvency II and will arise where the expected future premiums exceed expected future claims and expenses. In addition, for unit-linked business, there is a negative BEL representing the future profits on these contracts. Therefore the total technical provisions under Solvency II are less than the surrender value of the contracts. This is not allowed in the basis for the financial statements.

Risk margin

Only insurance contracts are included in the risk margin calculation for the financial statements, whereas under Solvency II both insurance and investment contracts are captured. Investment contracts in the financial statements are measured under IAS 39 and therefore there is no cost assumed to transfer the investment obligations to a third party.

D.3 Information on valuation of other liabilities under Solvency II

Excluding technical provisions, the other material liabilities on the balance sheet as at 31 December 2017 are as follows:

Table D.3.1

Breakdown of other liabilities	**31 December 2017 €m**	**31 December 2016 €m**
Current liabilities	375	383
Deferred tax liability	49	50
Financial reinsurance and interest due on debt	26	62
Subordinated debt	160	80
Pension benefit obligations	52	56
Total other liabilities	**662**	**632**

For the valuation of other liabilities there are no variances between the bases, methods and assumptions used by the Company for Solvency II purposes and those used in financial statements other than the Deferred Income Liability (DIL), which is not allowed under Solvency II, and deferred tax.

Current liabilities include material items such as non-technical provisions, reinsurance payables, policyholders' exit tax payable, trade payables, bank overdrafts and other liabilities not shown elsewhere. Reinsurance payables consist of amounts due to reinsurers at the balance sheet date. Amounts payable are as agreed with the counterparty.

D.4 Alternative methods for valuation

Not applicable

D.5 Any other information

It is possible for companies to apply certain long-term guarantee measures such as the matching adjustment and the volatility adjustment when calculating the BEL. Similarly there are transitional measures which can apply for a period of years after the introduction of Solvency II. All these measures require approval by the CBI. The Company did not apply any such measures in the calculation of the technical provisions as at 31 December 2017.

E. Capital Management

E.1 Own funds

The Company's total eligible own funds under Solvency II are €896 million. This is a combination of the excess of assets over liabilities of €736 million, which is all Tier 1 capital, and subordinated debt of €160 million, which is classified as Tier 2. The breakdown of the Company's own funds as at 31 December 2016 and 31 December 2017 is set out in the table below:

Table E.1.1

Capital Structure	31 December 2017 €m	31 December 20116 €m
Share Capital	23	23
Share Premium	26	26
Capital Reserve	43	43
Reconciliation Reserve	645	653
Excess of assets over liabilities	**736**	**744**
Subordinated Debt	160	80
Solvency II Own Funds	**896**	**824**
Tiering of Own Funds		
Tier 1	736	744
Tier 2 - Subordinated Debt	160	80
Tier 3	-	-
Solvency II Own Funds	**896**	**824**

The Company issued subordinated debt of €80 million in November 2017, bringing the total subordinated debt to €160 million as at 31 December 2017. A dividend of €120 million was paid to Bank of Ireland Life Holdings Ltd during 2017. The net increase in own funds in 2017, after these transactions, is €72 million.

The Company invests its own funds in a combination of sovereign bonds, corporate bonds, cash, unit-linked funds and pooled property funds which are fully admissible at market value for regulatory capital purposes. The Company manages its own funds with the objective of increasing their value while maintaining significant coverage of its solvency position at all times and within the Company's risk appetite. Own funds are carefully managed within guidelines on allocation, risk, concentration, liquidity and asset liability matching. There have been no changes to the capital structure over the year.

The Company performs its ORSA at least annually. Within this process own funds are projected forward for five years, under a range of different scenarios and stresses, to give a forward looking view of the capital and solvency position of the Company. The results of the ORSA contribute to the Company's capital management plan and business strategy.

There are three tiers of capital defined by the Solvency II regulations, based on the quality and availability of the capital. All of the own funds with the exception of the subordinated debt are classified as Tier 1, the highest quality capital. The Company has no Tier 3 capital, consistent with the previous year-end.

The Company currently has €160 million of Tier 2 capital which is subordinated debt. The subordinated debt instruments have been issued to GovCo. The debt is perpetual in that there is no fixed repayment date and is repayable by the Company only under specific circumstances. The value of the Company's Tier 2 capital was €80 million last year.

Reconciliation of shareholder equity in financial statements to own funds

The Company performs the calculations for its financial statements on a different basis to Solvency II. The table below shows the difference between the shareholder equity, which is shown in the financial statements, and the excess of assets over liabilities valued under Solvency II regulations.

Table E.1.2

Reconciliation to financial statements	31 December 2017 €m	31 December 2016 €m
Shareholder equity in financial statements	**425**	**462**
Difference in technical provisions (net of reinsurance)	530	503
Deferred acquisition costs / deferred income liability	(164)	(171)
Deferred taxation	(44)	(40)
Differences in asset valuation	(10)	(9)
Excess of assets over liabilities	**736**	**744**

A description of the elements of the changes is given below:

- The key difference between the financial statements and the Solvency II balance sheet is the calculation of the technical provisions. These differences are explained in section D.2 above and also include any difference in IBNR. The technical provisions (gross of reinsurance) under Solvency II are lower than those in the financial statements by €483 million and the reinsurance recoverable asset is €47 million higher. Therefore, allowing for reinsurance, the difference in technical provisions accounts for €530 million of the change in value between the financial statements and the solvency II balance sheet.
- There is a Deferred Acquisition Costs (DAC) asset and a DIL in the financial statements, neither of which are allowable under Solvency II. Removing these leads to a reduction in net assets of €164 million
- There is a larger deferred tax liability of some €44 million, reflecting the larger net assets under Solvency II
- There is also a small difference in asset valuations of €10 million. This is the value of software in the financial statements which has a nil value for solvency purposes.

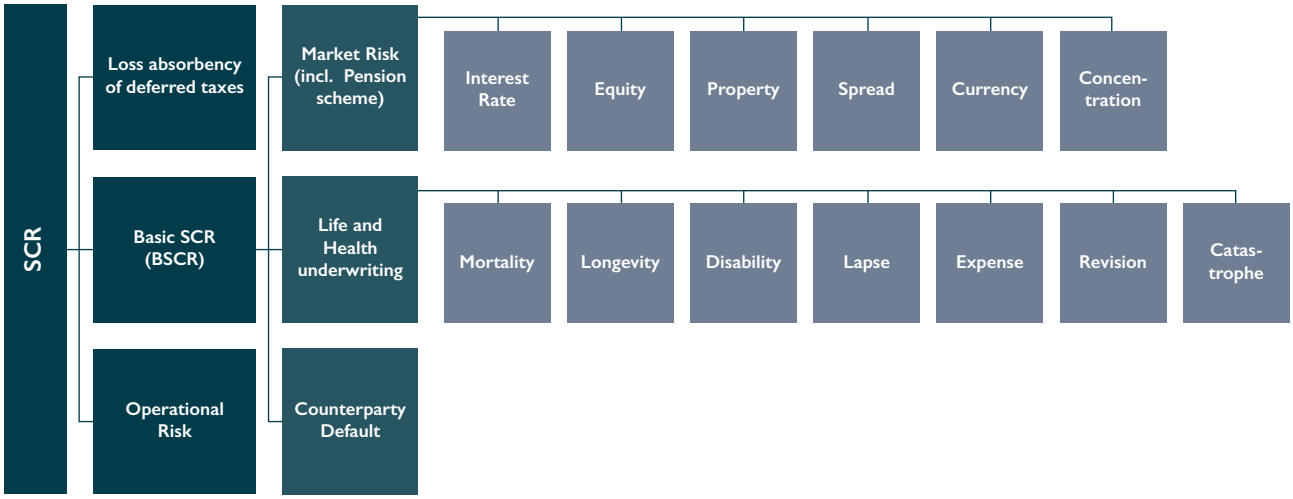
The net difference in excess of assets over liabilities is €311 million. The reconciliation reserve of €645 million is the total of the non-distributable reserve and profit and loss account in the financial statements of €334 million (see table A.2.4) plus the total of the differences described above of €311 million.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency Capital Requirement (SCR)

Solvency II requires companies to hold a risk-based SCR which is calculated by considering the capital required for the Company to withstand a number of severe scenarios. The Company uses the standard formula to calculate the SCR and the key elements that apply to the Company are set out in the diagram below:

Figure E.2.1



For each of the headings the impact of the prescribed scenario is calculated independently and then accumulated into a single figure to cover the market, life and health underwriting and counterparty default risks. An allowance for the correlations between each is then applied to give a Basic SCR (BSCR). An allowance for operational risk is then added and finally the capital requirement can be reduced to allow for the loss absorbing capacity of deferred taxes to give the total SCR. The SCR is calibrated to withstand a 1-in-200 year scenario over the next 12 months. Both the quantum of each of the shocks and the correlation factors applied are set out by EIOPA. A description of the key risks for the Company is covered in section C above.

The total SCR as at 31 December 2017 is €583 million. The breakdown by risk module is set out in the table below:

Table E.2.1

Breakdown of SCR	31 December 2017 €m	31 December 2016 €m
Market risk	342	305
Life underwriting risk	371	358
Health underwriting risk	23	17
Counterparty default risk	3	4
Total before correlation	**739**	**684**
Diversification effects	(167)	(152)
Basic SCR (BSCR)	**573**	**532**
Loss in diversification from RFF	25	23
Operational Risk	30	29
Loss absorbency of deferred taxes	(44)	(40)
Total SCR	**583**	**544**

The Company treats its staff pension scheme as a ring fenced fund for the purposes of the SCR and no diversification benefit is assumed between the risks of the staff pension scheme and the remaining entity.

The Company does not use simplified calculations for any significant part of the SCR calculations and the methodology has remained unchanged since the previous year-end in all material aspects.

All of Tier 1 capital is eligible to meet the SCR. Also, as the Tier 2 capital is less than 50% of the SCR, it too is fully eligible for the purpose of covering the SCR. The calculation of the solvency ratio is set out in the table below:

Table E.2.2

Ratio of eligible own funds to SCR	31 December 2017 €m	31 December 2016 €m
(A) Total eligible own funds to meet SCR	896	824
(B) Solvency Capital Requirement (SCR)	583	544
(C) Ratio of eligible own funds to meet SCR (C = A ÷ B)	154%	152%

Therefore the Company has eligible own funds of 1.54 times that required to cover the SCR.

E.2.2 Minimum Capital Requirement (MCR)

The MCR is a lower capital requirement which is the minimum level below which the amount of financial resources is required not to fall. It is calculated based on a simple formula, based on a percentage of technical provisions and capital at risk. The MCR is subject to a floor of 25% of SCR and a cap of 45% of SCR. The MCR as at 31 December 2017 is €148 million.

All of Tier 1 capital is eligible to meet the SCR. However Tier 2 capital can only be used to meet up to 20% of the MCR. Therefore the total eligible own funds are lower for the MCR as set out in the table below:

Table E.2.3

Ratio of eligible own funds to MCR	31 December 2017 €m	31 December 2016 €m
(A) Total eligible own funds to meet MCR	766	773
(B) Minimum Capital Requirement (MCR)	148	142
(C) Ratio of eligible own funds to meet MCR (C = A ÷ B)	519%	543%

Therefore the Company is holding eligible own funds of 5.19 times that required to cover the MCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The Company has applied the full equity stress in the calculation of the SCR and not the lower duration-based equity stress.

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

The Company uses the standard formula to calculate its SCR and does not use an internal or partial internal model or any undertaking specific parameters (USPs).

E.5 Non-compliance with the SCR and MCR

As set out in section E.2 above, the Company has sufficient eligible own funds to cover both the SCR and MCR.

E.6 Any other information

The Company did not use any of the transitional arrangements available on any of its basic own fund items. The Company has no ancillary own funds and there are no items which are deducted from own funds.

Appendix 1 – Quantitative Reporting Templates (QRTs)

(Monetary amounts in EUR thousands)

List of reported templates

List of reported templates
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 Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02 - Balance sheet

Balance sheet		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	30,395
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,757,150
R0080	*- Property (other than for own use)*	*0*
R0090	*- Holdings in related undertakings, including participations*	*0*
R0100	*- Equities*	*17,000*
R0110	*- Equities - listed*	*0*
R0120	*- Equities - unlisted*	*17,000*
R0130	*- Bonds*	*1,581,344*
R0140	*- Government Bonds*	*1,178,251*
R0150	*- Corporate Bonds*	*403,093*
R0160	*- Structured notes*	*0*
R0170	*- Collateralised securities*	*0*
R0180	*- Collective Investments Undertakings*	*74,637*
R0190	*- Derivatives*	*275*
R0200	*- Deposits other than cash equivalents*	*83,894*
R0210	*- Other investments*	*0*
R0220	Assets held for index-linked and unit-linked contracts	14,847,750
R0230	Loans and mortgages	0
R0240	*- Loans on policies*	*0*
R0250	*- Loans and mortgages to individuals*	*0*
R0260	*- Other loans and mortgages*	*0*
R0270	Reinsurance recoverables from:	787,031
R0280	*- Non-life and health similar to non-life*	*0*
R0290	*- Non-life excluding health*	*0*
R0300	*- Health similar to non-life*	*0*
R0310	*- Life and health similar to life, excluding index-linked and unit-linked*	*787,031*
R0320	*- Health similar to life*	*47,519*
R0330	*- Life excluding health and index-linked and unit-linked*	*739,512*
R0340	*- Life index-linked and unit-linked*	*0*
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	75,554
R0370	Reinsurance receivables	15,436
R0380	Receivables (trade, not insurance)	7,717
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	21,956
R0420	Any other assets, not elsewhere shown	1,960
R0500	**Total assets**	**17,544,949**

S.02.01.02 - Balance sheet (continued)

Balance sheet		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*- Technical provisions - non-life (excluding health)*	*0*
R0530	*- TP calculated as a whole*	*0*
R0540	*- Best Estimate*	*0*
R0550	*- Risk margin*	*0*
R0560	*- Technical provisions - health (similar to non-life)*	*0*
R0570	*- TP calculated as a whole*	*0*
R0580	*- Best Estimate*	*0*
R0590	*- Risk margin*	*0*
R0600	Technical provisions - life (excluding index-linked and unit-linked)	1,788,340
R0610	*- Technical provisions - health (similar to life)*	*152,970*
R0620	*- TP calculated as a whole*	*0*
R0630	*- Best Estimate*	*147,773*
R0640	*- Risk margin*	*5,197*
R0650	*- Technical provisions - life (excluding health and index-linked and unit-linked)*	*1,635,370*
R0660	*- TP calculated as a whole*	*0*
R0670	*- Best Estimate*	*1,561,452*
R0680	*- Risk margin*	*73,917*
R0690	Technical provisions - index-linked and unit-linked	14,358,299
R0700	*- TP calculated as a whole*	*14,656,810*
R0710	*- Best Estimate*	*(376,198)*
R0720	*- Risk margin*	*77,687*
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	14,251
R0760	Pension benefit obligations	52,368
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	49,041
R0790	Derivatives	455
R0800	Debts owed to credit institutions	28,422
R0810	Financial liabilities other than debts owed to credit institutions	26,088
R0820	Insurance & intermediaries payables	233,453
R0830	Reinsurance payables	24,584
R0840	Payables (trade, not insurance)	10,732
R0850	Subordinated liabilities	160,000
R0860	*- Subordinated liabilities not in BOF*	*0*
R0870	*- Subordinated liabilities in BOF*	*160,000*
R0880	Any other liabilities, not elsewhere shown	62,820
R0900	**Total liabilities**	**16,808,853**
R1000	**Excess of assets over liabilities**	**736,096**

S.05.01.02 - Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
Life		Health insurance C0210	Insurance with profit participation C0220	Unit-linked and unit-linked Insurance C0230	Other life insurance C0240	Ammunities stemming from non-life insurance contracts and relating to health insurance obligations C0250	Ammunities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations C0260	Health reinsurance C0270	Life reinsurance C0280	Total C0300
	Premiums written									
R1410	Gross	31,996	-	1,576,949	182,683	-	-	-	-	1,791,627
R1420	Reinsurers' share	9,335	-	11,218	65,675	-	-	-	-	86,229
R1500	Net	22,660	-	1,565,731	117,008	-	-	-	-	1,705,399
	Premiums earned									
R1510	Gross	31,996	-	1,576,949	182,683	-	-	-	-	1,791,627
R1520	Reinsurers' share	9,335	-	11,218	65,675	-	-	-	-	86,229
R1600	Net	22,660	-	1,565,731	117,008	-	-	-	-	1,705,399
	Claims incurred									
R1610	Gross	11,056	-	1,682,520	143,511	-	-	-	-	1,837,086
R1620	Reinsurers' share	3,951	-	10,026	79,486	-	-	-	-	93,463
R1700	Net	7,105	-	1,672,494	64,024	-	-	-	-	1,743,624
	Changes in other technical provisions									
R1710	Gross	14,749	-	580,212	(54,778)	-	-	-	-	540,183
R1720	Reinsurers' share	5,098	-	-	(29,635)	-	-	-	-	(24,536)
R1800	Net	9,650	-	580,212	(25,143)	-	-	-	-	564,719
R1900	**Expenses incurred**	**5,200**	**-**	**143,893**	**53,047**	**-**	**-**	**-**	**-**	**202,139**
R2500	**Other expenses**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
R2600	**Total expenses**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,139**

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S.12.01.02 - Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance	
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees
		C0020	C0030	C0040	C0050	C0060	C0070
PR0010	**Technical provisions calculated as a whole**		**14,656,810**	**-**	**-**	**-**	**-**
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-	-	-	-	-
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**	**-**	**-**	**(376,198)**	**-**	**-**	**1,561,452**
R0080	Total Recoverables from reinsurance /SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	-	-	-	-	739,512
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	-	-	(376,198)	-	-	821,940
R0100	**Risk margin**	**-**	**77,687**	**-**	**-**	**73,917**	**-**
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole	-	-	-	-	-	-
R0120	Best estimate	-	-	-	-	-	-
R0130	Risk margin	-	-	-	-	-	-
R0200	**Technical provisions - total**	**-**	**14,358,299**	**-**	**-**	**1,635,370**	**-**

Other life insurance		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance including unit-linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
	-	-	-	**14,656,810**	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	**1,185,254**	-	**147,773**	-	-	-	**147,773**
	-	-	-	739,512	-	47,519	-	-	-	47,519
	-	-	-	445,742	-	100,253	-	-	-	100,253
	-	-	-	**151,605**	**5,197**	-	-	-		**5,197**
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	**15,993,669**	**152,970**	-	-	-	-	**152,970**

S.23.01.01 - Own Funds

		Total	Tier 1 unrestricted	Tier 1 retricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	22,815	22,815	-	-	-
R0030	Share premium account related to ordinary share capital	68,307	68,307	-	-	-
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	-	-	-	-	-
R0050	Subordinated mutual member accounts	-	-	-	-	-
R0070	Surplus funds	-	-	-	-	-
R0090	Preference shares	-	-	-	-	-
R0110	Share premium account related to preference shares	-	-	-	-	-
R0130	Reconciliation reserve	644,974	644,974	-	-	-
R0140	Subordinated liabilities	160,000	-	-	160,000	-
R0160	An amount equal to the value of net deferred tax assets	-	-	-	-	-
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-	-	-	-	-
R0230	Deductions for participations in financial and credit institutions	-	-	-	-	-
R0290	Total basic own funds after deductions	896,096	736,096	-	160,000	-
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	-	-	-	-	-
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-	-	-	-	-
R0320	Unpaid and uncalled preference shares callable on demand	-	-	-	-	-
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-	-	-	-	-
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-	-	-	-	-
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-	-	-	-	-
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-	-	-	-
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-	-	-	-
R0390	Other ancillary own funds	-	-	-	-	-
R0400	Total ancillary own funds	-	-	-	-	-
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	896,096	736,096	-	160,000	-
R0510	Total available own funds to meet the MCR	896,096	736,096	-	160,000	-
R0540	**Total eligible own funds to meet the SCR**	896,096	736,096	-	160,000	-
R0550	Total eligible own funds to meet the MCR	765,614	736,096	-	29,518	-

S.23.01.01 - Own Funds (continued)

		Total	Tier 1 unrestricted	Tier 1 retricted	Tier 2	Tier 3
		C0010	*C0020*	*C0030*	*C0040*	*C0050*
R0580	**SCR**	**582,679**	**-**	**-**	**-**	**-**
R0600	**MCR**	**147,588**	**-**	**-**	**-**	**-**
R0620	**Ratio of Eligible own funds to SCR**	**153.79%**	**-**	**-**	**-**	**-**
R0640	**Ratio of Eligible own funds to MCR**	**518.75%**	**-**	**-**	**-**	**-**
	Reconcilliation reserve	*C0060*				
R0700	Excess of assets over liabilities	736,096	-	-	-	-
R0710	Own shares (held directly and indirectly)	-	-	-	-	-
R0720	Foreseeable dividends, distributions and charges	-	-	-	-	-
R0730	Other basic own fund items	91,122	-	-	-	-
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-	-	-	-
R0760	**Reconciliation reserve**	**644,974**	**-**	**-**	**-**	**-**
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	136,145	-	-	-	-
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-	-	-	-	-
R0790	**Total Expected profits included in future premiums (EPIFP)**	**136,145**	**-**	**-**	**-**	**-**

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	356,427	-	-
R0020	Counterparty default risk	3,342	-	-
R0030	Life underwriting risk	387,217	-	-
R0040	Health underwriting risk	24,308	-	-
R0050	Non-life underwriting risk	-	-	-
R0060	Diversification	(173,877)	-	-
R0070	Intangible asset risk	-	-	-
R0100	Basic Solvency Capital Requirement	597,419		
	Calculation of Solvency Capital Requirement			
		C0100		
R0130	Operational risk	29,670		
R0140	Loss-absorbing capacity of technical provisions	-		
R0150	Loss-absorbing capacity of deferred taxes	(44,410)		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-		
R0200	Solvency Capital Requirement excluding capital add-on	582,679		
R0210	Capital add-ons already set	-		
R0220	Solvency capital requirement	582,679		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module	-		
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	494,370		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	88,309		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	-		
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-		

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

		C0010		
	Linear formula component for non-life insurance and reinsurance obligations			
R0010	MCR_{NL} Result	-	-	-

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

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (continued)

		C0040		
	Linear formula component for life insurance and reinsurance obligations			
R0200	MCR_L Result	147,588	-	-

			Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reisurance /SPV) total capital at risk
			C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		-	-
R0220	Obligations with profit participation - future discretionary benefits		-	-
R0230	Index-linked and unit-linked insurance obligations		14,280,612	-
R0240	Other life (re)insurance and health (re)insurance obligations		922,193	-
R0250	Total capital at risk for all life (re)insurance obligations		-	40,367,365

	Overall MCR calculation	C0070
R0300	Linear MCR	147,588
R0310	SCR	582,679
R0320	MCR cap	262,205
R0330	MCR floor	145,670
R0340	Combined MCR	147,588
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	**147,588**

