Solvency and Financial Condition Report of

Monument Insurance dac ("MIDAC")

and

Monument Assurance dac ("MADAC")

2018

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Appendices

Executive Summary

This is the Solvency and Financial Condition Report ("SFCR") for Monument Insurance dac ("MIDAC") and Monument Assurance dac ("MADAC") referred to collectively as ("the Company") for the year ended 31 December 2018. Comparative numbers are for the 14 month period ended 31 December 2017. The purpose of the SFCR is to meet the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35.

This report quotes all figures in 000's as per Article 2 of ITS 2015/2452.

Business Information

MIDAC, a non-life insurance company (previously known as Barclays Insurance (Dublin) dac), and MADAC, a life assurance company (previously known as Barclays Assurance (Dublin) dac) are authorised and regulated by the Central Bank of Ireland ("CBI"). The Company underwrites payment protection insurance ("PPI") and stand-alone income protection insurance (MIDAC only). All premiums are received from contracts underwritten from the Republic of Ireland to cover risks located in the United Kingdom.

The current portfolio of the Company is a closed book comprising of life and non-life protection risks to Barclays customers in the UK written on a Freedom-of-Services basis under EU law.

Single premium payment protection insurance ("PPI") products were removed from sale with effect from 31 January 2009. The remaining PPI products were closed to new business in 2010 and replaced with a stand-alone regular premium income protection product. This was subsequently closed to new business in November 2012.

On 1 March 2017, the Company as then owned by Barclays PLC ("Barclays") was sold to Monument Re Limited ("Monument Re") and were rebranded to MIDAC and MADAC. Following this, on 12 April 2017 MIDAC acquired MADAC from Monument Re.

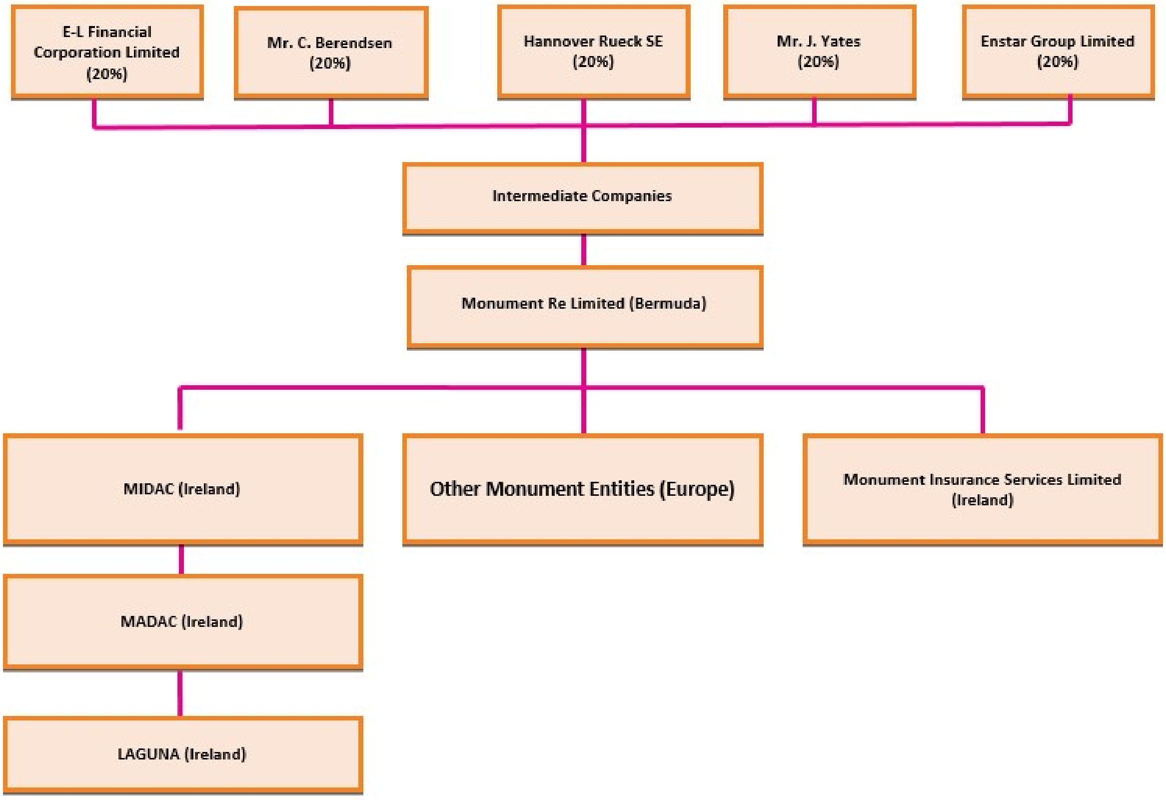
From 1 July 2017, all staff were transferred to Monument Insurance Services Limited ("MISL") and services recharged to the Company.

On 29 August 2017 MADAC acquired Laguna Life dac ("Laguna"), as a subsidiary operation, from the Enstar Group, a leading global insurance company, which comprises of a closed book of term life protection risks, as part of Monument Re's strategy of acquiring books in run-off.

The business strategy of the Company is:

- To focus on running off the existing closed book of policies c. 240,000 in force at 31 December 2018 (31 December 2017: c. 353,000) and ensuring that high quality customer service remains a priority.
- The Group's strategy is to acquire and consolidate books of life assurance operations in the European market and the Company may play an active role in this in the future.

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



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

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland, the Benelux region and Isle of Man; and
- Reinsurance of annuity business.

Performance

As part of the transfer of the Company to Monument Re, the Company has now aligned to Monument Re's reporting period. The current accounting year end date of the Company is 31 December and this report is for the year ended 31 December 2018 with prior year comparatives for the 14 month statutory period ending 31 December 2017. Copies of the Company's financial statements may be obtained from the Companies Registration Office in Ireland. All figures in this report are denominated in GBP (£'000).

The Company's results for the period are shown below in section A. Business and Performance. The business continues to perform in line with expectation across all portfolios with an underwriting profit for the reporting period of £2,940 in MIDAC (2017: £3,634) and £936 in MADAC (2017: £814). The decrease in profits of MIDAC between the two periods is due to the run-off of the business in line with expectations. The decrease in premium for MADAC is offset by an increase in claims and a decrease in expenses.

The Company does not propose to pay a dividend for the year ended 31 December 2018. A dividend was paid to Barclays in February 2017 (MIDAC £8,000, MADAC £6,000) prior to the acquisition by Monument Re.

The Company paid a £28,528 dividend to Monument Re in October 2017, following a £28,528m (€32,000) dividend received from Laguna in October 2017.

In 2017, following an impairment review of the cost of investments in subsidiaries following payment of the dividend to Monument Re the Company impaired its investment in subsidiaries (£15,913 in MIDAC, and £19,731 in MADAC). There were no impairments recorded in 2018.

System of Governance

The Company has established a system of governance which is appropriate to the Company's business strategy and operations. There is clear delegation of responsibilities, reporting lines and allocation of functions through documented committee terms of reference and key function charters. The system of governance includes requirements relating to fitness and probity of persons responsible for key functions, remuneration practices and outsourcing activities. Since July 2017, the Company has outsourced a significant portion of its operations and governance arrangements to the services company, MISL. MIDAC, MADAC and Laguna Life DAC (a wholly-owned subsidiary of MADAC) , are effectively jointly managed as one company, with a common Board and organisational structure.

Risk Profile

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

Valuation for Solvency Purposes

The Company's balance sheet shows the majority of assets are held in subsidiaries, individually approved money-market funds and cash deposits of very short duration, which is consistent with the nature and term of the underlying liabilities. All assets and liabilities have been valued in accordance with Solvency II valuation principles and there is no material difference to the valuation principles used in the Company's financial statements.

Capital Management

The structure of the Company's Own Funds comprises of share capital, investments in subsidiaries and retained earnings. The capital management policy focuses on ensuring that there is sufficient capital at all times to meet the regulatory solvency requirements. The Company's solvency requirements are calculated using the standard formula set by the European Insurance and Occupational Pension Authority (EIOPA). The following table summarises the Company's Own Funds and solvency position at 31 December 2018.

£'000	MIDAC 2018	MIDAC 2017	MADAC 2018	MADAC 2017
Eligible Own Funds to cover Regulatory Solvency Requirement	33,499	18,365	29,547	9,634
Regulatory Solvency Requirement	11,832	10,814	10,656	3,283
Excess Own Funds above Regulatory Solvency Requirement	21,667	7,551	18,891	6,351
Solvency Ratio	**283%**	**170%**	**277%**	**293%**

The Regulatory Solvency Requirement for MIDAC is the Solvency Capital Requirement (SCR) (2017: SCR). For MADAC, it is also the SCR (2017: the absolute monetary Minimum Capital Requirement (AMCR)).

A. Business and Performance

A.1 Business Information

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

Monument Insurance dac ("MIDAC") (previously known as Barclays Insurance (Dublin) dac) and Monument Assurance dac ("MADAC") (previously known as Barclays Assurance (Dublin) dac) referred to collectively as "the Company" are designated activity companies incorporated in the Republic of Ireland in 1997 as private companies limited by shares. The Company is authorised and regulated by the Central Bank of Ireland ("CBI").

The Company previously owned by Barclays PLC ("Barclays") was purchased by Monument Re Limited ("Monument Re") a company domiciled in Bermuda on 1 March 2017. Following this on 12 April 2017 MIDAC acquired MADAC from Monument Re.

Name and registered office of the Company is:

Monument Insurance dac
Europa House
Block 9
Harcourt Centre
Harcourt Street
Dublin 2

Monument Assurance dac
Europa House
Block 9
Harcourt Centre
Harcourt Street
Dublin 2

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

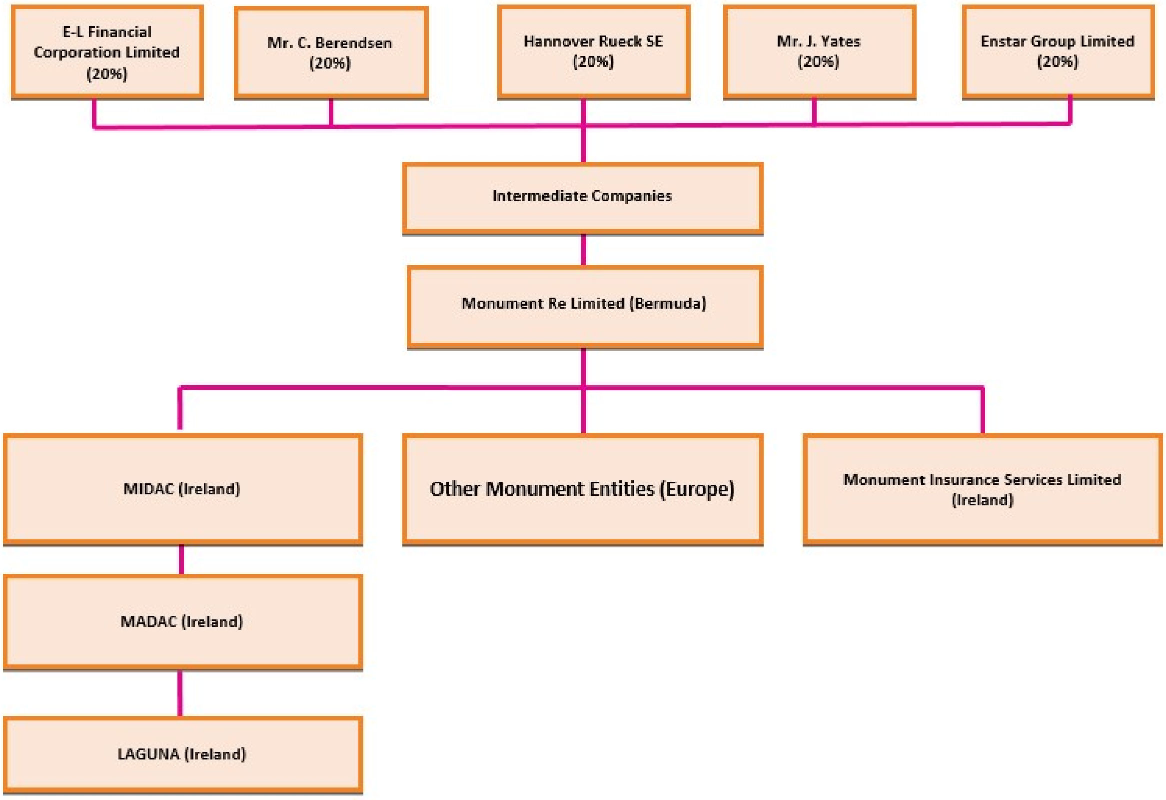
Local Supervisor:
Central Bank of Ireland
Insurance Supervision Division
New Wapping Street
North Wall Quay
Dublin 1

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

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

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1

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



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

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

- Acquisition of linked savings and protection portfolios based mainly out of the key distribution centres, namely, Ireland, Benelux region and Isle of Man; and
- Reinsurance of annuity business.

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

On 29 August 2017 MADAC a subsidiary of Monument Re acquired Laguna Life dac (“Laguna”) a subsidiary of the Enstar Group.

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

In 2018, Monument Re built upon the success of 2017 with the completion of four transactions and the signing of another five transactions.

- On 28th March 2018, the Monument Re completed the acquisition of ABN AMRO Life Capital

Belgium S.A. (“AALCB”), a Belgian Life insurance company in run-off, following receipt of regulatory approval by the National Bank of Belgium. AALCB was subsequently renamed to Monument Assurance Belgium N.V. (“MAB”). On that same date, Monument Re established a Group service company, Monument Insurance Belgium Services Sprl in Belgium, to provide services to the Group’s regulated entities in the Benelux region and to also provide services to other Monument Group entities.

- On 19th June 2018, Laguna entered in to an agreement to acquired a run-off portfolio of linked and traditional business from MetLife Europe Designated Activity Company (“MetLife”), an Irish incorporated entity. This transaction was initially done through reinsurance to Monument Re. In accordance with the approval of the Irish High Court, the portfolio has transferred, as of the 1st April 2019, into Laguna in Ireland with the terms and conditions unchanged.
- On 28th September 2018, following receipt of regulatory approval, the Laguna completed the acquisition of a run-off portfolio of flexible premium retail life insurance contracts from Ethias S.A. (“Ethias”), known as the FIRST A Portfolio. In accordance with the authorisation by the National Bank of Belgium, the FIRST A portfolio has transferred into Laguna in Ireland with the terms and conditions unchanged except for the loss of Belgian state guarantee. Ireland does not maintain an equivalent system of guarantee.
- On 2nd October 2018, following receipt of regulatory approval by the Commissariat aux Assurances (“CAA”), the Monument Re completed the acquisition of Aspecta Assurance International Luxembourg S.A. (“Aspecta”), a life insurance undertaking based in Luxembourg with branches in Germany, Italy and Spain. Aspecta specialised in unit-linked single premium products targeted towards high net-worth individuals as well as in unit-linked regular premium products for the retail market and it ceased writing new business at the end of 2010. After completion, Aspecta was renamed as Monument Assurance Luxembourg S.A. (“MAL”).

In addition to the above completed transactions, Monument Re has also signed agreements in respect of the following transactions below. The financial results of these transactions are not included in this report because they either remained subject to regulatory approval at the reporting date or completed after the reporting date.

- On 29th June, 2018, Monument Re signed the acquisition of Robein Leven N.V. and its subsidiaries from Amerborgh Financial Services B.V. Robein Leven is a closed life insurer domiciled in the Netherlands with traditional and unit-linked products. This transaction received regulatory approval on 18th March 2019.
- On 10th October 2018, the Monument Re signed the acquisition of a run-off portfolio of traditional life and credit life business from Alpha Insurance S.A., a Belgian composite insurance company and a wholly-owned subsidiary of Enstar Group Limited. Upon receipt of regulatory approvals, the portfolio will transfer to Monument Assurance Belgium NV, the Belgian carrier of the Monument Re Group.
- On 21st December 2018, Monument Re signed the acquisition of Nordben Life and Pension Insurance Co Limited (“Nordben”) from BenCo Insurance Holding B.V., which is owned 89.96% by Storebrand Livsforsikring AS. This transaction establishes the Company’s presence in Guernsey and remains subject to customary closing conditions, including receipt of regulatory approval.

In addition to the above completed transactions, Monument Re has also signed agreements in respect of the following transactions below. The financial results of these transactions are not included in this report because they either remained subject to regulatory approval at the reporting date or completed after the reporting date.

- In January 2019, the Monument Assurance Belgium signed the acquisition of a further traditional savings portfolio in Belgium that remains subject to receipt of regulatory approvals.
- On 26th March 2019, the Laguna entered into an agreement to acquire the €140,000 portfolio of Irish annuities from Rothesay Life Plc. The acquisition has been structured initially as reinsurance to Monument Re and is expected to be followed by a Part VII transfer of the portfolio to Laguna, subject to regulatory and court approvals.
- On 27th March 2019, the Laguna signed a definitive agreement to acquire Inora Life Designated Activity Company ("Inora") from Societe Generale S.A. The closing of the transaction is subject to regulatory approval. Inora is a life insurer domiciled in Ireland which has ceased all new activity since 2012 but still manages a portfolio of unit-linked insurance products. The transaction will have no impact on Inora clients and policyholders.

These transactions further support the Company's strategy to build and grow its Ireland and Benelux platforms as well as develop opportunities in a number of other territories e.g. in Guernsey.

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

MADAC is a 100% subsidiary of MIDAC, who in turn is wholly owned by Monument Re. On 29 August 2017 MADAC purchased Laguna, such that it is wholly owned by MADAC.

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

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

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

The following table summarises how the benefits provided under Payment Protection Insurance ("PPI") and income protection policies are classified under Solvency II Line of Business.

	SII Line of Business	Benefits Provided under PPI and Income Protection Policies
MIDAC	**A: Non-Life Insurance Obligations** 12: Miscellaneous Financial Loss	Involuntary Unemployment Carer Cover Purchase Protection
	D: Life Insurance Obligations 29: Health SLT [1]	Accident & Sickness Critical Illness Permanent & Total Disability
MADAC	**D: Life Insurance Obligations** 32: Other Life Insurance	Life
	D: Life Insurance Obligations 29: Health SLT [1]	Accident & Sickness Critical Illness Permanent & Total Disability

[1] The Company writes critical illness and accident and sickness business which have exposure to biometric risks (disability and critical illness). Claims are projected by applying claims frequency and recovery rates to sums assured, an approach that is more akin to life assurance methods than non-life insurance methods, which often use loss ratios. These risks are classified as "Health SLT" under Solvency II (SLT being an abbreviation of "similar to life techniques").

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

In May 2017 Monument Re established a group services company, Monument Insurance Services Limited ("MISL"), to provide services to the Monument entities. Existing employees of MIDAC and MADAC transferred employment to MISL on agreed terms and conditions with effect from 1 July 2017. Following the transfer of staff to MISL, the Company entered into a Management Services Agreement ("MSA") with MISL. The MSA enables MISL to provide a full suite of services to the Company including oversight of the services provided by external parties from July 2017. This arrangement will enable the Company to continue to operate in an effective manner, meeting both policyholder and regulatory obligations.

The fee structure in place with MISL is on a fee per policy basis ("per policy fee"). The Company's operating expenses (excluding commission) comprise of fixed expenses incurred directly by each entity and a per policy fee payable to MISL. This is a change from the previous arrangements that were largely based on a fixed level of expenses.

Historically the Company was a contributor to the Barclays Bank Irish Retirement and Life Assurance Plan, which was a funded defined benefit scheme. Prior to the sale of the business to Monument Re the defined benefit pension liability was transferred to Barclays Bank PLC and de-recognised by the Company. In 2017, this resulted in a cost to the P&L of £1,358 in MIDAC and £1,358 in MADAC, with income of £3,131 in MIDAC and £3,131 in MADAC being recognised in the Statement of other comprehensive income ("OCI").

A.2 Underwriting Performance in the reporting period against the prior year

The Company's financial statements are prepared in accordance with Generally Accepted Accounting Practice in Ireland (local GAAP) including Financial Reporting Standards FRS102 and FRS103.

The following tables present the balance on the technical account (underwriting performance) as reported in the Company's financial statements for the year ended 31 December 2018. Prior year comparatives are for the 14 month reporting period ending 31 December 2017, both on an aggregate level and by Solvency ll line of business.

The overall profitability of the Company remains positive with underwriting profit for the period of £2,940 for MIDAC (2017: £3,634) and £936 for MADAC (2017: £814). The key trends are:

- Net written premiums as expected have continued to decrease due to the book being in run-off.
- Claims incurred have also decreased due to the book running off however the loss ratio has increased compared to the prior period at 30% in MIDAC for 2018 (2017: 27%) and 7% in MADAC (2017: 4%). The increase reflects increases in claim incidence, claim size and reduced recoveries.
- Total operating expenses are predominantly made up of variable expenses (acquisition costs) which are declining in line with the book running off. 2018 expenses are for the 12 months ended 31 December 2018 whereas the 2017 comparatives are for the 14 month period ended 31 December 2017.
- The decrease in costs experienced in 2018 are due to 2017 operating expenses including a one-off cost to the P&L relating to the de-recognition of the Defined Benefit pension scheme in February 2017 (£1,358 MIDAC, £1,358 MADAC).

MIDAC £'000	2018 Misc FL (2)	2018 Health SLT	2018 Total	2017 Misc FL (2)	2017 Health SLT	2017 Total
Net written premium	11,866	10,418	22,284	17,292	15,064	32,356
Net earned premium	11,938	10,457	22,395	17,448	15,112	32,560
Net claims incurred	(2,535)	(4,179)	(6,714)	(3,840)	(4,913)	(8,753)
Total operating expenses	(7,456)	(5,308)	(12,764)	(11,210)	(8,989)	(20,199)
Investment return	12	11	23	14	12	26
Underwriting profit	**1,959**	**981**	**2,940**	**2,412**	**1,222**	**3,634**

MADAC £'000	2018 Health SLT	2018 Life	2018 Total	2017 Health SLT	2017 Life	2017 Total
Net written premium	0	8,377	8,377	(1)	12,402	12,401
Net earned premium	22	8,444	8,466	90	12,496	12,586
Net claims incurred	4	(605)	(601)	150	(702)	(552)
Net change in OTP (1)	5	1	6	35	8	43
Total operating expenses	0	(6,936)	(6,936)	(133)	(11,134)	(11,266)
Investment return	0	1	1	0	3	3
Underwriting profit	**31**	**905**	**936**	**143**	**671**	**814**

1) Net Change in Other Technical Provisions has been abbreviated to Net Change in OTP
(2) Solvency II Line of Business Miscellaneous financial loss has been abbreviated to Misc FL

A.3 Investment Performance

A.3 (a) Income and expenses

The following table summarises the investment performance of the Company as reported in the Company's financial statements.

The 2017 net investment return of the Company is driven by dividend income

- MADAC received £28,528 dividend payment from Laguna
- MIDAC received £28,528 dividend payment from MADAC

The interest income earned by the Company is immaterial due to the asset classes chosen.

Investment Income by asset Class £'000	MIDAC 2018	MIDAC 2017	MADAC 2018	MADAC 2017
Cash deposits	12	32	1	6
Collective investment undertakings	59	23	14	6
Bond interest income	24	-	5	-
Total interest income	93	55	20	12
Dividend income	-	28,528	-	28,528
Investment management expenses	(2)	(40)	-	(21)
Investment gains and losses	(18)	-	(5)	-
Net investment return	**75**	**28,543**	**15**	**28,519**

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

Not applicable.

A.3 (c) Investments in securitisation

Not applicable.

A.4 Other material income and expenses

There are no other material income and expenses in the Company's financial statements other than what has been reported in this section.

A.5 Other material information

In 2018, MIDAC made a capital contribution of £14,718 to its subsidiary MADAC. MADAC in turn made a €20,000 capital contribution to its subsidiary Laguna Life dac to capitalise the entity for the purchase of the First A Portfolio from Ethias.

In 2017, following an impairment review of the cost of investments in subsidiaries, the Company made the following impairment losses on the cost of investment in subsidiaries:

- MADAC £19,731
- MIDAC £15,913

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

B. SYSTEM OF GOVERNANCE

B.1 General Information on the system of governance

B.1 (a) Structure of administrative, management or supervisory body

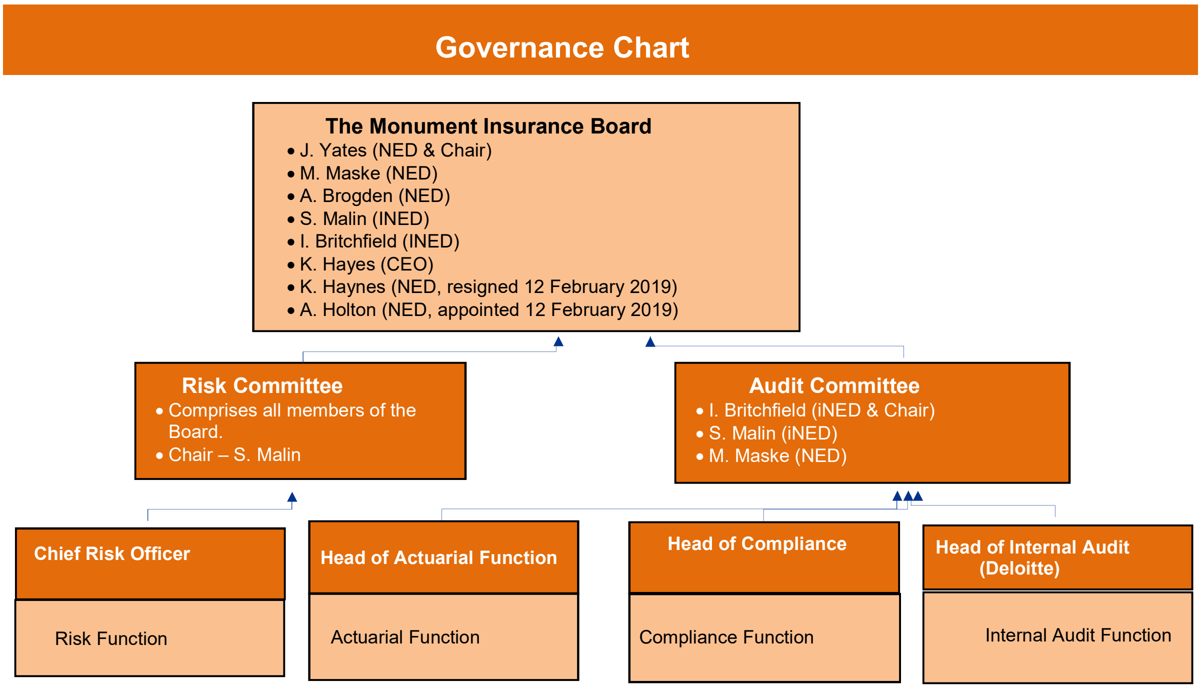
The Board represents the administrative, management and supervisory body of the Company.

Board

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

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

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



Audit Committee

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

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

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

Risk Committee
The Risk Committee comprises all members of the Board. The Chief Risk Officer ("CRO") is a standing attendee. The main responsibilities of the committee are to:

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

The Company has established an Executive Committee to manage the delivery of business objectives. It comprises the CEO and his direct reports.

Key functions roles and responsibilities
The Company has established the Solvency II control functions (risk management, compliance, internal audit and actuarial functions) in addition to other functions required to run the business. The Company has outsourced the risk management and compliance functions to MISL and outsourced the internal audit function to Deloitte in Ireland ("Deloitte"). In March 2018 the actuarial function was transferred to MISL. These functions are described further below.

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

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

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

The actuarial function, led by the Head of Actuarial Function, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. In summary, the key responsibilities of the actuarial function are to review and validate the calculation of the technical provisions, provide opinions on the underwriting and reinsurance policies and assist the risk management function with certain tasks. Further details are included in section B.7.

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

In March 2018 the actuarial function was transferred from an external outsourcer to an internal outsourcer and is led by the Company's Actuarial Director, who was approved in the role of Head of Actuarial Function (PCF- 48).

In September 2018 a Head of Investments (PCF- 19) was appointed. In December 2018, a Chief Operating Officer (PCF- 42) was appointed.

In February 2019 the Company appointed a Non-Executive Director (PCF- 2) and a Non-Executive Director (PCF- 2) resigned.

B.1 (c) Remuneration policy and practices

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

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

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

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

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

B.1 (d) Material transactions
No other material transactions were executed during this period with the Board members, Senior Executives, or other individuals who exert significant influence over the Company.

B.2 Fit and proper requirements

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

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

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

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

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

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

B.3 Risk Management System

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

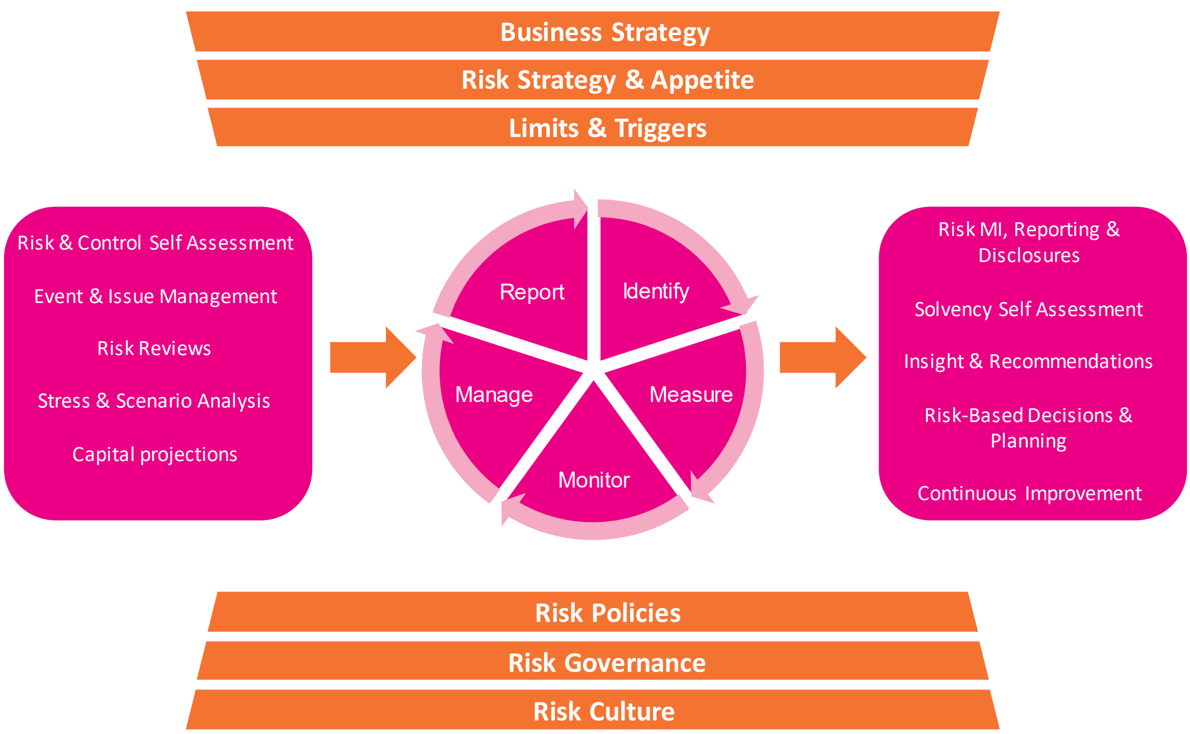
Strategy
The Board considers the business strategy of the Company in determining its risk appetite. The Board has a risk appetite statement document, that outlines the Company's appetite for each type of key risk and its strategy for accepting, managing and mitigating these risks. Risk appetite is articulated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

Risk Management Framework
In accordance with international best practices, the Company has established and maintains a sound corporate governance framework and risk management framework.

The risk management framework is designed to:

- Enable risk-based decision-taking;
- Promote risk awareness and sound risk culture;
- Ensure clear accountabilities;
- Highlight when the Company is taking too much risk; and
- Meet all regulatory requirements and market expectations for an Irish insurer.

The risk management framework is depicted below:



The risk management framework is founded on a sound risk culture, an effective system of governance including committee structures and clear accountabilities, and a suite of supporting risk policies.

The Board has established a Risk Committee to assist the Board by providing leadership, direction and oversight with regard to the Company's risk management framework, including risk appetite, limits, risk policies and risk reporting.

The risk strategy of the Company is aligned to the business strategy. Risk appetite statements express the Board's appetite across all categories of risk facing the business. Quantitative risk limits are set for key risks, along with early warning thresholds, which support proactive risk management. Exposures relative to limits and triggers are regularly monitored and reported to the Board.

The material risks addressed by the risk management framework include:

- Insurance/underwriting risk;
- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Group risk; and
- Strategic risk.

The key objectives of the risk management function, under the leadership of the Company CRO, are to:

- Maintain a sound risk management framework that supports effective risk-based decision-making, including risk appetite statements and risk limits, and oversee the implementation of the framework via appropriate policies, processes and controls;
- Maintain a robust risk reporting framework, including processes and systems for commenting on the overall risk environment, addressing mitigating actions for risks identified, identifying any emerging

risks, discussing relevant current issues as well as reporting on risk metrics that monitor risk exposures relative to agreed limits;
- Deliver all external reports as required to meet regulatory and other stakeholder expectations, including Own Risk and Solvency Assessment, Solvency and Financial Condition Reports, Financial Statements and Regular Supervisory Reports;
- Actively review and challenge in a second line capacity in relation to all transactions and material activities of the Company, seeking to deliver a better overall outcome for the Company by either reducing the level of risk overall or improving the reward for certain assumed risks; and
- Ensuring that the risk management framework remains effective and appropriately positioned, with the requisite skills, knowledge and capacity, to support the planned growth of the Company.

Risk management process

Risk reviews are a key component of the Group's risk management framework. The purpose of a risk review is to provide the Risk Committee with an impartial view from the risk management function on material risk matters, ahead of final decision-making. The risk management framework states the instances in which risk reviews are required, consistent with the Group's Delegated Authority Schedule and the Board or Risk Committee can request a risk review at any time.

Risk reviews are carried out ahead of key decisions that will materially impact the risk profile of the Group, including decisions to bind the Company to a transaction. The results of risk reviews are presented to Risk Committee to assist the Risk Committee in making informed risk-based recommendations to the Board.

Stress and scenario testing and projections of the Company's capital position are fundamental to the Company's approach to risk assessment. Stress and scenario testing is used to quantify how the economic balance sheet and capital requirements would be expected to change across a range of scenarios which are chosen to be most relevant to the decision at hand.

A key risk management objective is to ensure that the risk profile of the Company remains within risk appetite as set at least annually by the Board, and to highlight any deviations and propose rectifying actions. Reporting of exposures relative to early warning thresholds supports proactive risk management.

On a day-to-day basis, risk management is implemented first and foremost by the risk-informed actions of our people, consistent with the requirements of our risk policies and formalised through a set of processes and controls, and supported by an ongoing programme of risk management training.

A Risk and Control Self-Assessment process is carried out at least annually. This process requires business functions to review and self-assess the effectiveness of controls mitigating the key risks identified. This process is facilitated and overseen by the risk management function, and the results are summarized and presented to Risk Committee, including actions to address themes and issues identified.

Reporting procedures

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

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

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

B.4 Own Risk and Solvency Assessment

B.4 (a) ORSA process

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

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

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

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

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

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

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

B.4. (b) Frequency of ORSA

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

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

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

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

B.5 Internal Control System

B.5 (a) Description of Internal Control System

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

The Board and the CEO, including senior executives, are responsible for adopting an effective internal controls framework.

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

- Internal control environment;
- Risk assessment;
- Internal control activities;
- Information and Communication; and
- Monitoring.

The Company applies a "Three Lines of Defence" model for Enterprise Risk Management.

Such a model is widely adopted across the financial services industry and allows for appropriate segregation of risk ownership, oversight and assurance responsibilities. In particular:

- **1st line of defence:** Individuals and committees with direct responsibility for the management, control and reporting of risk;
- **2nd line of defence:** Individuals and committees with responsibility for the design, coordination, oversight of the effectiveness and integrity of the Company's risk management and internal control framework; and
- **3rd line of defence:** Individuals and committees providing independent assurance and challenge in respect of the effectiveness and integrity of the risk management framework.

The Company has defined high-level principles and standards to ensure that situations, which could lead to potential conflicts of interest, are appropriately managed. These are formally described in the Company's Conflicts of Interest policy.

The risk register records owners for each risk, who are responsible for ensuring that the risks are identified and that controls remain appropriate on an ongoing basis. The risk register is periodically reviewed by the CRO and is subject to formal review across the business at least annually. This process requires business functions to update the risk register, including the mapping of controls to risks and implementation of new controls.

The Risk and Control Self Assessment process requires business functions to review and self-assess the effectiveness of controls mitigating the key risks identified. The control owner is encouraged to make any relevant comments about the control and may record its operation as 'effective', 'partially effective' or 'ineffective'. Any record of the control not being effective requires a narrative explanation as well as the assessment. This process is facilitated and overseen by the risk management function, and the results are summarized and presented to Risk Committee, including actions to address themes and issues identified.

The Internal Audit Function assesses the operating effectiveness of controls on a periodic basis.

B.5 (b) Implementation of the compliance function

The Board retains ultimate responsibility for compliance within the Company and has delegated the day-to-day responsibility to the Compliance Function to ensure that the operations are carried out in accordance with all legal and regulatory requirements. The Compliance Function has been established in proportion to the nature, scale and complexity of the business carried on by the Company, and to assist with the monitoring and evaluation of compliance with laws, regulations, internal controls, policies and procedures.

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

B.6 Internal Audit Function

B.6 (a) Implementation of the internal audit function

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

B.6 (b) Independence and objectivity

The internal audit function is independent of the Company's business management activities. It is not involved directly in revenue generation, nor in the management and financial performance of the Company. The internal audit function does not have direct responsibility for, or authority over, any of the activities they review. Nor does their review and appraisal relieve others of their responsibilities. The Head of Internal Audit reports directly to the Audit Committee for oversight matters and is responsible to the Chief Executive Officer for operational and day-to-day management.

B.7 Actuarial Function

Implementation of the Actuarial function

In March 2018 the Actuarial Function transferred from Milliman to MISL and is led by Monument Insurance's Actuarial Director, who is also the Head of Actuarial Function. The Head of Actuarial Function is responsible for providing an Actuarial Opinion on Technical Provisions to the CBI in respect of the technical provisions reported as part of the Annual QRTs.

The key roles and responsibilities of the actuarial function include:

- Delivery of actuarial reporting, bases, valuation models and corresponding processes for Solvency II and GAAP reporting;

- Implementation of processes to deliver robust monitoring of capital, liquidity and solvency positions on an ongoing basis;
- Completion of actuarial regulatory requirements;
- Review of reinsurance transactions, acquisitions and retrocession from a capital, solvency and actuarial perspective to ensure transactions meet hurdle requirements and capital implications are well understood;
- Ensuring a robust asset liability matching framework that effectively manages investment risks within the risk appetites and tolerances of the Company in conjunction with the Chief Investment Officer; and
- Contribution to the effective implementation of the risk management framework.

The Board receives an annual report from the actuarial function which includes the results of the tasks undertaken, clearly identifying any deficiencies and giving any recommendations as to who such deficiencies could be remediated. The actuarial function operates under the ultimate responsibility of, and reports to the Board and, where appropriate, cooperates with the other key functions in carrying out its role. It is objective and free from the influence of other functions or the Board. It provides its opinions in an independent fashion and can communicate on its own initiative with any staff member, or Board member, and obtains access to any records necessary to carry out its responsibilities.

B.8 Outsourcing

Description of outsourcing policy

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

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

Outsourcing and jurisdiction of critical or important operational functions or activities

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

Service provider	Activity	Jurisdiction
Monument Group	Insurance administration services	Ireland
Monument Group (from March 2018)	Actuarial function	Ireland
External (to March 2018)	Actuarial function	Ireland
External	Policy servicing and claims administration	UK
External (from November 2018)	Investment management	UK
External	IT services	Ireland
External	Internal audit function	Ireland

B.9. Assessment of governance and any other disclosures

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

C. Risk Profile

The risk profile reflects the Company's key business activities. We control the way we accept risks, using our expertise to manage them and create shareholder value.

Risk assessment measures, including any material changes over the period

The Company uses a series of techniques to assess risks within the Company and these are described below:

Annual Risk and Control Self Assessment
On an annual basis the risk owners carry out an RCSA to identify material inherent risks. The controls identified to mitigate these risks are assessed for design and operating effectiveness and a decision is taken by the risk owner on the appropriate treatment for the residual risk (e.g. 'accept' 'transfer' or 'increase controls').

Risk Limits
The Company has established a series of key indicators and limits that are used to measure and monitor risk exposure against acceptable thresholds. These include key indicators that ensure the visibility of the performance of key business controls. They are used to alert management when risk levels exceed acceptable ranges and drive timely decision making and actions. Key indicators are regularly reviewed by the Risk and Controls committee and are reflected in the CRO's report to the Board Risk Committee.

Own Risk and Solvency Assessment (ORSA)
All material risks are assessed quantitatively and/or qualitatively as part of the annual ORSA process. Stress testing is used as part of the ORSA process to assess risk exposures and is useful in deciding how to mitigate the Company's exposure to risk. This process is discussed further in B.4 (a).

There were no changes in the measures used to assess risks over the year. Given the changes in the risk profile of Laguna, MADAC's subsidiary, stress and scenario testing has been applied to assess the robustness of the MIDAC and MADAC capital positions to adverse events in Laguna. This has been reflected in the Company's ad hoc ORSAs during 2018.

C.1 Underwriting Risk

C.1 (a) Risk Exposure
Underwriting risk is the risk of loss or other adverse impact on the Company arising from unexpected fluctuations in the timing, frequency or severity of insured events, or timing and amount of claim settlements and expenses.

The material underwriting risks identified by the business are a deterioration in claims experience (Involuntary Unemployment ("IU"), Accident & Sickness ("AS"), Critical Illness ("CI"), Permanent and Total Disability ("PTD") and Life claims), an increase in cancellations and an increase in expenses. These risks are described further below.

Deterioration in claims experience
The Company is exposed to a deterioration in IU claims experience through the provision of IU benefits under PPI and Income Protection policies to policyholders in the UK. A sustained fall in employment rates could drive longer unemployment claims and an uplift in corresponding stress-related illness claims. Following the

Brexit decision, any negative impacts on the underlying UK economy arising from Brexit could lead to an increase in claims and an increased level of expenses associated with validating claims.

Mortality risk

Mortality Risk is the risk of loss due to an increase in mortality rates. The Company is exposed to Mortality Risk through the provision of a life benefit under PPI policies to policyholders in the UK.

Morbidity risk

This relates to the risk of loss from higher than expected levels of illness or injury, or lower than expected rates of recovery from illness or injury. The Company is exposed to Morbidity Risk through the provision of AS, CI and PTD benefits under PPI and Income Protection policies to policyholders in the UK.

Lapse Risk

Lapse risk arises from unanticipated (higher or lower) rate of policy lapses or cancellations. The Company is exposed to the risk of lapse rates being higher than expected.

Expense Risk

Expense risk is the risk of loss arising from an increase in the Company's expense levels, or expense inflation over time. Fixed expense risk against policy volumes is a significant risk for the Company, and one which it must accept as part of the run-off strategy of the Company.

C.1 (b) Mitigating Actions and Controls

The Company monitors and controls underwriting risks using the following methods:

- Regular monitoring of actual versus expected claims and expenses.
- Regular review of actuarial assumptions.
- Management of persistency through high quality customer service.
- Risk is measured principally through sensitivity tests to key assumptions, and stress and scenario testing.

C.1 (c) Risk Concentration

The Company provides cover largely related to one product in the UK market which has been distributed by one service provider.

C.1 (d) Sensitivity and Stress Testing

The exposures are examined on an annual basis through the ORSA process.

A recalculation of the Best Estimate Liabilities ("BEL"), risk margin and capital requirements is carried out in the case of the stress testing performed on the underwriting, market and credit risks. A description of the method used and assumptions made to calculate the technical provisions opening position can be found in Section D.2 (a) of this report. Future balance sheets are produced using best estimate assumptions. For each stress test, an adjustment to the relevant best estimate assumption is made when calculating the stressed BELs and associated capital requirements. These figures are then compared to those in the central scenario to derive the impacts of the related stress.

The details of the underwriting scenarios were as follows:

- Increase in IU claim frequencies of 200% in year 1 and 100% in year 2; and an increase in AS claim frequencies of 100% in year 1 and 50% in year 2.
- 20% mass lapse over 1 year.

- 10% increase in expenses plus 1% increase in expense inflation.

Results indicate that the Company can withstand the impact of the underwriting scenarios at all times.

C.2 Market Risk

C.2 (a) Risk Exposure

The risk of loss or other adverse impact on the Company arising from movements in markets (e.g. exchange rates, interest rates and inflation rates).

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

Interest Rates Risk

The Company is exposed to the risk of interest rate movements and movements in the yields of fixed interest securities.

Currency Risk

Currency risk is the risk of loss resulting from adverse movements in currency exchange rates. The Company's trading and reporting currency is Sterling (GBP); however, the Company incurs liabilities in the Euro currency for operational expenses. The currency impact is reduced by corporation tax which is payable in Euro. The Company reduces foreign exchange exposure arising from these liabilities by holding assets in matching currencies where practical. MADAC also incurs currency translation risk from its strategic holding in Laguna whose currency is denominated in Euro.

Spread Risk

The Company is exposed to the risk of spreads on the credit assets widening. Widening spreads would result in a reduction in the value of credit assets held by the Company.

MIDAC's holding of MADAC and MADAC's holding of Laguna are treated as strategic equity investments on the parent balance sheet with the value of the investment being set to the Own Funds of the respective subsidiary, under Article 169 of the Delegated regulation.

In September 2018, Laguna's Own Funds increased following its acquisition of the First A Portfolio. This gave rise to an increase in market risk exposure in MIDAC and MADAC as strategic investments are treated as equity holdings under Article 169 of the Delegated regulation.

C.2 (b) Mitigating Actions and Controls

The Company monitors and controls financial market risks using the following methods:

- Investment Policy imposing close matching of assets to insurance liabilities, by currency, interest rate and inflation sensitivity.
- Regular monitoring of exposures relative to market risk limits, supplemented by stress and scenario testing.
- Risk is measured using standard metrics such as "DV01", the sensitivity of asset and liability values to small changes in market variables.

C.2 (c) Risk Concentration

The Company is exposed to two money market funds. Concentration risk is mitigated by the establishment of sector and issuer limits and minimum credit ratings as outlined in the investment policy. Market risk concentration arises from MIDAC's strategic holding in MADAC and MADAC's strategic holding in Laguna.

C.2 (d) Sensitivity and Stress Testing

The exposures are examined on an annual basis through the ORSA process.

A recalculation of the Best Estimate Liabilities ("BEL"), risk margin and capital requirements is carried out in the case of the stress testing performed on the underwriting, market and credit risks. A description of the method used and assumptions made to calculate the technical provisions opening position can be found in Section D.2 (a) of this report. Future balance sheets are produced using best estimate assumptions. For each stress test, an adjustment to the relevant best estimate assumption is made when calculating the stressed BELs and associated capital requirements. These figures are then compared to those in the central scenario to derive the impacts of the related stress.

The details of the market scenarios in the most recent ORSA were as follows:

- 25% change in exchange rates relative to the Euro
- 1% reduction in interest rates
- 0.5% increase in credit spreads

Results indicate that the Company can withstand the impact of the market scenarios at all times.

C.3 Credit Risk

C.3 (a) Risk Exposure

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. The Company's exposure to credit risk is derived from assets such as debt securities and cash instruments, as well as with respect to reinsurance counterparties in Laguna. The Company has limited credit exposure with respect to receivables due from other counterparties.

C.3 (b) Investment of assets in accordance with the "prudent person principle"

The Company adheres to the prudent person principle in the implementation of its investment strategy. This is accomplished through an investment framework focused on governance, risk assessment and portfolio diversification.

A key part of the implementation is the use of third party investment service providers who can provide expertise for their appointed mandates.

The Company governance structure is outlined in section B.1 of this report.

The Company continually assesses the risks associated with its business objectives, particularly those related to the investment portfolio, and determines which risks to accept and which to mitigate.

This is encompassed within the risk management framework, as outlined in section B.3, and is manifested in the Company's risk policies. This risk assessment has led the Company to structure the investment portfolios primarily in investment grade, fixed income assets with a closely matched duration and cash flow profile to the liabilities that they support.

One of the key risk mitigants is to diversify the investment portfolios. This is achieved through documentation of guideline limits in the investment policies and ensuring that third party investment service providers adhere to these limits. Specific exposure limits are established for investment sector, issuer and credit ratings. For each mandate, the Company oversees compliance of the service providers against the limits through a regular review of each portfolio. As noted above, the governance framework establishes reporting protocols for policy compliance.

Counterparty credit risk is principally controlled through the investment policy that imposes minimum credit ratings for investment counterparties and concentration limits to avoid overexposure to any investment counterparty. Investments are placed with large international financial institutions subject to credit rating and other limits.

C.3 (c) Mitigating Actions and Controls

The Company monitors and controls credit risk using the following methods:

- Credit Risk Policy imposing principles and requirements for credit risk management, and Investment Policy imposing credit ratings limits for investment counterparties and concentration limits to avoid overexposure to any investment counterparty.
- Regular monitoring of exposures relative to credit risk limits.
- Key risk measures include exposure by credit rating, risk concentration and sensitivity of asset values to movements in credit spreads.
- Collateral arrangements are put in place in respect of reinsurance exposures where appropriate for Laguna.

C.3 (d) Risk Concentration

The Company is exposed to two money market funds. Laguna has a significant exposure to a small number of reinsurers including its parent, Monument Re.

C.3 (e) Sensitivity and Stress Testing

As part of the ORSA process, the Company carried out stress and scenario testing including testing of credit risks.

In the most recent ORSA, the solvency position of the Company was projected over the business planning period after allowing for the default of the subsidiary's most significant reinsurance counterparties. Results indicate that the Company can withstand the impact of the counterparty default at all times.

C.4 Liquidity Risk

C.4 (a) Risk Exposure

The risk of loss or other adverse impact on the Company arising from insufficient liquidity resources being available to meet obligations as they fall due.

C.4 (b) Expected profit included in future premiums

As of 31 December 2018, the Company's Expected Profit Included in Future Premiums was £156k for MIDAC and £103k for MADAC (2017: £313k for MIDAC and £237k for MADAC).

C.4 (c) Mitigating Actions and Controls

The Company monitors and controls liquidity risk using the following methods:

- Liquidity Policy imposing close matching of asset and liability cash flows and prudent restrictions on investment in illiquid assets.
- Liquidity Framework requiring forward-looking assessment of liquidity requirements, including those arising from derivatives and reinsurance collateral arrangements, and maintenance of a liquidity buffer to cover severe market and demographic stress.

C.4 (d) Risk Concentration

There are no material liquidity risk concentrations.

C.4 (e) Sensitivity and Stress Testing

The nature, term and currency of the liabilities would see that the matching assets are denominated in GBP and are of a highly liquid and high credit quality. The Company's investment in money market funds in conjunction with holding cash is adequate in meeting this requirement. Liquid assets are available to withstand a material increase in claim frequency or nominal claim amounts.

C.5 Operational Risk

C.5 (a) Risk Exposure

The risk of loss or other adverse impact on the Company arising from inadequate or failed internal processes, personnel or systems or external events.

C.5 (b) Mitigating Actions and Controls

The Company monitors and controls operational risks using the following methods:

- Regular Risk and Control Self Assessment process.
- Event and issue management process, root cause analysis and learning from adverse experience.
- Oversight exercised by Internal Audit, Risk and Compliance functions.
- Risk is measured principally through the Risk and Control Self Assessment process, event data and deep dives.

C.5 (c) Material risk concentrations

There are no material operational risk concentrations.

C.5 (d) Sensitivity and Stress Testing

The operational scenarios considered in the most recent ORSA were the impact of an outsourcer failure, a cyber security incident, a financial reporting error and a fund price error. Results indicate that the Company can withstand the impact of the operational scenarios at all times.

C.6 Other Material Risks

C.6 (a) Group Risk

Risk Exposure

The risk of loss or other adverse impact on the Company arising from financial or non-financial relationships between entities within the Group. This includes reputational, contagion, accumulation, concentration and intra-Group transactions risk.

Mitigating Actions and Controls

The Company monitors and controls group risks using the following methods:

- Group Risk Policy imposing requirements for group risk management.
- Significant commonality of Board composition across the Group and its subsidiaries.
- Close scrutiny of intra-group transactions including external specialist input where appropriate.
- Reputational Risk policy and escalation process.
- Risk is measured qualitatively and quantitatively e.g. via stress and scenario testing of adverse scenarios across the Group and Company as part of the solvency self-assessment process.

C.6 (b) Strategic Risk

Risk Exposure

The risk of loss or other adverse impact on the Company arising from failing to identify and react appropriately to opportunities and/or threats arising from changes in the market, some of which may emerge over a number of years.

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

This includes Brexit and acquisition risks. The Company underwrites insurance policies under the 'freedom of services' directive, otherwise referred to as 'passporting'. The Company has opted to apply the Financial Services Contract Regime and continues to keep abreast of ongoing developments and will continue to review its action plan and take account of significant changes in the course of Brexit.

Mitigating Actions and Controls

The Company monitors and controls group risks using the following methods:

- Strategic Risk Policy imposing requirements for strategic risk management.
- Board members and executive committee members with broad experience and deep industry knowledge.
- Rigorous due diligence process led by internal experts with support from external specialists as required.
- Tried-and-tested integration approach and experienced, skilled integration team.
- Emerging risk analysis and reporting.
- Strategic risks are measured qualitatively.

D. Valuation for Solvency Purposes

D.1 Assets

The following table summarises the valuation of the Company's assets for Solvency II purposes and the valuation used in the Company's financial statements ("Statutory Basis") at the reporting date. All amounts are presented in the reporting currency of the Company, which is British Pounds Sterling.

The Company's financial statements have been prepared in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014).

	Solvency II Basis MIDAC £'000	Statutory Basis MIDAC £'000	Solvency II Basis MADAC £'000	Statutory Basis MADAC £'000
Holdings in related undertakings, including participations*	29,547	22,405	27,530	21,427
Bonds	9,365	9,264	1,694	1,668
Collective Investments Undertakings	1,166	1,166	1,412	1,412
Deposits other than cash equivalents	0	0	0	0
Total Investments	**40,078**	**32,835**	**30,636**	**24,507**
Cash and cash equivalents	2,436	2,436	480	480
Insurance and intermediaries receivables	1,479	1,479	609	609
Deferred acquisition costs	0	152	0	104
Other assets	5	106	59	85
Total assets	**44,000**	**37,009**	**31,784**	**25,785**

* also referred to as "investment in subsidiary"

D.1 (a) Description of the bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes

Overview

The Company's investments are held in four asset classes: subsidiaries, bonds, cash deposits and individually approved money-market funds of maximum duration of six months. These four asset classes, together with cash & cash equivalents, make up the vast majority of the Company's assets at the reporting date. The remaining assets comprise of amounts owed from intermediaries & policyholders and other trade assets. All of the Company's assets are valued using quoted market prices in active markets.

Investments and Cash & Cash Equivalents

The inputs used to value investments and cash and cash equivalents are based on observable data for each individual asset. All investments are initially valued at their fair value.

Insurance & Intermediaries' Receivables

Insurance & Intermediaries' Receivables are valued at their estimated transaction price i.e. the premium that is expected to be received from policyholders and intermediaries. The majority of these receivables are due from Barclays Bank PLC and are collected within five workings days of the reporting date.

Other Assets

Other assets consist of other trade debtors valued at their transaction price and due within one month of the reporting date.

D.1 (b) Material differences between the bases, methods and assumptions used by the undertaking for the valuation for solvency purposes and those used for valuation in financial statements

The financial statements include a deferred acquisition cost asset which was the cost of acquiring business and reflects any further commission to be received in respect of existing contracts. It is excluded from the Solvency II Balance Sheet. The investment in subsidiary is valued at the subsidiary's net assets within the financial statements and at the Own Funds within the Solvency II Balance Sheet. There are no other material differences in the bases, methods and assumptions used for the valuation for Solvency II purposes and those used in the financial statements.

Certain assets of the Company are reported in different asset categories on the SII Balance Sheet and in the financial statements. The Solvency II bond valuation includes accrued interest whearease this is shown under other assets in the statutory financial statements.

D.2 Technical provisions

Technical provisions represent the value of our liabilities under policies that we have written. We are required to calculate the value of the technical provisions in line with Articles 76 and 77 of the Solvency II Directive.

The technical provisions correspond to the current amount that we would have to pay another (re)insurance undertaking if we immediately transferred our insurance obligations to it. Technical provisions are calculated as the sum of the Best Estimate Liabilty and a risk margin, which are determined separately.

D.2 (a) Description of the bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes

The table below contains the technical provisions by line of business for the Company as of 31 December 2018.

	MIDAC Misc FL £'000	MIDAC Health SLT £'000	MIDAC Total £'000		MADAC Health SLT £'000	MADAC Life £'000	MADAC Total £'000
Best Estimate Liabilities	2,832	3,559	6,391		48	119	167
Risk Margin	501	46	547		0	28	28
Technical Provisions	**3,333**	**3,605**	**6,938**		**48**	**146**	**194**

The technical provisions have been valued using the methodology prescribed by the Solvency II Directive. The Best Estimate Liability ("BEL") is the expected present value of the probability-weighted average of future cashflows, using the relevant risk-free interest rates. Deterministic projections with best-estimate assumptions have been used when calculating the BEL.

The cashflow components are: claims, premiums, refunds, expenses, commission and profit share. Premiums are projected according to the number of policies in force at that time. As there are a large number of policies, model points are used. Claims are projected using recovery rates, paid delays and claim frequencies for the relevant product. Expenses and commissions are those expected to service the Company's financial obligations.

An annual review of the claims and policy experience of the Company is used to determine the appropriate demographic assumptions to use when calculating the BEL, for example, the rate at which policyholders get ill, recover, lapse their policies. We also carry out an investigation on our most recent expense experience when setting the expense assumptions, and we use the risk free yield curve specified by EIOPA to discount the value of future cashflows.

Given, under the terms and conditions of the underlying contracts, we retain the right to cancel the policies, the application of contract boundaries impacts the amount of premium and any associated cashflows that can be included in the calculation of the BEL.

The risk margin is the buffer that another insurer would require to acquire this business to allow for the cost of capital of setting up the business. The approach taken to calculate the risk margin is to apply contract boundaries to the projected future (non-hedgeable) Solvency Capital Requirement ("SCR"), and then discount these by the EIOPA prescribed cost of capital rate of 6%. The SCR was calculated using EIOPA's standard formula.

There has been no change to the approach used to calculate the technical provisons since 31 December 2017.

D.2 (b) Level of uncertainty associated with the value of technical provisions

Given the use of assumptions, there is inherent uncertainty. The level of uncertainty associated with the value of technical provisions has been estimated by examining how the technical provisions would change if certain material assumptions were to change. Such quantifications have been undertaken as part of the process of calculating the SCRs for the Company. In calculating certain components of the overall SCR, the Company is required to recalculate the BEL on the basis of certain changes to assumptions.

The following table shows these assumptions changes along with an additional stress that considers increasing unemployment risk claims frequencies.

Assumption	Stress
Disability risk	Morbidity experience turns out to be worse than expected e.g. critical illness. 35%/25% increase in morbidity rates in years 1/2+ and a 20% decrease in recovery rates. Stress applies to Health SLT benefits.
Unemployment risk	Increase of 40% in Miscellaneous financial loss claim frequencies above the base case for one year followed by a 20% increase in Miscellaneous financial loss claim frequencies above the base for one year, together with a 20% decrease in recovery rates.
Expense risk	Expenses and expense inflation are higher than expected (10% increase and additional 1% p.a. inflation).
Mortality catastrophe risk	Catastrophe i.e. one off large impact on mortality rates over a short time period (additional 1.5 per thousand deaths over next year) Stress applies to Life benefits only.

The following table shows the impact of the sensitivity as an amount of the SCR for that specific risk and as a percentage of the overall SCR ratio as at 31 December 2018.

	MIDAC Impact £'000	MIDAC Impact % of overall SCR ratio		MADAC Impact £'000	MADAC Impact % of overall SCR ratio
Mortality catasrophe risk	-	0%		14	0%
Disability risk	176	1%		0	0%
Expense risk	14	0%		17	0%
Unemployment risk	88	1%		-	0%

MIDAC's technical provisions are most sensitive to changes in claim rates (unemployment and disability) and are relatively insensitive to changes in other assumptions. Whereas, given the smaller size of the underlying book, MADAC's technical provisions are most sensitive to changes in expenses or a catastrophe that would materially increase life claims. The largest impact (albeit, it is still immaterial at c.1%) on the overall SCR for either entity stems from a worsening of disability claims experience in MIDAC.

D.2 (c) Material differences between the bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for valuation in financial statements

The following table shows the movement from statutory basis valuation of insurance liabilities to the Solvency II Technical Provisions, split by line of business for the reporting period as at 31 December 2018:

	MIDAC Misc FL £'000	MIDAC Health SLT £'000	MIDAC Total £'000		MADAC Health SLT £'000	MADAC Life £'000	MADAC Total £'000
Statutory Technical Provisions	3,815	3,619	7,434		48	485	534
Adjustments to Solvency II Valuation Basis	-482	-14	-497		0	-339	-339
Solvency II Technical Provisions	***3,333***	***3,605***	***6,938***		***48***	***146***	***194***

The main differences between the Solvency II and statutory basis insurance liabilities arise from:

- Solvency II technical provisions allow for expected future profits in respect of future risk coverage within the contract boundary;
- The Statutory technical provisions hold an explicit provision for unearned premiums.

D.2 (d) (e) Matching adjustment and volatility adjustment

Neither the matching adjustment nor the volatility adjustment referred to in Article 77 of Directive 2009/138/EC are used by the Company, nor were they used at 31 December 2017.

D.2 (f) (g) Transitional risk-free rate and transitional deduction

Both the transitional risk-free interest rate term-structure and the transitional deduction referred to in Article 308 of 2009 Solvency II Directive are not applied by the Company at 31 December 2018, and they were not applied at 31 December 2017.

D.2 (h) (i) Reinsurance recoverables and special purpose vehicles

There is no reinsurance in place and thus the recoverables are nil at 31 December 2018. This was also the case at 31 December 2017.

There are no Special Purpose Vehicles in place at 31 December 2018, nor at 31 December 2017 for both entities.

D.2 (h) (ii) Material changes to assumptions made in calculating technical provisions compared to previous reporting period

Following a review of the experience, it was proposed that the same demographic assumptions as used at year end 2017 be retained. The only exception to this was an update to the expenses assumption to reflect updated per policy costs to reflect revised Monument Insurance Services Limited ("MISL") servicing costs agreed with MISL. The revised servicing costs have reduced MIDAC's servicing costs by c7% and increased MADAC's servicing costs by c18%. The net impact of this change is immaterial, an increase in the Best Estimate Liabilities of c£10.

D.3 Other liabilities

D.3 (a) Value of other liabilities plus a description of the bases, methods and main assumptions used for their valuation for solvency purposes

The following table summarises the valuation of the Company's liabilities (excluding technical provisions) for Solvency II purposes and the valuation used in the Company's financial statements ("Statutory Basis") at the reporting date.

	Solvency II Basis MIDAC £'000	Statutory Basis MIDAC £'000		Solvency II Basis MADAC £'000	Statutory Basis MADAC £'000
Insurance and intermediaries payables	2,323	2,323		1,627	1,627
Deferred tax liabilities	43	0		29	0
Other liabilities	1,197	1,197		386	386
Total liabilities (excl technical provisions)	**3,563**	**3,520**		2,042	2,013

Insurance & Intermediaries payable is mostly represented by commission and profit share payable to Barclays Bank PLC and is valued in accordance with the terms and conditions set out in the distribution agreement in place between the two companies. All data used in the valuation process is directly sourced from the underwriting results outlined in section A.2 of this report and no material estimates or judgements are made for valuation purposes. Commission payable is accrued for on a quarterly basis and settled within 15 days of the quarter end. Profit share payable is also accrued for on a quarterly basis but is settled annually in January.

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

When calculating a net deferred tax liability, deferred tax assets are offset only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The tax rate used to calculate the deferred tax balance is the rate that's expected to be in-force at the time the tax becomes payable. There is no expiry date of taxable temporary differences. There are no unused tax losses within the calculation of the deferred tax liability.

Of the £1,253 of other liabilities in MIDAC, £619 relates to insurance premium tax ("IPT") payable to the HMRC, quarterly in arrears. This liability is valued by applying the tax rate that has been enacted for the reporting period to the written premium received for the quarter.

The remaining liabilities for both companies comprise of trade and other creditors, are valued at their respective transaction price, and are payable at various dates in the three months after the reporting date.

D.3 (b) Material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements

Other than the items mentioned above, there are no differences in the bases, methods and assumptions used for the valuation for Solvency II purposes and those used in the financial statements.

D.4 Alternative methods for valuation

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

D.5 Any other information

Monument Re paid a capital contribution to MIDAC of £7,332, and MIDAC paid a capital contribution to MADAC of £14,718, and in turn MADAC paid a capital contribution of £17,522 to its subsidiary, Laguna (approved by the CBI on 27 March 2018).

E. Capital Management

E.1 Own Funds

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

One of the core objectives of the Company's strategy is to maintain its financial strength. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

There were no material changes over the reporting period with regards to objectives, policies and processes employed by us for managing our Own Funds.

The Solvency Ratio for MIDAC stands at 283% at 31 December 2018, compared to the result at 31 December 2017, the Solvency ratio increased by 113%. The Solvency Ratio for MADAC stands at 277% at 31 December 2018, compared to the result at 31 December 2017, the Solvency ratio decreased by 16%.

Summary of Solvency Ratio for MIDAC

	31/12/2018	31/12/2017	Change
Own Funds	33,499	18,365	15,134
Solvency Capital Requirement	11,832	10,814	1,020
Minimum Capital Requirement	3,148	4,082	-934
Absolute Floor of Minimum Capital Requirement	2,236	2,218	18
Relevant Solvency Ratio	283%	170%	113%

The Own Funds of MIDAC increased by £15,134 during 2018, comprising an increase in value of its subsidiary, MADAC of £19,913, less the net capital contribution paid from MIDAC to MADAC of £7,386 (i.e. the total of £14,718 paid to MADAC, less the £7,332 received from Monument Re); profits in MIDAC itself (£2,628). The underlying business has continued to run-off but the SCR has increased due to higher equity risk (due to the risk attaching to investment in subsidiary).

Summary of Solvency Ratio for MADAC

	31/12/2018	31/12/2017	Change
Own Funds	29,547	9,634	19,913
Solvency Capital Requirement	10,656	2,638	8,018
Minimum Capital Requirement	3,310	3,283	27
Absolute Floor of Minimum Capital Requirement	3,310	3,283	27
Relevant Solvency Ratio	277%	293%	-16%

Similarly for MADAC, its own funds have increased by £19,913 during 2018, comprising an increase in value of its subsidiary Laguna of £21,856, less the net capital contribution paid from MADAC to Laguna of £2,800 (i.e. the total of £17,500 paid to Laguna, less the £14,718 received from MIDAC); profits in MADAC itself (c£0.9m). Although the underwriting SCRs reduced in line with the run-off of the book, MADAC's overall SCR has increased due to the increase in its equity holdings (i.e. the value of Laguna).

The structure of the Company's Own Funds comprises of share capital and retained earnings, including in the case of MIDAC its investment in MADAC and in the case of MADAC, its investment in Laguna, as per the organisational structure outlined in section A.1. (e). The capital management policy focuses on ensuring that there is sufficient capital at all times to meet the regulatory solvency requirements. We also aim to maintain investor, creditor and market confidence, and to make sure there is enough capital to support our future growth. Any excess capital above the targeted risk appetite is available to be distributed to the shareholder with the capacity to pay dividends assessed regularly. A medium term capital management plan is prepared annually with the business planning period covering five years. This plan is reviewed and updated on a regular basis to reflect the actual performance of the business. The policy is reviewed annually with the results of the annual ORSA process taken into consideration.

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

The Eligible Own Funds to meet the SCR is obtained from Basic Own Funds, to which Ancilliary Own Funds are added that are recognised and approved by the regulator and subject to eligibility constraints. Neither MIDAC, nor MADAC have any Ancillary Own Funds at 31 December 2017, or at 31 October 2016.

Solvency II defines Basic Own Funds as the sum of
- The excess of assets over liabiltiies as defined in section D;
- Less deduction for foreseeable dividends and distributions;

The following table shows the make-up of the Solvency II Basic Owns Funds and what is eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement.

MIDAC	Total Own funds 31/12/2018 £'000	Total Own funds 31/12/2017 £'000	Tier	Eligible Own Funds to cover SCR 31/12/2018 £'000	Eligible Own Funds to cover SCR 31/12/2017 £'000	Eligible Own Funds to cover MCR 31/12/2018 £'000	Eligible Own Funds to cover MCR 31/12/2017 £'000
Ordinary Share Capital	8,100	8,100	1	8,100	8,100	8,100	8,100
Reconciliation reserve	25,399	10,265	1	25,399	10,265	25,399	10,265
Deferred tax asset	0	0	3	0	0		0
Total Basic Own Funds	*33,499*	*18,365*		*33,499*	*18,365*	*33,499*	*18,365*
Capital Contribution	0	0		0	0	0	0
Total Basic Own Funds after deductions	**33,499**	**18,365**		**33,499**	**18,365**	**33,499**	**18,365**

MADAC	Total Own funds 31/12/2018 £'000	Total Own funds 31/12/2017 £'000	Tier	Eligible Own Funds to cover SCR 31/12/2018 £'000	Eligible Own Funds to cover SCR 31/12/2017 £'000	Eligible Own Funds to cover MCR 31/12/2018 £'000	Eligible Own Funds to cover MCR 31/12/2017 £'000
Ordinary Share Capital	21,500	21,500	1	21,500	21,500	21,500	21,500
Reconciliation reserve	8,047	-11,866	1	8,047	-11,866	8,047	-11,866
Deferred tax asset	0	0	3	0	0	0	0
Total Basic Own Funds	*29,547*	*9,634*		*29,547*	*9,634*	*29,547*	*9,634*
Capital Contribution	0	0		0	0	0	0
Total Basic Own Funds after deductions	**29,547**	**9,634**		**29,547**	**9,634**	**29,547**	**9,634**

All Basic Own Funds items are fully subordinated to all other liabilities and there are no conditions attached that would prevent any of these items from absorbing losses. It should be noted that c£9,600 of the reconciliation reserve for MIDAC and c£5,600 of this reserve for MADAC comprises an investment in a subsidiary. The table in the next section reconciles the Basic Own funds amount to shareholders equity in the Company's financial statements.

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

The following table summarises the differences between shareholders equity reported in the Company's financial statements and the excess of assets over liabilities for solvency purposes. Further details on asset differences are outlined under section D.1 (b) of this report and under section D.2 (c) for technical provision differences.

	MIDAC £'000		MADAC £'000	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Shareholder Equity per financial statements	**26,054**	**15,417**	**23,238**	**7,702**
Difference in the valuation of assets	6,990	1,742	5,999	1,566
Difference in the valuation of technical provisions	497	1,384	339	397
Difference in the valuation of other liabilities	-42		-29	
Solvency II Excess of Assets over Liabilities	**33,499**	**18,543**	**29,547**	**9,666**

E.1 (f) Basic Own Fund item subject to the transitional arrangements

Not applicable.

E.1 (g) Ancillary Own Funds

This section is not applicable as MIDAC and MADAC do not have any ancilliary Own Funds at 31 December 2017 and nor did they as at 31 October 2016.

E.1 (h) Material items deducted from Own Funds

There are no material items deducted from Own Funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2 (a) Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) at the end of the reporting period

We now present the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR") for the companies as at 31 December 2018. The SCR is calculated at the Value at Risk of the Own Funds subject to a confidence interval of 99.5% over a one-year period. The SCR is calculated using the Standard Formula approach as defined under Solvency II. The following table shows the Company's SCR and MCR requirements at the reporting date.

	MIDAC £'000		MADAC £'000
SCR	11,832		10,656
MCR	3,148		3,310

E.2 (b) The amount of the undertakings SCR split by risk module

The SCR breakdown is provided as follows, highlighting the contribution of the risks to the total SCR and the impact of the diversification among risks.

	MIDAC £'000		MADAC £'000
Market risk	6,650		10,283
Counterparty default risk	114		108
Life underwriting risk	0		26
Health underwriting risk	263		0
Non-life underwriting risk	7,203		0
Diversification	-3,174		-100
Intangible asset mix	0		0
Basic Solvency Capital Requirement	*11,056*		*10,317*
Operational risk	776		339
Solvency Capital Requirement	**11,832**		**10,656**

E.2 (c) Information on if using simplified calculations

There are no simplifications employed by MIDAC or MADAC in the calculation of the SCR.

E.2 (d) (e) (f) Information on undertaking specific parameters and capital add-ons

The undertaking specific parameters referred to in Article 104(7) of Directive 2009/138/EC are not used by the Company.

The capital add-on as per sub paragraph of Article 51(2) of Directive 2009/138/EC does not apply.

E.2 (g) Information on inputs used to calculate the MCR

The following table summarises the inputs used by the Company to calculate the MCR as at the reporting date. The MCR calculation is required to determine the minimum level of capital under which companies would be exposed to an unacceptable level of risk when allowed to continue their operations. For the purposes of the MCR calculation, premiums and reserves (net of reinsurance) are used for MIDAC, as it is a non-life entity, while only reserves are used for MADAC.

EIOPA defines a minimum monetary amount for which the MCR is expected to be held. For non-life companies, this is set at €2,500 (or £2,236) and €3,700 (or £3,310) for life companies as at 31 December 2018. As can be seen in the table below, this applies in the case of MADAC.

	MIDAC £'000		MADAC £'000
AMCR	2,236		3,310
SCR	11,832		10,656
MCR	3,148		3,310

E.2 (h) Material changes to SCR and MCR over the reporting period

During 2018, the SCR for both MIDAC and MADAC has increased and in both cases this is due to a significant increase in the market risk SCR, driven by higher values of their subsidiaries; MADAC and Laguna respectively. The value of Laguna increased by £21,856 during 2018. MADAC's investment in Laguna is treated as a strategic equity investment and attracts a 22% capital charge in the equity risk module. MADAC's equity SCR charge increased by c£4,800 (=22% of £21,856), from c£1,200 to c£6,000.

MADAC's investment in Laguna also attracts a 25% capital charge in the currency risk module, because MADAC and Laguna's functional currencies are different (GBP and EUR respectively). The currency SCR charge increased by c£5,500 (=25% of £22,000), from c£1,500 to c£6,900.

MIDAC's investment in MADAC increased by c£20,000. This investment attracts a 22% capital charge in the equity risk module, which therefore increases by c£4,400 (=22% of £20,000), from £2,100 to £6,500. (There is no impact on currency risk as MIDAC and MADAC both report in GBP.)

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

This section is not applicable.

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

This section is not applicable.

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

This section is not applicable.

E.6 Any other information

This section is not applicable.

Glossary

Absolute Minimum Capital Requirement: This is an amount of money that a company is obliged to hold as capital as an absolute floor. This is defined as €3,700 for MADAC, as it is a life assurance company, under Regulation 140 of Statutory Instrument 485/2015. This is defined as €2,500 for MIDAC, as it is a non-life company.

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross written premiums: Equal to gross written premiums of direct business and accepted by third parties.

Gross direct premiums: Equal to gross written premiums of direct business.

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

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

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

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

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

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

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

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

Outstanding Claims Reserves: The Outstanding Claims Reserves (or Claims Provisions) are reserves for the outstanding claims, whether reported or not, occurred before the evaluation date whose costs and related expenses have not been completely paid by that date.

Own Funds: According to article 87 of Solvency II Directive 2009/138/EU, Own Funds are defined as the sum of basic Own Funds and ancillary Own Funds.
Per policy fee: Administration fees charges by Monument Insurance Services Limited are charged monthly. The fee is a function of the number of policies and the agreed policy administration fee.

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

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

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

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

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

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

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

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

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

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

Technical provisions: The technical provisions correspond to the sum of the best estimate liability and risk margin.

List of public QRTs to be disclosed

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

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

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

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

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

- template S.17.01.02 of Annex I, specifying information on non-life technical provisions, following the instructions set out in S.17.01 of Annex II for each line of business as defined in Annex I of Delegated Regulation (EU) 2015/35;

- template S.19.01.21 of Annex I, specifying information on non-life insurance claims in the format of development triangles, following the instructions set out in S.19.01 of Annex II for the total non-life business;

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

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

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