MONUMENT
Insurance

Solvency and Financial Condition Report

Laguna Life dac ("LLDAC")

2018

Contents

Executive Summary

This is the Solvency and Financial Condition Report (SFCR) Laguna Life dac ("LLDAC" or "the Company") for the year ended 31 December 2018. 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. All nominal amounts are presented in Euro 000's.

Business Information

Laguna Life dac or the Company, is authorised and regulated by the Central Bank of Ireland ("CBI"). Laguna Life dac is owned by Monument Assurance dac ("MADAC") which is ultimately a subsidiary of Monument Re Limited ("Monument Re"), which is a Class E insurance company regulated by the Bermuda Monetary Authority ("BMA"). Laguna holds a Class I license that allows the Company to underwrite life assurance and contracts to pay annuities on human life, but excluding contracts written in Classes II and III. In February 2019 the Company received an extension to its license authorisation to underwrite Class III and Class IV business.

The Spanish product was launched in September 2000 at the establishment of the Company. The Company first accepted business in the UK in April 2003 and continued to issue policies until May 2007 when it closed to new business. The Company continued issuing new policies in Spain until November 2009 when the decision was made to close to new business and put the company into run-off. Policies were issued on a regular premium, level or decreasing term assurance, non-linked, single life basis. This legacy business continues to perform in line with the expected run-off of the business across all portfolios. The business strategy of the Company is focused on running off the existing closed book of policies and ensuring that high quality customer service remains a priority while seeking opportunities to grow the Company through acquisition of books of business in line with Monument Re Limited group strategy.

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:

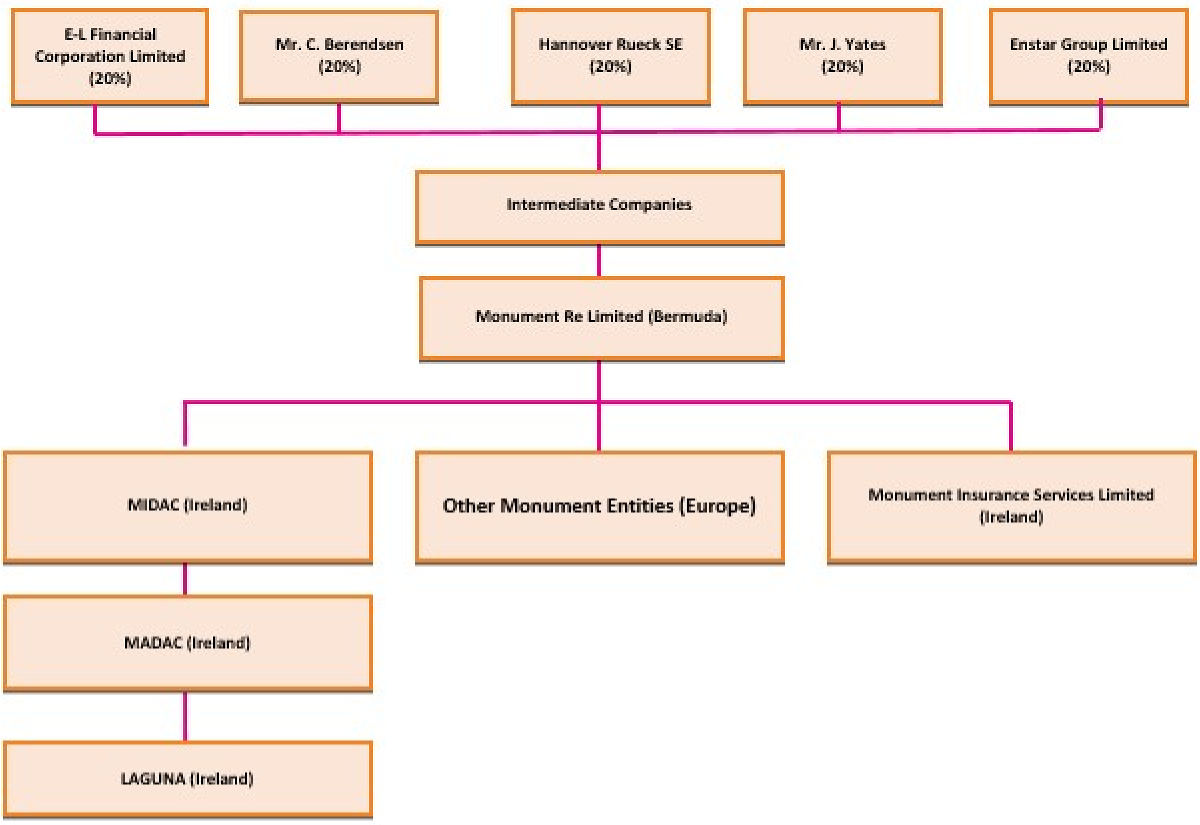
- acquiring direct insurers, primarily those managing run-off portfolios of unit-linked savings or protection business, to drive risk diversification and create capital synergies.; and
- reinsuring long-dated guaranteed liabilities.

On 28 September 2018, Laguna completed the acquisition of a Belgian closed portfolio of around 4,300 flexible premium whole of life savings contracts from Ethias S.A. This portfolio is known as the "FIRST A" or "Freyr" portfolio. The Company has outsourced the policy administration of the Freyr portfolio, initially to Ethias S.A. under the terms of a Transitional Services Agreement. The administration transferred to Monument Insurance Services Belgium in January 2019. The portfolio is predominantly single premium and is in run-off, with small amounts of regular premiums. The Company entered into a reinsurance treaty with Monument Re with respect to the 'First A' policies in 2018. As part of this transfer, Laguna Life received a capital injection of €20,000 in 2018.

In 2018, the Company entered into an agreement with MetLife Europe dac to acquire an additional block of variable annuity, fixed term annuity, annuity and protection business. As part of this process, the Company submitted a change to its Scheme of Operations to the CBI to encompass these new business lines. The transfer was subsequently approved by the High Court with an effective date of 1st April 2019.

In March 2019, the Company entered in to an agreement to purchase Inora Life dac from Société Générale S.A. and the Company also entered in to an agreement to transfer through a Part VII UK Court process, a portfolio of annuities from Rothesay Life Plc. Both deals are subject to regulatory approvals.

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



Performance

The accounting year end is 31 December and this report is for the year ending 31st December 2018. Copies of the Company's financial statements may be obtained from the Companies Registration Office of Ireland.

The Company's results for the year are shown below in Section A. Business and Performance. The statutory profit for the reporting year is €4,882 (2017: €9,405). The 2018 profits decreased when compared to the prior year as in 2017 as there was a once-off impact in 2017 for the impact of expenses in the financial statements technical provisions to allow for Company's updated operating model. The Company earned €3,800 in reinsurance commission (2017: €nil) from the quota-share reinsurance treaty with Monument Re in 2018.

There were no proposed or paid dividends in 2018 (2017: €32,000).

On 28 September 2018, Laguna completed the acquisition of a Belgian closed portfolio of around 4,300 flexible premium whole of life savings contracts from Ethias, which has had a positive contribution to the 2018 underwriting results.

The Company's Own Funds measured on a Solvency II valuation basis increased from €6,332 at 31 December 2017 to €30,766 at 31 December 2018. The main drivers of the movement of €24,434 is due the following:

- Profit during the year of €4,882 (2017 €9,405) as reported in the Company's audited financial statements which includes foreign exchange losses, investment income and positive technical results generated from movements in technical provisions net of claims paid, reinsurance commission income earned and operating expenses incurred during the year, enhanced by;
- Capital contribution approved as Tier 1 capital €20,000.

Solvency position

The Company uses the Standard Formula approach, whose methodology is prescribed by EIOPA for calculating the Company's Solvency Capital Requirement ("SCR"). Using this methodology, the Company's SCR is calculated to be €3,533 (2017: €1,389). This represents a material change over the year. The change is mainly caused by an increase in the counterparty default risk at 31 December 2018 and an increase in the market risk associated with the addition of the First A policies. It should be noted that in any case, that the Minimum Capital Requirement ("MCR") bites as it is greater than the SCR with a value of €3.7m, as was the case in the previous year.

€000s	Dec-18	Dec-17
Market	1,182	567
Counterparty default	1,887	67
Life underwriting	1,152	1,031
Non-life underwriting	-	-
Diversification	(1,193)	(348)
Basic Solvency Capital Requirement	**3,028**	**1,317**
Operational Risk	505	72
Solvency Capital Requirement	**3,533**	**1,389**

The following table shows the Company's solvency position as at 31 December 2018, with a comparison to the prior year.

	Dec-18	Dec-17
Eligible Own Funds	**30,766**	**6,332**
Solvency Capital Requirement	**3,533**	**1,389**
Minimum Capital requirement	3,700	3,700
Ratio of Own Funds to SCR	871%	456%
Ratio of Own Funds to MCR	832%	171%

Further details of the Company's Own Funds and SCR are provided in Section E.

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. The Company outsources a significant portion of its operations and governance arrangements to the services company, Monument Insurance Services Limited ("MISL"). The Company and its related group companies Monument Insurance dac ("MIDAC") and MADAC are effectively jointly managed as one company from an operational point of view.

The Company's Board is comprised of a combination of executives, non-executives, and independent non-executives as per the requirements of the Corporate Governance Code in Ireland. All directors are selected based on their skills, competence and experience.

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.

Other significant events during SFCR review

The Company has continued to perform in line with expectations and there are no other events of significance to report for 2018.

A. BUSINESS AND PERFORMANCE

A.1 *Business information*

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

Laguna Life dac is a designated activity company incorporated in the Republic of Ireland in 2000 as a private limited company. The Company was sold by Laguna Life Holdings Limited, a subsidiary of Enstar Group Limited, to MADAC a company domiciled in Republic of Ireland. The ultimate parent of the Company is Monument Re, a company domiciled in Bermuda.

Name and registered office of the Company is:

Laguna Life dac
Europa House
Block 9
Harcourt Centre
Harcourt Street
Dublin 2
Republic of Ireland

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

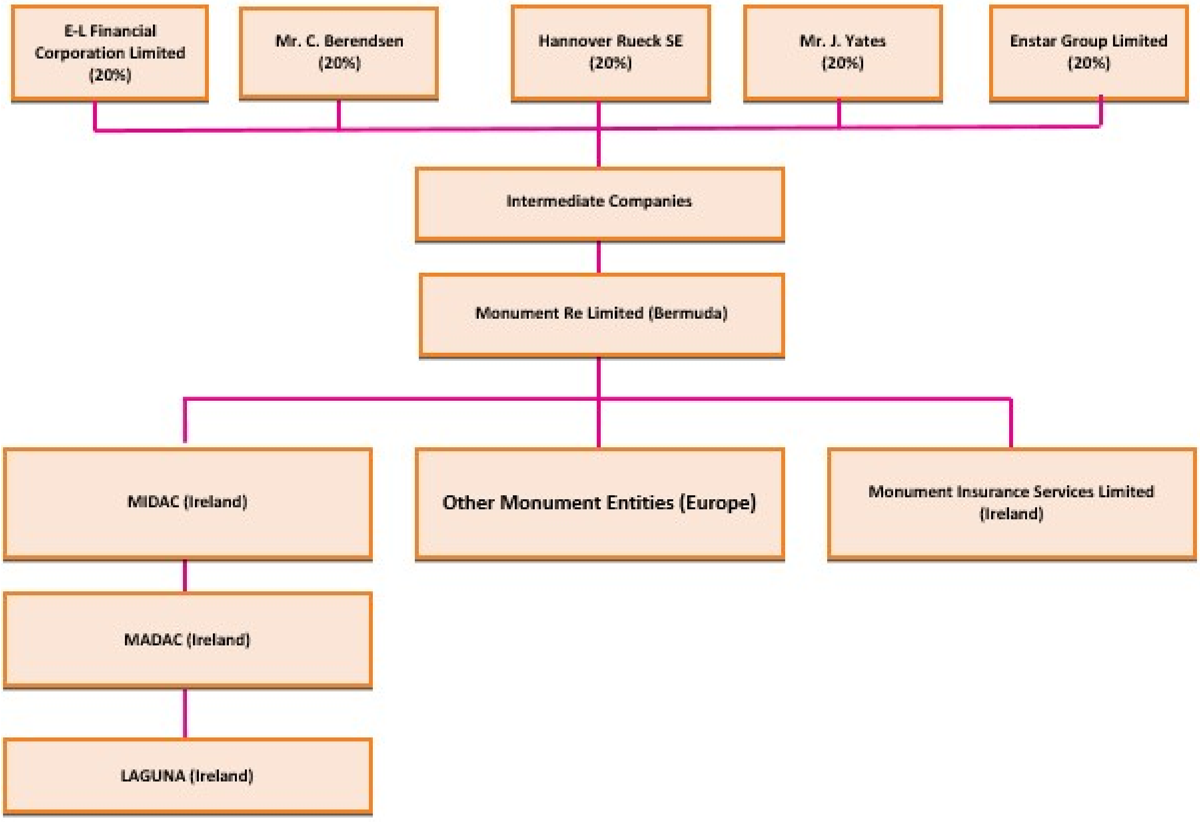
Local Supervisor:
Central Bank of Ireland
Insurance Supervision Division
Spencer Dock
North Wall Quay
Dublin 1
Republic of Ireland

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
Republic of Ireland

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:

- acquiring direct insurers, primarily those managing run-off portfolios of unit-linked savings or protection business, to drive risk diversification and create capital synergies.; and
- reinsuring long-dated guaranteed liabilities.

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

On 29th August 2017 Monument Re acquired LLDAC from the Enstar Group through its subsidiary MADAC.

On the 18th 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 28th March 2018. AALCB 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, the Company entered in to an agreement to acquire 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 Company 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”).
- 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 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 Company entered into an agreement to acquire the €140m 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 Company signed a definitive agreement to acquire Inora Life Designated Activity Company (“Inora”) from Société Générale 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 policyholders.

These transactions further support the Group'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

Laguna is a 100% subsidiary of MADAC, who in turn is a 100% owned subsidiary or MIDAC, who int turn is fully owned by Monument Re.

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, Spain and Belgium.

Gross Earned Premium – by geographical segment	2018 €'000	2017 €'000
Spain - Other Life Insurance	941	1,111
United Kingdom - Other Life Insurance	640	688
Belgium (insurance with profit participation)	282,109	-
Total	**283,690**	**1,799**

The decrease in Spanish and UK premium income is in line with expectation as the relevant portfolios are in run-off. The overall increase in premium income reflects the transfer of the Freyr portfolio of Belgian 'First A' insurance contracts, which is predominantly insurance account savings contracts, with minimum guaranteed rates of interest embedded into the contracts.

The following table summarises how the benefits provided under policies issued by the Company are classified under Solvency II Lines of Business.

SII Line of Business LLDAC	Benefits Provided under Policies
Life Insurance Obligations 30: Insurance with profit participation	Life benefits and minimum guaranteed savings rates
32: Other Life Insurance	Life benefits

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

There remains uncertainty regarding the final legal and regulatory arrangements to be determined as a result of the UK's vote to exit from the European Union. The Company has applied to opt into the Temporary Permissions Regime ("TPR") with the Prudential Regulation Authority ("PRA") in the UK 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.

In March 2018, the Company submitted a material change of business plan to the Central Bank of Ireland and obtained permission to acquire an additional block of Belgian risks in 2018. Approvals were received from the relevant authorities, and a transfer was affected on the 30th September 2018.

In 2018, the Company entered into an agreement with MetLife Europe dac to acquire an additional block of variable annuity, fixed term annuity, annuity and protection business. As part of this process, the Company submitted a change to its Scheme of Operations to the CBI to encompass these new business lines. The transfer was subsequently approved by the High Court with an effective date of 1st April 2019.

In March 2019, the Company entered in to an agreement to purchase Inora Life dac from Société Générale S.A. and the Company also entered in to an agreement to transfer through a Part VII UK Court process, a portfolio of annuities from Rothesay Life Plc. Both deals are subject to regulatory approvals.

A.2 *Underwriting Performance*

The following tables highlights the underwriting results for 2018 and compared to the previous year.

2018 €'000	Insurance with profit participation	Other life insurance	Total
Premium (net of reinsurance)	28,211	672	28,883
Net Claims incurred	(25,338)	(878)	(26,216)
Net underwriting performance	**2,873**	**(206)**	**2,667**

2017 €'000	Insurance with profit participation	Other life insurance	Total
Premium (net of reinsurance)	0	851	851
Net Claims incurred	0	10,480	10,480
Net underwriting performance	**0**	**11,331**	**11,331**

It should be noted that underwriting performance is net of reinsurance and that the Belgian business is classed under Solvency II as insurance with profit participation.

The premium indicated above for the Insurance with profit participation line of business relates to the backing assets for the 'First A' policies and not regular policyholder premiums. Due to the relative magnitude of the inclusion of the 'First A' policies, it is difficult to draw a comparison with the previous year, other than that the newly acquired business is significantly larger than the existing business and helps to support the cost basis of MISL.

In 2017, there was a large release in reserves, primarily due to a reduction in the expense reserve resulting from the implementation of the MISL administration agreement. Expenses in 2018 increased primarily to enhance the company's ability to onboard further portfolio transfers. There was a reinsurance commission payable to Laguna in respect of placing the reinsurance treaty with Monument Re in respect of the 'First A' policies.

The Company did not enter any Alternative Risk Transfers during the reporting period.

A.3 *Investment Performance*

A.3 (a) Income & expenses

The Company's investment income excluding expenses as reported in the Financial Statements for the year was €448 (2017: €335) which is analysed in the following table:

Investment Performance by asset class	2018 €'000	2017 €'000
Government Bonds	(121)	221
Corporate Bonds	54	114
Collective Investment undertakings	203	-
Derivatives	312	-
Total	**448**	**335**

At the end of the 2018 year, the Company's investments comprise mainly of corporate and government bonds with a significant holding of Collective Investment undertakings and a small net exposure to interest rate swaps. During 2018, the Company purchased Money Market Funds and substantially increased the bond portfolio during the year giving a more diverse source of investment returns. The investment return in 2018 increased due to investment in derivatives and Collective Investment Undertakings. There were negative returns on the government bonds in 2018, due to unrealised losses on these investments. The increase in investment expenses in 2018 arose due to the additional assets associated with the new Belgian business.

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

Not applicable.

A.3 (c) Investments in securitisation

Not applicable.

A.4 *Performance of other activities*

A.4 (a) Performance of other activities

Operating expenses during the year were €1,903 (2017 €1,063) and comprise mainly management fees for outsourcing arrangements, actuarial, audit and other professional fees, these fees have increased as a result of the endeavours involved in sourcing and on-boarding new business.

The Company reported a foreign exchange gain of €7 (2017 loss: €1,440), the Company reduced its exposure to the US Dollar during the second half of 2017.

A.5 *Any other information*

There were no dividends proposed or paid in 2018 (2017: €32,000). As a result of reinsuring the Belgian insurance portfolio the Company earned circa €3,808 in reinsurance commission.

The Company entered in to a number of interest rate swaps in 2018. All interest rate swap contracts are designed to hedge the Company's variable interest rate exposure.

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*

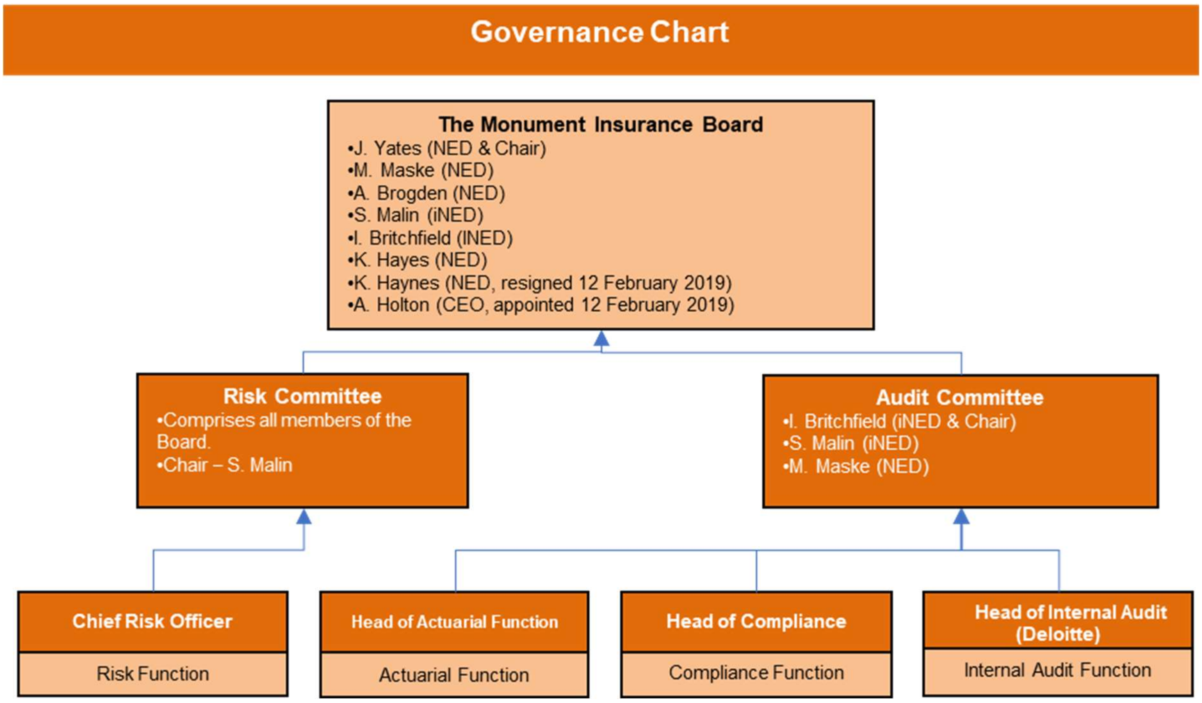
B.1 (a) Structure of administrative, management or supervisory body

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"). The Head of Actuarial Function role was previously outsourced to Milliman in Ireland and in March 2018 this role and 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 (a) 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 an Executive Director and CEO (PCF 1 & 8) a Non-Executive Director (PCF 2) resigned.

In March 2019, the Company established a Unit Linked Investment Committee

B.1 (b) 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 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 and customers.

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 the Group Remuneration Committee.

Pension scheme
Employees are entitled to join the Company's 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 (c) Material transactions

On 28 September 2018, Laguna completed the acquisition of a Belgian closed portfolio of around 4,300 flexible premium whole of life savings contracts from Ethias S.A. This portfolio is known as the "FIRST A" or "Freyr" portfolio.

In February 2019 the Company received High Court approval to acquire a portfolio of fixed term annuity, variable annuity, unit-linked and protection policies from MetLife Europe dac.

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 including the Own Risk and Solvency Assessment*

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

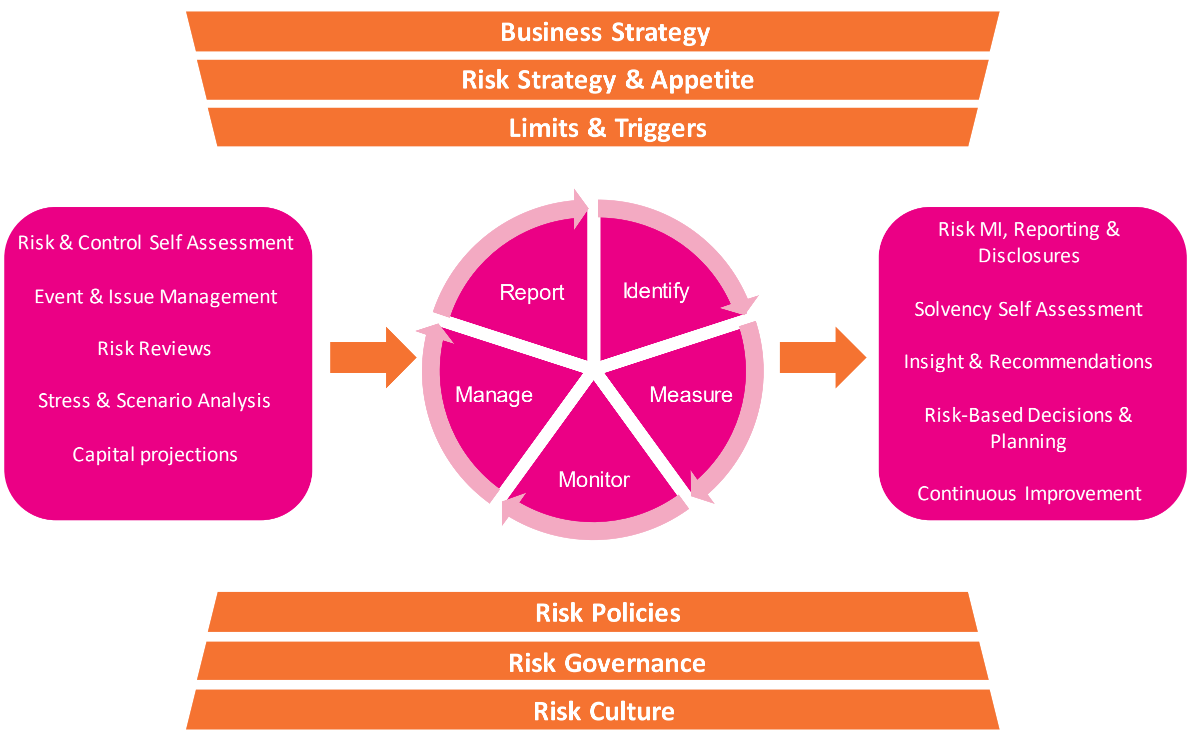
Strategy
The Board considers the business strategy of the Company in determining its risk appetite. The Board has a risk appetite statement document, that outlines the Company's appetite for each type of key risk and its strategy for accepting, managing and mitigating these risks. Risk appetite is articulated 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 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.3 (c) 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.3 (d) 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.3 (e) 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.4 *Internal Control System*

B.4 (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.4 (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 in regard to 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.5 *Internal Audit Function*

B.5 (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.5 (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.6 *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.7 *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 (from January 2019)	Policy administration services	Belgium
External	Investment management	UK
External	IT services	Ireland
External	Internal audit function	Ireland
External (from January 2019)	Investment management	UK
External (from September 2018 to January 2019)	Policy administration	Belgium

B.8 *Any Other Information*

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 period.

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 to which the company is exposed are outlined below:

Mortality risk

Mortality Risk is the risk of loss due to an increase in mortality rates. The Company is exposed to Mortality Risk through with-profit policies in Belgium and term life assurance policies in Spain and in the UK which pay benefits to insured policyholders on death.

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 accelerated serious policies and waiver of premium riders.

Lapse risk

Lapse risk arises from unanticipated (higher or lower) rate of policy lapses, terminations, or changes to paid-up status (cessation of premium payment).

Expense risk

Expense risk is the risk of loss arising through increases 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:

- Extensive use of reinsurance to reduce the Company's exposure to mortality, morbidity, lapse and expense risk.
- 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 following table shows the geographical analysis of insurance contracts on a gross and net of reinsurance basis as of 31 December 2018 and 2017:

Country	2018 Policy reserves Gross of reinsurance (€'000)	2018 Policy reserves Net of reinsurance (€'000)	2017 Policy reserves Gross of reinsurance (€'000)	2017 Policy reserves Net of reinsurance (€'000)
Belgium	109,504	11,262	0	0
Spain	711	621	0	0
UK	2,020	1,926	895	800
Total	112,235	13,808	895	800

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 following table shows the impact of key underwriting sensitivities as at 31st December 2018

Sensitivity	Solvency Coverage Ratio Impact
15% increase in mortality rates	-1%
10% increase in lapse rates	+2%
10% increase in expenses coupled with a 1% increase in inflation	-20%

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 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. The Company provides a guaranteed minimum return on Belgian with-profits policies. As interest rates fall the cost of providing this guarantee increases. This cost is partially offset by an increase in the value of the Company's investments.

Currency Risk

Currency risk is the risk of loss resulting from adverse movements in currency exchange rates. An increase in the value of Sterling relative to the Euro will increase the cost of claims arising in the UK.

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.

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

There are no material market risk concentrations.

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 following table shows the impact of key market sensitivities as at 31st December 2018:

Stress	Impact on Own Funds
1% reduction in interest rates	-1%
0.5% increase in credit spreads	-23%

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. 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.

C.3 (d) Risk concentration

The company has a significant exposure to a small number of reinsurers including a group company - 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 Company's most significant reinsurance counterparties.

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 €1,483 (2017: €1,900).

C.4 (c) Mitigating actions and controls

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 mechanisms, 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 euro 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

Operational risk is 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 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) Risk concentration

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

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

- 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

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 applied for the Temporary Permissions Regime (TPR) 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

- 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.

C.7 *Any Other Information*

The Company does not have exposure arising from off balance sheet positions or transfers to special purpose vehicles.

D. Valuation for Solvency Purposes

This section is about the Company's valuation of each asset and liability used for Solvency II purposes. The methods and assumptions used for the valuation of assets, technical provisions and other liabilities follow the approaches prescribed under Solvency II valuation rules and Irish GAAP, as appropriate.

The different accounting rules results in no differences in the value of assets, whereas the inclusion of margins for prudence with the Irish GAAP provisions leads to a higher figure for technical provisions in the financial statements. The following table provides for each major balance sheet category a comparison of the amounts reported in the Company's annual report which are reported under Irish GAAP principles and the amounts reported in the Solvency II balance sheet as at 31st December 2018.

€000s		Irish GAAP	Reclassification Differences	Valuation Differences	Solvency II
Assets					
	Investments - Bonds	81,863.0	860.7		82,723.7
	Collective Investments Undertaking	47,645.3			47,645.3
	Derivatives	131,037.8			131,037.8
	Other investments	3,085.5			3,085.5
	Reinsurance recoverables	98,426.6			98,426.6
	Reinsurance receivables	22.4			22.4
	Cash and cash equivalents	36,290.3			36,290.3
	Any other assets	884.1		(860.7)	23.4
	Total	**399,255.0**	**860.7**	**(860.7)**	**399,255.0**
Liabilities					
	Technical Provisions	115,118.6		(1,482.5)	113,636.0
	Reinsurance payables	125,052.5			125,052.5
	Insurance Payables	74.9			74.9
	Other payables	176.0			176.0
	Derivatives	129,323.1			129,323.1
	Any other liabilities	226.6			226.6
	Total	**369,971.7**	**-**	**(1,482.5)**	**368,489.1**
Excess of assets over liabilities		**29,283.3**	**860.7**	**621.80**	**30,765.8**

The following sections provide an explanation of the bases, methods and assumptions used for Solvency II valuation purposes for the main balance sheet categories, including an explanation where applicable, of the differences between the Irish GAAP financial statements and the Solvency II balance sheet.

D.1 *Assets*

D.1 (a) Investments

Investments consist entirely of investment grade, liquid, fixed maturity securities of short-to-long duration. FRS102 requires the Company to classify financial instruments measured at fair value into the following hierarchy:

1. Instruments fair valued using a quoted price for an identical asset or liability in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
2. Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
3. Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

All government and corporate bonds (€82,723) at year-end 2018 were deemed to be values in line with Level 2, and this was the case at the previous year-end (€7,349).

The Company recognises and measures financial assets and financial liabilities in accordance with IAS 39 as permitted by FRS 102.

a. Classification

The Company has designated its investments into the financial assets at fair value through profit or loss category.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading which include Bonds.

- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes.

Financial liabilities that are not at fair value through profit or loss include accounts payable and claims payable.

b. Recognition and measurement

Purchases and sales of investments are recognised on trade date, the date on which the Company commits to purchase or sell the asset.

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in fair value recognised in the profit and loss account.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

c. Fair value measurement principles.

The fair value of the financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the Profit and Loss Account in the period in which they arise.

d. Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Investments in the Solvency II balance sheet include accrued interest which represents interest earned since the last coupon or interest payment date. Accrued interest is reported as a separate category in the Irish GAAP balance sheet. In all other respects, the amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

D.1 (b) Collective Investments Undertaking

The Company has invested in some collective investment undertakings. These relate to portfolios of money market funds and also residential mortgages. The money market funds are priced on a daily basis using market prices. The residential mortgage fund offers daily prices.

There is no difference between the valuation on an Irish GAAP and Solvency II basis.

D.1 (c) Derivatives

The Company purchased a number of interest rate swaps during the year, mainly to help with the management of the Belgium 'First A' policies. The company values derivatives based on a counterparty valuation which is verified by an independent third-party valuation service. The company obtains fair values from quoted prices prevailing in active markets, where available. Otherwise, the company values the instruments using valuation techniques including discounted cash-flow analysis and option pricing models.

There is no difference in valuation of the Solvency II and Irish GAAP basis.

D.1 (d) Reinsurance receivable

The Company cedes insurance premiums and risk in the normal course of business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct insurance business being reinsured. Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

The reinsurance receivable amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

D.1 (e) Receivables

These are other non-insurance debtors and prepayments. The amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

D.1 (f) Cash & cash equivalents

This relates to deposits exchangeable for currency on demand at par and which can be used for making payments without penalty or restriction. The valuation of such deposits is equal to the actual amounts deposited with the bank.

D.1 (g) Other assets

These are other assets in the Irish GAAP balance sheet consist prepayments and receivables. Reinsurance recoveries are calculated on a basis consistent with the technical provisions. They are equal to the present value of the projected amounts of claims recovered from reinsurers minus the present value of the reinsurance premiums paid.

D.2 *Technical provisions*

The following table provides an analysis of gross technical provisions by line of business including risk margin, under Solvency II and on an Irish GAAP basis.

€000s	Solvency II	Irish GAAP	Difference
Best Estimate Liabilities	112,234.7	113,717.2	(1,482.5)
Risk Margin	1,401.3	1,401.3	-
Total	**113,636.0**	**115,118.6**	**(1,482.5)**

The difference in the Best Estimate Liabilities reflects that not all profits expected on the book are allowed to be accounted for on an Irish GAAP basis. This creates an explicit margin of prudence on an Irish GAAP basis in addition to the allowance for a risk margin.

D.2 (a) Assumptions

The key assumptions underlying the calculation of the technical provisions are the discount rates, claim rates (expressed as percentages of the reinsurers' mortality tables), expense budget and lapses rates.

The Company has a service level agreement in place with another group entity, MISL to provide the administration of the Laguna business. There is an agreed fee between MISL and the Company based on a per policy cost. In addition, the Company incurs some direct costs. These expenses are projected in line with the best estimate lapse assumption. Expenses are then inflated using an assumption of 2.5% per annum.

The lapse rates are determined with reference to the Company's past experience. The lapse experience is analysed based on the duration in force and consequently the assumptions are also varied by duration for the Legacy Term Assurance Business, and a long-term lapse assumption is applied for the Belgium 'First A' policies.

The discount rates used in the calculation of the technical provisions is the risk-free term structure provided by EIOPA. No volatility adjustment or matching adjustment is applied to these rates and transition arrangements were not used. The UK cashflows were discounted using the GBP curve, while the Spanish and the Belgian cashflows and expenses were discounted using the EUR curve.

The only significant change to the assumptions over the course of the year, was to amend the per policy expense to reflect the services agreement with MISL, from the full direct expenses that Laguna would have been exposed to previously, in addition to the inclusion of the assumptions used in the calculation of the provisions for the 'First A' policies.

D.2 (b) Methodology

The technical provisions for the Company equal the sum of the Best Estimate Liability ("**BEL**") and the Risk Margin ("**RM**"). The BEL is the present value of the future cashflows of the business calculated on a deterministic basis for the Legacy Term Assurance business, and a stochastic approach is used for the 'First A' policies. The cashflows allow for premiums and claims on the business, policy lapses, and the Company's expenses.

The BEL calculation is carried out on a gross of reinsurance basis. However, the cashflows related to the reinsurance treaties are modelled so that the reinsurance recoverables can also be calculated.

The BEL is calculated policy-by-policy or by tranche-by-tranche, whichever is the more granular, for all contracts in force at the valuation date that are within the definition of contract boundaries under Solvency II. As the UK accelerated critical illness business is considered to be outside of the contract boundary, it is not projected as part of the BEL. The discount rate is the risk-free interest rate term structure for the relevant currency.

The RM is the cost of holding the unhedgeable components of the SCR over the lifetime of the obligations (as defined in Solvency II). The cost of capital rate is specified in the regulations and is currently set to 6%. The RM is calculated according to the Solvency II cost-of-capital approach. A full projection of the applicable components of the SCR for each year in the future is not feasible given the long-term nature of the liabilities.

Article 58 of the Delegated Regulation allows for a simplified approach to be used when explicit calculation of the future SCR components is not practical. The Company uses a risk driver approach. The projected SCR is expected to move in line with the Company's projected BEL for the majority of the risk drivers, with the exception of the counterparty default and operational risk modules, which are expected to move in line with the future expected premium. The market components of the SCR are assumed hedgeable and are therefore excluded from the projected SCR in calculating the RM.

D.2 (c) Indication of the level of uncertainty

There is inherent uncertainty in any estimate of technical provisions, as the ultimate cost of claims is subject to the outcome of events which are yet to occur. Brexit has added to this uncertainty.

The main sources of uncertainty with regard to the future cost of claims include the following:
- Actual claims levels may increase
- The future economic environment may cause claims to increase
- Additional uncertainty stems from future expenses and premiums

An active approach is taken by management to identify sources of uncertainty, quantify them and take actions to mitigate their potential impact. The high level of reinsurance in place is indicative of management's approach in this regard.

D.2 (d) Matching adjustment

A matching adjustment was not applied to the valuation of the technical provisions at year-end 2018 and was not applied at year-end 2017.

D.2 (e) Volatility adjustment

A volatility adjustment was not applied to the valuation of the technical provisions at year-end 2018 and was not applied at year-end 2017.

D.2 (f) Transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure was not applied to the valuation of the technical provisions at year-end 2018 and was not applied at year-end 2017.

D.2 (g) Transitional deduction

The transitional deduction was not used by the Company at year-end 2018 and was not used at year-end 2017.

D.2 (h) Change in assumptions

The main material changes during 2018 in the relevant assumptions made in the calculation of the technical provisions of the Company was the inclusion of assumptions for the valuation of the 'First A' policies.
There were also updates made to the lapse rates for the term assurance business and an update to the expense basis for the Company.

D.2 (i) Special Purpose Vehicle

There were no special purpose vehicles at 31st December 2018 and this was the case at the previous year-end.

D.3 *Other liabilities*

D.3 (a) Any other liabilities

Any other liabilities consist primarily of accruals for expenses and taxes incurred but not yet settled. Expenses are recorded for on an accrual basis in the period in which they are incurred.

The amounts reported in the Solvency II balance sheet are the same as the Irish GAAP balance sheet.

D.4 *Alternative methods for valuation*

Due to the nature of the Company's assets, SII 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*

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E. CAPITAL MANAGEMENT

This section describes the components of the Company's Own Funds as at 31 December 2018, as well as the policies and processes the Company uses to make sure it meets all regulatory capital requirements when it manages Own Funds.

E.1 *Own funds*

'Own Funds' refers to the excess of the value of the Company's assets over the value of its liabilities, where the value of its liabilities includes technical provisions and other liabilities. Own Funds are divided into three tiers based on their permanence, and how well they can absorb losses. Tier 1 are of the highest quality.

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 the Company for managing its Own Funds. The capital management policy sets out the objectives of the Company in this regard. The key objective of this policy is to ensure that the regulatory requirement for the Solvency Coverage is met by at least 100% on an ongoing basis. Processes and reporting are in place to meet this objective. The capital management policy outlines the actions available to the management and the Board at different levels of the reporting solvency ratio.

The Basic Own Funds for the Company are calculated quarterly through the production of the technical provisions and a valuation of the Company's balance sheet. The technical provisions are valued using the policyholder information at the end of the quarter and included in the valuation of the balance sheet. The value of the Own Funds is approved by the CFO on a quarterly basis, whilst annually, the Own Funds is approved by the Board in the annual filings to the CBI. The level of Own Funds is monitored on a regular basis.

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)

€000s	Total Own Funds	Total Own Funds	Tier	Eligible Own Funds to cover SCR	Eligible Own Funds to cover SCR	Eligible Own Funds to cover MCR	Eligible Own Funds to cover MCR
	31 Dec 17	31 Dec 18		31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18
Ordinary Share Capital	635	635	1	635	635	635	635
Reconciliation reserve	(19,981)	(15,547)	1	(19,981)	(15,547)	(19,981)	(15,547)
Other Own Funds	25,678	45,678	1	25,678	45,678	25,678	45,678
Total Basic Own Funds	**6,332**	**30,766**		**6,332**	**30,766**	**6,332**	**30,766**

There are no restrictions on the availability of the Company's Own Funds other than to meet the MCR and SCR dictated by the Directive and subsequent Delegated Acts and implementing technical standards issued by EIOPA.

The Company's Equity as reported in its audited financial statements was €29,283 compared to Own Funds as reported above on a Solvency II basis of €30,776.

During the year the Company's Own Funds have increased from €6,332 to €30,776, mainly stemming from the capital injection received by the Company from its parent of €20,000 and cashflows associated to the current in-force business and also associated with the take on of the 'First A' policies.

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. The main difference arises from the value of the technical provisions, whereby there are additional margins of prudence in the methodology applied to the provisions in the financial statements, which does not hold any additional capital buffers.

€000s	31-Dec-18	31-Dec-17
Shareholder Equity per financial statements	**29,283**	**4,402**
Difference in the valuation of technical provisions	1,483	1,930
Solvency II Excess of Assets over Liabilities	**30,766**	**6,332**

E.1 (f) Basic own fund item subject to the transitional arrangements
The Company did not use any Solvency II transitional arrangements for year-end 2018 and 2017.

E.1 (g) Ancillary Own Funds
The Company did not have any ancillary own fund items at year-end 2018 and 2017.

E.1 (h) Material items deducted from Own Funds
There are no material items deducted from Own Funds, which is the same as last year.

E.2 *Solvency Capital Requirement and Minimum Capital Requirement*
The Company calculates the SCR using the standard formula. The SCR is the modelled value of a 1-in-200 year loss of Own Funds occurring in the next year. The SCR includes the Basic Solvency Capital Requirement, together with an SCR component in respect of operational risk. Given that the Company has a large amount of carried forward losses, no adjustment is made to allow for a reduction in the SCR for the loss-absorbing capacity of deferred taxes and technical provisions.

The Basic Solvency Capital Requirement is calculated via a set of EIOPA defined stresses, that are split into the following modules:

- Market
- Counterparty (default)
- Life underwriting

- Non-life underwriting
- Health underwriting

These modules are then combined using correlation factors as defined by EIOPA. The following table shows the split of the SCR at end December 2018 and at end December 2017.

€000s	2018	2017
Market	1,182	568
Counterparty (default)	1,887	67
Life underwriting	1,152	1,031
Health underwriting	-	-
Non-life underwriting	-	-
Basic Solvency Capital Requirement	**3,028**	**1,318**
Operational Risk	505	72
Solvency Capital Requirement	**3,533**	**1,390**

The Non-life and Health modules do not apply to the Company, as its balance sheet is not exposed to these risks.

E.2 (a) Use of simplified methods

The Company does not use any simplified calculations or undertaking-specific parameters to arrive at its SCR at year-end 2018, nor did it for the SCR as calculated at year-end 2017.

E.2 (b) Undertaking specific parameters and capital add-ons

No capital add-ons apply to the Company at year-end 2018, nor did it at year-end 2017. The Company did not use undertaking specific parameters, nor did it last year.

E.2 (c) MCR

The Company's MCR is €3,700, being the Absolute Minimum Capital Requirement. The "Linear MCR" is €501, and is defined as a percentage of technical provisions, with different percentages applicable dependent on the nature of the underlying liability plus a percentage of the total capital at risk. The "Combined MCR" is equal to the lower limit of 25% of the SCR (with the upper limit being 45% of the SCR). This gives a "Combined MCR" of €883. The absolute floor of €3,700k therefore applies. This floor also applied for the previous year-end.

E.2 (d) Changes since the previous reporting period

The SCR increased during the year, going from a value of €1,390 to €3,533. This is mostly due to the take-on of the Belgium 'First A' policies during the year in addition to agreeing to a quota share reinsurance treaty with Monument Re and the associated capital injection received from its parent over the year.

As the calculated MCR is less than a minimum floor, the Absolute Minimum Capital Requirement, as prescribed by EIOPA for Life Assurance Companies is applied. The MCR was set to €3,700 at year-end 2018, as was also the case at year-end 2017.

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

We do not use the duration based equity risk sub-module, nor did we use this measure last year.

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

We use the standard formula to calculate the SCR, so there are no differences between the standard formula and our internal model, and we used the standard formula to calculate our SCR in the previous year.

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

The Company remained compliant with the Minimum Capital Requirement and the Solvency Capital Requirement throughout the reporting period.

E.6 *Any other information*

E.6 (a) Capital transactions in 2018

The Company received a capital injection of €20 million from its parent MADAC during the course of the year.

Appendix 1 – List of public QRT 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;
- 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.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;

Appendix 2 - Glossary

Absolute Minimum Capital Requirement: This is an amount of money that the Company is obliged to hold as capital as an absolute floor. This is defined as €3.7m for the Company, as it is a life assurance company, under Regulation 140 of Statutory Instrument 485/2015.

Basic Own Funds: According to art. 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 art. 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 cashflows related to insurance and reinsurance obligations in force at 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.

Best estimate operating assumptions: The assumptions on all those non-financial factors which can have an impact on future cashflows, including not only the most common operating factors (i.e. mortality/longevity, disability/morbidity, lapses, expenses), but also those contractual policyholders' options that can be exercised by policyholders at pre-determined conditions.

Brexit: abbreviation 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.

Combined MCR: The Combined Minimum Capital Requirement is equal to the lower limit of 25% of the SCR (with the upper limit being 45% of the SCR).

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 service which is prescribed by the Central Bank of Ireland as a control function.

Correlation factors: Factors which reflect the relationships between the risks included in the calculation of the Solvency Capital Requirement.

Counterparty default risk adjustment: The counterparty default adjustment is the amount of reinsurance recoverables that the Company expects not to be able to recover because of the possible default of the reinsurance 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.

Head of Internal Audit: The Company's head of internal audit is outsourced to Deloitte Ireland.

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].

Investments properties: direct investments in real-estates. Moreover, this asset class includes also investments funds mainly exposed to real-estate investments.

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.

Linear MCR: The Linear Minimum Capital Requirement is equal to 2.1% of the Technical Provisions plus 0.07% of the Capital at Risk.

Laguna Life Limited (the Company, LLDAC): The regulated entity to which this report pertains.

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).

Monument Assurance designated activity company (MADAC): parent company of Laguna Life dac

Monument Insurance Services Limited (MISL): outsourced service provider and related party.

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.

Own Funds: According to art. 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 Company's 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 (RM): 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).

Solvency and Financial Condition Report (SFCR): The SFCR helps policyholders and other stakeholders better understand the Company's regulatory capital and financial position as required by the European-wide Solvency II regulations and regime.

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. In case where technical provisions are considered on a net of reinsurance basis, the amount of reinsurance recoverables net of the counterparty default adjustment is deducted from the technical provisions.

Three lines of defence: In the Three Lines of Defence model, management control is the first line of defence in risk management, the various risk control and compliance over-sight functions established by management are the second line of defence, and internal auditor is the third.