

Friends First Life Assurance Company dac

Solvency and Financial Condition Report 2018

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1. INTRODUCTION

1.1. FRIENDS FIRST

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

Friends First is fully owned by Aviva Life and Pensions UK Limited (UKLAP) after being acquired from Dutch insurance group Achmea on 31 May 2018. The acquisition was approved by the Competition and Consumer Protection Commission and by the Central Bank of Ireland. FFLAC was renamed Aviva Life & Pensions Ireland (ALPI) dac on 29 March 2019.

1.2. THIS REPORT

This Solvency and Financial Condition Report (SFCR) has been prepared in line with the requirements of the Solvency II regulations, to assist the various stakeholders of Friends First Life Assurance Company dac in understanding the nature of its business, how it is managed and its solvency position. This report discloses the eligible own funds, required capital and solvency ratio of the Company according to the Solvency II Standard Formula for the period ending 31 December 2018.

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

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

1.3. EXECUTIVE SUMMARY

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

SECTION A. BUSINESS AND PERFORMANCE

This section provides information on Friends First's business, organisational structure and financial performance. It also refers to significant events during 2018, including the change of ownership of FFLAC in May 2018.

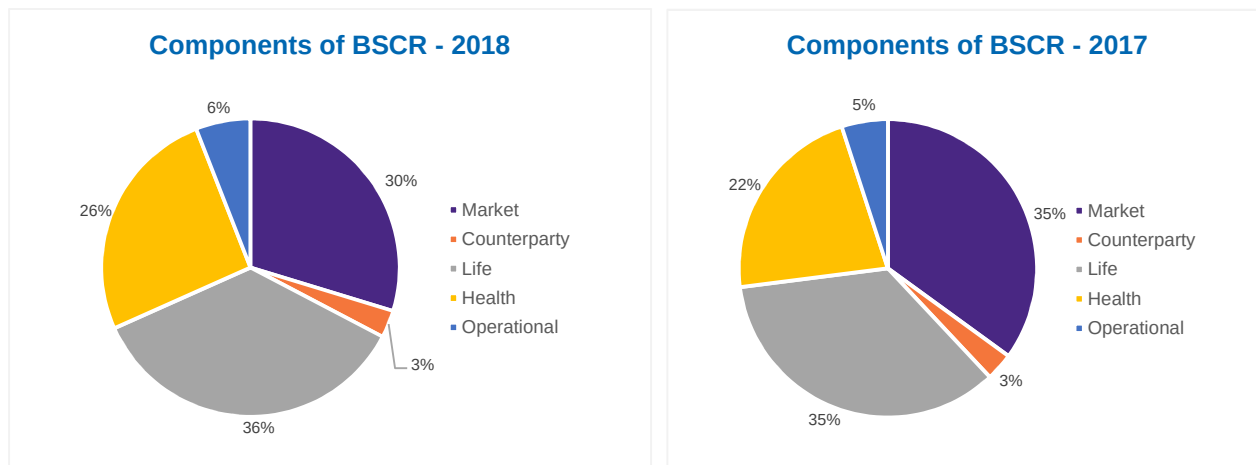
SECTION B. SYSTEM OF GOVERNANCE

The Company's governance and risk frameworks are detailed in this section of the report. There have been significant changes to these frameworks in the reporting period, following the Company's change of ownership.

SECTION C. RISK PROFILE

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

The Company's risk profile is measured by the Solvency Capital Requirement (SCR), which is calculated in accordance with the Standard Formula. The following charts provide a split of the Basic Solvency Capital Requirement (BSCR) by risk module for Year End 2018 and 2017, without allowing for diversification.



SECTION D. VALUATION FOR SOLVENCY PURPOSES

This section deals with how we value the Company's assets and liabilities for the purposes of Solvency II and shows the values of these assets and liabilities at 31 December 2018 as compared with the prior year end.

SECTION E. CAPITAL MANAGEMENT

The capital held by the Company is outlined in this section, together with the SCR.

The Company uses the Standard Formula to calculate its SCR. The Company's SCR at 31 December 2018 is €148.4m. This is covered by €245.3m of eligible capital, providing a Solvency II surplus of €96.9m and a Solvency II coverage ratio of 165%.

€ 1,000

	2018	2017	Variance
Eligible Own funds	245,258	252,831	-7,574
Required capital	148,353	160,410	-12,057
Surplus	96,905	92,421	4,484
Ratio (%)	165%	158%	8%

Business and Performance

A. BUSINESS AND PERFORMANCE

This section of the report outlines business structure, activities and performance of Friends First Life Assurance Company over the year to 31 December 2018.

A.1. BUSINESS

GENERAL

Friends First is an Irish life assurance company writing life and pensions business which has been helping our customers look after their protection, pension and investment needs for over 180 years. We are one of Ireland's most established life assurance companies with a reputation for reliability and efficiency and are committed to our approximately 250,000 Irish customers. We manage assets totaling €5 billion and generated total premiums of €634 million in 2018.

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

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

Friends First was sold by Achmea to Aviva with effect from 31st May 2018. FFLAC is now fully owned by its parent company, Aviva Life and Pensions UK Limited, which is ultimately owned by Aviva plc. Aviva is one of the largest and most secure financial services providers in the world. With over 33 million customers in 16 countries worldwide, they have been meeting the needs of their Irish customers since 1908. Today, Aviva is a 'composite insurer', which means they provide a wide range of insurance and savings products – from car, home and life insurance to pensions, investments and asset management. Aviva is the UK's largest insurer and they also have a strong international presence in Europe, Canada and Asia. Its head office is located at:

St. Helen's,
1 Undershaft,
London
EC3P 3DQ,
England

Business and Performance

The group structure is summarised in chart 1 below, while chart 2 shows the structure of Friends First Life Assurance Company dac as at 31 December 2018.

Chart 1: Group Structure - Aviva

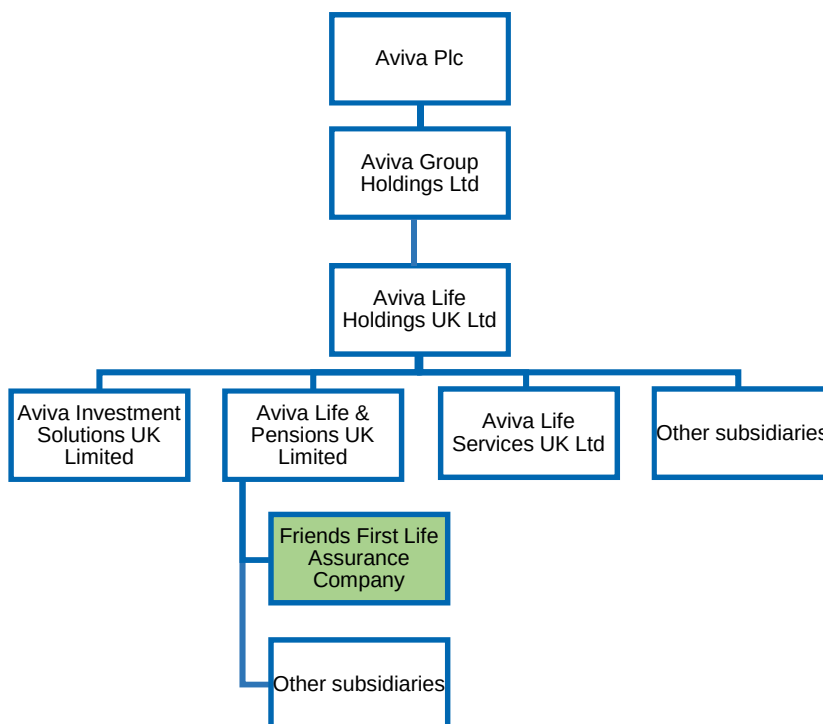
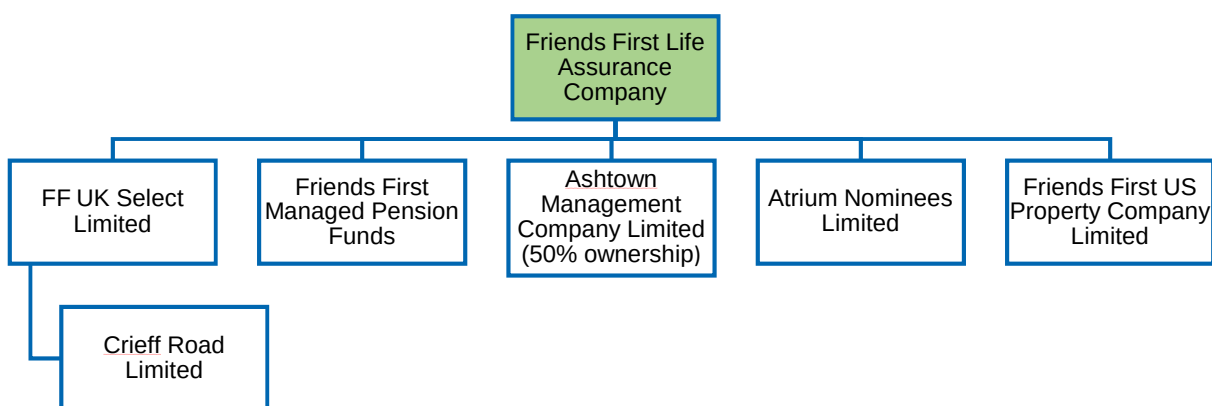


Chart 2: Group Structure – Friends First Life Assurance Company dac



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

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

Business and Performance

Aviva plc is regulated by UK Prudential Regulation Authority (PRA) with an address at:

20 Moorgate
London
EC2R 6DA
United Kingdom

Friends First's external auditor for the financial year end 2018 was PriceWaterhouseCoopers (PwC), One Spencer Dock, North Wall Quay, Dublin 1.

SIGNIFICANT EVENTS

In November 2017, the sale of Friends First Life Assurance Company dac and its subsidiaries to Aviva was announced. This purchase was subject to a 'Change of Control' application to the Central Bank of Ireland (CBI) which was granted on 23 May 2018. Following the approval, ownership of FFLAC was transferred from Aviva Group Holdings to Aviva Life and Pensions UK Limited (UKLAP) and on 31st May 2018 Friends First became a wholly owned subsidiary of UKLAP.

On 29 March 2019 an insurance portfolio transfer of a subset of business of Aviva Life and Pensions UK Limited under Part VII of the Financial Services and Markets Act 2000 was made to Friends First. The transfer took place at 22:59 on 29 March 2019 and Friends First was renamed to Aviva Life and Pensions Ireland dac (ALPI). Under the Part VII transfer, UKLAP is required to make a capital injection to ALPI dac to ensure ALPI dac is capitalised to an SCR Ratio of 150% as at the effective date. On 5 March 2019, the Company received a €200m capital contribution from Aviva Life and Pensions UK Limited in relation to this recapitalisation.

Aviva Life and Pensions Ireland dac has registered offices at One Park Place, Hatch Street, Dublin 2.

BUSINESS ACTIVITIES

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

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

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

BUSINESS DEVELOPMENT

The Irish economy experienced robust growth in 2018 and also experienced low inflation and low interest rates. Consumer spending remains strong as the economy approaches full employment. However the political landscape remains volatile as the government tries to mitigate the impact of Brexit to the Irish economy. Despite these Brexit concerns, the insurance industry experienced an increase in 2018 of 6% in new sales (excluding investment only business), measured on an Annual Premium Equivalent (APE) basis, the industry benchmark. However the impact of Brexit on the industry in 2019 remains a concern.

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

Business and Performance

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

Friends First's strategy, which is to focus on long term sustainable business, has resulted in a decrease in new business of 12% from 2017 to 2018, with increases in sales in individual income protection and group risk business more than offset by reduction in volumes in unit linked pension and investment business.

A.2. UNDERWRITING PERFORMANCE

Gross premium income (insurance contracts) for the company fell slightly to €145.7m for the year from €151.3m in 2017. Contributions to Investment Contracts also decreased to €488.0m (2017: €593.0m) mostly due to decreased sales of pension single premium products and investment bonds. Gross claims incurred for 2018 amounted to €198.7m (2017: €222.4m). Gross consideration paid out in respect of investment contracts was €340.7m in the year (2017: €352.4m).

New sales were profitable on best estimate assumptions. Value of New Business (VNB) for the full year 2018 was ahead of target (€3.3m actual vs €3.0m budget) but lower than the 2017 figure of €6.4m. The VNB margin is ahead of budget at 4.5%. Sales for the year 2018 were lower than budget, mainly as a result of unit linked single premium underperformance, but there was positive business mix.

There was an increase observed in operating expenses over the year primarily due to higher acquisition costs, provision for onerous contracts and restructuring costs. Overall, the company recorded a loss of €5.1m for the financial year (2017: €13.1m profit). The variance is explained by a lower dividend received in 2018 of €3.25m (2017: €11.5m) from Friends First Managed Pension Funds dac, restructuring costs and increases in property provisions.

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

€ 1,000						
	HEALTH		INSURANCE WITH PROFIT		UNIT LINKED	
	2018	2017	2018	2017	2018	2017
Gross written premiums	54,033	52,042	7,210	8,313	501,042	606,776
Net earned premiums	49,909	47,611	7,205	8,332	498,543	489,768
Claims incurred (net)	33,254	32,921	54,286	62,048	369,262	313,441
Expenses incurred	14,573	13,108	3,398	3,196	59,958	44,252
Other expenses	0	0	0	0	0	0
Total Expenses	14,573	13,108	3,398	3,196	59,958	44,252
	OTHER LIFE		TOTAL			
	2018	2017	2018	2017	2018	2017
Gross written premiums			71,492	77,150	633,777	744,282
Net earned premiums			45,679	53,786	601,336	599,497
Claims incurred (net)			34,005	40,771	490,806	449,181
Expenses incurred			16,444	15,640	94,373	76,196
Other expenses					0	0
Total Expenses			16,444	15,640	94,373	76,196

A.3. INVESTMENT PERFORMANCE

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

A significant portion of the Company's insurance business relates to unit-linked policies and policies written into with-profits funds.

Business and Performance

For these lines of business excess investment performance is effectively passed on to our policyholders. Outside of these lines of business the Company holds assets which are expected to perform in line with our Best Estimate Liabilities. Hence, any changes to asset values are 'matched' by changes to policyholder liabilities.

The following tables outline the investment performance of Friends First's unit-linked and non-linked investments in 2018, with a comparison to the previous year. The tables are prepared as per the guidance for QRT S09.01.

Income from UNIT-LINKED INVESTMENTS

€ 1,000

ASSET CLASS	DIVIDENDS	INTEREST	RENT	TOTAL INCOME	GAINS AND LOSSES	TOTAL 2018	TOTAL 2017
Equity and Unit Trusts	4,019	0	0	4,019	-91,198	-87,179	68,933
Fixed Income	0	3,500	0	3,500	-19,692	-16,192	9,267
Property	0	0	26,779	26,779	9,992	36,770	12,049
Cash and deposits	0	-1,431	0	-1,431	1,981	550	-2,403
Grand Total	4,019	2,069	26,779	32,866	-98,917	-66,051	87,846

Total investment income for unit-linked investments in 2018 was a loss of €66.05m in comparison to a gain of €87.85m in 2017. The main reason for this large decrease was due to unrealised gains and losses in the Equity and Unit Trusts portfolio.

INCOME FROM NON-LINKED INVESTMENTS

€ 1,000

ASSET CLASS	DIVIDENDS	INTEREST	RENT	TOTAL INCOME	GAINS AND LOSSES	TOTAL 2018	TOTAL 2017
Equity and Unit Trusts	3,250	0	0	3,250	-4,833	-1,583	17,546
Fixed Income	0	38,428	0	38,428	-23,641	14,787	5,989
Property	0	0	1,186	1,186	558	1,744	-579
Cash and deposits	0	-237	0	-237	-77	-314	-200
Grand Total	3,250	38,191	1,186	42,627	-27,993	14,634	22,756

As can be seen from the above table, total investment income for non-linked investments in 2018 was €14.63m in comparison with €22.76m in 2017, the change being largely due to unrealised gains and losses in the fixed income portfolio.

Total investment return on unit-linked and non-linked investments has decreased from €110.60m in 2017 to a loss of €51.42m in 2018.

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

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

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

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

A.4. PERFORMANCE OF OTHER ACTIVITIES

Nothing to report.

A.5. ANY OTHER INFORMATION

The Company has no investment in securitisations at the end of 2018.

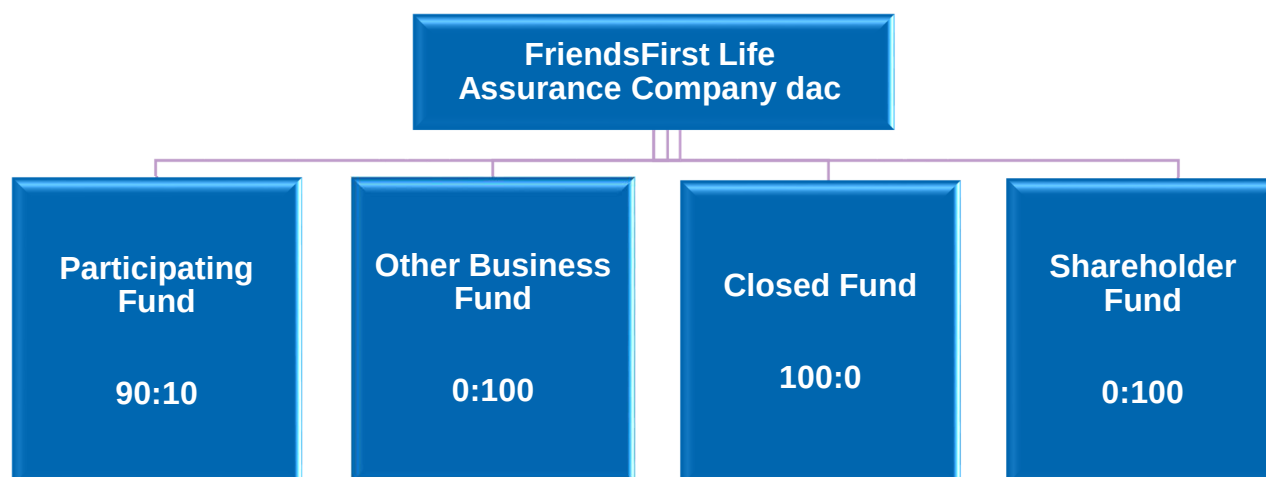
System of Governance

B. SYSTEM OF GOVERNANCE

B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

COMPANY STRUCTURE

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



Participating Fund (90:10)

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

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

Closed Fund (100:0)

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

Other Business Fund (OBF) (0:100)

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

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

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

Shareholders Fund (0:100)

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

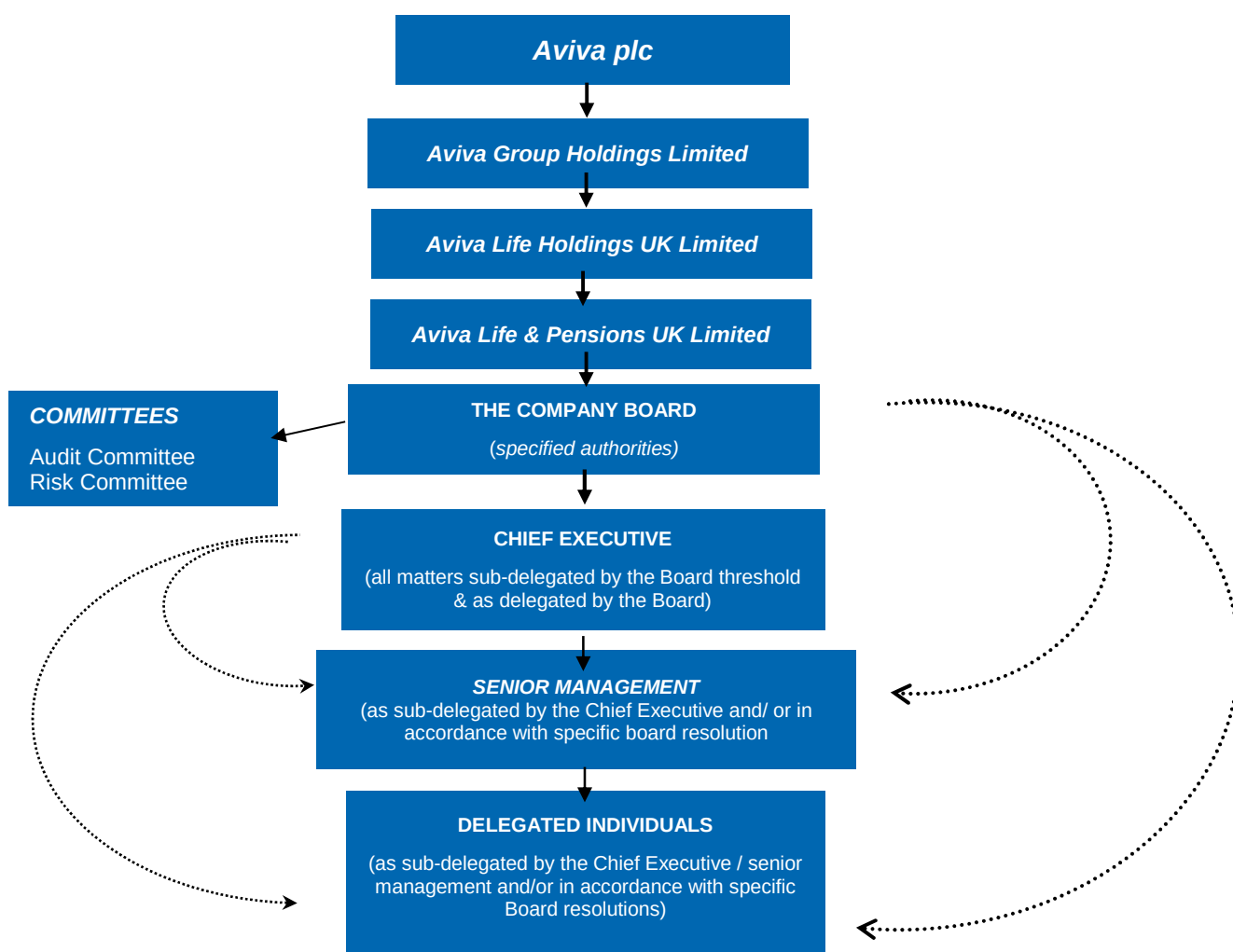
System of Governance

Organisational structure

Aviva Group Holding Limited acquired Friends First Life Assurance Company dac on 31 May 2018 and immediately transferred the company to its current parent, Aviva Life & Pensions UK Limited. We are currently establishing a governance framework for FFLAC that is consistent with that across the Aviva Group. The structure of the Company (Friends First Life Assurance Company) is represented graphically in a subsection of Chart 2 in Section A.1. The Participating, Other Business, Closed and Shareholder Funds are included in the Company. All other companies exist for the purpose of managing property assets.

Framework of the Board and its Committees

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



Delegations of authority are mechanisms by which the Company enables senior management and delegated individuals to act on behalf of the company and to fully understand their own authority levels and the limits under which they operate. This is a key element in the effective governance and management of the Company and provides formal authority to that officer to commit the Company and/or incur liabilities for the Company.

System of Governance

The Company Board

The Board is the supervisory and management body of the Company. The Board ensures that the Company is operated to maximise stakeholder value and operated in accordance with local law, the articles of association of the Company and the Board Terms of Reference (Legal Framework).

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

General Roles and Responsibilities of the Board

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

The Board has:

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

Part of the Board's responsibilities include:

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

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

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

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

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

- The effectiveness of internal controls;
- The effectiveness of the internal audit function;
- The effectiveness of the external audit process;
- The integrity of financial reporting;
- The safeguarding of the Company assets;
- The effectiveness of risk management;
- Compliance with laws, regulations and contractual obligations; and
- Compliance with Aviva Group's business standards.

System of Governance

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

The Board Terms of Reference sets out the following waterfall of delegated powers:

1. The Board reserves certain matters for its own consideration and may then delegate on an ongoing basis certain aspects of its powers to the Chief Executive, established Committees (in line with their terms of reference), Senior Management or Delegated Individuals.
2. All legally binding contracts to be approved by Aviva Ireland's Legal Function and as appropriate or required, by legal advisors appointed by the Legal Function for that purpose.
3. The Board shall be responsible for appointing a Chief Executive Officer and Senior Management with appropriate integrity and adequate knowledge, experience, skill and competence for their roles.
4. The Board shall be responsible for endorsing the appointment of people who may have a material impact on the risk profile of the Company and monitoring on an ongoing basis their appropriateness for the role.

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

- Principally, the matters which in the normal course of business are referred for a Board/Board Committee decision are set out below – this list is not exhaustive:
 - *Investment in new businesses*
 - *Disposals of businesses*
 - *Entering into new significant contracts – e.g. a new fund management arrangement, etc.*
 - *Banking contracts*
 - *Funding contracts*
 - *Adoption of the Financial Accounts and report of Head of Actuarial Function*
 - *Capital Management Policy*
 - *Bonus recommendations of the Head of Actuarial Function*
 - *The Directors' Compliance Certificate for the life businesses*
 - *New Products or Product lines*
 - *Reinsurance strategy*
 - *Conflict of Interest Policy*
 - *Board Appointment Policy*
 - *Outsourcing Policy*
 - *Compliance Policy*
 - *Gifts Policy*
 - *Incidents Policy*
 - *Anti-Fraud Policy*
 - *Fitness & Probity Policy*
 - *Reporting Policy*
 - *Risk Management Policy*
 - *Fit & Proper Policy*
- Such other matters as are considered in the view of the Board itself or Senior / Executive Management to warrant the Board's consideration.

System of Governance

Structure of the Board and its Committees

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

Director's Name	Status on Board	Membership and status on Sub-Committees
Paul Raleigh (Irish)	Chairman	-
Tom Browne (Irish)	Chief Executive Officer	-
Tracy O'Rourke (Irish)	Independent Non-Executive Director	Audit – Member Risk – Chair
David Swanton (Irish)	Independent Non-Executive Director	Audit – Chairman Risk – Member
David Elliot (British)	Non-Executive Director	Audit – Member
Tom Howard (Irish)	Non-Executive Director	Risk – Member
John Quinlan (Irish)	Non-Executive Director	-
Mark Noble (British)	Non-Executive Director	-
Maeve Sherry (Irish)	Executive Director	-

In accordance with the Directors' Compliance Statement:

- The management of the Company believe that they have established such processes and procedures as are necessary to maintain proper records and that an adequate system of controls is maintained over these transactions and records.
- These procedures and controls have been subject to audit in 2018 by both the Group Internal Audit Function on an ongoing basis and external audit by PricewaterhouseCoopers through the year-end audit process. Audit reports by both have been circulated to the appropriate management and actions are tracked and reported to the Audit Committee.
- The financial results and balance sheet position are reported on a monthly basis to the shareholder and on a quarterly basis to the Board. These monthly returns undergo a high level of review at the different stages of their production to ensure that all figures are reasonable and accurate. These reviews have been consistently performed during 2018.

Directors' Fees

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

Remuneration Policy

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

System of Governance

Principles of the Company's Remuneration Policy

- Managers and staff receive variable rewards on the basis of results only. The results will have personal, corporate and Aviva Group components.
- Performance standards will be challenging and targets stretching.
- High performance is differentiated.
- To motivate and retain staff and management a competitive market stance will be maintained for the total reward package.
- Career development opportunities are focused primarily on meeting the needs of high performers and on staff/management displaying potential for further development.
- No variable remuneration in any year may exceed the base pay in that year.

Pension Arrangements

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

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

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

Material Transactions with Shareholders during 2018

During the year the Company declared and paid dividends of €5 million to its pre-acquisition parent company, Friends First Holdings dac.

B.2. FIT AND PROPER REQUIREMENTS

Fit and Proper Policy

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

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

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

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

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

System of Governance

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

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

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

B.3.1 Overall risk management system: strategies, processes and reporting procedures

The Risk Management Framework (RMF) forms an integral part of the management and Board processes and decision-making framework across the Company. The key elements of this framework comprise risk appetite (including risk preferences and risk tolerances); risk governance, including risk policies and business standards; and the processes used to identify, measure, monitor and report risks, including the use of risk models and stress and scenario testing.

To promote a consistent and rigorous approach to risk management across all parts of the business, there is a set of risk policies and business standards which set out the requirements for risk strategy, appetite, and minimum requirements for the Company's operations.

For the purposes of risk identification and measurement, risks are usually grouped by risk type: credit, market, liquidity, underwriting and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products delivered to customers and the service to customers and distributors, which can be categorised as risks to the brand and reputation or as conduct risk.

A regular top-down risk assessment and reporting process is facilitated by the Risk Management function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This, together with the risk and control self-assessment (RCSA) process, are the main processes used to Identify Measure, Manage, Monitor, Report (IMMMR) risks. They are run separately but are complementary. The RCSA process is run by the first line, with challenge by the Risk Management function. It focuses on operational risks, which are recorded on 'iCARE', the Company's risk management system.

Risk models are an important tool in the measurement of risks and are used to support the monitoring of the risk profile and in the consideration of the risk management actions available. A range of stress tests are carried out (where one risk factor, such as interest rates, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

The Risk Management function is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the RMF. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis through the Risk Committee.

The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set for solvency and liquidity. The position against risk appetite is monitored and reported to the Risk Committee on a regular basis.

It is recognised that it is important to have an appropriate risk culture ("tone from the top"). An appropriate culture includes the effective management of exposures, adequate resourcing, effective communication, malpractice reporting, a business ethics code that is annually signed up to by employees, and a commitment to integrity, ethical behaviour and compliance.

A risk and control goal is set for senior management as part of the annual bonus plan to help drive and reward effective risk management and a robust control environment. This is assessed on an annual basis by the Risk Management function.

System of Governance

B.3.2 The 'three lines of defence model', and roles and responsibilities of key functions

Roles and responsibilities for risk management are based around the 'three lines of defence model' where employees are involved in the management and mitigation of risk. The roles of the three lines of defence each contribute to embedded risk management.

The first line: management monitoring

Management are responsible for the application of the RMF, for implementing and monitoring the operation of the system of internal control and for providing assurance to the Risk, Conduct, Investment and Audit Committees, and the Board.

The second line: Risk Management, Compliance and Actuarial functions

The Risk Management function is accountable for developing the RMF and for the quantitative and qualitative oversight and challenge of the IMMMR process. As the business responds to changing market conditions and customer needs, the Risk Management function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date.

The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks. It is also accountable for monitoring and reporting on the compliance risk profile.

The Actuarial function is accountable for actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as underwriting and reinsurance arrangements.

Refer to sections B.4. and B.6 for further details on the roles, responsibilities, authority, resources, independence and reporting lines of the Compliance and Actuarial functions respectively, and how their independence is ensured.

The third line: Internal Audit

This function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit, Conduct, Risk and Investment Committees, and the Board.

Refer to section B.5 of this report for details on the roles, responsibilities, authority, resources, independence and reporting lines of the Internal Audit Function.

B.3.3 Risk Management function

The Risk Management function is responsible for the design and implementation of the risk management system. The Risk Management function reports to the board on material risks identified, together with any other specific areas of risk requested by the board, and assists the board and management in the effective operation of the risk management system through the provision of specialist analysis and quality reviews, an aggregated view of the risk profile, and an assessment of the key risks associated with the business's strategy, major projects, strategic investments and other key decisions.

The Risk Management function has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The scope of Risk's activities extends to all legal entities, joint ventures, partnerships, outsourcing and reinsurance arrangements.

The Risk Management function operates as part of the Global Risk function, which includes the Actuarial and Compliance functions as well as Risk Management. Further information on the Compliance and Actuarial functions is set out in sections B.4 and B.6 respectively.

B.3.4 Integration of risk management into the decision making processes

All key management level decisions must have the support of the Risk Management function before proceeding and the Chief Risk Officer has the power of veto.

B.3.5 Risk management system: Own risk and solvency assessment (ORSA)

The ORSA Report is the outcome of the combined processes and procedures (collectively ORSA processes) in place to manage and assess the risk and solvency position of the Company. The goal of the ORSA process is to provide a continuous and forward-looking assessment of the short-term and long-term risks that the Company faces, or may face, ensuring that solvency requirements are met

System of Governance

at all times.

The ORSA processes comprise a number of elements of the RMF which are embedded in the business through the requirements of supporting risk policies and business standards around strategy, planning, capital management, stress and scenario testing and use of Solvency II capital in decision making.

In combination, these elements create a holistic overview of the elements of risk that may impact the Company, and which should be taken into account by management in day-to-day decision-making, in particular through the use of Solvency II capital, and ensures risk and capital management are connected.

The ORSA Report articulates the Board's formal view of the capital the Company needs to hold, given the risks currently faced by the business and how these might evolve over time, in line with delivery of the business strategy. It summarises a high level description of the key components of the underlying ORSA processes and the key outcomes from these processes.

Consistent with the three lines of defence model, first-line management is responsible for the implementation of the majority of the underlying ORSA processes.

The output from the ORSA processes is reported to the Board and the Risk Committee regularly during the year. The ORSA Report is produced annually, usually following the Board's approval of the Company's three-year Business Plan. The Chief Risk Officer is responsible for producing the ORSA Report which is reviewed and approved by the Risk Committee and the Board.

The Board has approved that for the purpose of ORSA, capital resources and requirements are measured on the basis of Solvency II requirements for determining Solvency II Own Funds and SCR.

Solvency II capital, (as a risk based capital measure), is embedded at the heart of the Company's risk and capital evaluation and is used as a key input to a wide range of business and strategic decisions. Solvency II capital is calculated using the Standard Formula.

The RMF, supported by risk policies and business standards, sets out the areas where businesses are expected to use Solvency II capital management information as part of their decision-making and risk management processes. This ensures that requirements to use Solvency II capital are embedded within the instructions of how the relevant processes (for example asset liability management or strategy and planning) are to be performed.

B.4. INTERNAL CONTROL SYSTEM

Internal Control Statement

The Company has a robust risk oversight process in place. The Operational Risk and Control Management (ORCM) framework facilitates the development of robust and reliable internal controls and ensures the following:

- Consistent identification, measurement, management, monitoring and reporting of all key risks;
- The controls are proportionate to manage risks, are adequately documented, maintained and reviewed;
- Documentation of agreed 'route to green' (RTG) plans for risks out of tolerance;
- The risk and control environment, is monitored and reported upon regularly.

The Operational Risk Committee and Operational Risk Forum have defined terms of reference and appropriate membership, with proceedings adequately recorded and actions followed up.

The Company's organisational structure includes the operation of a three lines of defence model, segregation of duties, a delegated authorities framework, and the consideration of risk management and control responsibilities when setting objectives for and reviewing the performance of all staff.

Compliance Function

The Company has a Compliance Function which is established pursuant to Solvency II and the Compliance Policy of the Company. During 2018, after the acquisition of the Company by Aviva Life & Pensions Limited and in preparedness of the Part VII transfer of

System of Governance

Aviva branch business to the Company and the increasing focus on Financial Crime matters the Compliance Function was split into a Compliance Team and a Financial Crime team. The Compliance Team is led by the Head of Compliance with a team of three staff members and the Financial Crime team is led by the Head of Financial Crime with a team of three staff members. A Compliance Monitoring team exists within the risk function which provides monitoring activities to the Company.

The primary purpose of the Compliance function is to assess and manage the business's exposure to regulatory risk. The Compliance function is an integral part of the RMF and constitutes a key part of corporate governance. The function is a critical contributor to the safe and sound operation of the business and underpins the achievement of strategic and business goals.

Three key processes comprise the Company's compliance activity:

- Conduct regulatory risk management (including monitoring regulatory developments), performed by the Compliance function (including the Financial Crime Team) and including activities such as;
 - Setting conduct and financial crime policy framework;
 - Provide advice, support, guidance and challenge on conduct and financial crime risk; and,
 - Manage conduct and financial crime regulatory engagement.
- Prudential regulatory risk management (including monitoring regulatory developments), performed by the Risk Management function and including activities such as;
 - Setting prudential regulatory risk policy framework;
 - Provide advice, support, guidance and challenge on prudential regulatory risk; and,
 - Manage prudential regulatory engagement.
- Legal developments monitoring are performed by the Legal and Company Secretarial functions.

The Compliance function (including the Financial Crime and Monitoring Teams) has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work.

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

B.5. INTERNAL AUDIT FUNCTION

The role of the Internal Audit function is defined in the Company's Internal Audit Charter. The charter sets out the purpose, activities, scope and responsibilities of the Internal Audit function within Friends First Life Assurance Company dac and the arrangements for the management of the function, including ensuring its independence from 1st and 2nd line management of the Group.

Internal Audit undertakes, objectively and independent from management, four principal activities:

- Assessing and reporting (to the Board audit, risk and governance committees and to management as appropriate) on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed.
- Assessing and reporting (to the Board audit, risk and governance committees and executive management as appropriate) on the effectiveness of management actions to address deficiencies in the framework of controls and risks that are out of tolerance.
- Investigating and reporting on cases of suspected financial crime and employee fraud and malpractice.
- Undertaking designated advisory projects for management, provided that they do not threaten Internal Audit's actual or perceived independence from management.

The Audit Committee receives quarterly control reports from Internal Audit and challenges management on the actions being taken to improve the quality of the overall control environment and the control culture across the Company.

Internal Audit must be independent from management at all times in order to be effective in performing its activities. The Internal Audit Function maintains its independence and objectivity by reporting to the Group Chief Audit Officer and the Chairman of the Company's Audit Committee.

The Audit Committee has a duty to recommend the appointment or dismissal of the local Head of Internal Audit to the Board and to participate, jointly with the Chief Audit Officer or designee, in the determination of the objectives of the Head of Internal Audit and the evaluation of their levels of achievement, including consultation with the Chief Executive Officer.

System of Governance

Internal Audit staff have no direct responsibility or authority over any operational activities reviewed and may not relieve others of such responsibilities. Internal Audit staff previously working on behalf of the Company, but outside of the Internal Audit function, may not perform or manage reviews of the Company for a period of at least one year after the end of their previous role. Internal Audit operates a policy of rotating staff to ensure that independence is maintained.

Internal Audit provides the Audit Committee with an annual confirmation of its independence, supported by an independence declaration form signed by all members of Internal Audit staff.

Internal Audit is authorised to review all areas of the Company and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.

B.6. ACTUARIAL FUNCTION

Role & Responsibilities

The Head of Actuarial Function is appointed by the Board. The Actuarial Function is accountable for actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements.

The independence of the Actuarial Function is derived through its reporting line being direct to the CEO and Board, and therefore being independent of financial functions. In co-ordinating the calculation of technical provisions, the Actuarial Function works closely with the Finance Function to agree a number of principles in respect of the calculation of technical provisions (best estimate liabilities) and capital requirements. Nevertheless to ensure independence it does not participate in their calculation. The Actuarial Function reviews and challenges the output from the Finance Function.

The Head of Actuarial Function's reporting line is direct to the CEO. The Actuarial Function works closely with Risk Management and elements of the Compliance Function to form an effective second line of defence. The Head of Actuarial Function is a member of the Executive Committee and attends the Board, Risk, Audit and Finance committees as necessary.

Authority and Resources of the Actuarial Function

The Actuarial Function has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. All persons employed by the Actuarial Function in a defined actuarial role, are subject to Aviva's Fit and Proper minimum requirements to ensure they have the required skills and knowledge to comply with their role and responsibilities.

B.7. OUTSOURCING

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

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

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

B.8. ANY OTHER INFORMATION

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

Risk Profile

C. RISK PROFILE

This section identifies the different risks to which the Company is exposed, the measures used to assess these risks, the techniques used to mitigate these risks and the processes to monitor the risk exposures. The appetite for different risks is set by our Board. We are currently establishing a risk management framework for FFLAC that is consistent with that across the Aviva Group.

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

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

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

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

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

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

As at Q4 2018, the majority of non-linked assets held were invested in Sovereign Bonds, Corporate Bonds and Cash which produce regular income to meet outgoings. The Company considers these assets to be highly liquid and of an appropriate duration. Therefore, liquidity is not considered to be a key risk. Where appropriate the Company has used Reinsurance to mitigate against risk. All remaining risks are present mainly for the benefit of policyholders and are acceptable from the Company's point of view.

C.1. UNDERWRITING RISK

DESCRIPTION

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

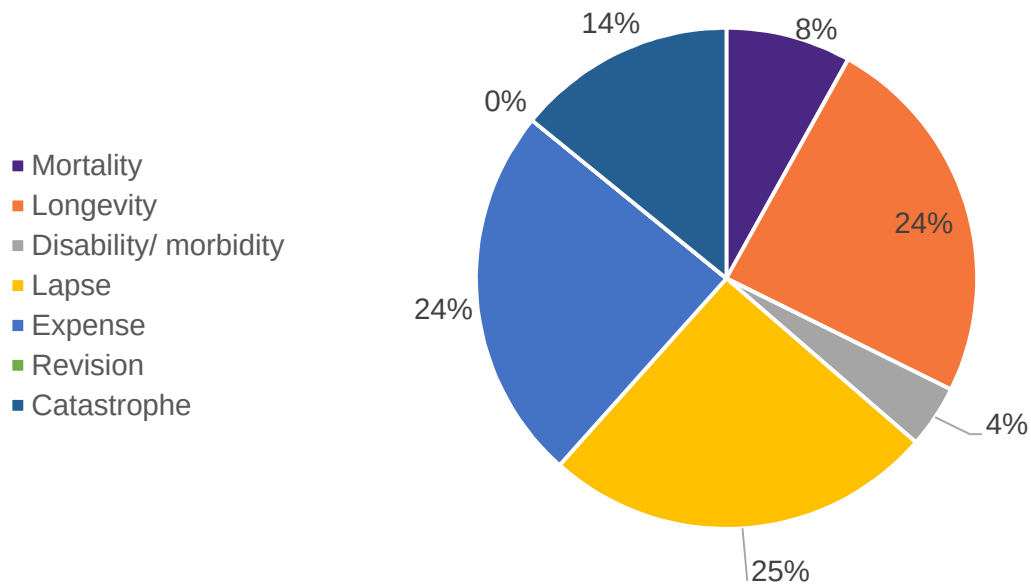
- Mortality - the risk of loss due to adverse deviations in the timing and amounts of claims due to higher than expected mortality rates
- Longevity - the risk of loss due adverse deviations in the timing and amounts of claims due to lower than expected mortality rates
- Morbidity - the risk of loss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

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

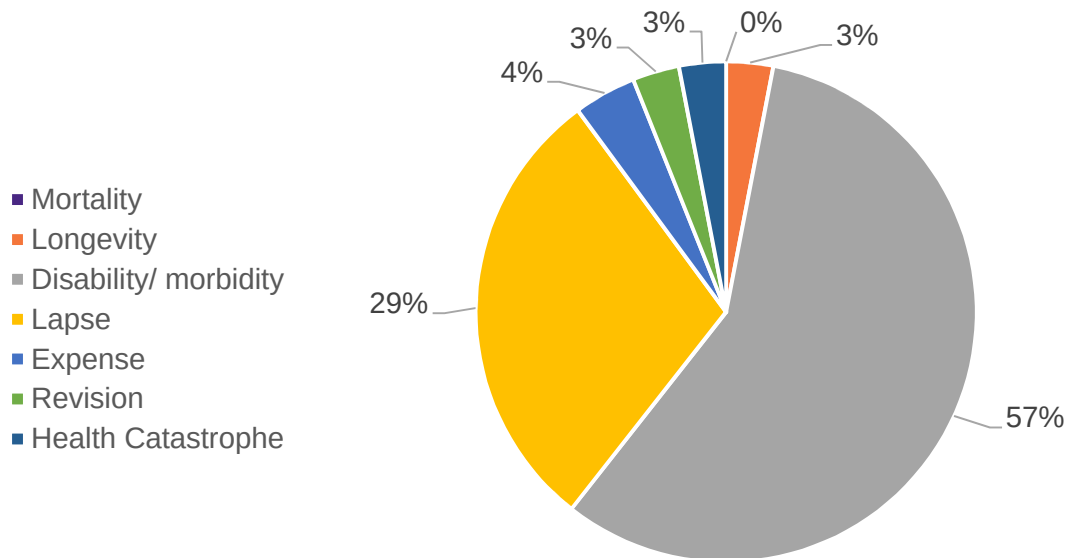
Risk Profile

The risks above have been quantified using the Standard Formula. The charts below shows the relative significance of each component on the life and health underwriting risks as at 31st December 2018.

Components of Life Underwriting Risk - 2018



Components of Health Underwriting Risk - 2018



Risk Profile

RISK MANAGEMENT

Risk Committee

See Section B.3 for details about this committee.

Own Risk and Solvency Assessment (ORSA)

The ORSA (refer to section B.3.4.) describes the processes and procedures used by Friends First to identify, measure, monitor, manage and report the risks being faced and to determine the own funds necessary to ensure that overall solvency needs are met at all times. This is required as part of Solvency II.

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

Reinsurance

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

Underwriting

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

Product Pricing

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

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

Risk Concentration

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

C.2. MARKET RISK

DESCRIPTION

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

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

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

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

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

Risk Profile

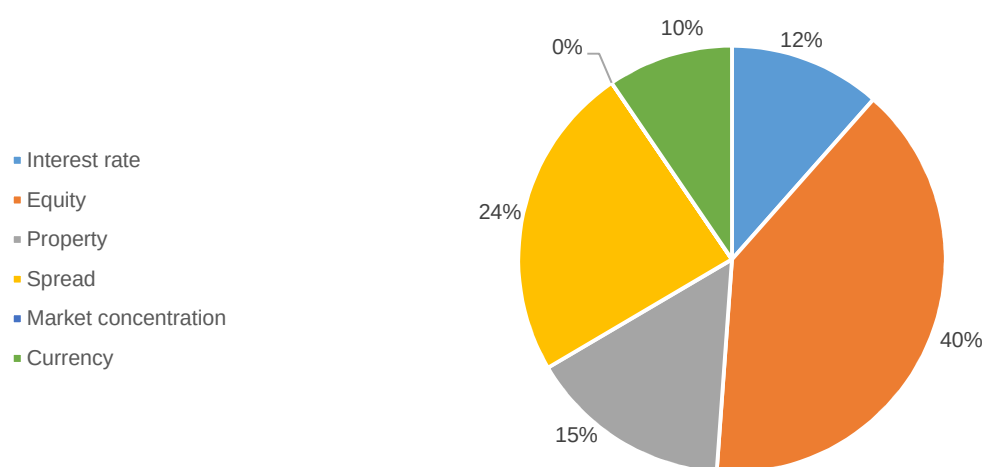
Interest rate risk - the impact of changes in interest rates on Own Funds. It relates to any mismatch of the durations of the assets and liabilities. It also includes any duration mismatch identified within the Company defined benefit pension scheme. Interest rate risk on unit linked funds is accepted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

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

The above risks have been quantified using the Standard Formula.

The chart below shows the relative significance of each risk at 31 December 2018.

Components of Market Risk - 2018



RISK MANAGEMENT

ORSA

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

Monitoring

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

Asset liability matching

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

C.3. CREDIT RISK

DESCRIPTION

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

Risk Profile

Counterparty default risk has been quantified using the Standard Formula.

RISK MANAGEMENT

Investments

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

Reinsurance

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

ORSA

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

Risk concentration

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

C.4. LIQUIDITY RISK

DESCRIPTION

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

RISK MANAGEMENT

Investments

As at 31 December 2018 the majority of the non-linked assets are invested in sovereign bonds and cash, these produce regular income to meet outgoings. These are highly liquid assets and of an appropriate duration. Adequate funds are held in cash for day to day expenses, these are reviewed regularly.

Unexpected claims

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

Stress testing

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

Risk concentration

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

Risk Profile

Expected profit included in future premiums

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

		€ 1,000
	2018	2017
EPIFP Life insurance	92,037	76,787
EPIFP % Tier 1 EOF	38%	30%

The EPIFP increased by over €15m in 2018.

C.5. OPERATIONAL RISK

DESCRIPTION

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

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

RISK MANAGEMENT

Business Continuity Plan (BCP)

The FFLAC and ALPI Business Continuity Plans (BCP) will be merged in 2019. Both BCP include an external site where the Company can relocate in the event that the office or computer systems become unusable for a period. The testing of both, which took place in 2017, indicated that the Company could bring its systems live at the external sites in a matter of hours. The next testing of these sites will take place later in 2019. The integration work will review external site requirements, taking into consideration that the Company now has a second office location in Dublin.

Cyber risk security measures

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

Regulatory changes

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

ORSA

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

Risk concentration

All of our administration is carried out in two offices in Dublin City Centre and South County Dublin, this represents a concentration risk. This has been significantly mitigated with our BCP mentioned above.

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

Risk Profile

C.6. OTHER MATERIAL RISKS

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

C.7. ANY OTHER INFORMATION

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

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

The results of these sensitivities are as follows:

Base Solvency Coverage	165%
Sensitivity description	Impact on Solvency
0.5% increase in interest rates	+3%
0.5% decrease in interest rates	-7%
Increase of 5% in expenses & 0.5% in inflation	-10%
10% increase in lapses	-1%
5% increase in mortality rates	-2%
5% increase in morbidity rates	-7%
5% decrease in annuitant mortality rates	-1%
10% decrease in equity values	-5%
10% decrease in property values	-2%

Valuation for Solvency Purposes

D. VALUATION FOR SOLVENCY PURPOSES

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

BALANCE SHEET

€ 1,000

ASSETS	2018	2017
Intangible Assets	0	0
Deferred tax assets	4,519	3,326
Property, Plant & Equipment held for own use	2,483	3,568
Investments (excl. index-linked and unit-linked funds)	1,460,367	1,517,013
Assets held for index-linked and unit-linked funds	2,942,216	2,905,283
Loans & mortgages	262	252
Reinsurance recoverables	382,643	429,451
Deposits to cedants	0	0
Insurance & intermediaries receivables	12,741	8,674
Reinsurance receivables	31,739	27,678
Receivables	4,057	1,588
Own shares	0	0
Cash and cash equivalents	49,924	55,926
Any other assets, not elsewhere shown	8,127	11,161
Total assets	4,899,078	4,963,920

BALANCE SHEET

€ 1,000

LIABILITIES	2018	2017
Technical provisions - non-life (excl. health)	0	0
Technical provisions - health (similar to non-life)	0	0
Technical provisions - health (similar to life)	209,399	225,371
Technical provisions - life (excl. health/ UL)	1,399,668	1,493,617
Technical provisions - unit-linked	2,883,363	2,844,927
Contingent liabilities	0	0
Provisions other than technical provisions	4,900	0
Pension benefit obligations	13,121	20,885
Deposits from reinsurers	0	0
Deferred tax liabilities	11,796	10,453
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	0	0
Insurance & intermediaries payables	88,992	14,434
Reinsurance payables	19,523	8,677
Payables	9,757	10,349
Subordinated liabilities	0	0
Any other liabilities, not elsewhere shown	10,302	79,135
Total liabilities	4,650,821	4,707,848
Excess of assets over liabilities	248,257	256,072

Valuation for Solvency Purposes

D.1. ASSETS

D.1.1. KEY ASSUMPTIONS AND METHODOLOGY FOR ASSET VALUATION

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

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total 2018
Investment property		5,742		5,742
Holdings in related undertakings			955	955
Equities		1,780		1,780
Bonds	1,383,664			1,383,664
Collective investment undertakings		68,226		68,226
Assets held for index-linked and unit-linked contracts	1,600,934	631,702	709,581	2,942,216
Other financial investments		262		262
Cash and cash equivalents		49,924		49,924
Total	2,700,474	1,751,300	995	4,452,769*

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

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

Valuation for Solvency Purposes

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

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

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

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

D.2. TECHNICAL PROVISIONS

D.2.1.TECHNICAL PROVISIONS GENERAL

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

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

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

Best Estimate Liability

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

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

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

Risk Margin

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

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

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Reinsurance Recoverables

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

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

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

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

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

D.2.2. TECHNICAL PROVISIONS 2018

As described above, under Solvency II the technical provisions relating to insurance liabilities are made up of the Best Estimate Liability and the Risk Margin. The table below breaks down these components as at 31st December 2018, together with the impact of Reinsurance Recoverables:

	€ 1,000			
	Health	Life	Unit-Linked	2018 Total
Best Estimate Liabilities	191,334	1,379,869	2,869,410	4,440,613
Risk Margin	18,065	19,799	13,953	51,816
Gross Technical provisions	209,399	1,399,668	2,883,363	4,492,429
Reinsurance Recoverables	43,384	339,259	-	382,643
Technical Provisions allowing for reinsurance Recoverables	166,015	1,060,409	2,883,363	4,109,787

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

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

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

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

Expense assumptions include policy maintenance expenses and investment expenses.

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

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

BASIC RISK FREE INTEREST RATE TERM STRUCTURE (RFR)

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

Valuation for Solvency Purposes

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

VOLATILITY ADJUSTMENT

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

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

The Volatility Adjustment for the Euro at year end 2018 was determined by EIOPA as 0.24% (end of 2017 it was 0.04%).

TECHNICAL PROVISIONS EXCLUDING VOLATILITY ADJUSTMENT

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

	€ 1,000		
	Including Volatility adjustment	Excluding Volatility adjustment	Impact Volatility Adjustment
Technical provisions minus recoverables from reinsurance	4,109,787	4,115,882	-6,095
Technical provisions – non-life (excluding health)	N/A	N/A	N/A
Technical provisions – health (similar to non-life)	N/A	N/A	N/A
Technical provisions – health (similar to life)	166,015	169,321	-3,306
Technical provisions – life (excluding health and index-linked and unit-linked)	1,060,409	1,062,711	-2,301
Technical provisions – index-linked and unit-linked	2,883,363	2,883,851	-488
Technical provisions – non-life (excluding health)	N/A	N/A	N/A

The Volatility Adjustment reduces net technical provisions by €6.1m in total (€3.3m reduction for Health, €2.3m reduction for Life and €0.5m reduction for Unit-Linked).

D.2.4. UNCERTAINTY ASSOCIATED WITH THE TECHNICAL PROVISIONS

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

Assumptions

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

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

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

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Model

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

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

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

Data

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

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

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

The table below shows the differences between the financial statements and Solvency II liabilities, for each material line of business as at 31 December 2018:

	€ 1,000			
	Health	Life	Unit-Linked	2018 Total
Gross Financial Statements Liabilities	295,679	1,617,576	2,969,432	4,882,687
Adjustment for Solvency II	-86,280	-242,037	-58,853	-387,169
Technical Provisions	209,399	1,399,668	2,883,363	4,492,429
Gross BEL	191,334	1,379,869	2,869,410	4,440,613
Risk Margin	18,065	19,799	13,953	51,816

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

- In valuing the liabilities shown in the financial statements a valuation interest rate is used which is based on the yields of the assets held. Under Solvency II a risk-free yield (as prescribed by EIOPA) is used.
- Under Solvency II all liabilities are valued using best estimate assumptions. However, liabilities in the financial statements include margins to allow for adverse experience.
- The Solvency II liabilities include an allowance for the risk associated with them (the 'Risk Margin'). This is not included in the valuation of liabilities in the financial statements.
- Under Solvency II the discounted present value of all cashflows (up to the contract boundary) is included; the resulting liability may be negative or positive. In the financial statements the liability on any policy is subject to a floor of zero.
- For Unit-linked and With-Profits business, the inclusion of all future cashflows will reflect profits arising from these lines of business – asset management charges (in the case of unit-linked) and shareholder transfers (in the case of with-profits). These future profits are not recognised in the financial statements and the liabilities are effectively set equal to the assets.

For more information on the comparison of financial statement and Solvency II liabilities, see section E.1.4 below.

Valuation for Solvency Purposes

D.3. OTHER LIABILITIES

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

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

D.3.1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

A provision is recognised when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Outlined below are the "Other Provisions" shown in the Solvency II balance sheet for year end 2018 and 2017. The figures have been discounted to their net present value of future cash flows.

	€ 1,000	
	2018	2017
Other Provisions as at 31 December	4,900	0

During the year provision was made for an onerous lease in relation to an own use property. A restructuring provision was also established during 2018.

D.3.2. CONTINGENT LIABILITIES

The Company assesses at each reference date whether "contingent liabilities" are to be recognised. Based on these assessments contingent liabilities are zero at the end of 2018 and also at prior year end, both for Solvency II purposes and in the financial statements.

D.3.3. PENSION BENEFIT OBLIGATIONS

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

	€ 1,000	
	2018	2017
Pensions Benefit Obligations	13,121	20,885

The decrease in the value for pension benefit obligations is primarily due to special contributions made by the employer of €15.1m which were partially offset by the effect of actuarial losses €7.3m increasing the value of future liabilities of the scheme.

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

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

Valuation for Solvency Purposes

D.3.4. PAYABLES

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

	€ 1,000	
	2018	2017
Payables from direct insurance	15,497	14,434
Payables on reinsurance	19,523	8,677
Claims accepted in relation to non in-force contracts	73,495	70,758
Creditors	-	1,262
Taxes	9,757	9,087
Total	118,272	104,218

D.3.5. ANY OTHER LIABILITIES

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

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

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

	€ 1,000	
	2018	2017
Accruals and deferred income	7,146	6,342
Other	3,156	2,035
Total	10,302	8,377

D.3.6. DEFERRED TAXES

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

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

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

	€ 1,000	
	2018	2017
Deferred tax assets	4,519	3,326
Deferred tax liabilities	-11,796	-10,453
Net deferred tax liability/asset	-7,277	-7,127

Valuation for Solvency Purposes

D.4. ALTERNATIVE METHODS FOR VALUATION

The Company does not use alternative valuation techniques.

D.5. ANY OTHER INFORMATION

Nothing to report.

Capital Management

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

E.1.1. CAPITAL ADEQUACY POLICY

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

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

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

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

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

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

E.1.2. ELIGIBLE OWN FUND

Own funds represents the excess of the value of the assets over the value of the technical provisions plus other liabilities. The Company's own funds total €245m at 31 December 2018. The table below shows a breakdown of the Company's own funds at both 31st December 2018 and 31 December 2017.

	€ 1,000	
	2018	2017
Ordinary share capital (gross of own shares)	96,559	96,559
Share premium related to ordinary share capital	0	0
Preference shares	0	0
Share premium related to preference shares	0	0
Reconciliation reserve	148,699	156,272
Subordinated liabilities	0	0
An amount equal to the value of net deferred tax assets	0	0
Available own funds to meet SCR	245,258	252,831
Available own funds to meet MCR	245,258	252,831
Eligible own funds to meet SCR	245,258	252,831
Eligible own funds to meet MCR	245,258	252,831

There was a €7.6m fall in own funds during 2018.

Capital Management

	€ 1,000	
	2018	2017
Tier 1 capital	245,258	252,831
Tier 2 capital	0	0
Tier 3 capital	0	0

Tier 1 capital

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

Tier 2 capital

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

Tier 3 capital

Tier 3 capital includes any other capital that does fall into the tier 1 and tier 2 categories, including net deferred tax asset. Tier 3 is the lowest quality capital. In 2018, as for 2017, the deferred tax liabilities were greater than the deferred tax assets, therefore the net deferred tax asset is zero.

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

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

Reconciliation reserve

	€ 1,000	
	2018	2017
Excess of assets over liabilities	248,257	256,071
Own shares (held directly and indirectly)	0	0
Foreseeable dividends, distributions and charges	0	0
Other basic own fund items	- 96,559	-96,559
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-3,000	-3,239
Reconciliation reserve	148,699	156,272

E.1.3. OWN FUND RESTRICTIONS/DEDUCTIONS

We do not calculate an SCR for the NM Defined Benefit pension scheme (this is a simplification in line with EIOPA guidance). As a result, this means the full amount of the NM Defined Benefit pension scheme surplus (€3m) is restricted and cannot be used to cover the SCR of the Company.

Capital Management

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

The Company's financial statements are completed on a different valuation basis to Solvency II. The table below shows the difference between the equity in the financial statements and the Solvency II own funds as at 31 December 2018 and December 2017.

	€ 1,000	
	2018	2017
Equity attributable to Equity holder	162,937	178,654
Valuation differences		
- In respect of assets	-221,637	-215,819
- In respect of technical provisions	390,258	372,089
- In respect of other liabilities	-83,301	-78,853
Total of valuation differences	85,320	77,417
Total SII excess of assets over liabilities	248,257	256,071

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

E.1.5. SOLVENCY RATIO

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

There are restricted own funds of €3m (see E.1.3 for details).

SOLVENCY RATIO			€ 1,000
	2018	2017	Variance
Eligible Own funds	245,258	252,831	-7,574
Required capital	148,353	160,410	-12,057
Surplus	96,905	92,421	4,484
Ratio	165%	158%	8%

IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO				€ 1,000
	Including Volatility Adjustment	Excluding Volatility Adjustment	Impact Volatility Adjustment	
Eligible Own funds	245,258	239,162	6,095	
Required capital	148,353	152,991	-4,639	
Surplus	96,905	86,171	10,734	
Ratio	165%	156%	9%	

Capital Management

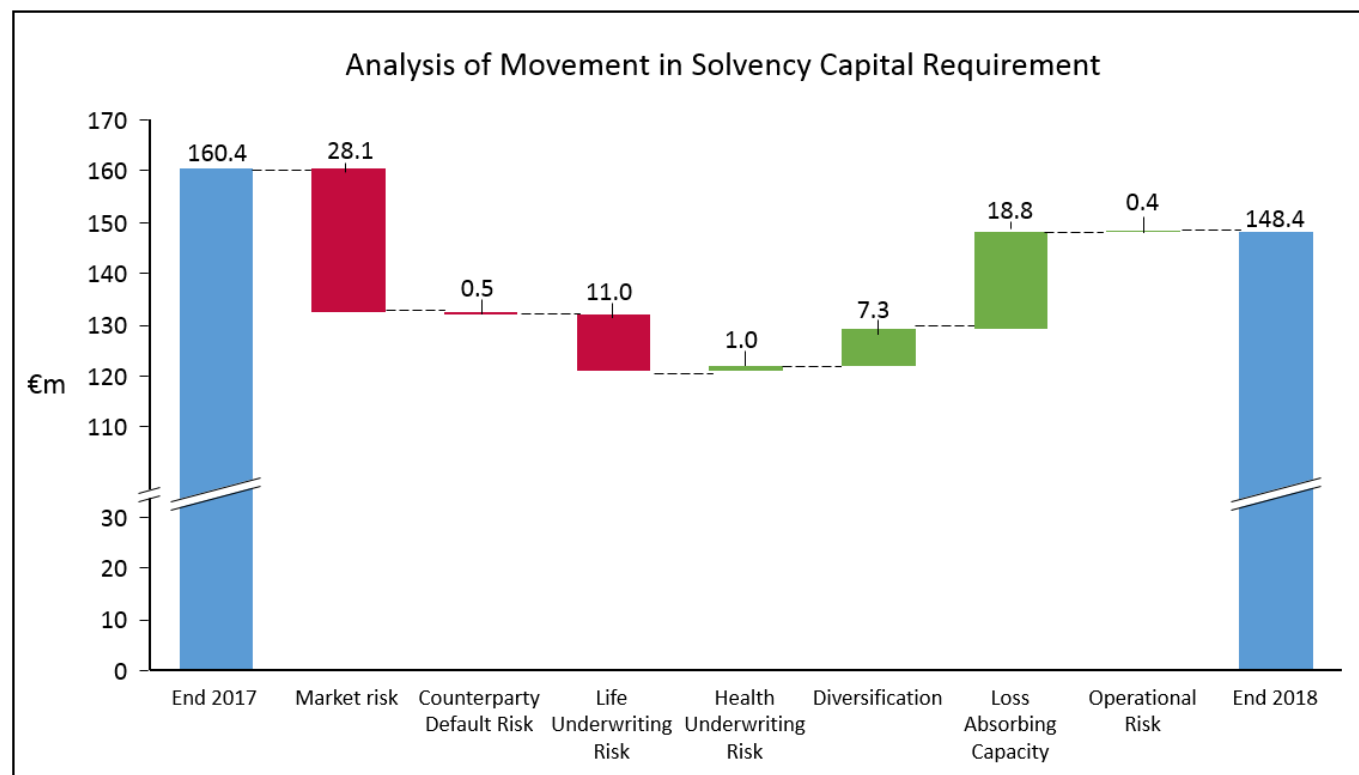
E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1. SOLVENCY CAPITAL REQUIREMENT

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

SOLVENCY CAPITAL REQUIREMENT			€ 1,000
	2018	2017	Variance
Market risk	76,385	104,522	-28,137
Counterparty default risk	7,203	7,661	-458
Life Underwriting Risk	93,367	104,337	-10,970
Health Underwriting Risk	66,268	65,270	998
Non-life underwriting risk	0	0	0
Diversification	-61,297	-68,587	7,290
Intangible asset risk	0	0	0
Basic Solvency Capital Requirement	181,927	213,203	-31,276
Operational risk	14,267	13,895	371
Loss-absorbing capacity technical provisions	-47,841	-66,689	18,848
Loss-absorbing capacity deferred taxes	0	0	0
Loss-absorbing capacity expected profits	0	0	0
Solvency Capital Requirement	148,353	160,410	-12,057

The SCR reduced by approximately €12m. A graphical illustration of this reduction is as follows:



Capital Management

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

- **Market risk:** Overall the market risk reduced by €28.1m. This was mainly due to a decrease in equity risk of €22.8m largely driven by a large fall in the equity dampener (leading to a 8.24% reduction in the shock) and a fall in asset values. There was also a reduction of €4.5m in interest rate risk and a reduction of €2.5m in currency risk.
- **Counterparty Default Risk (CDR):** There has been a reduction in Counterparty Default Risk of €0.5m, mainly due to reductions in cash holdings and reinsurance asset.
- **Life risks:** Overall the life risks decreased by €11.0m. This is largely due to improved modelling for Guaranteed Annuity Option adjustments and reinsurance on the Longevity Shock, as well as changes to the reinsurance treaty for Group Life products.
- **Health risks:** Health risk has increased by €1.0m. This was mainly due to an increase in New Business.
- **Diversification:** Diversification has decreased by €7.3m during the year.
- **Loss Absorbing Capacity of Technical Provisions (LACTP):** Loss Absorbing capacity of Technical Provisions increased by €18.8m. This reflects the reduced shocks in the Participating and Closed funds, which can be absorbed by changes to benefits.
- **Operational risk:** Operational risk increased by €0.4m, mainly due to an increase in the Unit-Linked expenses in the Other Business fund. This was slightly offset by lower technical provisions in the Participating and Closed funds.

Capital Management

E.2.2. MINIMUM CAPITAL REQUIREMENT

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

The table below shows a comparison of the MCR to the own funds as at 31 December 2018 and 31 December 2017.

	2018	2017	Variance
Eligible Own Funds to cover MCR	245,258	252,831	-7,574
MCR	58,719	61,921	-3,202
Eligible Own Funds / MCR	418%	408%	9%

€ 1,000

The MCR has decreased by €3m during 2018.

E.2.3. USE OF SIMPLIFIED CALCULATIONS

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

E.2.4. UNDERTAKING SPECIFIC PARAMETERS

We do not use undertaking specific parameters.

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

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

E.4. INTERNAL MODEL INFORMATION

The Company does not use an internal model.

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

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

E.6. ANY OTHER INFORMATION

Nothing to report.

CAUTIONARY STATEMENT

This announcement contains, and we may make other verbal or written 'forward-looking statements' with respect to certain of Aviva's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. Aviva believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local and international political, regulatory and economic conditions; market developments and government actions (including those arising from the referendum on the UK's membership of the European Union); the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events on our business activities and results of operations; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; regulatory approval of extension of use of the Group's internal model for calculation of regulatory capital under the European Union's Solvency II

rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC') and acquired value of in-force business ('AVIF'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties, including joint ventures; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of fluctuations in share price as a result of general market conditions or otherwise; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business, including decreased demand for annuities in the UK due to changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, the policies, decisions and actions of government or regulatory authorities in the UK, the European Union, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see the Annual report and accounts. Aviva undertakes no obligation to update the forward looking statements in this announcement or any other forward-looking statements we may make. Forward-looking statements in this report are current only as of the date on which such statements are made.

This Solvency and Financial Condition Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Appendices: Quantitative Reporting Templates

The following pages contain Annual Quantitative Reporting Templates (QRTs) for Friends First Life Assurance Company dac as at 31st December 2018. All figures are presented in thousands of Euro with the exception of ratios that are in decimal. Please note that totals may differ from the component parts due to rounding. All items disclosed are consistent with the information provided to the regulators privately.

The following Individual QRTs are publicly disclosed:

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

APPENDIX 1: BALANCE SHEET

(S.02.01.02)

Assets

Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-linked
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not yet paid in
Cash and cash equivalents
Any other assets, not elsewhere shown
Total Assets

	Solvency II value
	C0010
R0030	0
R0040	4,519
R0050	0
R0060	2,483
R0070	1,460,367
R0080	5,742
R0090	955
R0100	1,780
R0110	0
R0120	1,780
R0130	1,383,664
R0140	1,027,169
R0150	356,495
R0160	0
R0170	0
R0180	68,226
R0190	0
R0200	0
R0210	0
R0220	2,942,216
R0230	262
R0240	262
R0250	0
R0260	0
R0270	382,643
R0280	0
R0290	0
R0300	0
R0310	382,643
R0320	43,384
R0330	339,259
R0340	0
R0350	0
R0360	12,741
R0370	31,739
R0380	4,057
R0390	0
R0400	0
R0410	49,924
R0420	8,126
R0500	4,899,078

Liabilities

	Solvency II value
	C0010
Technical provisions – non-life	R0510 0
Technical provisions – non-life (excluding health)	R0520 0
TP calculated as a whole	R0530 0
Best Estimate	R0540 0
Risk margin	R0550 0
Technical provisions - health (similar to non-life)	R0560 0
TP calculated as a whole	R0570 0
Best Estimate	R0580 0
Risk margin	R0590 0
Technical provisions - life (excluding index-linked and unit-linked)	R0600 1,609,067
Technical provisions - health (similar to life)	R0610 209,399
TP calculated as a whole	R0620 0
Best Estimate	R0630 191,334
Risk margin	R0640 18,065
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650 1,399,668
TP calculated as a whole	R0660 0
Best Estimate	R0670 1,379,869
Risk margin	R0680 19,799
Technical provisions – index-linked and unit-linked	R0690 2,883,363
TP calculated as a whole	R0700 0
Best Estimate	R0710 2,869,410
Risk margin	R0720 13,953
Contingent liabilities	R0740 0
Provisions other than technical provisions	R0750 4,900
Pension benefit obligations	R0760 13,121
Deposits from reinsurers	R0770 0
Deferred tax liabilities	R0780 11,796
Derivatives	R0790 0
Debts owed to credit institutions	R0800 0
Financial liabilities other than debts owed to credit institutions	R0810 0
Insurance & intermediaries payables	R0820 88,992
Reinsurance payables	R0830 19,523
Payables (trade, not insurance)	R0840 9,757
Subordinated liabilities	R0850 0
Subordinated liabilities not in BOF	R0860 0
Subordinated liabilities in BOF	R0870 0
Any other liabilities, not elsewhere shown	R0880 10,303
Total Liabilities	R0900 4,650,821
Excess of Assets over Liabilities	R1000 248,257

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

(S.05.01.02.02)

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	54,033	7,210	501,042	71,492	0	0	0	0	633,777
Reinsurers' share	R1420	4,124	5	2,499	25,813	0	0	0	0	32,441
Net	R1500	49,909	7,205	498,543	45,679	0	0	0	0	601,336
Premiums earned										
Gross	R1510	54,033	7,210	501,042	71,492	0	0	0	0	633,777
Reinsurers' share	R1520	4,124	5	2,499	25,813	0	0	0	0	32,441
Net	R1600	49,909	7,205	498,543	45,679	0	0	0	0	601,336
Claims incurred										
Gross	R1610	39,943	57,835	371,277	72,547	0	0	0	0	541,602
Reinsurers' share	R1620	6,690	3,549	2,015	38,542	0	0	0	0	50,796
Net	R1700	33,254	54,286	369,262	34,005	0	0	0	0	490,806
Changes in other technical provisions										
Gross	R1710	-2,711	41,906	-24,975	42,199	0	0	0	0	56,418
Reinsurers' share	R1720	2,879	-2,033	0	44,843	0	0	0	0	45,690
Net	R1800	-5,590	43,938	-24,975	-2,644	0	0	0	0	10,729
Expenses incurred	R1900	14,573	3,398	59,958	16,444	0	0	0	0	94,373
Other expenses	R2500									0
Total expenses	R2600									94,373

APPENDIX 3: LIFE AND HEALTH SLT TECHNICAL PROVISIONS

(S.12.01.02)

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical Provisions - TOTAL

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			Contracts without options and guarantees	Contracts with options or guarantees	
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0150	C0160	C0170	C0180	C0210
R0010												
R0020												
R0030	727,518		2,837,980	31,430		652,351	0	4,249,279		191,334	0	191,334
R0080	21,200		0	0		318,058	0	339,259		43,384	0	43,384
R0090	706,317		2,837,980	31,430		334,293	0	3,910,021		147,950	0	147,950
R0100	1,178	13,953			18,621			33,751	18,065			18,065
R0110												
R0120												
R0130												
R0200	728,695	2,883,363			670,973			4,283,031	209,399			209,399

APPENDIX 4: IMPACT OF LONG TERM GUARANTEES AND TRANSITIONAL MEASURES

(S.22.01.21)

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	4,492,429			15,375	
Basic own funds	R0020	245,258			-6,095	
Eligible own funds to meet Solvency Capital Requirement	R0050	245,258			-6,095	
Solvency Capital Requirement	R0090	148,353			4,639	
Eligible own funds to meet Minimum Capital Requirement	R0100	245,258			-6,095	
Minimum Capital Requirement	R0110	58,719			1,665	

APPENDIX 5: OWN FUNDS

(S.23.01.01)

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	96,559	96,559			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	148,699	148,699			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	245,258	245,258			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	245,258	245,258			
R0510	245,258	245,258			
R0540	245,258	245,258			
R0550	245,258	245,258			
R0580	148,353				
R0600	58,719				
R0620	165.32%				
R0640	417.68%				

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve
Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	C0060	
R0700	248,257	-
R0710		-
R0720		-
R0730	96,559	-
R0740	3,000	-
R0760	148,699	-
		-
R0770	92,037	-
R0780		-
R0790	92,037	-

APPENDIX 6: SOLVENCY CAPITAL REQUIREMENT

- FOR UNDERTAKINGS ON STANDARD FORMULA (S.25.01.21)

Market risk-
Counterparty default risk
Life underwriting risk
Health underwriting risk
Non-life underwriting risk
Diversification
Intangible asset risk
Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk
Loss-absorbing capacity of technical provisions
Loss-absorbing capacity of deferred taxes
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module
Total amount of Notional Solvency Capital Requirement for remaining part
Total amount of Notional Solvency Capital Requirements for ring fenced funds
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios
Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	76,385		
R0020	7,203		
R0030	93,367		
R0040	66,268		
R0050	0		
R0060	-61,297		
R0070	0		
R0100	181,927		

	C0100
R0130	14,267
R0140	-47,841
R0150	0
R0160	0
R0200	148,353
R0210	0
R0220	148,353
R0400	0
R0410	123,756
R0420	24,596
R0430	0
R0440	0

APPENDIX 7: MINIMUM CAPITAL REQUIREMENT

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

Linear formula component for non-life insurance and reinsurance obligations

MCR _{NL} Result		C0010
	R0010	0

Medical expense insurance and proportional reinsurance
 Income protection insurance and proportional reinsurance
 Workers' compensation insurance and proportional reinsurance
 Motor vehicle liability insurance and proportional reinsurance
 Other motor insurance and proportional reinsurance
 Marine, aviation and transport insurance and proportional reinsurance
 Fire and other damage to property insurance and proportional reinsurance
 General liability insurance and proportional reinsurance
 Credit and suretyship insurance and proportional reinsurance
 Legal expenses insurance and proportional reinsurance
 Assistance and proportional reinsurance
 Miscellaneous financial loss insurance and proportional reinsurance
 Non-proportional health reinsurance
 Non-proportional casualty reinsurance
 Non-proportional marine, aviation and transport reinsurance
 Non-proportional property reinsurance

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
R0020		
R0030		
R0040		
R0050		
R0060		
R0070		
R0080		
R0090		
R0100		
R0110		
R0120		
R0130		
R0140		
R0150		
R0160		
R0170		

Linear formula component for life insurance and reinsurance obligations

MCR _L Result		C0040
	R0200	58,719

Obligations with profit participation - guaranteed benefits
 Obligations with profit participation - future discretionary benefits
 Index-linked and unit-linked insurance obligations
 Other life (re)insurance and health (re)insurance obligations
 Total capital at risk for all life (re)insurance obligations

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
R0210	635,814	
R0220	70,503	
R0230	2,869,410	
R0240	482,136	
R0250		12,356,026

Overall MCR calculation

	C0070
Linear MCR	R0300 58,719
SCR	R0310 148,353
MCR cap	R0320 66,759
MCR floor	R0330 37,088
Combined MCR	R0340 58,719
Absolute floor of the MCR	R0350 3,700
	C0070
Minimum Capital Requirement	R0400 58,719

