# IPB Insurance CLG
# Trading as IPB Insurance

Solvency and Financial Condition Report (SFCR)

For the Financial Year Ended 31 December 2016

# Contents

## Introduction / Summary

Solvency II, the new EU insurance legislation, aiming to provide a harmonised EU-wide regulatory regime for Insurance companies and enhance consumer protection, came into force with effect from 1 January 2016. The Solvency II Directive introduced a risk-based capital requirement the Solvency Capital Requirement (SCR), which reflects the risk profile of the insurer as well as the Minimum Capital Requirement (MCR) as determined by the legislation. The regime placed new reporting and public disclosure obligations on insurers, some of which, are required to be published on the insurer's public website or otherwise made publicly available. This document is the first version of the Solvency and Financial Condition Report ("SFCR") that is required to be published by IPB Insurance CLG ("the company).

This SFCR covers the business and performance of the company, its system of governance, risk profile, valuation for solvency purposes and capital management. The ultimate responsibility for all of these matters lies with the company's Board of Directors, with support from various governance and control functions that have been put in place to monitor and manage the operations of the business. This SFCR went through both an internal and external review and approval process, including Board approval as per the *EIOPA Guideline 37* and was subject to controls to ensure that the information contained herein is reliable, complete and consistent with information and other reports submitted to the Central Bank.

The company is a mutual non-life Insurance company established in 1926 and regulated by the Central Bank of Ireland. The principal activity of the company continues to be the provision of comprehensive insurance and risk management services. The majority of business written relates to Members who include Local Authorities, Education and Training Boards and the Health Service Executive (HSE).

The company delivered a solid performance for the year resulting in a profit before tax of €18.2 million. This growth was driven by a combination of a modest rate increase and new business from Members and a more substantial rate increase and modest growth from non-Members. Financial performance in the non-life insurance market has been challenging over the past five years. The continued deterioration in the claims environment has led to a continuing trend of higher premium as the market adjusts to stem losses and return to growth, resulting in market-wide increases to premium charged. The reduced level of the discount rate applicable to catastrophic injury claims as well as high claims frequencies and increasing Court award levels are just some of the factors affecting premium inflation. In addition to these, the impact of the Injuries Board's launch of the revised book of Quantum in 2016 and the anticipated imminent introduction of Periodic Payments Orders (PPOs) can be expected to drive further claims inflation.

In January 2016 an interim management structure was implemented, led by the company's Finance Director, Enda Devine. Following resignation of the company's previous Chief Executive Officer (CEO), a new CEO, Michael Garvey, was appointed in September 2016. The management team is now in place to deliver on the company's strategic and operational plan to meet customers' needs over the coming years.

The Risk Profile of the company is stable and is currently dominated by Underwriting and Market Risk. The company has complied with the Solvency II directive on an on-going basis throughout the year and the capital available to the company is of a very high quality, consisting wholly of retained earnings. The assets that comprise the available capital are invested in a very balanced investment portfolio with limited risk accepted within the parameters of the Board approved Risk Appetite Statement. As at 31 December 2016, the company's eligible own funds to cover the SCR and MCR stood at €808.2 million, which represented a solvency ratio of almost 4 times the SCR.

# A: Business and Performance

## A.1 Business

The company is a mutual non-life insurance company established in Ireland in 1926 and limited by guarantee. The company is a single entity and does not form part of a group. It is governed by the "Constitution of Irish Public Bodies Mutual Insurances Ltd" and the Local Authorities (Mutual Assurance) Acts of 1926, 1928 and 1935. The principal activity of the company continues to be the provision of comprehensive insurance and risk management services to its Members and customers, both in the public and private sector, with most of its underwriting risk concentrated in the Republic of Ireland. Membership consists predominantly of Local Authorities, Education and Training Board ("ETBs") and the Health Service Executive ("HSE"). The company is 100% Irish owned and is a Standard & Poor's A- stable rated insurer with excellent financial strength. It is not leveraged and it maintains large capital buffers accumulated from retained earnings. The company's current organisational structure is set out on page 11.

The company's registered office and operating address is: 1 Grand Canal Square, Grand Canal Harbour, Dublin 2 D02 P820.

The Central Bank of Ireland ("Central Bank") is responsible for the financial supervision of the company. The Central Bank's address is: Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1.

The company's external auditor is: Deloitte Chartered Accountants and Statutory Audit Firm, Deloitte and Touche House, Earlsfort Terrace, Dublin 2.

The company's financial year end is 31 December each year and it reports its results in EUR (Euro).

There has been no significant business or external events during the year.

## A.2 Underwriting Performance

As a mutual insurer our core business is to underwrite the risk exposure experienced by our Members. We must ensure that we deliver on this fundamental objective to ensure that the long-term sustainability of the business is achieved. The company's underwriting result for 2016 was below target, delivering a €3.9 million loss for the year (2015: €6 million loss). This underwriting performance is a direct result of the continuing upward trend in claim frequency, claim severity and claim management costs.

Reflecting weak underwriting performance in recent years, the company introduced a moderate rate increase of 5.6% for Members in 2016. The reported net combined operating ratio of 104% means that further adjustments to premiums are needed in the short-to-medium term to reflect recent claims experience. An average rate increase of 15% was applied across the membership base in 2017.

As the stakeholders of the business it is important that Members are protected by having a mutual insurer that delivers a positive underwriting result on a consistent basis. The prudent pricing of Member and non-Member risks will strengthen the overall underwriting performance of the mutual, which is critical to its long-term sustainability. Gross written premiums (GWP) for the year were in line with growth forecasts at €124.9 million, up 10% or €11.8 million on the previous year (2015: €113.1 million). The largest contributor to this GWP growth was general liability insurance, generating a total of €87.8 million during the year (2015: €78.7 million). New business was another factor driving premium income growth, which was achieved by a steady development of markets closely aligned to our existing Member and public services sectors.

Claim frequency has risen over the prior year with the principal uplifts within the Liability business lines. In general, Public Liability continues to represent the majority of IPB claims at 62% of notified claims in 2016 and 67% of the value of those settled. Employers Liability claims represent 4% of claims notified and 14% of the value of those settled in the same period. The company's full year total net claims incurred increased marginally by 2.4% year-on-year, coming in at €88.8 million (2015: €86.8 million), however, excluding a once-off claims portfolio transfer in 2015, net claims incurred in 2016 has increased by over 15% driven by increased claim frequency coupled with an upward shift in claims severity.

Commission income was slightly down on the prior year, delivering a result of €6.6 million (2015: €6.8 million). Commission income is earned on reinsurance contracts entered with a panel of global reinsurers.

The following tables shows an analysis of the underwriting result by product and by location, compared to the prior year, as per the year-end financial statements:

| Analysis of underwriting result by product<br>2016 | Third party liability €'000 | Fire and other damage to property €'000 | Motor €'000 | Other €'000 | Total €'000 |
|---|---|---|---|---|---|
| Gross written premiums | 87,848 | 25,115 | 7,738 | 4,171 | 124,872 |
| Premium ceded to reinsurers | (5,518) | (14,766) | (574) | (308) | (21,166) |
| Change in the gross provision for unearned premiums | (5,887) | 1,942 | (365) | 481 | (3,829) |
| Change in the reinsurance provision for unearned premiums | - | - | - | - | - |
| **Net earned premiums** | **76,443** | **12,291** | **6,799** | **4,344** | **99,877** |
| Gross claims paid | (59,821) | (8,924) | (8,345) | (1,230) | (78,320) |
| Claims recovered from reinsurers | 5,843 | 5,298 | 3,276 | - | 14,417 |
| Gross change in contract liabilities | (14,476) | 3,367 | (2,758) | (399) | (14,266) |
| Change in contract liabilities recovered from reinsurers | (5,475) | (1,223) | (3,960) | - | (10,658) |
| **Net claims incurred** | **(73,929)** | **(1,482)** | **(11,787)** | **(1,629)** | **(88,827)** |
| **Technical underwriting result - net** | **2,514** | **10,809** | **(4,988)** | **2,715** | **11,050** |
| Commission income | 654 | 5,858 | 38 | 26 | 6,576 |
| Operating expenses | (14,095) | (4,030) | (1,242) | (669) | (20,036) |
| Underwriting expenses | (905) | (507) | (51) | (75) | (1,538) |
| **Underwriting result** | **(11,832)** | **12,130** | **(6,243)** | **1,997** | **(3,948)** |
| Net investment return | 16,263 | 4,650 | 1,433 | 772 | 23,118 |
| Other costs | (704) | (201) | (62) | (33) | (1,000) |
| **Profit before taxation** | **3,727** | **16,579** | **(4,872)** | **2,736** | **18,170** |
| **Net insurance liabilities** | **429,848** | **7,529** | **23,324** | **4,489** | **465,190** |

| Analysis of underwriting result by product<br>2015 | Third party liability €'000 | Fire and other damage to property €'000 | Motor €'000 | Other €'000 | Total €'000 |
|---|---|---|---|---|---|
| Gross written premiums | 78,685 | 24,067 | 6,935 | 3,449 | 113,136 |
| Premium ceded to reinsurers | (3,254) | (13,654) | (477) | (242) | (17,627) |
| Change in the gross provision for unearned premiums | (970) | 301 | (167) | (26) | (862) |
| Change in the reinsurance provision for unearned premiums | - | - | - | - | - |
| **Net earned premiums** | **74,461** | **10,714** | **6,291** | **3,181** | **94,647** |
| Gross claims paid | (57,620) | (5,412) | (6,527) | (1,050) | (70,609) |
| Claims recovered from reinsurers | (636) | 1,536 | - | - | 900 |
| Gross change in contract liabilities | 3,462 | (5,132) | 3,796 | (176) | 1,950 |
| Change in contract liabilities recovered from reinsurers | (23,821) | 4,506 | 304 | - | (19,011) |
| **Net claims incurred** | **(78,615)** | **(4,502)** | **(2,427)** | **(1,226)** | **(86,770)** |
| **Technical underwriting result - net** | **(4,154)** | **6,212** | **3,864** | **1,955** | **7,877** |
| Commission income | 544 | 6,241 | 30 | 30 | 6,845 |
| Operating expenses | (13,609) | (4,163) | (1,199) | (597) | (19,568) |
| Underwriting expenses | (745) | (336) | (27) | (31) | (1,139) |
| **Underwriting result** | **(17,964)** | **7,954** | **2,668** | **1,357** | **(5,985)** |
| Net investment return | 46,202 | 14,131 | 4,072 | 2,025 | 66,430 |
| Other costs | (696) | (213) | (61) | (30) | (1,000) |
| **Profit before taxation** | **27,542** | **21,872** | **6,679** | **3,352** | **59,445** |
| **Net insurance liabilities** | **404,010** | **11,616** | **16,241** | **4,570** | **436,437** |

| Analysis of underwriting result by location | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Republic of Ireland €'000 | Northern Ireland €'000 | Total €'000 | Republic of Ireland €'000 | Northern Ireland €'000 | Total €'000 |
| Gross written premiums | 122,741 | 2,131 | 124,872 | 110,114 | 3,022 | 113,136 |
| Premium ceded to reinsurers | (20,962) | (204) | (21,166) | (17,243) | (384) | (17,627) |
| Change in the gross provision for unearned premiums | (4,198) | 369 | (3,829) | (339) | (523) | (862) |
| Change in the reinsurance provision for unearned | - | - | - | (3) | 3 | - |
| **Net earned premiums** | **97,581** | **2,296** | **99,877** | **92,529** | **2,118** | **94,647** |
| Gross claims paid | (77,912) | (408) | (78,320) | (70,399) | (210) | (70,609) |
| Claims recovered from reinsurers | 14,347 | 70 | 14,417 | 895 | 5 | 900 |
| Gross change in contract liabilities | (11,460) | (2,806) | (14,266) | 3,234 | (1,284) | 1,950 |
| Change in contract liabilities recovered from reinsurers | (12,583) | 1,925 | (10,658) | (19,011) | - | (19,011) |
| **Net claims incurred** | **(87,608)** | **(1,219)** | **(88,827)** | **(85,281)** | **(1,489)** | **(86,770)** |
| **Technical underwriting result - net** | **9,973** | **1,077** | **11,050** | **7,248** | **629** | **7,877** |
| Commission income | 6,537 | 39 | 6,576 | 6,744 | 101 | 6,845 |
| Operating expenses | (19,694) | (342) | (20,036) | (19,045) | (523) | (19,568) |
| Underwriting expenses | (1,529) | (9) | (1,538) | (1,129) | (10) | (1,139) |
| **Underwriting Result** | **(4,713)** | **765** | **(3,948)** | **(6,182)** | **197** | **(5,985)** |

Appendix 1 and Appendix 2 provide further detail on the underwriting performance as per the year end *S.05 Premium, claims and expenses* Templates and the *S.19.01.21 Non-Life Insurance Claims* Template.

## A.3 Investment Performance

2016 can be categorised as a year of extreme volatility in both equity and bond markets. Initially markets were impacted by the prospect of a slowdown in the Chinese market, followed in June by the market turbulence post the UK referendum on exiting the European Union (Brexit), and finally the outcome of the elections in the United States. Bond yields hit historically low levels as a result of the ECB's Quantitative Easing programme, however, this appears to be coming to an end and yields have hit an inflection point and have now started to rise. The investment return was ahead of target by 28%, delivering a €23.1 million profit for the year (2015: €66.4 million).

The following table shows an analysis of the investment return, compared to the prior year, as per the financial statements.

| Analysis of net investment return<br>2016 | Investment income €'000 | Net realised gains/ (losses) €'000 | Net unrealised gains/ (losses) €'000 | FX gains/ (losses) €'000 | Investment expenses €'000 | Total investment return €'000 |
|---|---|---|---|---|---|---|
| Investment properties | 4,343 | - | 558 | - | - | 4,901 |
| At fair value through profit or loss | | | | | | |
| - Debt securities | 14,594 | (356) | 3,444 | 813 | - | 18,495 |
| - Equity securities | 5,146 | 15,859 | (19,334) | (4,790) | - | (3,119) |
| Loans and receivables | | | | | | |
| - Loans to local authorities | 134 | - | - | - | - | 134 |
| - Deposits with credit institutions | 585 | - | - | - | - | 585 |
| Cash and cash equivalents | (220) | - | - | (274) | - | (494) |
| Derivatives | - | - | - | 3,777 | - | 3,777 |
| FX gain/(loss) on insurance business | - | - | - | (267) | - | (267) |
| Investment expenses | - | - | - | - | (894) | (894) |
| **Total net investment return** | **24,582** | **15,503** | **(15,332)** | **(741)** | **(894)** | **23,118** |

| Analysis of net investment return<br>2015 | Investment income €'000 | Net realised gains/ (losses) €'000 | Net unrealised gains/ (losses) €'000 | FX gains/ (losses) €'000 | Investment expenses €'000 | Total investment return €'000 |
|---|---|---|---|---|---|---|
| Investment properties | 1,787 | - | 3,086 | - | - | 4,873 |
| At fair value through profit or loss | | | | | | |
| - Debt securities | 16,285 | 606 | (4,498) | (1,325) | - | 11,068 |
| - Equity securities | 4,213 | 34,181 | 10,677 | 4,758 | - | 53,829 |
| Loans and receivables | | | | | | |
| - Loans to local authorities | 162 | - | - | - | - | 162 |
| - Deposits with credit institutions | 1,677 | - | - | - | - | 1,677 |
| Cash and cash equivalents | (87) | - | - | (166) | - | (253) |
| Derivatives | - | - | - | (3,393) | - | (3,393) |
| FX gain/(loss) on insurance business | - | - | - | (6) | - | (6) |
| Investment expenses | - | - | - | - | (1,527) | (1,527) |
| **Total net investment return** | **24,037** | **34,787** | **9,265** | **(132)** | **(1,527)** | **66,430** |

The company has no gains / losses recognised directly in equity, nor does it engage in any securitisation.

Company assets are invested in highly rated investments in accordance with the "prudent person principle". Investment decisions are made in the best interests of policyholders and other beneficiaries. Consequently, the fundamental objective is that all valid claims and expenses are paid as they fall due. In practice assets are allocated into two notional portfolios which have different objectives – The Matched Portfolio and The Risk Portfolio. These objectives are discussed in more detail later in this Report.

## A.4 Performance of other Activities

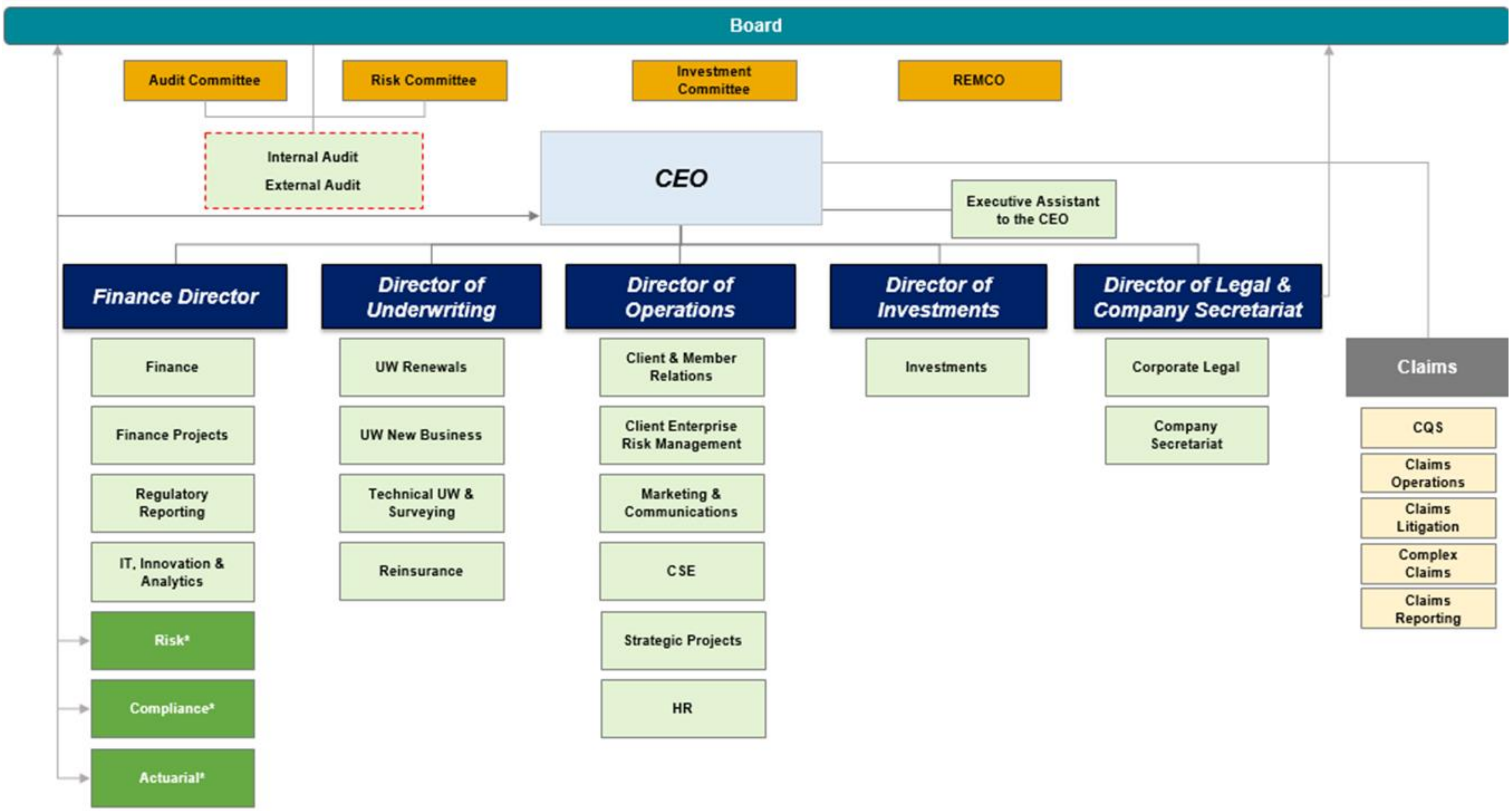
Operating expenses remained consistent year-on-year, with a marginal increase for the current year. Total operating expenses amounted to €20 million for the year (2015: €19.6 million). The largest component of operating expenses related to staff costs.

## A.5 Any other Information

During 2016, the company paid a dividend to its Members of €15 million (2015: €15 million), underlining the company's commitment to its Members. The dividend is payable to current Members in proportion to the gross premium income derived from them in the most recent financial year.

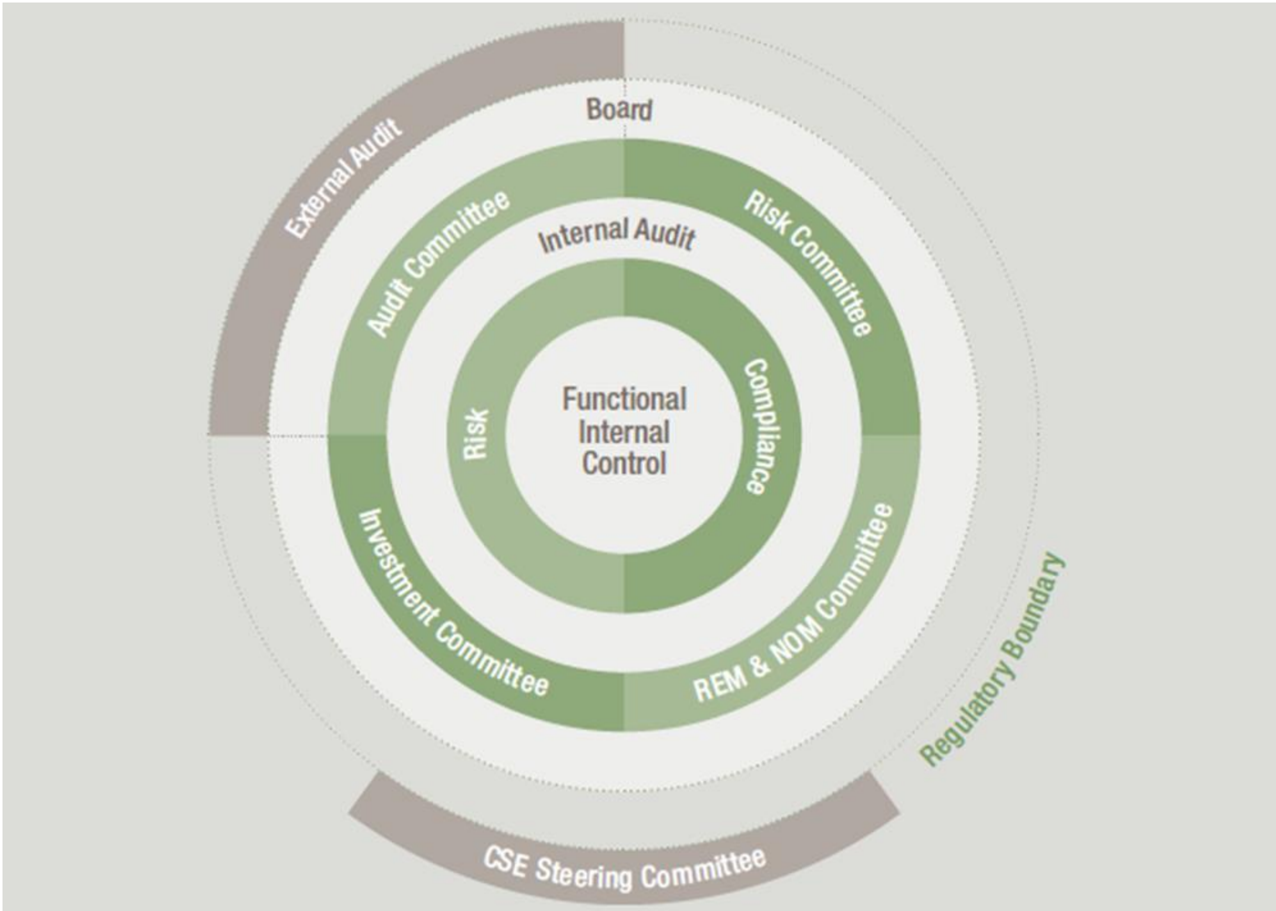
# B: System of Governance

## IPB Insurance CLG – Organisational Structure




* Risk, Compliance and Actuarial have direct reporting to CEO, Board, Audit & Risk Committee & Client & Member Relations has a direct reporting line to the CEO

** Internal & External Audit have direct reporting to the Board and Audit Committee – also have a relationship with Risk, Compliance and Finance




## B.1 General Information on the System of Governance

### Role of the Board of Directors

The key role of the Board of Directors involves leadership and oversight of the Chief Executive Officer's effective implementation of the business's strategy. The Chairman, George Jones, is responsible for leading the Board of Directors and ensuring the full participation of each director. Constructive challenge by the Board of Directors to management is critical in providing assurance to the company's stakeholders that the business and its management team achieve appropriate governance standards while meeting the goals and objectives of the business.

### Board of Directors Composition

The composition of the Board of Directors is consistent with regulatory requirements and responsive to the evolution of the company's business activities. The Board of Directors, following Central Bank consultation on its optimum composition, comprises of four group non-executive Directors (GNED) (namely George Jones, Michael McGreal, Michael Fitzgerald and Sean O'Grady), three Independent Non-Executive Directors (INED) (namely Garry Cullen, Dermot Gorman and John Smyth) and two Executive Directors, namely the Chief Executive Officer (CEO), Michael Garvey and the Finance Director, Enda Devine. Michael Garvey was engaged in his role as Chief Executive Officer in September 2016. There is a clear division of responsibilities between the Chairman and the CEO and the Board of Directors has the strength and balance to ensure that all aspects of the business are addressed. The skills of the INEDs assist with the development of the business while the GNEDs ensure maintenance of the experience and continuity of the company's strong legacy. The Executive Directors have a significant amount of technical, financial and insurance experience and they are tasked with delivering on the strategic objectives of the company and in doing so, oversee the day to day operations of the company. Each member of the Board participates in a comprehensive training and development programme to ensure continuous skills enhancement.

## Board Committees

The company has in place a comprehensive set of terms of reference, policies and procedures supporting all aspects of its governance and control framework and is appropriate to its nature, size and complexity, the Board of Directors delegates authority to the following Board Committees to complete separate programmes of work on its behalf whilst ensuring regular reporting with a clear terms of reference:

- **A Risk Committee,** the role of which is to establish, document and devolve throughout the company a comprehensive risk management framework. The Risk Committee assists the Board with its oversight of risk and risk management. It meets at least four times per year and follows a structured approach that covers all key risk types within the business, including emerging and strategic risks. The Risk Committee is advised by subject matter experts on risk management, underwriting, claims, investments and compliance.
- **An Audit Committee,** the main role of which includes responsibility for maintaining oversight of the company's financial reporting, internal controls, audit processes and processes for monitoring legal and regulatory compliance. The Audit Committee also reviews the escalation process for employees in accordance with the Whistleblowing Policy outlined in the company's Ethics Policy. The Audit Committee Chairman has outlined his role and the Audit Committee's objectives over the coming year as "continuing to oversee assurance in an enhanced control environment by encouraging challenging and constructive interrogation of submissions, assessing external environmental issues and their potential impact on IPB and corresponding control implementation, ensuring the ongoing effectiveness of audit functions and the integrity of financial reporting to Members and other stakeholders, and providing the Board with confirmation of apt advancements in this area. The Committee members have actively engaged in discharging their responsibilities during the year and our priorities in maintaining this momentum include overseeing a targeted approach to addressing the legal and claims environment challenges and ensuring IPB's continual commitment to organisational governance."
- **An Investment Committee** with responsibility for ensuring discharge by the Board of Directors' of its oversight responsibilities in respect of the conduct of the company's investment management operations within approved investment policy and risk parameters. The Investment Committee also monitors the compliance of the company's investment activities with legislative provisions and regulatory requirements.
- **A Remuneration and Nomination Committee** with responsibility for recommending succession planning for the Board and Management for Board approval. This includes overseeing the fitness and probity process associated with the appointment or removal of Board members and any head of control function by conducting an annual review of their compliance with requisite standards. The Remuneration and Nomination Committee is also responsible for Board recommendation of the company's Remuneration Policy, non-executive Director fee structures, and the remuneration of Executive Directors and individuals remunerated per criteria specified in its Terms of Reference.

- A Corporate Social Engagement (CSE) Steering Committee with responsibility for keeping under review and making appropriate recommendations to the Board of Directors with regards to the company's Management of Corporate Social Engagement.

### Independent Control Functions

The company has also established the four key independent control functions required under the Corporate Governance Requirements for Insurance Undertakings 2015 and in accordance with Articles 44, 46, 47 and 48 of the Solvency II Directive – Risk Management, Compliance, Actuarial and Internal Audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board of Directors in relation to the company's control framework. Each of the independent functions have direct reporting lines to the Board of Directors, as well as the relevant Board of Directors Committees. These functions are discussed in more detail later on in this report.

### Remuneration, Employee Benefits and Practices

The Remuneration Policy is underpinned by a philosophy of encouraging the company's long-term performance and value creation for stakeholders ensuring correspondence with best practice and regulatory requirements and consistency with and promotion of sound and effective risk management on an individual basis and with respect to the business as a whole having regard to its mutual status.

The key principles informing the company's Remuneration Policy support the company's approach to ensuring that base pay is internally equitable by targeting base pay at levels compatible with the Irish Insurance and Financial Services sectors and they are set out below as including to:

- reflect its commitment to compliance with legal and regulatory requirements, including but not limited to the Corporate Governance Requirements for Insurance Undertakings 2015, the Central Bank's Guidelines on Variable Remuneration Arrangements for Sales Staff issued in 2014, the EIOPA Guidelines on the System of Governance and the Solvency II Delegated Regulation (EU) 2015/35;

- create an integrated Remuneration and Benefits Framework consistent with the remuneration philosophy and deliver apt remuneration packages. These are based on annual reviews and approvals by the Remuneration Committee and the Board of base pay benchmark setting, total compensation packages to bonus pools, bonus payments and benefits packages and ad hoc increases and payments arising per risk appetite and effected by apt governance fora per the company's Merit and Retention Increase Protocol approval process. Internal equity and market competitiveness are ensured through periodic participation in external market reviews and benchmarking exercises with support from suitably qualified and independent external advisors appointed by the Remuneration Committee and Board;

- support the company in attracting, developing and retaining motivated and appropriately skilled employees in a competitive market through the delivery of appropriate remuneration packages;

- support employees in creating sustainable results in the interests of stakeholders and clearly link the interests of key stakeholders and employees through an apt Remuneration and Benefits Framework;

- support the annual work cycles of the Committee and the Board, ensuring periodic reviews to inform engagement by appointed independent advisors in providing independent and objective advice;

The company provides employees, including Executive Directors, with a range of benefits including income protection and death in service benefits. Employees are also provided with health insurance contributions and contributions payable into Personal Retirement Savings Accounts (defined contribution plans) based on percentage of salary, to which they can voluntarily contribute to suit their circumstances whilst early retirement schemes are not available. A comprehensive Learning and Development framework, supported by educational assistance and comprising internal and external training and leadership development, is available to employees. Share options or shares do not form part of the available employee benefits however the company operates an annual bonus plan for employees payable in addition to contractual remuneration. The focus of the company's approach to variable remuneration, which is secondary in terms of quantum and certainty of availability relative to fixed remuneration, is on ensuring sound and effective risk management and avoidance of potential perception or encouragement of excessive risk taking. This is achieved through framing eligibility to participate on satisfactory company and individual performance, inclusion of financial and non-financial measures and with submission of the company Performance Objectives against which overall financial performance is measured and evaluated to the Remuneration Committee and the Board for annual review and approval.

The company, through the Remuneration and Nomination Committee of the Board of Directors, continually reviews the Remuneration and Benefits Framework in place to ensure that it is appropriate in the context of all regulatory and compliance requirements including the Corporate Governance Requirements for Insurance Undertakings 2015, the Central Bank of Ireland's Guidelines on Variable Remuneration Arrangements for Sales Staff issued in 2014, the EIOPA Guidelines on the System of Governance and the Solvency II Delegated Regulation (EU) 2015/35 (including Solvency II Article 275 requirements) and other relevant considerations.

### Material Transactions with Members during the reporting period

The company issued a number of loans to local authorities for the purpose of developing local community initiatives (including local authority premises, roads and amenities). The company ceased providing these loans with effect from 2009, therefore there were no loan advances made to local authorities during the year. Loan capital repayments and interest payments made by the local authorities during the year amounted to €2.5 million (2015: €2.7 million). Loan balances outstanding at year end amounted to €23.5 million (2015: 25.9 million). During the year, the company also paid a Members' dividend of €15 million (2015: €15 million) and a social dividend of €1 million (2015: €1 million).

## B.2 "Fit and Proper "requirements

The company has always been committed to ensuring its employees are of the highest calibre. The company's Fitness & Probity & Minimum Competency Code Policy illustrates its commitment to adherence to legal and regulatory requirements in engaging personnel and reinforces the philosophy of ensuring that all employees perform their duties with integrity and a strong sense of ethical responsibility.

Its provisions apply to any employee, non-employees such as Director, candidates or third party service providers (collectively referred to as Employees) of the company who performs duties which are considered, by the Central Bank to involve either a Controlled Function (hereafter a 'CF') or a Pre-approval Controlled Function (hereafter a 'PCF'). Its provisions apply from the beginning of the recruitment process and due regard to them must be considered as mandatory during any recruitment of persons performing duties involving a CF or PCF, and the application of the Fitness & Probity Standards (hereafter "the Standards") remain applicable and must be maintained throughout their employment with the company.

## Standards

In order to meet the Fitness & Probity (hereafter 'F&P') regulatory requirements, the company does not allow a person to perform duties involving a CF or a PCF, unless satisfied, on reasonable grounds, that he/she meets the Central Bank Standards. As an employer, the company is responsible for ensuring that each of its personnel meets the F&P Standards, on entry to the financial services industry and throughout their career.

The company is satisfied of its ability to judge whether an individual has the competence, experience and ability to understand the technical requirements of the business, the inherent risks and the management processes required to conduct the operations of the company effectively. Whereas common standards of probity apply regardless of the size or activity of the company, the competence requirements will vary to reflect the nature of the post and the size and activity of the company and the applicable approach ensures that the company undertakes necessary due diligence to ensure satisfaction of the Standards. In meeting the Standards a person performing duties involving a PCF or a CF role in the company must be:

- Competent and capable;
- Honest and ethical and act with integrity; and
- Financially sound.

The company undertakes a number of procedures to ensure the above requirements are met and to ensure compliance with the Minimum Competency Code and the company's F&P Policy. Such procedures include the following:

### *Heads of Department*

Heads of business functions within the company have overall responsibility for ensuring that their respective departments are aware of and adhere to this Policy and to provide relevant information to the Human Resources Department and the Compliance Department as requested in relation to compliance with the Policy.

### *Compliance Department*

The Compliance Department ensure that the Policy is circulated to all employees and that education and training in relation to the Policy is provided as required. Compliance also provides oversight with respect to the Strandum Compliance Module. In addition, the Compliance Department will review compliance with the Policy as part of the overall compliance monitoring programme and ensure adherence to regulatory requirements.

### *Human Resources Department*

The Human Resources Department are responsible for the implementation and maintenance of the company's Recruitment and Selection Policy which sets out the process for the recruitment of internal and external candidates to the company. The Recruitment & Selection Policy sets out the due diligence to be performed when recruiting for PCF and CF roles by management and HR.

In addition, the Human Resources Department is responsible for the maintenance of the internal registers related to F&P. The F&P Register must record all PCF and CF roles, both present and past. These registers are now maintained on a HR Compliance Module.

The Human Resources Department must ensure that the contract of employment for all new hires and appointees (whether PCF or otherwise) provides that the offer is subject to the necessary pre-employment fitness and probity screening.

### *Company Secretarial*

The Company Secretarial Department is responsible, in conjunction with the Directors themselves, for ensuring INEDs and GNEDs are in compliance with this Policy and the relevant regulatory requirements.

### *Remuneration Committee*

In accordance with the Terms of Reference of the Remuneration Committee, the proposed arrangements particular to all employees categorised as PCF, CF1, must be presented to the Remuneration Committee for approval and to the Board for noting before they commence employment with the company. The Remuneration Committee must be provided with the following documents so as to assist in informing the decision making process:

- Company Recruitment Requisition Form setting out the category for Remuneration Committee Approval
- CV listing qualifications
- Role Profile with relevant PCF, CF1 designations
- Proposed Remuneration terms and benefits in relation to the role and candidate
- IQ declaration (if PCF role), and
- Any other documentation as may be required.

### *Due Diligence*

The company is required to undertake due diligence to ensure that the F&P standards are met. The Recruitment & Selection Policy sets out the due diligence to be performed when recruiting all staff members including PCF and CF role holders.

The company conducts due diligence via:

- examination of the candidates CV
- interview process
- reference checking
- evidencing professional qualifications and professional body registration
- evidencing MCC compliance including compliance with CPD requirements
- F&P declaration
- role profile and ability to discharge concurrent responsibilities
- financial soundness
- previous disqualifications, restrictions or administrative sanctions

In the event that any material items are identified during the due diligence process this will be duly addressed and appropriately actioned. The company may engage with an external provider to assist with conducting due diligence.

Offers of employment are subject to full compliance being met by the candidate through F&P standards and guidelines, reference, professional memberships and qualification, court judgements checking.

This checking process is conducted by an external provider on behalf of the company. This service provides an independent, objective check in relation to candidates.

## Outsourced Functions

### *Pre-approved Control Functions (PCF)*

The company requires that all persons performing duties involving a PCF role on an outsourced basis are compliant with the F&P Standards.

Where performance of such duties is outsourced to an 'unregulated entity', the company requires the identity notification of the individual who will perform them on an outsourced basis as it obtains the Central Bank's approval prior to the appointment of any such individual.

### *Control Functions*

Where performance of duties involving a CF function is outsourced to an 'unregulated entity', the company requires the unregulated entity to be able to identify the individuals who perform such duties, and assess whether they are compliant with the F&P Standards and obtain agreement to abide by them.

The company requires an outsourced unregulated entity performing a CF role on its behalf to furnish the company with confirmation of all F&P requirements (including sample documentation as to how the compliance is adhered to for each person) and to provide written confirmation that the individuals performing the CF have agreed to abide by the F&P Standards.

### *Ongoing Nature of Fitness and Probity requirements*

F&P requirements are relevant and must be adhered to for the duration of an individual's employment with the company. On an annual basis, the company requires all relevant employees to complete a F&P declaration and confirmation so that any material changes to the employees F&P status can be communicated to the company. All F&P declarations and confirmations are submitted to HR for retaining on the employees file.

## B.3 Risk Management System including the Own Risk and Solvency Assessment

### *Risk Management Structure*

Risk management is central to safeguarding the promise that the company makes to its policyholders and Members and in the interests of all stakeholders, risk management seeks to:

- Protect the company's operations by promoting a sound culture of risk awareness as well as disciplined and informed risk taking
- Protect the company's strong capital base by monitoring that risks taken are not beyond the company's risk appetite
- Support decision making processes by providing consistent, reliable and timely risk information

The Board of Directors is responsible for ensuring that risk is effectively managed by those involved in running the company on a day-to-day basis. The Board of Directors establishes prudent and effective controls to manage risk via the risk framework and sets the company's appetite for risk via the Risk Appetite Statement.

The Risk Committee assists the Board of Directors with its oversight of risk and risk management. It meets at least four times per year and follows a structured approach that covers all key risk types within the business, including emerging and strategic risks. The Risk Committee is advised by subject matter experts on risk management, underwriting, claims, investments and compliance.

Risk management is core to all business activities and staff are guided by documented policies and procedures, underpinned by an active and embedded risk management function, intranet, fora and training.

### *The Risk Framework*

The risk framework describes the company's system to identify, measure, monitor and manage risk in the business. It ensures that risk management is aligned with the company's strategic objectives and it is guided by seven key principles. Implementation of the risk framework relies on a system of integrated risk management tools that promote a culture of risk management throughout the company.

The Board of Directors articulates risk appetite in order to ensure the solvency of the company at all times. Risk appetite is ultimately expressed in terms of detailed operating limits that guide the day-to-day activities of those entrusted to run the business. This enables the company to pursue its strategic objectives while limiting risk in a transparent and structured manner. All risks are monitored regularly and certain risk types are monitored daily. Procedures are in place to reduce risk levels should operating limits be threatened and a system of intermediate warning points is used to ensure that remedial action can be taken long before a breach is threatened as shown below:


*Within Risk Appetite Status*

The Company is normally expected to operate within Risk Appetite.

*Risk Appetite Proximity Warning*

A Risk Appetite Proximity Warning indicates that a Risk Appetite Alert is threatened and corrective action is required.

In the event of a Risk Appetite Proximity Warning the head of risk and the relevant business area shall take appropriate immediate steps to return the company to risk appetite. The head of risk shall inform the CEO without undue delay and in any case within 2 business days of detection. The head of risk and CEO shall decide on the need for further escalation. In any case, the Proximity Warning shall be noted at the next Risk Committee meeting and reporting to the Risk Committee shall continue until risk appetite is restored.

*Risk Appetite Alert*

A Risk Appetite Alert indicates that a Risk Appetite Limit breach is threatened and swift and decisive corrective action is required.

In the event of a Risk Appetite Alert the head of risk and the relevant business area shall take the appropriate immediate steps to return the company to risk appetite. The head of risk shall consider engaging the company's Incident and Error Management Policy. The head of risk must inform the Risk Committee and any other relevant internal stakeholder without undue delay and in any case within 3 business days of detection. If Risk Appetite has not been restored the Risk Committee must meet within 5 business days of being informed of an Alert and the Risk Committee will be furnished with a report giving full details of the Alert together with a recommended plan to restore Risk Appetite. The Risk Committee shall decide on further escalation to the Board. In any case, the Risk Appetite Alert is noted at the next Board meeting. Reporting continues until risk appetite is restored, at a reporting frequency and level of detail to be determined by the Risk Committee.

*Risk Appetite Limit Breach*

A Risk Appetite Limit breach is serious and requires prompt action at Board level.

In the event of a Risk Appetite Limit breach the head of risk must engage the company's Incident and Error Management Policy informing the Board without undue delay and in any case within 2 business days of detection. The Board shall be briefed and furnished with a recommended plan to return to Risk Appetite. The Board must agree actions within 3 business days of being informed of a breach. The details of the breach and the planned actions to remedy the breach must be communicated to the Central Bank of Ireland by the Board promptly in writing and no later than 5 business days of the Board becoming aware of the breach. Reporting is carried out until the breach is closed, at a reporting frequency and level of detail to be determined by the Board.

The Risk Committee and the Board of Directors are regularly and at least annually informed by a comprehensive Risk Report and subject experts from relevant areas of the company. The Risk Report covers all risk types and includes detailed risk metrics and other data on key risk exposures. It also captures detailed information at the individual risk level. A dynamic Operational Risk Register is the key tool in the management of operational risk. The risk management function engages with staff at all levels to ensure a detailed understanding of the various operational risks to which the company is exposed. The management of risk is further facilitated by a robust incident management policy promoting the prompt reporting and root cause analysis of incidents and errors.

Risk and other company policies define the formal risk management and risk control requirements of the company. The effectiveness of policies and key controls is regularly reviewed and tested.

### *Own Risk and Solvency Assessment (ORSA)*

The company uses the Solvency II Standard Formula to quantify risks in the business. The appropriateness of the Standard Formula is assessed as part of the Own Risk and Solvency Assessment (ORSA) process.

The ORSA is the entirety of the processes employed to identify, assess, monitor, manage, and report the material risks that the company faces, or may face. It expresses overall solvency needs in quantitative terms where possible, complemented by a qualitative description of the material risks.

The ORSA determines the overall capital necessary to achieve the strategic objectives of the company under a range of scenarios, including ensuring that solvency needs are met at all times. It also considers deviations from the assumptions underlying the SCR calculation.

The scope of the ORSA extends to all material risks and capital needs that the company faces, or may face, and extends beyond regulatory capital requirements. The scope of the ORSA includes an assessment of:

- Overall solvency needs given the risk profile, risk appetite and strategic objectives
- Continuous compliance with capital requirements
- The significance with which the risk profile deviates from the Capital Model

The ORSA shall be conducted in a manner that is proportional to the nature, scale and complexity of the risks to which the company is exposed. The ORSA is conducted throughout the year on an annual cycle and relates to a 12 month period.

The ORSA serves as a tool to enhance the company's understanding of the interrelationships between its risk profile and capital needs. The ORSA considers all reasonably foreseeable and relevant material risks, is forward-looking and congruent with the company's business and strategic planning.

The ORSA process encompasses governance, policy and key business processes and consequently, it relies on frequent input from a large group of people which is facilitated by the head of risk being well embedded in the business. Formal documentation of processes and outcomes is detailed throughout the business, spanning various critical business processes including strategic objective setting, business planning, risk appetite calibration, risk management and capital management. The ORSA is subject to regular independent review, with annual review by the head of actuarial function. The conclusions drawn from the reviews are reported to the Risk Committee and the Audit Committee. To this end, an opinion on the ORSA is completed separately and provided to the Risk Committee and the Board of Directors for discussion. The ORSA is owned and subject to approval by the Board of Directors on an annual basis.

## B.4 Internal Control System

### Description of Internal Control System

The Board of Directors is responsible for the company's internal controls system and its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement and/or loss. In accordance with the Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings 2015, the Board of Directors confirms that there is an on-going and regularly reviewed process for identifying, evaluating and managing any significant risks faced by the company. The key risk management and internal control layers that provide strong assurance to the Board of Directors include:

- Board Committees (as previously mentioned).
- An **internal audit function** and internal control framework which includes senior management whose main role is to identify, keep under review and manage significant internal control risks facing the company.
- Underpinning all aspects of the business is a robust **risk management function** that oversees a risk management framework which includes the operation of approved risk management policies in the areas of underwriting, reinsurance, claims reserving and investments.
- A robust **compliance function** that oversees compliance and a regulatory governance framework providing assurance that the company operates in a transparent, controlled and compliant manner.
- A **legal function** that identifies legal risks, providing legal advice across all business units and promotes the value of in-house legal services.
- A comprehensive system of **functional level controls** that are overseen by the various heads of functions including, inter alia, financial controls incorporating budgeting, periodic financial reporting and variance analysis.
- **Operational controls** such as Physical Access Controls, IT Controls, Policies and Procedures, Four Eye Reviews, Segregation of Duties and Authorisation Limits.

All of the above layers are reinforced by skilled and experienced management and employees who operate within an organisation structure of clearly defined lines of responsibility and authority.

The various layers of governance and control functions help to ensure that risks applicable to the company are identified and appropriately managed and internal controls are in place and are operating effectively. Supporting these layers of oversight are a number of internal controls that are pervasive across the organisation.

## Description of how the compliance function is implemented

### *Position within IPB Insurance*

The compliance function is led by the head of compliance. The head of compliance is responsible for the compliance function and reports to the Finance Director with additional reporting lines directly to the CEO and Board of Directors. The role of the head of compliance includes both the management of regulatory matters and the oversight of the implementation of relevant legislation by Management as required within the business. This is with the co-operation and strong participation of Management within that process particularly with respect to the day to day operational requirements which are the responsibility of Management.

The head of compliance is an invitee to the Board of Directors, Audit Committee and the Risk Committee and the Remuneration and Nomination Committee, as required. The head of compliance retains direct access to the Board of Directors should the need arise.

### *Rights & Powers*

The compliance team is given independence and sufficient authority and resources to enable it to carry out its tasks in an effective manner. The compliance team has a right on its own initiative, subject to the authority of the Finance Director or the CEO or the Chairman of the Audit Committee or the Board as appropriate in the circumstances, to obtain access to all information necessary to carry out its activities, and all employees have a corresponding duty in consultation with their manager or respective leadership team representative to co-operate in supplying this information.

### *Roles & Responsibilities*

The role of the compliance function is to provide sufficient assurances to the Board of Directors to enable it and its members to discharge its statutory duties to ensure compliance with relevant obligations. The compliance function reports monthly to the Board of Directors via the Monthly Compliance Report. The compliance function is responsible for the following as set out in its Departmental Compliance Manual:

- Compliance Management, Oversight and Reporting
- Code of Corporate Governance / Annual Compliance Statement
- Regulatory Review / Monitoring
- Compliance Risk Management
- Operations Compliance
- Legislative Obligation Register / Compliance Framework
- Regulatory Examinations
- Customer Complaints
- Whistle-blowing Policy
- Fraud Reporting and Investigation as detailed within the company’s Fraud Policy.

## B.5 Internal Audit Function

### Description of how the internal audit function is implemented

#### *Position within IPB Insurance*

The role of the internal audit function is to provide independent, objective assurance in relation to the effectiveness of the company's internal control system. At present, the internal audit Function is outsourced to KPMG with an Engagement Letter and contract governing the related relationship.

The company's internal audit function's primary reporting responsibility is to the Chair of the Audit Committee. The internal audit function also reports directly to the CEO and/or Audit Committee on findings in respect of the above or other material considerations which may come to light. In addition, it may address such issues with the appropriate level of senior management and will have direct access to the Chairman of the Board of Directors. It also engages with the head of compliance as relationship manager for this outsourced function with a view to ensuring that the function operates effectively within the company and is supported by Management.

#### *Roles & Responsibilities*

The primary role of the internal audit function is to ensure that the internal audit process is performed for the company in an efficient and effective manner. The internal audit functions are carried out using a risk-based approach, and addresses:

- *Compliance* – adherence to legislation, as well as to the company's established policies, standards, and procedures
- *Operational* - the quality of formal policies, standards, and procedures, and the quality of management, efficiency of operations, the design and maintenance or the adequacy of procedures and internal controls
- *Integrity* – systems integrity and soundness, including design and implementation, fraud, monitoring of employee activities, and the reliability and integrity of financial matters
- *Safeguard of Assets* – reasonable assurance regarding prevention, timely detection of unauthorised acquisition, use or disposition of the company's assets.

### Description of how its independence and objectivity is maintained

As a role involving performance of a control function, the internal audit function operates independently of the business units of the company. The internal audit function will be given independence and sufficient authority and resources to enable it to carry out its tasks in an effective manner.

Should the internal audit function conclude that its independence and/or authority has been compromised, these concerns should be brought to the attention of the CEO and/or the Board of Directors.

The Audit Committee carries out an assessment of the independence of the internal audit function on an annual basis.

## B.6 Actuarial Function

### Description of how the actuarial function is implemented

*Position within IPB Insurance*

The actuarial function is led by the head of actuarial function (HoAF). The HoAF is responsible for the effective delivery of the actuarial function and reports to the Finance Director with additional reporting lines directly to the CEO and Board of Directors. The HoAF role includes provision of regulatory related material (required actuarial reports and supporting analysis) and other day-to-day tasks around pricing and general reserve management.

The HoAF is an invitee to the Board of Directors, Audit Committee and the Risk Committee, as required. The HoAF retains direct access to the Board of Directors should the need arise.

*Rights & Powers*

The actuarial team operates with independence in the assessment of the reserves and has access to all information required in the performance of this function.

*Roles & Responsibilities*

The main role of the actuarial function is to provide required regulatory assessments for the company, including an opinion on the technical provisions of the company, with formal sign-off to the Central Bank of Ireland in the form of the actuarial opinion on Technical Provisions accompanied by the actuarial report on Technical Provisions. Other statutory opinions provided annually include the actuarial opinion on the ORSA, the actuarial opinion on underwriting and the actuarial opinion on reinsurance.

The actuarial function provide quantitative information required for the ORSA, including assessments of the SCR under forward looking scenarios and stress testing. Other input includes contributing to the identification and assessment of risks to which the company is exposed.

In addition, the actuarial function conducts many day-to-day tasks for the company, including providing independent pricing valuations, involvement in reinsurance renewals and calculation of the technical provisions on a quarterly basis.

Potential conflicts of interest between the responsibilities specified under Solvency II regulation, and other day-to-day activities have been addressed by:

- Personal performance of HoAF is not based on measures that conflict with the independence of opinions
- The HoAF does not have reporting lines in to Underwriting or Reinsurance
- The HoAF has day to day reporting lines to the Finance Director, CEO and overall to the Board of Directors with the prerogative to raise issues directly with the Board of Directors if required
- The HoAF does not have direct responsibility for premium rates or reinsurance purchase
- All pricing / reinsurance decisions are subject to approval by committees and its Board of Directors.

## B.7 Outsourcing

Under Article 51(1) of S.I. No. 485 of 2015, organisations are required to remain fully responsible for discharging their legal and regulatory obligations when outsourcing functions to third parties.

In order to ensure that this obligation is adhered to, the company has documented an Outsourcing Policy which sets out the process to be followed when appointing third party outsource service providers, the required contents of Service Level Agreements with the providers and guidance as to how adherence to service standards documented in Service Level Agreements should be monitored, including the performance of audits of service providers as is required by the nature of the outsourced service. The Outsourcing Policy is regularly reviewed, updated and approved by the Board of Directors.

As stated above, the internal audit function is outsourced to KPMG, Ireland. The company has the following additional key outsourced services:

| Supplier Name | Description of Service Provided |
|---|---|
| Lansdowne Risk Solutions Ltd, Ireland | Risk Survey Provider |
| Nigel Dawkins, Ireland | Risk Survey Provider |
| Acacia, Ireland | Café/Building Maintenance |
| Expert Payroll, Ireland | Payroll |
| Another 9, Ireland | Cloud Backup Services |

## B.8 Assessment of Governance

The company completes an annual corporate governance code review assessing its compliance with the Corporate Governance Requirements for Insurance Undertakings 2015 providing the company with an opportunity to assess itself and evidence its compliance with these requirements annually. Where there are changes to the business strategy that may result in changes to internal processes and products, processes exist such as the New Product Approval Process to ensure the effective inclusion of all areas of the business to assess both the impact and risk of such changes to the business model. There is also ongoing assessment of internal controls that support the company's effective decision making and governance through the company internal audit programme, the compliance monitoring and review programme and the risk review programme. These individual review programmes provide their outputs to the Board of Directors and its Committees as part of the regular reporting issued by each function. The Board of Directors of the company are responsible for the oversight and effective implementation of best practices as well as regulatory requirements for corporate governance within the company. The regular internal review carried out on the company's system of governance is in accordance with Regulation 44(3) and 44(9) of SI.485.

The company has no further information to disclose relevant to its systems of governance.

# C: Risk Profile

## Risk Management Objectives and Risk Profiles

The risk management function is led by the head of risk and is responsible for the design and implementation of the risk management system. It oversees the identification, measurement, management, reporting and monitoring of all risk types. The company's risk profile is stable and is currently dominated by underwriting risk and market risk. Other key risks which the company faces includes credit, liquidity, operational, strategic and reputational risks. The risk management function reports to the Finance Director with additional reporting lines directly to the CEO and Board of Directors.

The key internal risk metric is the Solvency II SCR ("Solvency Capital Requirement") which quantifies the key risks to the business. The SCR is calibrated to a level which is broadly consistent with a 1 in 200 year event over a 12 month time horizon. The SCR facilitates the quantification of risk at the individual risk level and allows for diversification between risk types.

## C.1 Underwriting Risk

Underwriting risk is the key risk type to which the company is exposed and arises from uncertainty in the occurrence, amounts and timing of non-life insurance obligations. The key risk associated with any insurance contract is the possibility that an insured event occurs and that the timing and amount of actual claim payments differ from expectations. The principal lines of business covered by the company include public liability, employers' liability, motor and property. The company manages underwriting risk through its underwriting strategy, claims handling and reinsurance arrangements. Insurance obligations can take many years to settle and the company sets aside reserves to cover all past liabilities. There is a risk that the cost of these liabilities may be higher than anticipated, in some cases significantly so.

### Risk Exposure

Underwriting risk is restricted to lines and territories where the company has an underwriting competency. Where regulations permit, policy limits are set at a level to mitigate the impact of extreme loss experience to a manageable proportion of capital.

The key underwriting risk metric is the Net Loss Ratio. This assesses claim performance versus premium earned. It is recognised that the insurance cycle, exceptional individual losses, catastrophes, the inherent volatility of insurance losses and other dynamics will cause underwriting performance to fluctuate over time. Whilst the company will tolerate a degree of short term volatility, a more stringent standard is set in the longer term. As at the 31 December 2016, the company's net loss ratio stood at 88.9%.

### Risk Concentration

As a niche mutual insurer the company is susceptible to claim aggregation due to policyholders being concentrated by type, risk exposures and other factors. Most underwriting risk is concentrated in the Republic of Ireland. Recent expansion into Northern Ireland will serve to diversify the portfolio geographically to a limited extent. Business is also concentrated by line of business, being predominantly Public Liability, though there are material volumes of Employers Liability, Property and Commercial

Motor. Smaller volumes of Personal Motor, Professional Indemnity and other lines offer further diversity. The other significant insurance risk concentration relates to the fact that the company primarily insures public sector organisations. While keeping the insurance needs of Members at the top of the agenda, the company endeavours to apply core underwriting competencies to further diversify the insurance portfolio into complementary lines and policyholders. In any case, concentrations are actively managed and are significantly mitigated by an appropriate reinsurance programme.

### Risk Mitigation

The Underwriting Policy which is approved by the Board of Directors, establishes the underwriting strategy and principles and it defines underwriting limits, risk selection, authorities, escalation procedures and actuarial review requirements. It is implemented by means of underwriting guidelines. As with all company policies, the Underwriting Policy, together with, the underwriting approval limits set out in the company's Authorisation Levels and Signatories, are reviewed on an annual basis to ensure their continued effectiveness. The company has developed its underwriting strategy to diversify the type of insurance risks written, and within each of the types of risk, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The underwriting strategy includes the employment of appropriately qualified underwriting personnel, the targeting of certain types of business, constant review of pricing policy using up-to-date statistical analysis and claims experience and the surveying of risks carried out by experienced personnel.

The Reinsurance Policy which is approved by the Board of Directors establishes the reinsurance strategy and principles. The extensive reinsurance programme, delivered by a well-diversified panel of high quality Reinsurers, reduces the variability of the underwriting result. For its motor, employers' liability and public liability business, the company has in place excess of loss reinsurance treaties. For its property business, the company operates proportional and catastrophe reinsurance treaties. Again, the Reinsurance Policy, together with, the relevant approval limits set out in the company's Authorisation Levels and Signatories, are reviewed on an annual basis to ensure their continued effectives.

A primary objective of the company is to ensure that sufficient reserves are available to cover liabilities. The company uses an in-house actuarial team supported by external reviews to assist with the estimation of liabilities to ensure that the company's reserves are adequate and there is oversight of the reserving process through internal management and Board committees. The company holds a margin for uncertainty in addition to best estimate reserves to reduce the likelihood of inadequate reserves materialising.

## C.2 Market Risk

Market risk arises from financial instrument market price volatility. It reflects the structural mismatch between assets and liabilities, particularly with respect to duration. It includes interest rate risk, equity risk, property risk, spread risk, currency risk and asset concentrations.

### Prudent Person Principle

Company assets are invested in highly rated investments in accordance with the "prudent person principle". Investment decisions are made in the best interests of policyholders and other beneficiaries.

Consequently, the fundamental objective is that all valid claims and expenses are paid as they fall due. In practice, assets are allocated into two notional portfolios which have different objectives – The Matched Portfolio and The Risk Portfolio.

## The Matched Portfolio

The primary investment objective of the matched portfolio is to ensure that the company meets policyholder obligations as they fall due. This implies high quality, secure and liquid investments with characteristics that approximately match those of the liabilities. The secondary investment objective of the Matched Portfolio is to maximise investment returns over the long term in order to contribute to long term profitability, subject to a pre-defined and limited risk appetite as per the Risk Appetite Statement. The performance of the Matched Portfolio will be assessed on a total return basis against a benchmark portfolio which approximates to a risk free portfolio with a duration profile equal to that of the liabilities.

## The Risk Portfolio

The risk portfolio is composed of all investments that are surplus to the Matched Portfolio. The primary investment objective of the risk portfolio is to contribute to long term profitability through investment returns. The secondary investment objectives of the risk portfolio are capital preservation, diversification of the overall portfolio and facilitation of the long term strategic objectives of the company, subject to a pre-defined and limited risk appetite. The performance of the risk portfolio is assessed on a total return basis against a combination of published benchmark indices which together approximate to the profile of the Risk Portfolio in terms of asset classes, territories, duration and other characteristics.

## Risk Exposure

The level of surplus assets currently in the business results in a risk profile that has a significant weighting towards market risk. The principal market risk relates to equity holdings. The company invests only in assets and instruments whose risks can be properly identified, monitored, managed and taken into account in the assessment of solvency. The company follows a high quality, low risk investment strategy aligned to the prudent person principle. The focus is on high quality bonds and cash, with limited holdings in equities and property.

### *Interest Rate Risk*

Interest rate risk relates to the sensitivity of the values of assets and liabilities to changes in the term structure of interest rates. The company faces a significant interest rate risk due to the nature of its investments and liabilities. Interest rate risk arises primarily from the company’s investments in fixed interest debt securities and from insurance liabilities.

As at 31 December 2016, the company had the following assets that are exposed to interest rate risk as per the IFRS Financial statements:

| Financial assets subject to interest rate risk | 2016<br>€'000 |
|---|---|
| Debt securities | |
| - Irish Government fixed interest bonds | 139,607 |
| - Other government fixed interest bonds - eurozone | 368,659 |
| - Other government fixed interest bonds - non-eurozone | 97,922 |
| - Corporate bonds | 77,126 |
| Loans and receivables | |
| - Loans to local authorities | - |
| **Total** | **683,314** |

*Equity Risk*

Equity risk relates to the volatility of equity market prices. This volatility may be caused by factors specific to the individual financial instrument, factors specific to the issuer or factors affecting all similar financial instruments traded in the market. Equity risk excludes changes due to currency movements, which is considered as a separate risk type. The company is subject to equity risk due to changes in the market values of its holdings of quoted shares, unquoted shares and managed funds.

*Property Risk*

Property risk relates to the volatility of real estate market prices. The company is subject to property risk due to changes in the market values of its investment properties.

*Spread Risk*

Spread risk mainly relates to changes in the market value of bonds due to changes in the credit standing of the issuer. The company limits the credit quality of bonds in which it may invest.

The following table provides information as per the IFRS Financial statements regarding the market risk exposure of the company by classifying debt securities by credit ratings as at 31 December 2016:

| Market risk exposure by credit rating<br>2015 to 2016 | AAA<br>€'000 | AA<br>€'000 | A<br>€'000 | BBB<br>€'000 | BB<br>€'000 | B<br>€'000 | Not rated<br>€'000 | Total<br>€'000 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | | | | | |
| Debt securities | | | | | | | | |
| 2016 | 246,194 | 241,223 | 191,332 | - | - | 24,582 | 31,662 | 734,993 |

*Currency Risk*

Currency risk relates to the sensitivity of the value of assets and liabilities to changes in currency exchange rates. The company's liabilities are mostly denominated in euro. The company holds investment assets in foreign currencies, which gives rise to exposure to exchange rate fluctuations. The company is only exposed to high-quality currencies including sterling (GBP) and Norwegian Krone (NOK).

The company has considered the impact of Brexit on its business. The company does not believe Brexit will have a significant impact on its business given that its insurance activities are predominantly located in the Republic of Ireland. The longer term political and economic effects of Brexit are likely to remain unclear for some time however the company will continue to carefully monitor the situation as it develops.

As at 31 December 2016, the carrying amount of the company’s foreign currency denominated assets as per the IFRS Financial statements was as follows:

| Carrying amount of the company's foreign currency denominated assets<br>2016 | Foreign currency gross<br>€’000 | Foreign currency derivatives<br>€’000 | Net<br>€’000 |
|---|---|---|---|
| Sterling | 63,124 | 59,539 | 3,585 |
| Norwegian krone | 28,017 | 20,275 | 7,742 |
| Danish krone | 20,219 | 19,510 | 709 |
| Swedish krona | 1,028 | 836 | 192 |
| Swiss francs | 6,449 | 6,065 | 384 |
| US dollars | 12,843 | 8,011 | 4,832 |
| **Total** | **131,680** | **114,236** | **17,444** |

*Asset Concentration*

Asset concentrations arise where there is a lack of diversification, e.g. by issuer.

### Risk Concentration

Assets are diversified to avoid accumulations of risk in the portfolio as a whole. In particular, the company is not exposed to an excessive reliance on any one asset, asset class, counterparty, group of counterparties, territory or other investment characteristic. This is achieved by concentration limits and tolerance thresholds defined in the Risk Appetite Statement.

### Risk Mitigation

Market risk is managed through the application of the company’s Investment Policy and Risk Appetite Statement, each of which have been approved by the Board and reviewed on an annual basis. The Investment Policy outlines how market risks are managed. Investments are limited to assets whose risks can be properly identified, monitored and managed. The company employs appropriately qualified and experienced personnel to manage the investment portfolio. The Risk Appetite Statement defines the extent of permissible market risk exposures in terms of specific operational limits. It imposes limits on quantity, currency, territory, diversification, issuer credit quality, issue credit quality, duration and other characteristics. The company also enters into forward currency contracts to mitigate against currency risk. Consideration is given to the additional risk that a derivative presents, therefore, derivative counterparties are subject to minimum credit rating requirements and are required to be approved credit institutions. The continued effectiveness of these risk mitigation techniques is regularly monitored through a series of stress testing and scenario analysis, together with, internal audit reviews.

## C.3 Credit Risk

Credit risk arises from an unexpected default or deterioration in the credit standing of counterparties and debtors, including reinsurance and premium receivables.

### Risk Exposure

The company is exposed to credit risk from its operating activities, principally customer and reinsurer receivables, but also from cash deposits and loans to local authorities. A portion of member business is retro-rated which allows Members to pay premium as losses are reported or paid, depending on the contract, rather than paying all premium up front.

### Risk Concentration

Credit concentration risk is managed via the company's Risk Appetite Statement. The Risk Appetite Statement requires diversification by reinsurance counterparty. In particular, no reinsurance counterparty may exceed 15% of the total reinsurance asset. This limit is increased to 25% for reinsurance counterparties with the very highest credit ratings, typically equivalent to S&P AA- or better. Limits are also set out in the Risk Appetite Statement for cash balances with credit institutions. The limits tend to be based on the credit quality of the approved credit institution.

### Risk Mitigation

The Risk Appetite Statement sets out the operating limits for each reinsurance counterparty, cash counterparty and other credit exposures. The Risk Appetite Statement is regularly assessed for appropriateness and is approved by the Board of Directors annually. It is also planned to phase out retro premiums in the future, thereby, reducing the risk in this regard.

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired, and assets that have been impaired as per the company's IFRS Financial statements.

| 2016 | Neither past due nor impaired €'000 | Past due less than 30 days €'000 | Past due 31 to 60 days €'000 | Past due 61 to 90 days €'000 | Past due more than 90 days €'000 | Carrying amount €'000 |
|---|---|---|---|---|---|---|
| Debt securities | 734,993 | - | - | - | - | 734,993 |
| Other investments | 232,468 | - | - | - | - | 232,468 |
| Reinsurance assets (outstanding claims and receivables) | 47,982 | 149 | - | 1 | (15) | 48,117 |
| Loans and receivables | 23,379 | 73 | - | - | - | 23,452 |
| Insurance receivables | 4,445 | 793 | 3,569 | 191 | 1,692 | 10,690 |
| | **1,043,267** | **1,015** | **3,569** | **192** | **1,677** | **1,049,720** |

## C.4 Liquidity Risk

Liquidity risk is the risk that the company does not have sufficient liquid financial resources, such as cash, to meet its financial obligations when they fall due. Liquidity risk also arises where assets can only be liquidated at a material cost.

### Risk Exposure

The company is exposed to daily calls on its cash resources, mainly for claims and other expense payments.

## Risk Mitigation

The Investment Policy is reviewed annually for continued effectiveness and sets out the assessment and determination of what constitutes liquidity risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk Committee. Guidelines are set for asset allocations, portfolio limit structures and maturity profile of assets in order that sufficient funding is available to meet insurance contract obligations. Asset liquidity is such that it is sufficient to meet cash demands under extreme conditions. Localisation of assets is such that it ensures their availability. The Investment Policy specifies a Contingency Funding Plan should a liquidity shortfall arise. The company has mitigated much of its liquidity risk through asset and liability matching. The company does not forecast expected profit in future premium (EPIFP) to cover a loss making scenario, liquidity risk in this regard is therefore not an issue.

The following table shows the maturity analysis of financial assets and financial liabilities based on the remaining undiscounted contractual obligations as per the company's IFRS Financial statements.

| **Maturity analysis (contracted undiscounted cash flow basis) 2016** | **Carrying value €'000** | **Within 1 year €'000** | **Within 1 to 5 years €'000** | **After 5 years €'000** | **No maturity date €'000** | **Total €'000** |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial instruments | 757 | 757 | - | - | - | 757 |
| Financial assets at fair value through profit or loss | | | | | | |
| Debt securities | 734,993 | 53,768 | 323,646 | 253,592 | 16,029 | 647,035 |
| Equity securities | 232,468 | - | - | - | 232,468 | 232,468 |
| Loans and receivables | | | | | | |
| Loans to local authorities | 23,452 | 2,485 | 9,456 | 12,164 | - | 24,105 |
| Deposits with credit institutions | - | - | - | - | - | - |
| Insurance assets | 32,018 | 8,229 | 18,570 | 5,219 | - | 32,018 |
| Reinsurance assets | | | | | | |
| Claims outstanding | 46,313 | 12,903 | 26,107 | 7,303 | - | 46,313 |
| Insurance receivables | 12,494 | 12,494 | - | - | - | 12,494 |
| Other receivables | 139 | 139 | - | - | - | 139 |
| Cash and cash equivalents | 125,980 | 125,962 | - | - | - | 125,962 |
| **Total** | **1,208,614** | **216,737** | **377,779** | **278,278** | **248,497** | **1,121,291** |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Insurance contract liabilities | | | | | | |
| Claims outstanding | 488,965 | 136,226 | 275,630 | 77,109 | - | 488,965 |
| Derivative financial instruments | 1,619 | 1,619 | - | - | - | 1,619 |
| Insurance payables | 3,115 | 3,115 | - | - | - | 3,115 |
| Trade and other payables | 9,669 | 9,669 | - | - | - | 9,669 |
| **Total** | **503,368** | **150,629** | **275,630** | **77,109** | **-** | **503,368** |

## C.5 Operational Risk

Operational risk arises from inadequate or failed internal processes, from personnel and systems, or from external events. Operational risk includes legal and regulatory compliance risk but excludes strategic and reputational risk. In particular, the company's operational risk includes outsourcing risks, including bankruptcy of the service providers, disruption of services and failure to achieve standards.

### Risk Exposure

The company regularly reviews all major operational risks. The Risk Committee reviews the risk assessment to ensure that all operational risks are identified and evaluated. Each operational risk is assessed by considering the potential impact and the likelihood of the event occurring. The effectiveness of internal controls on controlling operational risk is also measured.

Compliance monitoring is carried out on an ongoing basis, according to an annual compliance plan which is approved by the Audit Committee.

Internal audit is carried out on a continuous basis, in accordance with a rolling internal audit plan approved by the Audit Committee. The internal audit findings are updated on a monthly basis and circulated to the Board of Directors.

### Risk Mitigation

The company has a Business Continuity Plan for the restoration of functions should critical business processes be disrupted. This Business Continuity Plan is reviewed semi-annually by internal management for its continued effectiveness. As required, any changes to the plan are reviewed and approved by the Risk Committee.

The company outsources certain functions to service providers. Outsourced arrangements are governed by service level agreements. Service providers are required to adhere to company policy. Service providers are subject to detailed reporting requirements.

Over the last 12 months the company has been working to develop its maturity in the field of Information Security and implemented numerous administrative and technical procedures and controls to improve the company's security stance.

## C.6 Other Material Risks

Other risks to which the company is exposed include strategic risk, reputational risk.

### Strategic Risk

Strategic risk arises from adverse business strategies, failure to implement business strategies and unanticipated changes in the business environment.

The company takes its strategic direction from the Board of Directors which monitors progress against the business plan which is reviewed annually and is subject to Board approval. The company monitors changes in the business environment and considers their impact on the business. The company also considers the implications that changes in the operating model might have for the quality and efficiency of the service that is provided to Members and other policyholders. Other strategic considerations relate to the efficient use of capital and the company's ability to raise capital in the medium-to-long-term.

### Reputational Risk

Reputational risk arising from negative perception of the business amongst Members, customers, the Central Bank, counterparties, business partners and other stakeholders. The company actively manages all sources of reputational risk through its core strategy which is approved by the Board.

## C.7 Risk Sensitivity Analysis

The tables below provide sensitivity analysis on the company's key risks as per the financial statements. The impact of a change in a single factor is shown with other assumptions left unchanged for each of the risk types.

| **Risk** | **Risk methods and assumptions used in preparing the sensitivity analysis** |
| --- | --- |
| Underwriting risk | The impact of an increase in net loss ratios for general insurance business by 5%. |
| Currency risk | The impact of a change in foreign exchange rates by ± 10%. |
| Interest rate risk | The impact of a change in the yield curve on the company's fixed interest portfolio by 100 basis points and negative 25 basis points. The stress excludes the impact of the change in cashflows from floating rate notes.<br><br>The underlying yield curve is based on prevailing swap rates as at year end 2016. |
| Equity risk | The impact of a change in equity market values by ±10%. |

These sensitivity factors have the following impacts on profit before tax and equity:

| **Sensitivity analysis**<br>**Impact on profit before tax** | | **2016**<br>**€'000** |
|---|---|---|
| Underwriting risk | 5.00% | (4,994) |
| Currency risk | 10.00% | 1,744 |
| Currency risk | -10.00% | (1,744) |
| Interest rate risk | 1.00% | (23,162) |
| Interest rate risk | -0.25% | 5,033 |
| Equity risk | 10.00% | 23,247 |
| Equity risk | -10.00% | (23,247) |

| **Sensitivity analysis**<br>**Impact on equity** | | **2016**<br>**€'000** |
|---|---|---|
| Underwriting risk | 5.00% | (4,370) |
| Currency risk | 10.00% | 1,526 |
| Currency risk | -10.00% | (1,526) |
| Interest rates | 1.00% | (20,267) |
| Interest rates | -0.25% | 4,404 |
| Equity risk | 10.00% | 20,341 |
| Equity risk | -10.00% | (20,341) |

During the year, the material risks of the business were also subject to a wide range of stress tests in order to provide an adequate basis for the assessment of the overall solvency needs of the company over its business planning horizon. Stress testing and related analysis were conducted in line with the ORSA Policy and the results of stress tests contained in the Risk Report. The identified stresses were decided upon based on discussion with the Board and the relevant function manager. The results showed that the company is well positioned to meet its solvency needs under a range of stresses.

## C.8 Dependencies between risk modules

Risk categories and specific risks are correlated to each other to a greater or lesser extent. Risks are correlated where an unfavourable outcome in one risk tends to be accompanied by an unfavourable outcome in another risk. For example, equity risk and property risk are correlated in the sense that a fall in property values can often be accompanied by a fall in equity values.

Risks have little correlation where it is unlikely that both risks will experience an unfavourable outcome at the same time. Such risks are said to be largely uncorrelated or independent.

The result is a 'diversification benefit'. For example, lapse risk may be somewhat independent of premium risk as lapse rates are unlikely to increase when premium rates are inadequate.

As the same capital resources are used to manage many different sources of risk, it is necessary to manage risk as a portfolio. An isolated change in risk in one part of a portfolio will also influence the capital required to finance other risks due to correlations. Consequently, it is necessary to explicitly model the correlations between risks. The quantification of correlations is highly uncertain and the capital model relies on the 'dependency structure' defined in the Solvency II Standard Formula Technical Specification.

The company's Risk Report includes quantification of the diversification benefits assumed in the capital model and the appropriateness of this is tested on an annual basis as part of the ORSA process.

### C.9 Any other information

The company does not use any special purpose vehicles (SPV) to transfer any of its risks.

## D: Valuation for Solvency Purposes

### D.1 Assets

The following table analyses the valuation of the company's assets as at 31 December 2016 for both Solvency II purposes and financial statements purposes:

| Ref | Asset Category | Solvency II €'000 | Financial statements €'000 | Difference €'000 |
|---|---|---|---|---|
| 1 | Intangible Asset | 0 | 566 | (566) |
| 2 | Deferred Tax Asset | 0 | 142 | (142) |
| 3 | Property, plant and equipment (PPE) | 0 | 816 | (816) |
| 4 | Investment Properties | 92,739 | 92,575 | 164 |
| 5 | Listed Equities | 195,251 | 181,220 | 14,031 |
| 6 | Unlisted Equities | 3,265 | 3,263 | 2 |
| 7 | Government Bonds | 621,689 | 617,173 | 4,516 |
| 8 | Corporate Bonds | 93,809 | 117,820 | (24,011) |
| 9 | Collateralised Securities | 3,068 | 0 | 3,068 |
| 10 | Collective Investment Undertakings | 55,808 | 47,985 | 7,823 |
| 11 | Derivatives | 113,372 | 757 | 112,615 |
| 12 | Deposits | 81,918 | 0 | 81,918 |
| 13 | Loans to local authorities | 23,452 | 23,452 | 0 |

| | | | | |
|---|---|---|---|---|
| 14 | Reinsurance Recoverable | 36,826 | 46,313 | (9,487) |
| 15 | Insurance Receivables | 10,689 | 42,708 | (32,019) |
| 16 | Reinsurance Receivables | 1,804 | 1,804 | 0 |
| 17 | Trade Receivables | 7,074 | 7,365 | (291) |
| 18 | Cash & Cash Equivalents | 44,061 | 125,980 | (81,919) |
| 19 | Other | 0 | 7,540 | (7,540) |
| | **Total Assets** | **1,384,825** | **1,317,479** | **67,346** |

## Description of the basis, methods and assumptions used for valuation:

| Ref | Asset Category | Solvency II | Financial statements |
|---|---|---|---|
| 1 | Intangible Asset | The company's intangible assets comprise of IT software which does not meet the criteria under Solvency II valuation rules, i.e. it cannot be sold separately and there is not a quoted market price in an active market for the same or similar intangible assets. Therefore, the company's intangible assets are valued at zero under Solvency II. | In the IFRS financial statements the intangible assets are valued at cost less accumulated amortisation and accumulated impairment losses. |
| 2 | Deferred Tax Asset | For the company, the difference between the deferred tax asset in the IFRS financial statements and the deferred tax liability created under Solvency II pertains to the deferred tax on the changes in valuation in moving from IFRS to Solvency II. That is, it is largely driven by the reduction in the (net) technical provisions under Solvency II. This would result in an instantaneous profit, which would incur corporation tax at 12.5%. | Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. |
| 3 | Property, plant and | Under Solvency II, the valuation of PPE is based on the core principle in the | In the IFRS financial statements, the company |

| | | | |
|---|---|---|---|
| | equipment (PPE) | directive "assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction".<br><br>As the company's PPE mainly relates to leasehold improvements, it is considered unlikely that these would have any resale value in an arm's length transaction. Therefore, a zero value is considered the most prudent. | uses the cost model to value PPE, i.e. cost less any accumulated depreciation and accumulated impairment losses. |
| 4 | Investment properties | Market Valuations are carried out on our investment properties at each year end by the property managing agents using the RICS (Royal Institute of Chartered Surveyors) Valuation – Professional Standards. Every three years a full red book valuation is carried out. On an annual basis desk based valuations are carried out and valuation certificates are issued.<br><br>This is consistent with the Solvency II valuation principles. The Solvency II value also includes any accrued rental income, i.e. market value plus accrued income. | The same valuation method is applied to the IFRS financial statements, however, accrued income is not included in the valuation.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table above) in the financial statements. |
| 5 | Listed Equities | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" |

| | | | |
|---|---|---|---|
| | | Note: Preference shares are included as equities under Solvency II. Exchange traded funds (ETFs) and collateralised securities are excluded. | as shown in valuation table above) in the financial statements.<br><br>Dividend withholding tax recoverable is shown as trade receivable under IFRS. |
| 6 | Unlisted Equities | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table above) in the financial statements. |
| 7 | Government Bonds | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table |

| | | | |
|---|---|---|---|
| | | | above) in the financial statements. |
| 8 | Corporate Bonds | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table above) in the financial statements.<br><br>Note: Preference shares are classified as corporate bonds under IFRS. |
| 9 | Collateralised Securities | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table above) in the financial statements. |

| | | | |
|---|---|---|---|
| | | | Note: Collateralised securities are classified as equity securities in the IFRS financial statements. |
| 10 | Collective Investment Undertakings | Under Solvency II, in accordance with Article 75 of the Directive, assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.<br><br>The Solvency II Valuation principles are consistent with that of IFRS, however, the Solvency II value also includes accrued income, i.e. market value plus accrued income.<br><br>Exchange traded funds (ETFs) are included in this category under Solvency II. | Under IFRS, financial assets are measured at fair value through the profit or loss based on quoted (unadjusted) prices in active markets. For financial assets not traded in an active market, the fair value is determined using appropriate valuation methods.<br><br>Accrued income is shown as a separate line item ("other" as shown in valuation table above) in the financial statements.<br><br>Note: ETFs are classified as equity securities in the IFRS financial statements. |
| 11 | Derivatives | Under Solvency II, derivative financial instruments are measured at the gross fair value as at the reporting date. The company's derivative financial instruments relate to forward currency contracts. All forward sales are shown as assets and all forward purchases are shown as liabilities. | Under IFRS, derivatives are initially measured at fair value on the date the contract is entered into, and subsequently re-measured at fair value at the reporting date. Each derivative is carried as a financial asset when the fair value is positive and as a financial liability when the fair value is negative. |
| 12 | Deposits | Under Solvency II, this relates to deposits other than cash and cash equivalents that cannot be used to make payments until | Under IFRS, deposits classified as "loans and receivables" relate to |

| | | | |
|---|---|---|---|
| | | after the fixed term maturity date. All fixed term deposits, regardless of their term, are included here.<br><br>Accrued income is also included in the Solvency II value. | deposits with a fixed term of greater than 3 months. Deposits with a fixed term of 3 months or less are included in “cash and cash equivalents”. As at 31 December, the company did not hold any deposits greater than 3 months, therefore, a zero value is included in the IFRS financial statements.<br><br>Accrued income is shown as a separate line item (“other” as shown in valuation table above) in the financial statements. |
| 13 | Loans to local authorities | Under Solvency II, Article 16 (1) of the Delegated Regulations states that insurance and reinsurance undertakings shall not value financial assets or financial liabilities at cost or amortised cost. Such assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm’s length transaction. | Under IFRS, loans to Local Authorities are classified as “loans and receivables” and are subsequently measured at amortised cost using the effective interest rate.<br><br>However, as loan repayments fall due at year end, there is no difference between the valuation under Solvency II and under IFRS at year end, despite the basis or method being different. |
| 14 | Reinsurance Recoverable | Under Solvency II, The technical reserves are discounted. Additional margins for uncertainty are excluded from the Solvency II technical provisions valuation. Finally, the Solvency II technical provisions valuation includes a risk margin. | In the IFRS financial statements technical reserves are undiscounted. In addition, the claims reserves in the financial statements include additional margins for uncertainty pertaining to loadings for reduction in the |

| | | | |
|---|---|---|---|
| | | | discount rate and the introduction of Periodic Payment Orders (PPOs) as well as a loading representing a general provision for changes in the claims environment. |
| 15 | Insurance Receivables | Insurance receivables relates to insurance debtors only measured at their carrying value as at the reporting date.<br><br>Under Solvency II rules ‘provision for recoverable retro premium’ is reclassified out of assets to be recognised as a cash inflow offsetting the Best Estimate Technical Provision in liabilities. The valuation of these cash inflows has changed to a discounted basis consistent with the cash outflows and in line with Solvency II valuation principles. | In the IFRS financial statements a provision for premium adjustments for retrospectively rated policies is recognised when provision is made for related losses.<br><br>The valuation basis for insurance debtors, on the other hand, is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |
| 16 | Reinsurance Receivables | Insurance receivables relates to reinsurance debtors, measured at their carrying value as at the reporting date. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |
| 17 | Trade Receivables | Trade receivables are measured at their carrying value as at the reporting date.<br><br>Dividend withholding tax recoverable is included in the valuation of assets under Solvency II. | Dividend withholding tax recoverable is included as a trade receivable under Solvency II – this is the only valuation difference arising. |
| 18 | Cash & Cash Equivalents | Under Solvency II, cash and cash equivalents relates to cash at bank only (i.e. current accounts and call accounts). | In the IFRS financial statements, cash and cash equivalents include cash at bank (i.e. current and call accounts), together with, |

| | | | |
|---|---|---|---|
| | | Accrued income is also included in the Solvency II valuation. | deposits with a fixed term of 3 months or less.<br><br>Accrued income is shown as a separate line item in the IFRS financial statements. |

### Leasing Arrangements

The company's only leasing arrangements relate to its office premises at 1 Grand Canal Square and some office equipment used on a day-to-day operating basis which are leased and are valued at zero in the Solvency II balance sheet.

### Related Undertakings

The company does not have any holdings in related undertakings or participations.

### Criteria used to assess whether markets are active

The company assesses whether or not a market is active through reference to Bloomberg and consultation with external stock brokers. If markets are deemed inactive, the quoted price for similar assets in an active market is applied where possible. In other cases, stock brokers provide the company with a price based on market conditions. In instances where companies have gone into liquidation and their shares have been delisted from a stock exchange, the company's Director of Investments took a decision based on market knowledge and experience to write down the value of the shares to a flat level, pending the results of the liquidation process. Other than in this regard, no other estimation uncertainty exists in respect of the valuation of the company's investment assets.

## D.2 Technical Provisions

The company's business is written on both claims made and losses occurring bases. Where "policy year" is referred to this is taken to be the notification year for claims made business and the accident year for losses occurring business. The following tables summarises the value of technical provisions on both gross and net bases.

## Value of Technical Provisions

**Table 1: Gross Technical Provisions**

| IPB Gross Technical Provisions - | Claims Provision | Premium Provision | Risk Margin | Total Technical Provisions |
|---|---|---|---|---|
| Medical Expenses | 271 | 52 | 24 | 347 |
| Income Protection | 1,086 | 207 | 96 | 1,388 |
| Motor Vehicle Liability | 15,362 | 1,546 | 1,129 | 18,038 |
| Other Motor | 3,840 | 387 | 282 | 4,509 |
| Marine Aviation and Transport | 127 | 28 | 11 | 167 |
| Fire / Property | 13,278 | 2,332 | 608 | 16,218 |
| General Liability | 338,358 | 13,070 | 23,671 | 375,099 |
| Legal Expenses | 1,744 | 289 | 151 | 2,184 |
| **Total** | **374,066** | **17,911** | **25,974** | **417,951** |

Gross technical provisions have been valued using standard actuarial methods as described in detail below.

**Table 2: Net Technical Provisions**

| IPB Net Technical Provisions - €'000s | Claims Provision | Premium Provision | Risk Margin | Total Technical Provisions |
|---|---|---|---|---|
| Medical Expenses | 271 | 56 | 24 | 352 |
| Income Protection | 1,086 | 225 | 96 | 1,406 |
| Motor Vehicle Liability | 13,797 | 1,644 | 1,129 | 16,571 |
| Other Motor | 3,449 | 411 | 282 | 4,143 |
| Marine Aviation and Transport | 127 | 29 | 11 | 167 |
| Fire / Property | 4,228 | 4,088 | 608 | 8,924 |
| General Liability | 310,095 | 13,577 | 23,671 | 347,343 |
| Legal Expenses | 1,744 | 325 | 151 | 2,220 |
| **Total** | **334,797** | **20,355** | **25,974** | **381,125** |

## Methods used to calculate technical provisions

The company uses a combination of actuarial methods to value technical provisions. The basis of the technical provisions are undiscounted gross reserves. For policy years where no further development is expected, typically the reserves are set equal to the case estimates present in that year. For other policy years where further development is expected, but there is sufficient incurred experience to be credible, chain-ladder methods are used to model the full future path of incurred claims.

For recent policy years there may not be enough incurred data to fully rely on. In this case development methods are weighted in with other methods which place initial estimates of ultimate claims on either loss ratios, or as a cost per unit exposure. Expected amounts are calculated by considering the statistic for prior years, trended forward allowing for rate movements and claims inflation. Another method considered for recent years is the average cost per claim method – where claim numbers are multiplied by expected average ultimate costs.

The company uses premium and population, where appropriate, as an exposure measures. Typical measures of exposure such as turnover are not deemed to be a good measure of risk in its core business.

Estimates based on paid claims are also calculated, but usually do not form the basis of reserve selections as there is a long delay between claim notification and payment for much of the company's business which is dominated by liability lines.

For most classes, net of reinsurance claims are calculated by considering the average percentage recovered from reinsurance. The company's reinsurance retentions have been stable over time, recovery amounts are a small portion of gross liabilities and previous years provide a good benchmark for the rate of future reinsurance recoveries. The exception to this is Property which has a more extensive reinsurance programme, for which the same methods as described for calculating gross claims are also considered in valuing the net position.

Gross and net claims are discounted by considering the expected payment profile of claims over time, and discounting using risk free yield curves provided by EIOPA.

The risk margin is calculated using a modified Solvency Capital Requirement as specified by EIOPA. This is projected to develop over time in line with best estimate net technical provisions.

The following items defined in the Solvency II legislation are not relevant to the company in regard to technical provisions:

- The company does not apply the matching adjustment.
- The company does not use the volatility adjustment.
- The company does not use transitional methods on the risk-free interest rate term structure.
- The company does not apply any transitional deductions.

## Considerations by Line of Business

### *Medical Expenses and Income Protection*

The company writes Personal Accident business that involves both medical expenses and income protection coverage. Claims cannot be split between those two elements, and so these are modelled in aggregate and then split 80/20 between income protection and medical expenses – an assumption based on historical payment data – three year rolling average.

### *Motor Vehicle Liability and Other Motor*

The company does not separately identify liability and damage claims within the motor business written, and so again a high level assumption is required to split the business into Solvency II lines of business. 80%

of motor is assumed to be liability business, and 20% other claims – an assumption based on twelve month rolling data. Legacy business has been removed so that patterns reflect current exposure.

#### *Marine Aviation and Transport*

The company writes only a very small amount of marine business.

#### *Fire / Property*

The company's property account contains a mix of exposures but predominantly covering council buildings and council owned social housing. Due to the higher volume of reinsurance recoveries in this class, methods used to calculate gross reserves are similarly applied in the calculation of net reserves.

#### *General Liability*

This is by far the company's largest class, and contains a number of different exposures within it. The predominant line is Public Liability, and the valuation of this has been further split by coverage type and type of insured. Employers Liability has been split by coverage type and legacy business removed. The company also writes a small amount of Professional Indemnity, included in this class. Additional provisions have been incorporated following the recent move in discount rate from 3% to 1% for cost of care, and 1.5% loss of earnings exposure, and for the pending introduction of PPOs.

#### *Legal Expenses*

The company writes some Criminal Defence policies which are mainly valued using loss ratio methods as limited experience exists.

### Other Items

Claims handling expenses have been estimated as a percentage of future reserves by considering the historic ratio of claims handling expenses to claims payments.

A portion of the company's business is retro rated policies – with minimum and deposit premiums paid up front, followed by further premiums payable if claim payments exceed a set threshold. The future value of this asset has been approximated by modelling expected claim amounts for each relevant policy, and the resulting retro premiums that would be triggered calculated.

Provisions relating to unearned premiums have been calculated by considering expected loss ratios by line of business, and applying those to unearned premiums.

### Description of the level of uncertainty

The classes of business written by the company give rise to a significant degree of uncertainty concerning the ultimate cost of claims. Uncertainty arises for the following reasons in respect of the majority of policies written by the company:

- Whether an event has occurred that would give rise to a policyholder suffering an insured loss.
- The extent of policy coverage and limits applicable.
- The amount of insured loss suffered by the policyholder.
- The timing of a settlement to the policyholder.
- The costs associated with handling claims.

Estimates have to be made both for the expected cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be determined with certainty.

The company uses estimation techniques, based on statistical analysis of past experience and future estimates, to calculate a range of estimated cost of claims outstanding at the reporting date, which is subjected to sensitivity analysis. These techniques take into account the characteristics of the company's business.

Particular sources of uncertainty for the company currently arise from the pending introduction of PPOs and the impact that this will have on claim settlement values in Ireland. Any further reductions in the discount rate could also increase costs, as well as general changes in the courts environment. Due to the nature of its business the company is exposed to aggregations of claims as the business is concentrated by policyholder type, risk exposures, geographical location and other factors.

### Valuation basis, method and assumption differences used for IFRS financial statements

For all lines of business the best estimate undiscounted IFRS reserves form the basis of the Solvency II technical provisions. These are then discounted as per Solvency II valuation guidelines.

The main difference to the IFRS financial statements is the inclusion of margins for uncertainty within the IFRS financial statements. An 18% margin is applied to all components of the claims reserve. Furthermore, the retro-rated premium asset is reduced by 18%, recognising the uncertainty in that asset also.

Under Solvency II regulation a risk margin is held in addition to the best estimate liabilities. The €26.1 million risk margin is calculated using the cost of capital approach specified in the regulation.

The financial statements also include a provision of €0.8 million (plus margins) in respect of the MIBI levy for the year within the insurance reserves. Under Solvency II MIBI provisions are excluded from the technical provisions, and instead included within "Other Liabilities".

The retro-rated premium asset is included as a credit within the best estimate technical provisions under Solvency II, where it is a separate insurance asset in the IFRS financial statements. The retro-rated premium asset estimate included in the Solvency II Technical Provisions is a best estimate actuarial figure, where the asset in the IFRS financial statements is reduced by a margin for uncertainty of 18%, and based on a more approximate model.

The following table provides a reconciliation between the technical provisions as per the IFRS financial statements and the technical provisions for Solvency II purposes as at 31 December 2016.

| | Gross of Reinsurance €'000s | Net of Reinsurance €'000s |
|---|---:|---:|
| **Reserves in IFRS financial statements** | **511,504** | **465,191** |
| Exclude MIBI & margins | (996) | (996) |
| Reserves excluding MIBI | 510,508 | 464,195 |
| Exclude Margin for Uncertainty | (77,874) | (70,809) |
| Total Undiscounted Reserves | 432,634 | 393,386 |
| Reinsurance on Unearned Premium | | 2,440 |
| Total with Reinsurance | | 395,826 |
| Discounting | (630) | (648) |
| Discounted Best Estimate Provisions | 432,004 | 395,178 |
| Retro Asset | (40,027) | (40,027) |
| Technical Provisions Excluding Risk Margin | 391,977 | 355,151 |
| Risk Margin | 25,974 | 25,974 |
| **Total Technical Provisions under Solvency II** | **417,951** | **381,125** |

Refer to Appendix 3 for the S.17.01.02 Non-Life Technical Provisions Template.

## D.3 Other Liabilities

The following table analyses the valuation of the company's other liabilities as at 31 December 2016 for both Solvency II purposes and financial statements purposes:

| Ref | Liability Category | Solvency II €'000 | Financial statements €'000 | Difference €'000 |
|---|---|---:|---:|---:|
| 1 | Provisions other than technical provisions | 800 | 800 | 0 |
| 2 | Deferred Tax Liabilities | 5,811 | 0 | 5,811 |
| 3 | Derivatives | 114,234 | 1,619 | 112,615 |
| 4 | Insurance Payables | 1,809 | 1,809 | 0 |
| 5 | Reinsurance Payables | 1,297 | 1,297 | 0 |
| 6 | Trade Payables | 54 | 54 | 0 |

| | | | | |
|---|---|---|---|---|
| 7 | Any other liabilities | 9,624 | 9,624 | 0 |
| | **Total other liabilities** | **133,629** | **15,203** | **118,426** |

## Description of the basis, methods and assumptions used for valuation:

| Ref | Liability Category | Solvency II | Financial statements |
|---|---|---|---|
| 1 | Provisions other than technical provisions | Other provisions relate to the company's share of potential provisions of the Motor Insurers' Bureau of Ireland, measured at its carrying value at the reporting date. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |
| 2 | Deferred Tax Liabilities | For the company, the difference between the deferred tax asset in the IFRS financial statements and the deferred tax liability created under Solvency II pertains to the deferred tax on the changes in valuation in moving from IFRS to Solvency II. That is, it is largely driven by the reduction in the (net) technical provisions under Solvency II. This would result in an instantaneous profit, which would incur corporation tax at 12.5%. | A deferred tax asset as opposed to a deferred tax liability is shown in the IFRS financial statements as described above in the asset category section. |

| | | | |
|---|---|---|---|
| 3 | Derivatives | Under Solvency II, derivative financial instruments are measured at the gross fair value as at the reporting date. The company's derivative financial instruments mainly relate to forward currency contracts. All forward sales are shown as assets and all forward purchases are shown as liabilities. | Under IFRS, derivatives are initially measured at fair value on the date the contract is entered into, and subsequently re-measured at fair value at the reporting date. Each derivative is carried as a financial asset when the fair value is positive and as a financial liability when the fair value is negative. |
| 4 | Insurance Payables | Insurance payables relates to insurance creditors, measured at their carrying value as at the reporting date. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |
| 5 | Reinsurance Payables | Insurance payables relates to reinsurance creditors, measured at their carrying value as at the reporting date. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |
| 6 | Trade Payables | Trade payables are measured at their carrying value as at the reporting date. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |

| | | | |
|---|---|---|---|
| 7 | Any other liabilities | Other liabilities are measured at their carrying value as at the reporting date. The largest component relates to Social Dividend payable amounting to €5m. | In the IFRS financial statements, the valuation basis is consistent with the Solvency II valuation principles and therefore, no valuation difference arises. |

Refer to Appendix 4 for the S.02.01.02 Solvency II Balance Sheet Template.

### Leasing Arrangements

The company does not have any material liabilities arising from leasing arrangements.

### Material Contingent Liabilities

The company does not have any other material contingent liabilities and provisions other than technical provisions.

### Employee Benefits

The company had the following employee benefit obligations as at 31 December 2016:

| | **€'000** |
|---|---|
| Salaries Payable | 1,336 |
| Trade Union Subscriptions Payable | 2 |
| Pension Payable | 95 |
| Social Committee Fund | 9 |
| Holiday Pay Accrual | 284 |
| **Total short-term employee benefit obligations** | **1,726** |

The company does not have any defined benefit plans and contributes only to defined contribution pension schemes.

## D.4 Alternative Methods for Valuation

The company uses alternative valuation methods in accordance with Article 10 (5) when valuing a small portion of its investment assets. These alternative valuation methods include the following:

- ***Quoted prices for identical or similar assets or liabilities in markets that are not active*** – This method is applied to assets which have a quoted price but the asset is illiquid and does not trade often. The company can support the rationale for this valuation approach as the quoted prices applied are for assets with similar characteristics, for example, same instrument type, same credit rating and same ultimate guarantor.

- ***Market- corroborated inputs, which may not be directly observable, but are based on or supported by observable market data*** – This method is applied to assets such as our investment properties and real estate funds.
  Market valuations are carried out each year on our investment properties by the property managing agents using the RICS (Royal Institute of Chartered Surveyors) Valuation – Professional Standards. Every three years a full red book valuation is carried out on each property. On an annual basis desk-based valuations are carried out and valuation certificates are issued. The company can justify this valuation approach as it is independent and supported by observable market data.

  With regards to our real estate funds, the fund managers carry out a desk-based valuation on a monthly basis. Again, the company can justify this valuation approach as it is independent and supported by observable market data.

- ***Unobservable inputs reflecting the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk*** – This method is applied in cases where securities are in liquidation or carried at amortised cost.

The company assesses the adequacy of the use of the above methods on an annual basis through discussions with our investment custodian and external audit review.

# E: Capital Management

## E.1 Own Funds

The company has a simple capital structure made up of retained earnings only. As at 31 December 2016, the company's eligible amount of own funds to cover the SCR and MCR stood at €808.2 million and was comprised entirely of Tier 1 Basic Own Funds. The company manages its capital requirements according to the Capital Management Policy and by assessing its required solvency margins on a regular basis. The Board of Directors reviews the capital structure of the company on an on-going basis to determine the appropriate level of capital required to pursue the business strategy.

The company uses the Solvency II Standard Formula to quantify risk in the business and its appropriateness is regularly assessed. The Standard Formula is also used to quantify the capital impact of key events and key management actions. It is also used to analyse the change in risk profile from one quarter to the next. The company assesses the significance with which the risk profile deviates from the key assumptions and parameters underlying the SCR. Conceptually, the company estimates Economic Capital from:

- Regulatory Capital
- An allowance for deviations from Regulatory Capital

- A consideration of non-quantified risks

The assessment of Economic Capital also considers:

- Suitable margins above the SCR, as might be required by a target credit rating
- Required capital for possible strategic initiatives
- Resilience against certain stress scenarios
- Recognition of the mutual status of the company and the challenges for capital raising

The company's capital levels are consistent with the highest credit rating agency financial strength levels. The company has developed risk metrics to quantify the risks to which the business is exposed. A capital model is used to quantify the risks of the business taking into account diversification effects. This is done in the context of the company's Own Risk and Solvency Assessment ("ORSA"), which continues to evolve in parallel with Solvency II guidelines and industry best practice. The appropriateness of the capital model is regularly assessed. The company considers overall solvency needs including risks that are beyond the scope of the capital model. This is achieved using a range of sensitivity tests and scenario analysis which are undertaken on an annual basis and are assumed to apply over the business planning period of 3 years. The material risks of the business are subject to a wide range of stress tests in order to provide an adequate basis for the assessment of the overall solvency needs. Stress testing and related analysis are conducted in line with the ORSA Policy and the results of stress tests are contained in the Risk Report. The identified stresses are decided upon based on discussion with the relevant function manager. The company considers capital requirements and capital efficiency in the context of profitability, expenses and market position relative to peers.

The following table reconciles the difference (reconciliation reserve) between the equity in the financial statements and the basic own funds as calculated for Solvency II Purposes.

| **Reconciliation of Basic Own Funds to Equity in the financial statements as at 31 December 2016** | |
|---|---|
| | **€'000** |
| **Total equity in the financial statements** | **€791,572** |
| Deduct items not recognised in the financial statements: | |
| Risk Margin | (€25,974) |
| Foreseeable Distributions | (€25,000) |
| Deferred Tax Liability | (€5,953) |
| Unearned RI Premium | (€2,440) |
| Add items not recognised in the Solvency II Balance Sheet | |
| Difference between IFRS liabilities and best estimate liabilities | €648 |
| Claims Margin of Uncertainty | €70,961 |
| Asset Valuation Differences | €4,387 |
| ULAE on MBI | €44 |
| **Solvency II – Basic Own Funds** | **€808,245** |

None of the company's own funds are subject to transitional arrangements. The company has no ancillary own funds or subordinate debt. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability

The following table provides explanations of the key elements of the reconciliation reserve shown above.

| **Key element of the reconciliation reserve** | **Explanation** |
|---|---|
| Risk Margin | The risk margin is designed to ensure that the value of technical provisions is sufficient for another insurer to take over and meet the insurance obligations. It is calculated using a modified Solvency Capital Requirement as specified by EIOPA. |
| Foreseeable Distributions | The foreseeable distribution relates to a Member dividend of €25 million due to be paid during 2017. |
| Deferred Tax Liability | For the company, the difference between the deferred tax asset in the IFRS financial statements and the deferred tax liability created under Solvency II pertains to the deferred tax on the changes in valuation in moving from IFRS to Solvency II. That is, it is largely driven by the reduction in the (net) technical provisions under Solvency II. This would result in an instantaneous profit, which would incur corporation tax at 12.5%. |
| Unearned RI Premium | Solvency II requires reinsurance to be recognised consistently with the boundary of the underlying insurance contract whereas IFRS recognises reinsurance from inception of the contract. |
| Differences between IFRS liabilities and best estimate liabilities | In the IFRS financial statements technical reserves are undiscounted, as compared with discounted Solvency II technical provisions. |
| Claims Margin of Uncertainty | Margins of uncertainty are included in the IFRS financial statements. An 18% margin is applied to all components of the claims reserves. Further the retro asset is reduced by 18%, recognising the associated uncertainty. These margins of uncertainty are excluded from Solvency II technical provisions. |
| Asset Valuation Differences | Valuation differences relate to Property, Plant and Equipment (PPE) and Intangible Asset, both of which are valued at cost less accumulated depreciation in the IFRS financial statements. The |

| | |
|---|---|
| | company's PPE relates to leasehold improvements and its intangible asset relates to IT software. As neither can be sold separately, both are valued at zero under Solvency II valuation principles. |
| ULAE on MBI | On an IFRS basis an allowance for ULAE is added to the MIBI provision. This is not included in Solvency II which values MIBI at a best estimate only. |

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

As at 31 December 2016, the company had a solvency ratio of almost 4 times the SCR. The company's SCR and MCR were €207.2 million and €51.8 million respectively.

The table below shows the components of the SCR (using the Standard Formula) as at 31 December 2016.

| **31 December 2016** | **€'000** |
|---|---|
| **Market Risk** analysed by the following sub-risk modules: | **136,551** |
| • Concentration Risk | 16,978 |
| • Interest-Rate Risk | 23,180 |
| • Currency Risk | 4,201 |
| • Equity Risk | 87,709 |
| • Property Risk | 23,185 |
| • Spread Risk | 32,891 |
| • Market Diversification Benefit | (51,593) |
| **Non-Life Risk** analysed by the following sub-risk modules: | **126,832** |
| • Premium and Reserve Risk | 124,929 |
| • Lapse Risk | 0,000 |
| • Catastrophe Risk | 6,904 |
| • Non-Life Diversification Benefit | (5,001) |
| **Default Risk** analysed by the following sub-risk modules: | **17,001** |
| • Type 1 | 9,187 |

| | |
|---|---|
| • Type 2 | 8,988 |
| • Default Diversification Benefit | (1,174) |
| **Health Risk** analysed by the following sub-risk modules: | **1,019** |
| • Premium and Reserve Risk | 0,756 |
| • Lapse Risk | 0.0 |
| • Catastrophe Risk | 0,520 |
| • Health Diversification Benefit | (0,257) |
| Basic Solvency Requirements ("BSCR") pre Diversification | 281,403 |
| Overall Diversification Benefit | (64,431) |
| **BSCR** | **216,972** |
| **Operational Risk** | **11,759** |
| **Loss Absorbing Capacity of Deferred Tax** | **(21,517)** |
| **SCR** | **207,215** |
| **MCR** | **51,804** |

The company uses EIOPA's Solvency II Standard Formula. It does not use company-specific parameters in its computation, however, it uses one simplification in relation to the allocation of risk mitigation from the non-life and health modules across our reinsurer panel in the default type 1 calculation.

The company applies the loss absorption mechanism in the Standard Formula calculation in relation to future deferred taxes. During the year, the company went through an internal governance process to estimate the impact of future deferred tax benefits with reference to its own future capital funding. A decision was taken to reduce the benefit of the loss absorbing capacity of deferred tax in the SCR calculation to circa 75%.

As stated above, the Minimum Capital Requirement for the company at 31 December 2016 was €51.8 million which represents the minimum calculated as per the Standard Formula.

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

The company has not opted to use the duration-based equity risk sub-module of the Solvency II regulations.

## E.4 Internal model information

The company applies the standard formula model and does not use an internal model to calculate the Solvency Capital Requirement.

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

There was no breach of the Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

## E.6 Any other information

Refer to the appendices for the templates as at 31 December 2016, relevant to this section. These include:

- Appendix 5 S.023.01.01 Own Funds Template
- Appendix 6 S.25.01.21 Solvency Capital Requirement – Standard Formula Only Template
- Appendix 7 S.28.01.01 Minimum Capital Requirement – Only Life or Only Non-Life Template

# Annex

## Annual Quantitative Reporting Templates (QRTs)

### Appendix 1A: S.05.01.02 Premiums, claims and expenses by line of business

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of business for : accepted non-proporti | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance (1) | Income protection insurance (2) | Workers' compensation insurance (3) | Motor vehicle liability insurance (4) | Other motor insurance (5) | Marine, aviation and transport insurance (6) | Fire and other damage to property insurance (7) | General liability insurance (8) | Credit and suretyship insurance (9) | Legal expenses insurance (10) | Assistance (11) | Miscellaneous financial loss (12) | Health (13) | Casualty (15) | Marine, aviation, transport (16) | Property (14) | Total |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | | | | | | | | | | |
| Gross Direct business | **R0110** | 403,564 | 1,614,256 | - | 6,190,686 | 1,547,672 | 336,063 | 25,114,954 | 87,847,382 | 128 | 1,817,590 | - | - | | | | | 124,872,294 |
| Gross Proportional reinsurance accepted | **R0120** | - | - | - | - | - | - | - | - | - | - | - | - | | | | | - |
| Gross Non-proportional reinsurance accepted | **R0130** | | | | | | | | | | | | | - | - | - | - | - |
| Reinsurers' share | **R0140** | 35,856 | 143,424 | - | 458,912 | 114,728 | - | 14,766,446 | 5,518,008 | - | 128,332 | - | - | - | - | - | - | 21,165,707 |
| Net | **R0200** | 367,708 | 1,470,831 | - | 5,731,774 | 1,432,944 | 336,063 | 10,348,508 | 82,329,374 | 128 | 1,689,258 | - | - | - | - | - | - | 103,706,588 |
| **Premiums earned** | | | | | | | | | | | | | | | | | | |
| Gross Direct business | **R0210** | 397,593 | 1,590,372 | - | 5,898,565 | 1,474,641 | 372,126 | 27,057,230 | 81,960,103 | 128 | 2,292,100 | - | - | | | | | 121,042,859 |
| Gross Proportional reinsurance accepted | **R0220** | - | - | - | - | - | - | - | - | - | - | - | - | | | | | - |
| Gross Non-proportional reinsurance accepted | **R0230** | | | | | | | | | | | | | - | - | - | - | - |
| Reinsurers' share | **R0240** | 35,856 | 143,424 | - | 458,912 | 114,728 | - | 14,766,446 | 5,518,008 | - | 128,332 | - | - | - | - | - | - | 21,165,707 |
| Net | **R0300** | 361,737 | 1,446,948 | - | 5,439,652 | 1,359,913 | 372,126 | 12,290,784 | 76,442,095 | 128 | 2,163,768 | - | - | - | - | - | - | 99,877,152 |
| **Claims incurred** | | | | | | | | | | | | | | | | | | |
| Gross Direct business | **R0310** | 140,763 | 563,051 | - | 7,612,298 | 1,903,074 | -124,020 | 5,143,651 | 42,507,543 | - | - | - | - | | | | | 57,746,360 |
| Gross Proportional reinsurance accepted | **R0320** | - | - | - | - | - | - | - | - | - | - | - | - | | | | | - |
| Gross Non-proportional reinsurance accepted | **R0330** | | | | | | | | | | | | | - | - | - | - | - |
| Reinsurers' share | **R0340** | - | - | - | -468,440 | -117,110 | - | 3,771,949 | 210,010 | - | - | - | - | - | - | - | - | 3,396,409 |
| Net | **R0400** | 140,763 | 563,051 | - | 8,080,738 | 2,020,184 | -124,020 | 1,371,702 | 42,297,533 | - | - | - | - | - | - | - | - | 54,349,951 |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | | |
| Gross Direct business | **R0410** | - | - | - | - | - | - | - | - | - | - | - | - | | | | | - |
| Gross Proportional reinsurance accepted | **R0420** | - | - | - | - | - | - | - | - | - | - | - | - | | | | | - |
| Gross Non-proportional reinsurance accepted | **R0430** | | | | | | | | | | | | | - | - | - | - | - |
| Reinsurers' share | **R0440** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net | **R0500** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Expenses incurred** | **R0550** | 95,054 | 380,215 | - | 2,343,241 | 585,810 | 39,691 | 4,552,685 | 46,071,533 | 20 | 1,252,977 | - | - | - | - | - | - | 55,321,226 |
| **Other expenses** | **R1200** | | | | | | | | | | | | | | | | | 269,518 |
| **Total expenses** | **R1300** | | | | | | | | | | | | | | | | | 55,590,744 |

## Appendix 1B: S.05.02.01 Premiums, claims and expenses by country

| | | Home Country | Top 5 countries (by amount of gross premiums written - non-life obligations) | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | R0010 | | GB | 0 | 0 | 0 | 0 | |
| | | C0080 | C0090 | C0100 | C110 | C0120 | C0130 | C0140 |
| **Premiums written** | | | | | | | | |
| Gross Direct business | R0110 | 122,741,383 | 2,130,912 | 0 | 0 | 0 | 0 | 124,872,294 |
| Gross Proportional reinsurance accepted | R0120 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Non-proportional reinsurance accepted | R0130 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | R0140 | 20,961,393 | 204,314 | 0 | 0 | 0 | 0 | 21,165,707 |
| Net | R0200 | 101,779,990 | 1,926,598 | 0 | 0 | 0 | 0 | 103,706,588 |
| **Premiums earned** | | | | | | | | |
| Gross Direct business | R0210 | 118,772,110 | 2,270,749 | 0 | 0 | 0 | 0 | 121,042,859 |
| Gross Proportional reinsurance accepted | R0220 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Non-proportional reinsurance accepted | R0230 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | R0240 | 20,971,766 | 193,941 | 0 | 0 | 0 | 0 | 21,165,707 |
| Net | R0300 | 97,800,344 | 2,076,808 | 0 | 0 | 0 | 0 | 99,877,152 |
| **Claims incurred** | | | | | | | | |
| Gross Direct business | R0310 | 54,815,221 | 2,931,139 | 0 | 0 | 0 | 0 | 57,746,360 |
| Gross Proportional reinsurance accepted | R0320 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Non-proportional reinsurance accepted | R0330 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | R0340 | 1,468,428 | 1,927,981 | 0 | 0 | 0 | 0 | 3,396,409 |
| Net | R0400 | 53,346,793 | 1,003,158 | 0 | 0 | 0 | 0 | 54,349,951 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross Direct business | R0410 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Proportional reinsurance accepted | R0420 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross Non-proportional reinsurance accepted | R0430 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | R0440 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | R0500 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Expenses incurred** | R0550 | 54,510,416 | 810,810 | 0 | 0 | 0 | 0 | 55,321,226 |
| **Other expenses** | R1200 | | | | | | | 269,518 |
| **Total expenses** | R1300 | | | | | | | 55,590,744 |

# Appendix 2: S.19.01.21 Non-Life Insurance Claims

## *Gross Claims Paid*

| | | |
|---|---|---|
| Line of business | **Z0010** | Total |
| Currency | **Z0030** | TOTAL |
| Accident year / underwriting year | **Z0020** | . - Accident Year |
| Currency conversion | **Z0040** | 0.0 |

**Gross Claims Paid (non-cumulative)**
(absolute amount)

| **Year** | | **Development year 0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10 & +** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** |
| **Prior** | **R0100** | | | | | | | | | | | 11,505,743 |
| **N-9** | **R0160** | 6,245,681 | 9,681,424 | 6,199,596 | 6,675,433 | 8,176,584 | 6,433,377 | 6,305,704 | 8,630,627 | 510,017 | 4,999,465 | |
| **N-8** | **R0170** | 6,419,066 | 9,217,016 | 6,196,809 | 6,260,531 | 10,155,194 | 7,177,279 | 3,024,321 | 5,320,562 | 1,535,938 | | |
| **N-7** | **R0180** | 9,624,392 | 11,461,877 | 12,204,700 | 13,777,952 | 11,434,524 | 5,370,977 | 4,391,421 | 3,241,482 | | | |
| **N-6** | **R0190** | 8,456,217 | 15,324,039 | 8,090,616 | 8,296,723 | 5,828,537 | 4,452,475 | 4,133,726 | | | | |
| **N-5** | **R0200** | 4,794,912 | 8,466,689 | 8,637,943 | 9,300,012 | 7,700,281 | 6,894,528 | | | | | |
| **N-4** | **R0210** | 3,837,599 | 8,079,412 | 8,849,094 | 10,171,587 | 7,410,753 | | | | | | |
| **N-3** | **R0220** | 4,904,290 | 10,364,223 | 10,228,773 | 8,752,118 | | | | | | | |
| **N-2** | **R0230** | 4,950,070 | 10,251,849 | 10,028,593 | | | | | | | | |
| **N-1** | **R0240** | 6,097,594 | 13,313,277 | | | | | | | | | |
| **N** | **R0250** | 6,762,572 | | | | | | | | | | |

| | | **In Current year** | **Sum of years (cumulative)** |
|---|---|---|---|
| | | **C0170** | **C0180** |
| | **R0100** | 11,505,743 | 11,505,743 |
| | **R0160** | 4,999,465 | 63,857,907 |
| | **R0170** | 1,535,938 | 55,306,716 |
| | **R0180** | 3,241,482 | 71,507,324 |
| | **R0190** | 4,133,726 | 54,582,334 |
| | **R0200** | 6,894,528 | 45,794,366 |
| | **R0210** | 7,410,753 | 38,348,445 |
| | **R0220** | 8,752,118 | 34,249,403 |
| | **R0230** | 10,028,593 | 25,230,512 |
| | **R0240** | 13,313,277 | 19,410,871 |
| | **R0250** | 6,762,572 | 6,762,572 |
| **Total** | **R0260** | 78,578,195 | 426,556,192 |

## Appendix 2: S.19.01.21 Non-Life Insurance Claims Continued

### *Gross Undiscounted Best Estimate Claims Provisions*

| | | Development year | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | Year end (discounted data) |
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | | C0360 |
| Prior | R0100 | | | | | | | | | | | 30,156,002 | R0100 | 30,121,634 |
| N-9 | R0160 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,898,364 | | R0160 | 9,879,572 |
| N-8 | R0170 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,291,224 | | | R0170 | 8,281,928 |
| N-7 | R0180 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11,699,943 | | | | R0180 | 11,688,782 |
| N-6 | R0190 | 0 | 0 | 0 | 0 | 0 | 0 | 10,874,562 | | | | | R0190 | 10,866,062 |
| N-5 | R0200 | 0 | 0 | 0 | 0 | 0 | 23,994,205 | | | | | | R0200 | 23,965,766 |
| N-4 | R0210 | 0 | 0 | 0 | 0 | 24,609,186 | | | | | | | R0210 | 24,579,615 |
| N-3 | R0220 | 0 | 0 | 0 | 33,432,882 | | | | | | | | R0220 | 33,386,032 |
| N-2 | R0230 | 0 | 0 | 53,802,556 | | | | | | | | | R0230 | 53,727,735 |
| N-1 | R0240 | 0 | 76,413,054 | | | | | | | | | | R0240 | 76,319,051 |
| N | R0250 | 91,348,519 | | | | | | | | | | | R0250 | 91,250,168 |
| | | | | | | | | | | | | Total | R0260 | 374,066,346 |

# Appendix 3: S.17.01.02 Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | Direct business and accepted proportional reinsurance | | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | |
| **Technical provisions calculated as a whole** | **R0010** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct business | **R0020** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Accepted proportional reinsurance business | **R0030** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Accepted non-proportional reinsurance | **R0040** | | | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 |
| **Total recoverable from reinsurance/SPV after the adjustment for expected losses due to counterparty default** | **R0050** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | | |
| **Best estimate** | | | | | | | | | | | | | | | | | | |
| **Premium Provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Total | **R0060** | 51,749 | 206,998 | 0 | 1,546,360 | 386,590 | 28,331 | 2,331,942 | 13,069,535 | 0 | 289,346 | 0 | 0 | 0 | 0 | 0 | 0 | 17,910,850 |
| Gross - Direct business | **R0070** | 51,749 | 206,998 | 0 | 1,546,360 | 386,590 | 28,331 | 2,331,942 | 13,069,535 | 0 | 289,346 | 0 | 0 | | | | | 17,910,850 |
| Gross - Accepted proportional reinsurance business | **R0080** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Gross - Accepted non-proportional reinsurance business | **R0090** | | | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 |
| Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default | **R0100** | -4,423 | -17,691 | 0 | -97,690 | -24,422 | -537 | -1,756,004 | -507,445 | 0 | -35,483 | 0 | 0 | 0 | 0 | 0 | 0 | -2,443,695 |
| Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses | **R0110** | -4,423 | -17,691 | 0 | -97,690 | -24,422 | -537 | -1,756,004 | -507,445 | 0 | -35,483 | 0 | 0 | 0 | 0 | 0 | 0 | -2,443,695 |
| Recoverables from SPV before adjustment for expected losses | **R0120** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Recoverables from Finite Reinsurance before adjustment for expected losses | **R0130** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | -4,423 | -17,691 | 0 | -97,690 | -24,422 | -537 | -1,756,004 | -507,445 | 0 | -35,483 | 0 | 0 | 0 | 0 | 0 | 0 | -2,443,695 |
| **Net Best Estimate of Premium Provisions** | **R0150** | 56,172 | 224,689 | 0 | 1,644,049 | 411,012 | 28,868 | 4,087,946 | 13,576,980 | 0 | 324,829 | 0 | 0 | 0 | 0 | 0 | 0 | 20,354,545 |
| **Claims provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Total | **R0160** | 271,407 | 1,085,630 | 0 | 15,361,888 | 3,840,472 | 127,041 | 13,277,893 | 338,358,460 | 0 | 1,743,558 | 0 | 0 | 0 | 0 | 0 | 0 | 374,066,348 |
| Gross - Direct business | **R0170** | 271,407 | 1,085,630 | 0 | 15,361,888 | 3,840,472 | 127,041 | 13,277,893 | 338,358,460 | 0 | 1,743,558 | 0 | 0 | | | | | 374,066,348 |
| Gross - Accepted proportional reinsurance business | **R0180** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Gross - accepted non-proportional reinsurance business | **R0190** | | | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 |
| Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default | **R0200** | 0 | 0 | 0 | 1,564,658 | 391,164 | 0 | 9,050,010 | 28,263,647 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 39,269,480 |
| Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses | **R0210** | 0 | 0 | 0 | 1,564,658 | 391,164 | 0 | 9,050,010 | 28,263,647 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 39,269,480 |
| Recoverables from SPV before adjustment for expected losses | **R0220** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Recoverables from Finite Reinsurance before adjustment for expected losses | **R0230** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | 0 | 0 | 0 | 1,564,658 | 391,164 | 0 | 9,050,010 | 28,263,647 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 39,269,480 |
| **Net Best Estimate of Claims Provisions** | **R0250** | 271,407 | 1,085,630 | 0 | 13,797,230 | 3,449,307 | 127,041 | 4,227,883 | 310,094,813 | 0 | 1,743,558 | 0 | 0 | 0 | 0 | 0 | 0 | 334,796,868 |
| **Total Best estimate - Gross** | **R0260** | 323,157 | 1,292,627 | 0 | 16,908,247 | 4,227,062 | 155,371 | 15,609,835 | 351,427,995 | 0 | 2,032,903 | 0 | 0 | 0 | 0 | 0 | 0 | 391,977,198 |
| **Total Best estimate - Net** | **R0270** | 327,580 | 1,310,319 | 0 | 15,441,279 | 3,860,320 | 155,908 | 8,315,829 | 323,671,793 | 0 | 2,068,387 | 0 | 0 | 0 | 0 | 0 | 0 | 355,151,413 |
| **Risk margin** | **R0280** | 23,957 | 95,829 | 0 | 1,129,285 | 282,321 | 11,402 | 608,171 | 23,671,460 | 0 | 151,270 | 0 | 0 | 0 | 0 | 0 | 0 | 25,973,695 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | | |
| TP as a whole | **R0290** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Best Estimate | **R0300** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Risk Margin | **R0310** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Technical provisions** | | | | | | | | | | | | | | | | | | |
| Technical provisions - total | **R0320** | 347,114 | 1,388,456 | 0 | 18,037,532 | 4,509,383 | 166,773 | 16,218,006 | 375,099,455 | 0 | 2,184,173 | 0 | 0 | 0 | 0 | 0 | 0 | 417,950,893 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | -4,423 | -17,691 | 0 | 1,466,968 | 366,742 | -537 | 7,294,006 | 27,756,202 | 0 | -35,483 | 0 | 0 | 0 | 0 | 0 | 0 | 36,825,785 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total | **R0340** | 351,537 | 1,406,148 | 0 | 16,570,563 | 4,142,641 | 167,310 | 8,924,000 | 347,343,253 | 0 | 2,219,656 | 0 | 0 | 0 | 0 | 0 | 0 | 381,125,109 |

## Appendix 4: S.02.01.02 Balance Sheet

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Goodwill | **R0010** | |
| Deferred acquisition costs | **R0020** | |
| Intangible assets | **R0030** | 0 |
| Deferred tax assets | **R0040** | 0 |
| Pension benefit surplus | **R0050** | 0 |
| Property, plant & equipment held for own use | **R0060** | 0 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 1,260,917,850 |
| Property (other than for own use) | **R0080** | 92,738,609 |
| Holdings in related undertakings, including participations | **R0090** | 0 |
| Equities | **R0100** | 198,515,484 |
| Equities - listed | **R0110** | 195,250,649 |
| Equities - unlisted | **R0120** | 3,264,835 |
| Bonds | **R0130** | 718,565,934 |
| Government Bonds | **R0140** | 621,688,692 |
| Corporate Bonds | **R0150** | 93,809,112 |
| Structured notes | **R0160** | 0 |
| Collateralised securities | **R0170** | 3,068,130 |
| Collective Investments Undertakings | **R0180** | 55,808,059 |
| Derivatives | **R0190** | 113,372,310 |
| Deposits other than cash equivalents | **R0200** | 81,917,453 |
| Other investments | **R0210** | 0 |
| Assets held for index-linked and unit-linked contracts | **R0220** | 0 |
| Loans and mortgages | **R0230** | 23,452,366 |
| Loans on policies | **R0240** | 0 |
| Loans and mortgages to individuals | **R0250** | 0 |
| Other loans and mortgages | **R0260** | 23,452,366 |
| Reinsurance recoverables from: | **R0270** | 36,825,785 |
| Non-life and health similar to non-life | **R0280** | 36,825,785 |
| Non-life excluding health | **R0290** | 36,847,899 |
| Health similar to non-life | **R0300** | -22,114 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | 0 |
| Health similar to life | **R0320** | 0 |
| Life excluding health and index-linked and unit-linked | **R0330** | 0 |
| Life index-linked and unit-linked | **R0340** | 0 |
| Deposits to cedants | **R0350** | 0 |
| Insurance and intermediaries receivables | **R0360** | 10,689,445 |
| Reinsurance receivables | **R0370** | 1,804,275 |
| Receivables (trade, not insurance) | **R0380** | 7,074,164 |
| Own shares (held directly) | **R0390** | 0 |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | 0 |
| Cash and cash equivalents | **R0410** | 44,061,312 |
| Any other assets, not elsewhere shown | **R0420** | 0 |
| Total assets | **R0500** | 1,384,825,196 |

## Appendix 4: S.02.01.02 Balance Sheet Continued

| | | Solvency II value |
|---|---|---|
| **Liabilities** | | **C0010** |
| Technical provisions – non-life | **R0510** | 417,950,893 |
| Technical provisions – non-life (excluding health) | **R0520** | 416,216,121 |
| Technical provisions calculated as a whole | **R0530** | 0 |
| Best Estimate | **R0540** | 390,361,414 |
| Risk margin | **R0550** | 25,854,708 |
| Technical provisions - health (similar to non-life) | **R0560** | 1,734,772 |
| Technical provisions calculated as a whole | **R0570** | 0 |
| Best Estimate | **R0580** | 1,615,784 |
| Risk margin | **R0590** | 118,988 |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | 0 |
| Technical provisions - health (similar to life) | **R0610** | 0 |
| Technical provisions calculated as a whole | **R0620** | 0 |
| Best Estimate | **R0630** | 0 |
| Risk margin | **R0640** | 0 |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | 0 |
| Technical provisions calculated as a whole | **R0660** | 0 |
| Best Estimate | **R0670** | 0 |
| Risk margin | **R0680** | 0 |
| Technical provisions – index-linked and unit-linked | **R0690** | 0 |
| Technical provisions calculated as a whole | **R0700** | 0 |
| Best Estimate | **R0710** | 0 |
| Risk margin | **R0720** | 0 |
| Other technical provisions | **R0730** | 0 |
| Contingent liabilities | **R0740** | 0 |
| Provisions other than technical provisions | **R0750** | 800,000 |
| Pension benefit obligations | **R0760** | 0 |
| Deposits from reinsurers | **R0770** | 0 |
| Deferred tax liabilities | **R0780** | 5,810,777 |
| Derivatives | **R0790** | 114,234,248 |
| Debts owed to credit institutions | **R0800** | 0 |
| Financial liabilities other than debts owed to credit institutions | **R0810** | 0 |
| Insurance & intermediaries payables | **R0820** | 1,809,246 |
| Reinsurance payables | **R0830** | 1,296,842 |
| Payables (trade, not insurance) | **R0840** | 53,988 |
| Subordinated liabilities | **R0850** | 0 |
| Subordinated liabilities not in Basic Own Funds | **R0860** | 0 |
| Subordinated liabilities in Basic Own Funds | **R0870** | 0 |
| Any other liabilities, not elsewhere shown | **R0880** | 9,624,448 |
| Total liabilities | **R0900** | 551,580,442 |
| Excess of assets over liabilities | **R1000** | 833,244,754 |

## Appendix 5: S.23.01.01 Own Funds

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 0 | 0 | | 0 | |
| Share premium account related to ordinary share capital | R0030 | 0 | 0 | | 0 | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R0040 | 0 | 0 | | 0 | |
| Subordinated mutual member accounts | R0050 | 0 | | 0 | 0 | 0 |
| Surplus funds | R0070 | 0 | 0 | | | |
| Preference shares | R0090 | 0 | | 0 | 0 | 0 |
| Share premium account related to preference shares | R0110 | 0 | | 0 | 0 | 0 |
| Reconciliation reserve | R0130 | 808,244,754 | 808,244,754 | | | |
| Subordinated liabilities | R0140 | 0 | | 0 | 0 | 0 |
| An amount equal to the value of net deferred tax assets | R0160 | 0 | | | | 0 |
| Other items approved by supervisory authority as basic own funds not specified above | R0180 | 0 | 0 | 0 | 0 | 0 |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | 0 | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | 0 | 0 | 0 | 0 | |
| **Total basic own funds after deductions** | R0290 | 808,244,754 | 808,244,754 | 0 | 0 | 0 |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | 0 | | | 0 | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R0310 | 0 | | | 0 | |
| Unpaid and uncalled preference shares callable on demand | R0320 | 0 | | | 0 | 0 |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | 0 | | | 0 | 0 |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | 0 | | | 0 | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | 0 | | | 0 | 0 |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | 0 | | | 0 | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | 0 | | | 0 | 0 |
| Other ancillary own funds | R0390 | 0 | | | 0 | 0 |

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Total ancillary own funds** | R0400 | 0 | | | 0 | 0 |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 808,244,754 | 808,244,754 | 0 | 0 | 0 |
| Total available own funds to meet the MCR | R0510 | 808,244,754 | 808,244,754 | 0 | 0 | |
| Total eligible own funds to meet the SCR | R0540 | 808,244,754 | 808,244,754 | 0 | 0 | 0 |
| Total eligible own funds to meet the MCR | R0550 | 808,244,754 | 808,244,754 | 0 | 0 | |
| **SCR** | R0580 | 207,215,228 | | | | |
| **MCR** | R0600 | 51,803,807 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 4 | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 16 | | | | |

| | | Total | |
|---|---|---|---|
| | | C0060 | |
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | R0700 | 833,244,754 | |
| Own shares (held directly and indirectly) | R0710 | 0 | |
| Foreseeable dividends, distributions and charges | R0720 | 25,000,000 | |
| Other basic own fund items | R0730 | 0 | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | 0 | |
| **Reconciliation reserve** | R0760 | 808,244,754 | |
| **Expected profits** | | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | 0 | |
| Expected profits included in future premiums (EPIFP) - Non- life business | R0780 | 0 | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 0 | |

## Appendix 6: S.25.01.01 Solvency Capital Requirement – for undertakings on Standard Formula

| | | |
|---|---|---|
| Article 112 | **Z0010** | 2 - Regular reporting |

| | | Net solvency capital requirement | Gross solvency capital requirement | Allocation from adjustments due to RFF and Matching adjustments portfolios |
|---|---|---|---|---|
| | | **C0030** | **C0040** | **C0050** |
| Market risk | **R0010** | 136,550,748 | 136,550,748 | 0 |
| Counterparty default risk | **R0020** | 17,000,528 | 17,000,528 | 0 |
| Life underwriting risk | **R0030** | 0 | 0 | 0 |
| Health underwriting risk | **R0040** | 1,019,075 | 1,019,075 | 0 |
| Non-life underwriting risk | **R0050** | 126,831,540 | 126,831,540 | 0 |
| Diversification | **R0060** | -64,429,464 | -64,429,464 | |
| Intangible asset risk | **R0070** | 0 | 0 | |
| **Basic Solvency Capital Requirement** | **R0100** | 216,972,428 | 216,972,428 | |

| **Calculation of Solvency Capital Requirement** | | **C0100** |
|---|---|---|
| Adjustment due to RFF/MAP nSCR aggregation | **R0120** | 0 |
| Operational risk | **R0130** | 11,759,316 |
| Loss-absorbing capacity of technical provisions | **R0140** | 0 |
| Loss-absorbing capacity of deferred taxes | **R0150** | -21,516,515 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | **R0160** | 0 |
| **Solvency Capital Requirement excluding capital add-on** | **R0200** | 207,215,228 |
| Capital add-on already set | **R0210** | 0 |
| **Solvency capital requirement for undertakings under consolidated method** | **R0220** | 207,215,228 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | **R0400** | 0 |
| Total amount of Notional Solvency Capital Requirements for remaining part | **R0410** | 0 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | **R0420** | 0 |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | **R0430** | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | **R0440** | 0 |
| Method used to calculate the adjustment due to RFF/MAP nSCR aggregation | **R0450** | 4 - No adjustment |
| Net future discretionary benefits | **R0460** | 0 |

## Appendix 7: S.28.01.01 Minimum Capital Requirement – Only life of only non-life insurance or reinsurance activity

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

| | | C0010 |
|---|---|---|
| MCRNL Result | R0010 | 48,667,168.6 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| Medical expense insurance and proportional reinsurance | R0020 | 327,580 | 367,708 |
| Income protection insurance and proportional reinsurance | R0030 | 1,310,319 | 1,470,831 |
| Workers' compensation insurance and proportional reinsurance | R0040 | 0 | 0 |
| Motor vehicle liability insurance and proportional reinsurance | R0050 | 15,441,279 | 5,731,774 |
| Other motor insurance and proportional reinsurance | R0060 | 3,860,320 | 1,432,944 |
| Marine, aviation and transport insurance and proportional reinsurance | R0070 | 155,908 | 336,063 |
| Fire and other damage to property insurance and proportional reinsuranc | R0080 | 8,315,828 | 10,348,508 |
| General liability insurance and proportional reinsurance | R0090 | 323,671,970 | 82,329,374 |
| Credit and suretyship insurance and proportional reinsurance | R0100 | 0 | 128 |
| Legal expenses insurance and proportional reinsurance | R0110 | 2,068,387 | 1,689,258 |
| Assistance and proportional reinsurance | R0120 | 0 | 0 |
| Miscellaneous financial loss insurance and proportional reinsurance | R0130 | 0 | 0 |
| Non-proportional health reinsurance | R0140 | 0 | 0 |
| Non-proportional casualty reinsurance | R0150 | 0 | 0 |
| Non-proportional marine, aviation and transport reinsurance | R0160 | 0 | 0 |
| Non-proportional property reinsurance | R0170 | 0 | 0 |

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

| | | C0040 |
|---|---|---|
| MCRL Result | R0200 | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 0 | |
| Obligations with profit participation - future discretionary benefits | R0220 | 0 | |
| Index-linked and unit-linked insurance obligations | R0230 | 0 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 0 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 0 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 48,667,169 |
| SCR | R0310 | 207,215,228 |
| MCR cap | R0320 | 93,246,853 |
| MCR floor | R0330 | 51,803,807 |
| Combined MCR | R0340 | 51,803,807 |
| Absolute floor of the MCR | R0350 | 2,500,000 |
| | | C0070 |
| Minimum Capital Requirement | R0400 | 51,803,807 |