RSA Insurance Ireland DAC

Solvency and Financial Condition Report (SFCR) 2016

Contents

Introduction

This Solvency and Financial Condition Report ("SFCR") sets out the solvency and financial condition of RSA Insurance Ireland DAC ("RSAII" or the "Company") as at 31 December 2016, as required by Solvency II Regulations.

Those regulations prescribe the structure of this document and indicate the nature of the information that must be reported under a series of headings and sub-headings. Where information is not applicable to the Company, for completeness, the report still contains the heading, but with an appropriate note.

As a general insurance business, the Company does not place any reliance on transitional measures for technical provisions as referred to in Articles 308c and 308d of Directive 2009/138/EC, or on measures such as the matching adjustment and the volatility adjustment as referred to in Articles 77b and 77d respectively of Directive 2009/138/EC. Consequently, there will be no information regarding these measures in this report.

Summary

The principal activity of the Company is the general insurance underwriting of personal and commercial risks. The Company is a leading insurance undertaking in Ireland with particular strengths in Household insurance and in direct sales through its 123.ie brand, operated by a wholly owned subsidiary of the Company.

The underwriting result for the year ended 31 December 2016 is set out below and in more detail in section A.2. An underlying improvement in performance has been driven by improving loss ratios, both through the targeted application of rate and the exit of schemes, lines of business and/ or individual risks where management do not believe that an acceptable return on capital can be delivered within a reasonable timeframe. This has been made more challenging by the uncertainty and volatility in the external claims environment. Prior year reserves required further strengthening during 2016, principally for accident years 2014 and 2015 where challenges with trend data made it difficult to identify the significant claims inflation that we believe to have been present in the market. The impact of this adverse reserve development on the Company's statutory financial statements and capital position has been largely absorbed by the intra-Group reinsurance arrangements described in section A.1.9.

The cost base is being substantially and sustainably reduced and this was particularly apparent as the benefits of voluntary redundancy programmes implemented in prior years earned through into the year ended 31 December 2016. The defined benefit pension scheme was also closed to future accrual during the year and replaced with a defined contribution scheme, providing more sustainable pension arrangements and reducing costs. In terms of contracts, the Company successfully transitioned its IT infrastructure and service desk to a new provider in August 2016. In parallel, it moved to a new countrywide telephony network and to a consolidated business continuity site.

Other material investments during the year included the implementation of a new general ledger system (SAP), a key enabler for a wider Finance transformation programme, and the deployment of a new online broker portal (Access RSA). Our new Operations Centre was opened in Galway early in the year, substantial activity has been successfully transferred to it and it is performing well. Finally, we launched a new People Strategy which focused on the four key pillars of learning and leadership, communications and engagement, performance management and recognition and enablement through systems and tools.

Business performance

The Company is one of a number of legal entities which, taken together, constitute the business of RSA in Ireland. This regulatory filing references only RSAII, therefore it does not represent the financial performance and position of the RSA Ireland business as a whole.

The loss on ordinary activities before taxation for the year ended 31 December 2016 per the Company's FRS 101 statutory financial statements amounted to €46.0m (2015: €16.8m loss). The profit and loss account for the prior year included non-recurring gains of €38.5m in relation to an adverse development cover ("ADC") reinsurance contract which was executed with the Company's immediate parent undertaking, Royal & Sun Alliance Insurance plc. This means that on a like-for-like basis the loss on ordinary activities before taxation reduced by €9.3m in 2016.

Underwriting result

The underwriting loss for the year ended 31 December 2016 amounted to €50.0m (2015: €22.3m loss). As noted above, the prior year included a day one gain of €38.5m on the execution of an ADC reinsurance contract and, when the impact of this is removed, the underwriting loss reduced by €10.8m in the current year.

Investment result

The investment result for the year ended 31 December 2016 amounted to a gain of €11.4m (2015: €23.2m gain). Realised investment income of €21.1m decreased by €7.5m primarily due to a €6.5m reduction in the interim dividend receivable from 123 Money Limited. The lower dividend was a factor of timing, rather than indicative of a change in underlying business performance. An impairment of €4.4m was recognised on the Company's investment in Benchmark Limited (2015: Nil). The decrease in realised investment income also reflected lower corporate and sovereign bond yields and a reduction in the scale of our investment portfolio as a consequence of the outward reinsurance premiums under the quota share contract.

Capital position

Solvency II position	**Requirement (SCR) €'m**	**Eligible own-funds €'m**	**Surplus €'m**	**Coverage ratio %**
31 December 2016	127.7	163.2	35.5	128

The SCR coverage ratio is composed of eligible own-funds divided by the Solvency Coverage Requirement ("SCR"). As at 31 December 2016, it was 128% and within the Company's Board approved risk appetite.

The improvement in coverage ratio year-on-year was primarily driven by the following:

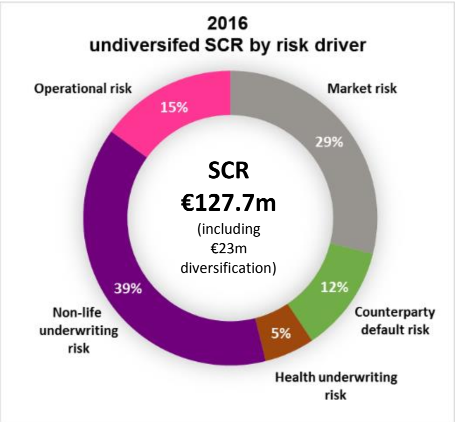
- A decrease in the SCR – see Risk profile changes below
- An improvement in eligible own-funds driven by:
  - The implementation of a CBI approved ancillary own-funds transaction (March 2016) valued at €90m Tier 2, which under Solvency II eligibility rules, contributed €63.9m to eligible own-funds at 31 December 2016
  - The adjustments required to transition FRS 101 technical provisions to a Solvency II basis being lower at 31 December 2016 and reflecting i) improving profitability foreseen in the Operational Plan, ii) an increase in quota share commission receivable, and iii) the reclassification of future instalment premiums as a deduction from technical provisions

  dampened by:

  - An FRS 101 loss for the financial year (€51.7m) after tax
  - Writing off a deferred tax asset amounting (€8.1m), and
  - A net actuarial loss on the defined benefit pension scheme under IAS 19 "Retirement Benefits" (€18.2m) which reflected an increase in the discount rate from 2.4% to 2.9%.

Risk profile changes in the year – capital requirement

The SCR decreased at 31 December 2016 from year end 2015.



The drivers of this year-on-year change include:

- Non-life underwriting risk which reduced by 5% during the year, primarily as a result of lower claims provisions. This was due to the run-off of claims incurred prior to 1 January 2015, up to the ADC reinsurance contract retention level, and the extent to which 2015 and 2016 claims have been reinsured under intra-Group quota share, and

- Market risk reduced slightly during the year, partly reflecting a smaller investment portfolio due to premiums paid on the quota share contract.

dampened by:

- A slight increase in Counterparty risk due to the quota share arrangement, and
- The impact of changing the treatment of the defined benefit pension scheme as a ring-fenced fund.

Capital activity and dividends

On 24 March 2016 and following receipt of approval from the Central Bank of Ireland, the Company executed an ancillary own-funds (“AOF”) transaction within the meaning of the Solvency II Framework (Directive 2009/138/EC). This took the form of issued but unpaid share capital callable on demand and the counterparty was the Company’s immediate parent undertaking, RSAI plc. The transaction had the effect of increasing the Company’s available own-funds under Solvency II by €90m.

The Company did not pay a dividend during the year and the directors do not recommend a payment of a dividend in respect of the year ended 31 December 2016.

System of governance

The Company maintains a robust and stable system of governance and there were no material changes to how the business operated during the year ended 31 December 2016. More detail is provided in section B.

Risk profile

The Company is exposed to seven main categories of risk, namely insurance risk, market risk, credit risk, liquidity risk, operational risk, Group risk and pension risk. The System of Governance includes a Risk Management System and this is detailed in section B.3. For each risk, measures are identified to assess and mitigate it to within the Company’s Board approved risk appetite. Further information is detailed in section C.

A Business and performance

The principal activity of RSA Insurance Ireland DAC ("RSAII" or "the Company") is general insurance underwriting for personal and commercial risks. The Company is a wholly owned subsidiary of RSA Insurance Group plc ("the Group") which is a multinational general insurer headquartered in London, listed on the London Stock Exchange and a constituent of the FTSE 100 index. The Group has major operations in the UK, Ireland, Scandinavia and Canada and provides insurance products and services in more than 100 countries through a network of local partners.

This section of the report provides information about the business and performance of RSAII, covering in particular the performance of underwriting and investment activities. RSAII is one of a number of legal entities which, taken together, constitute the business of RSA in Ireland. This regulatory filing references only RSAII, therefore it does not represent the financial performance and position of the RSA Ireland business as a whole.

The quantitative analysis in section A has been extracted from the Company's statutory financial statements which have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and with the Companies Act, 2014. The financial statements have also been prepared in accordance with the provisions of Statutory Instruments No. 262 of 2015 European Union (Insurance Undertakings: Financial Statements) Regulations 2015. There are some differences in presentation between the Solvency II income statement and the FRS 101 financial statements; however, the aggregate result for the year ended 31 December 2016 is unchanged.

A.1 Business

A.1.1 Company name & legal form

The specific entity covered by this SFCR is RSA Insurance Ireland DAC, a private limited company incorporated in Ireland.

A.1.2 Supervisory authority

RSA Insurance Ireland DAC

The Central Bank of Ireland ("the CBI") is the authority responsible for prudential supervision of the Company.

The contact details for the CBI are as follows:

PO Box 559
Dame Street
Dublin 2
D02 P656

Telephone: +353 (0)1 224 6000
Website: http://www.centralbank.ie

RSA Insurance Group plc

The Prudential Regulation Authority ("the PRA") is the authority responsible for the prudential supervision of the Company's immediate and ultimate parent undertakings, being Royal & Sun Alliance Insurance plc ("RSAI plc") and RSA Insurance Group plc respectively.

The contact details for the PRA are as follows:

20 Moorgate
London
EC2R 6DA

Telephone: +44 (0)20 3461 7019
Website: http://www.bankofengland.co.uk/

A.1.3 External auditor

The external auditor of the Company is KPMG:

KPMG
1 Harbourmaster Place
IFSC
Dublin 1

The contact details of KPMG are as follows:

Telephone: (01) 410 1000
Website: http://www.kpmg.ie

A.1.4 Holders of qualifying holdings

Royal & Sun Alliance Insurance plc holds 100% of the issued share capital of the Company.

A.1.5 Position within the Group legal structure

RSA Insurance Group plc

This is the ultimate parent undertaking of the Group.

Royal & Sun Alliance Insurance plc

RSAI plc's immediate parent undertaking is Royal Insurance Holdings plc, a company incorporated in England and Wales. Its ultimate parent and controlling party is RSA Insurance Group plc, which is registered in England and Wales.

RSA Insurance Ireland DAC

The Company's immediate parent undertaking is RSAI plc, a company incorporated in England and Wales. The Company's ultimate undertaking and controlling party is RSA Insurance Group plc, which is also registered in England and Wales.

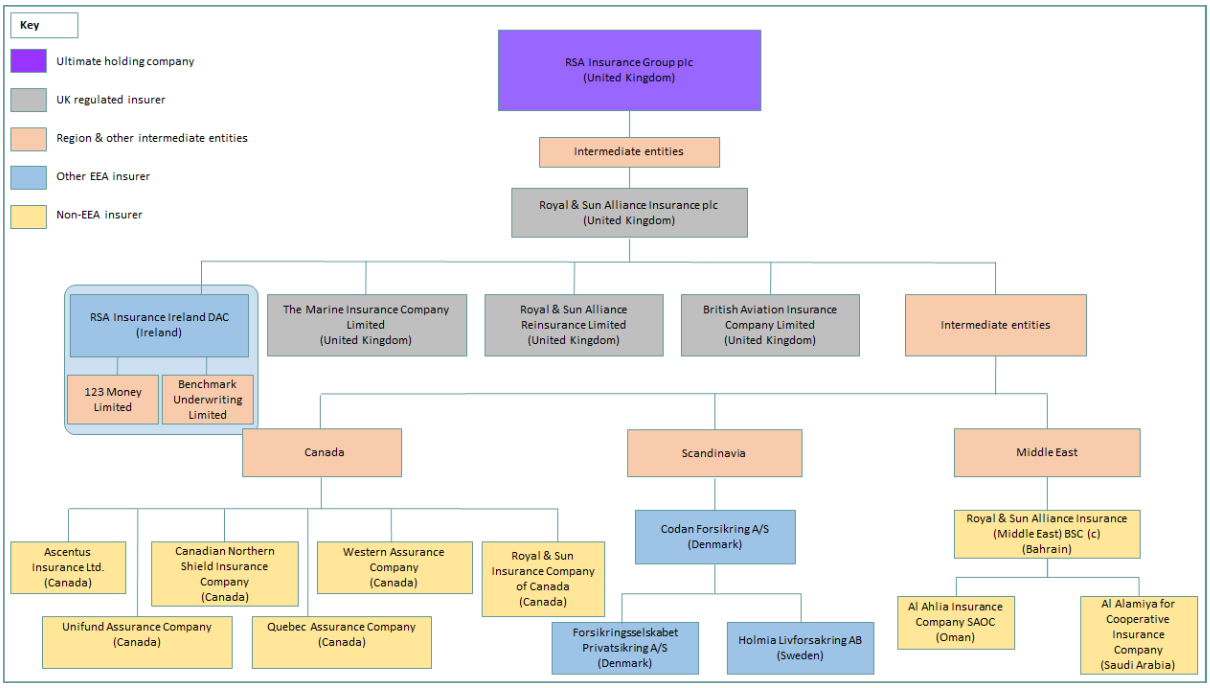
A.1.6 Material related undertakings

See Appendix 1 of the Group's SFCR for a list of all subsidiaries and associates of the Group (including % ownership) and a list of all branches of each subsidiary.

Material related undertakings of RSAII are listed below. All are companies limited by shares:

Country	Name	Shares held
Ireland	123 Money Limited	100%
Ireland	Benchmark Underwriting Limited	100%

A.1.7 Simplified group structure



The Group is organised into regional operating segments with businesses in Scandinavia, Canada, UK, Ireland and the Middle East.

A.1.8 Business lines and geographical areas

The Company primarily writes business in Ireland, and to a lesser extent, the UK. In these geographies business is written in the following non-life lines:

Line of business: Non-life	RSAII
Medical expense	✓
Income protection	✓
Workers compensation	Not written
Motor vehicle liability	✓
Other motor	✓
Marine, aviation and transport	✓
Fire and damage to property	✓
General Liability	✓
Credit and suretyship	Not written
Legal expenses	Not written
Assistance	✓
Miscellaneous financial loss	✓
Non-proportional health reinsurance	Not written
Non-proportional casualty reinsurance	Not written
Non-proportional marine, aviation, transport reinsurance	Not written
Non-proportional property reinsurance	Not written

A.1.9 Significant events

Adverse development cover and quota share reinsurance arrangements

The following paragraphs describe two reinsurance transactions which were executed prior to the year ended 31 December 2016 which have a material impact on the Company's reported statutory financial performance for the current year. The transactions align with the Group's strategy to optimise capital allocation and usage across its territories and they result in a transfer of risk from RSAII to its immediate parent entity, RSAI plc:

(a) During the year ended 31 December 2015, the Company signed an adverse development cover ("ADC") contract with its parent company. The contract provides cover in respect of future development in relation to accident years 2014 and prior, it has an attachment point of €400m and it covers liabilities up to a limit of €325m. The premium for this cover was €250m

(b) The Company signed a variable quota share reinsurance contract with its parent company on 2 October 2015. The contract provides cover in respect of the 2015 and 2016 accident years, covering short tail exposures at a rate of 50%, long tail exposures at a rate of 90% and combined business at a rate of approximately 70%. The contract was renewed for the year ended 31 December 2017.

Defined benefit pension scheme closed to future accrual

On 31 January 2016, the defined benefit pension scheme was closed to future accrual. With effect from that date, future pension arrangements for the members of this scheme transferred to a defined contribution scheme.

Ancillary own-funds facility

On 24 March 2016 and following receipt of approval from the Central Bank of Ireland, the Company executed an ancillary own-funds ("AOF") transaction within the meaning of the Solvency II Framework (Directive 2009/138/EC). This took the form of issued but unpaid share capital callable on demand and the counterparty was the Company's immediate parent undertaking, RSAI plc. The transaction had the effect of increasing the Company's available own-funds under Solvency II by €90m. Under the Solvency II Framework, the approved AOF item is classified as Tier 2 capital which would convert to Tier 1 capital if it were to be called.

A.2 Underwriting performance

A.2.1 Aggregate performance

This section contains an analysis of the underwriting loss for the Company for the year ended 31 December 2016. Financial performance is measured in accordance with FRS 101; however, the presentation used below is that applied across the RSA Group which differs marginally from the presentation in the technical account in the statutory financial statements.

	€'000
Gross written premiums	388,113
Net written premiums	102,032
Net earned premiums	96,309
Net incurred claims	(96,667)
Commissions incurred	(65,071)
Commissions earned	60,002
Operating expenses	(44,621)
Underwriting loss (section A.2)	**(50,048)**
Investment income (A.3.1)	21,118
Investment expenses and charges (A.3.1 and A.4.1)	(3,614)
Value readjustments on investments (A.3.1)	(4,372)
Other charges including value adjustments (foreign exchange)	(1,777)
Investment result	**11,355**
Other income	63
Operating expenses (A.4.1)	(7,321)
Operating result	**(45,951)**
Loss before tax	(45,951)
Tax	(5,789)
Loss after tax	**(51,740)**

The underwriting loss for the year ended 31 December 2016 amounted to €50.0m (2015: €22.3m loss). The loss for the prior year included non-recurring gains of €38.5m in relation to the ADC reinsurance contract which was executed with the Company's immediate parent undertaking, RSAI plc. This means that, on a like-for-like basis, the underwriting loss reduced by €10.8m in the year ended 31 December 2016.

As described in section A.1.9, the Company has significant intra-Group reinsurance arrangements in place and they have a material impact on reported financial performance. The arrangements align with the Group's strategy to optimise capital allocation and usage across its territories and result in a transfer of risk from RSAII to its immediate parent entity, RSAI plc ("the reinsurer"). The transfer of risk to the reinsurer materially reduces the Company's SCR.

From a current accident year perspective, the effect of the variable quota share is to cede approximately 70% of premiums to the reinsurer. The percentage of claims ceded depends on the actual current accident year performance of individual classes. The Company receives a commission set on an arm's length basis and designed to ensure that, based on the Board approved Operational Plan, the reinsurer will earn a reasonable return on capital for the premium ceded. Any prior year development experienced in the financial year falls within the scope of either the ADC (to the limit of €325m) or the 2015 quota share, depending on the accident year to which it relates. Ultimately, the actual performance of the ceded business determines whether the reinsurance arrangements enhance or deteriorate the Company's financial performance in a given year.

Gross written premiums for the year ended 31 December 2016 of €388.1m were 3.6% higher than the prior year. This primarily reflected the continued application of the rate required to remediate the Company's Motor, Liability and SME portfolios, dampened by the impact on premiums of exits schemes, lines of business and/ or individual risks where management do not believe that an acceptable return on capital can be delivered within a reasonable timeframe. Net written premiums were only €102.0m as 74% of the Company's premiums were ceded to third-party or intra-Group reinsurers.

The Company's reinsurance arrangements meant that only 31% of gross claims incurred were retained with net incurred claims for the year amounting to €96.7m. The current year claims ratio was 94%; however, the underlying claims ratio excluding the quota share was 77%. This showed an improvement of 13 points year on year as the Company continued to benefit from the remediation of underperforming portfolios.

Operating expenses of €44.6m were €1.8m or 4% higher than the same period last year. Total employee expenses were €11.1m lower than the prior year. Wages and salaries decreased by €7.1m as lower average employee numbers reflected the Company's restructuring activity. Retirement benefit costs reduced by €3.6m with the closure of the defined benefit scheme to future accrual. This was offset by an unrealised foreign exchange loss of €6.9m (2015: €4.2m gain). The underlying expense ratio excluding the quota share and the ADC on net earned premium was 14% and this was 3 points lower than 2015. Reinsurance commission income on the quota share contract of €59.4m was €5.7m higher than last year and this reflected the expected improvement in current year profitability.

A.2.2 Performance by geographic area

	Ireland	**UK**	**Total**
	€'000	**€'000**	**€'000**
Gross written premium	346,004	42,109	388,113
Net earned premium	87,972	8,337	96,309
Net incurred claims	(87,085)	(9,582)	(96,667)
Underwriting expenses	(42,194)	(7,496)	(49,690)
Underwriting loss	**(41,307)**	**(8,741)**	**(50,048)**

The business written in the UK is written in Northern Ireland.

A.2.3 Performance by material line of business

An analysis of underwriting performance for the Company for the year ended 31 December 2016 by material line of business is detailed below:

	Net written premium	**Underwriting result**
	€'000	**€'000**
Motor vehicle liability insurance	18,521	(13,713)
Other motor insurance	3,798	(5,229)
Fire and other damage to property insurance	65,030	(12,027)
General liability insurance	11,078	(19,571)
Total material lines of business	98,428	(50,540)
Other	3,604	492
Total	**102,032**	**(50,048)**

Motor insurance generated a loss of €18.9m and accounted for 37% of the underwriting loss for the year. The Company applied rate of more than 30 points across the Personal Lines and Commercial Fleet portfolios during 2016 and expects to continue to apply rate until the portfolios return to a level of sustainable profitability which generates an acceptable return on capital. General liability insurance reported a loss of €19.6m which represented 39% of the total underwriting loss. Rate of 20 points was achieved during 2016 and the Company continue to exit schemes, lines of business and/ or individual risks where management do not believe that an acceptable return on capital can be delivered within a reasonable timeframe. Fire and other damage to property includes a 'super large' loss which has been booked to its retention of €12.0m.

A.3 Investment performance

A.3.1 Income and expenses by asset class

The asset classes shown in this section follow the definitions used in the Company's financial statements, which may differ from the definitions used in section D of this report.

A summary of income from participating interests, income from investments in debts and equity securities and net realised gains/ (losses) in investments is given below. Net unrealised gains/ (losses) on investments which have been recognised directly in equity are considered in section A.3.2.

	Investment income €'000	Net realised gains/ (losses) €'000	Impairments €'000	Total investment income €'000
Income from participating interests	8,500	-	(4,372)	4,128
Equity securities				
Available for sale	619	34	-	653
Debt securities				
Available for sale	9,721	2,280	-	12,001
Deposits, cash and cash equivalents	(36)	-	-	(36)
Total net investment income	**18,804**	**2,314**	**(4,372)**	**16,746**

The investment income of €16.7m recognised in the income statement for the year ended 31 December 2016 was €11.6m lower than the prior year. Dividend income receivable from 123 Money Limited decreased by €6.5m and this was principally a factor of timing, rather than indicative of a change in underlying business performance. An impairment of €4.4m was recognised on the Company's investment in Benchmark Limited (2015: Nil). Realised investment income decreased by €1.0m as a result of lower corporate and sovereign bond yields and a reduction in the scale of the investment portfolio as a consequence of the outward reinsurance premiums payable under the quota share contract.

Investment management expenses

A summary of investment management expenses by asset class is given below:

	€'000
Equity securities	(56)
Debt securities	(258)
Total investment management expenses	**(314)**

A.3.2 Gains and losses recognised in equity

Unrealised gains and losses recognised in other comprehensive income for available for sale assets are as follows:

	Net unrealised gains/ (losses) €'000	Net realised (gains)/ losses transferred to income statement €'000	Impairments transferred to income statement €'000	Net movement recognised in other comprehensive income €'000
Equity securities	31	(34)	-	(3)
Debt securities	(1,110)	(2,280)	-	(3,390)
Total	**(1,079)**	**(2,314)**	**-**	**(3,393)**

Net unrealised losses of €3.4m (2015: €7.8m losses) were recognised in other comprehensive income.

A.3.3 Investments in securitisation

The Company has no exposure to securitised investments.

A.4 Performance of other activities

A.4.1 Other material income & expenses

An analysis of the Company's other material income and expenses for the year ended 31 December 2016 is detailed below.

Other material income

The Company has no other material sources of income beyond that referred to in section A.2.1.

Other material expenses

	€'000
Restructuring costs	5,553
Solvency II costs	1,422
Defined benefit pension scheme:	
Interest income on scheme assets	(2,878)
Interest expense on scheme liabilities	2,786
Administrative expenses	438
Other material expenses	**7,321**

Other operating expenses of €7.3m were €9.6m lower than the same period last year. Restructuring costs for the year ended 31 December 2016 decreased by €6.3m and included the completion of a voluntary redundancy programme initiated in the prior year and the cost of various transformation and restructuring projects. Solvency II costs of €1.4m were €3.0m lower than last year as the programme came to a close.

Finance costs

	€'000
Interest payable	**3,300**

Interest of €3.3m (2015: €2.4m) was payable to RSAI plc on the ADC reinsurance contract funds withheld account.

A.4.2 Operating and financial leasing arrangements

A.4.2.1 Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & Buildings €'000	Other €'000
Within one year	2,078	99
Between one and five years	3,279	167
After five years	-	-
Total future minimum lease payments	**5,357**	**266**

All material leases of land and buildings are subject to rent review periods of between three and five years.

One leased property is sub-let onwards by the Company, the rental fee received from the sub-lessee being equal to the rental fee the Company must pay to the head lessor under the head lease. Therefore the future minimum lease payments above have been adjusted to reflect the amount being recovered by the Company from the sub-lessee.

A.4.2.2 Finance lease commitments

The Company has no material finance leases.

A.4.3 Discontinued operations and disposals

On 31 October 2015, the Company disposed of its engineering inspection and consultancy services business and a gain of €0.2m in the statutory financial statements. On completion of the sale in 2016, a further gain of €0.2m was recognised. Income from engineering services in the year ended 31 December 2015 amounted to €2.0m.

A.5 Any other information

None noted.

B System of governance

This section of the report describes the Company's System of Governance, including details of its Board structure and its risk management and internal control systems. It also provides information on the role of the four Key Functions being Risk, Audit, Compliance and Actuarial.

B.1 General information on the system of governance

B.1.1 Board structure

The business of RSAII is overseen by a single Board comprising eight directors, six of whom are non-executive, five of which have been determined by the Board to be independent.

The Board has sole responsibility for determining the business conducted within the Company, i.e. the strategy and objectives of the Company, and is accountable to stakeholders for the creation and delivery of strong sustainable performance and long term shareholder value.

The Board meets at least six times per year. The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote success for the benefit of the shareholder and is consistent with the Memorandum and Articles of Association, the Corporate Governance Requirements for Insurance Undertakings, 2015 (effective 1 January 2016) and current corporate governance.

The Board promotes high standards of corporate governance and conduct throughout the Company and has a solid governance framework in place. Specific duties of the Board are clearly set out as a formal schedule of matters reserved to the Board, which can only be amended by the Board itself and which is reviewed annually.

The Board sets annual objectives for the business in line with the current Company strategy and monitors the achievement of Company's objectives through regular reports which include updates from the Chief Executive and the Chief Financial Officer on all material business matters.

The directors are responsible for monitoring Company performance and need to regularly attend Board meetings as evidence of this.

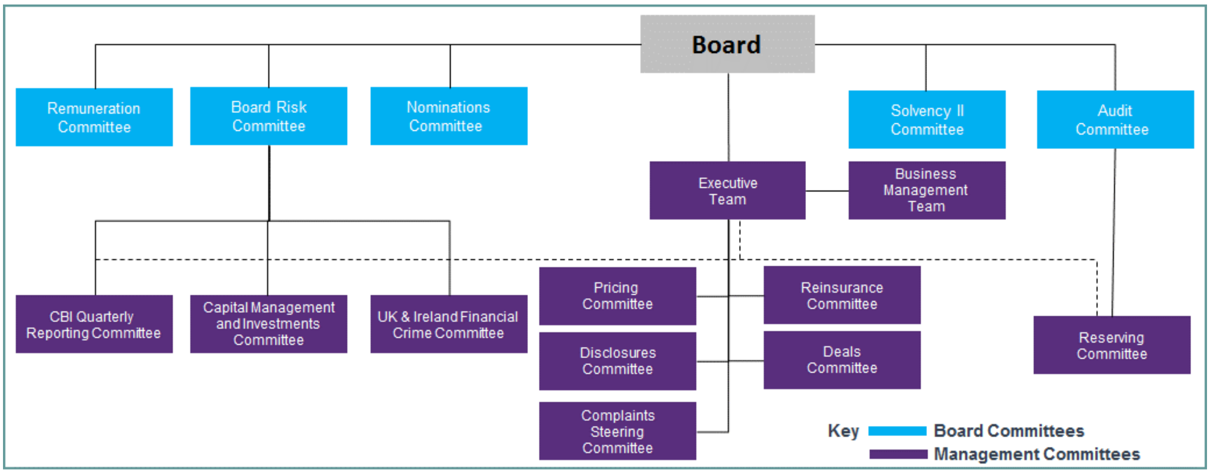
Directors have access to the services and advice of the Company Secretary, Head of Legal, Internal Audit, Regulatory Risk & Compliance, Actuarial and Risk functions and in addition may take independent professional advice at the expense of the Company in furtherance of their duties.

The Board operates in strict accordance with the Company's Conflicts of Interest policy which sets out the process and procedures to be followed in the event that a conflict has been identified. At the start of each Board meeting, the Chairman formally requests that any potential or actual conflicts of interest be declared (which is recorded in the minutes) and any director impacted then participates as allowed for in the policy. If during the course of the meeting any further potential or actual conflicts arise it is the responsibility of the Director to declare such potential or actual conflict. The Board operates a Conflicts of Interest register which is maintained by the Company Secretary and reviewed annually.

The Chairman is responsible for leading the annual review of the effectiveness of the Board. The most recent review completed in the final quarter of 2016.

B.1.1.1 Board committees

The Board focuses on strategy, performance and approval of material transactions. It therefore delegates authority and oversight to its Committees in certain areas. Each of the Company's Board appointed Committees operates within Terms of Reference approved by the Board and their structure and the relationships between them is set out below.



The Remuneration Committee

The primary role of the Remuneration Committee is to determine the terms and conditions of employment, pay and benefits for each of the executive directors and members of the Executive Team of the Company.

The Board Risk Committee

The primary role of the Board Risk Committee is to advise the Board on risk management issues, recommend the framework of risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company generally. The Committee ensures that the material risks facing the company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Nominations Committee

The primary role of the Nominations Committee is to manage the process for advising and making recommendations to the Board on matters relating to the Board's membership and related appointments.

The Solvency II Committee

The Solvency II Committee was a temporary Board committee established to review and approve project budgets and resources to develop the Company's Solvency II capability and any regulatory submissions in the lead up to and the early implementation of Solvency II. During 2016, all Solvency II capabilities were firmly embedded and delivered by the Company's business as usual capability and as a result this Committee was dissolved in Q4 2016.

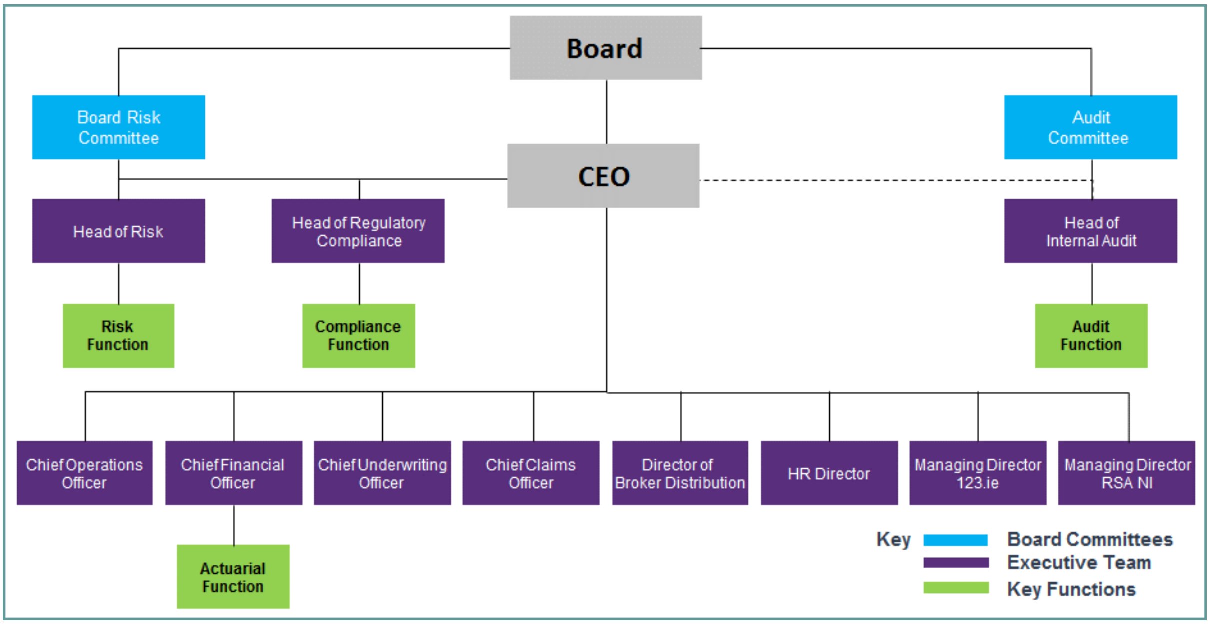
The Audit Committee

The primary role of the Audit Committee is to discuss, challenge and make suggestions concerning the following matters:

- Co-ordination and oversight of the financial reporting process, including monitoring compliance in these matters
- Oversight of internal and external audit functions
- Management of the effectiveness of systems of internal controls
- Review of the Company's financial performance, and
- All matters relating to the legal integrity of the Company.

B.1.2 Independent key governance functions

The diagram below depicts the Executive management structure of the Company, and the day-to-day reporting lines of those functions that the Board has determined to be the Key Governance Functions being Risk, Audit, Compliance and Actuarial.



The Audit Committee is responsible for the oversight of the effectiveness of the systems of internal control and financial and regulatory reporting, and for monitoring the effectiveness and objectivity of the internal audit function. The Head of Actuarial Function and the Head of Internal Audit Function have the right to meet at least annually with the Audit Committee without the Executive Directors or management being present. The Head of Risk and Head of Regulatory Compliance have a similar right in relation to the Board Risk Committee.

Those working in the key governance functions are subject to the provisions of the Fitness and Propriety policy (described in section B.2 below) which requires them to have the necessary skills, knowledge and experience to fulfil their position. This is assessed both on initial appointment and through annual performance appraisals.

B.1.3 Changes in the system of governance

There have been no major changes to the Company's System of Governance during 2016.

The following director resignations took place during the year:

- Roy Keenan, 13 April 2016

The following Director appointments were made during the year:

- Patrick Healy, 13 April 2016
- Ciaran McGettrick, 13 April 2016

The following changes were made to Committees last year:

- The Solvency II Committee conducted its final meeting in late 2016 with its delegated authority where relevant being transferred to the Board Risk Committee.

B.1.4 Principles of remuneration policy

The Remuneration policy outlines RSAII's approach to remuneration and the governance framework for making remuneration decisions.

The policy is designed to support the business strategy by appropriately rewarding performance and promoting sound and effective risk management, compliance with external regulatory requirements and alignment to the long-term interests of the Company and its shareholders.

The policy establishes over-arching principles and standards to guide remuneration decision-making, which is aligned to local market norms and regulations. These principles are based around alignment to long-term Company success, pay-for-performance and risk alignment. A total reward approach is used, such that the reward framework includes both fixed remuneration elements (reflecting an employee's professional experience and responsibility, and can include elements such as base salary, benefits and pension) and variable elements (which can be awarded to eligible employees, reflecting performance).

The policy establishes specific remuneration provisions for jobholders whose professional activities have a material impact on the risk profile, or have responsibility for Key Governance Functions. These provisions are intended to promote effective risk management and include:

- The balancing of fixed and variable remuneration to enable a fully flexible approach to incentives (including the possibility of paying no variable remuneration)
- The design of incentive plans to encourage performance within the Company's risk appetite, including the consideration of material risk factors in incentive award decisions, the operation of "deferral" and "malus" adjustment and the operation of clawback provisions for Executive directors and Executive Committee members, and
- The approach to remuneration in the context of employment termination.

The policy is applicable to all employees of RSAII and is reviewed regularly, to ensure that it complies with the principles of good risk management and reward governance, taking into account regulatory requirements and the nature of the business.

B.1.5 Performance criteria

Incentive plans encourage performance in line with the business strategy and the Company's risk appetite, and take into account material risk factors and the Company's ability to maintain an adequate capital base.

The Remuneration policy framework is based on:

- A 'total reward' approach: Fixed remuneration reflecting professional experience and organisational responsibility, and a variable remuneration element which can be awarded in addition to eligible employees, reflecting company and individual performance
- Alignment to long-term Company success: Variable remuneration is aligned to business strategy, the long-term success of the Company and the interests of its shareholders. The Company operates all-employee share plans. Employee share ownership is encouraged but participation is voluntary. Share ownership is required of the Group's Top 50 senior leaders (including CEO, Ireland)
- Pay-for-performance: Performance and reward are closely linked, such that out-performance is rewarded appropriately, while variable pay can be reduced or eliminated for poor performance
- Market competitiveness: Locally competitive remuneration packages offered to attract and retain talent are balanced against the need to ensure packages are sustainable
- Simplicity and transparency: Reward design is shared with employees, and

- Risk management in remuneration design: Remuneration packages are structured so as not to incentivise undue risk-taking; incentive plans encourage performance in line with the business strategy and within the risk appetite while award decisions take into account material risk factors and the Company's ability to maintain an adequate capital base.

The Remuneration policy framework incorporates measures aimed at avoiding conflicts of interest. For those undertaking certain roles such as 'material risk takers' and other identified roles, they are subject to additional remuneration provisions. For relevant individuals a portion of variable remuneration may be subject to deferral. Deferred incentives are subject to "malus" provisions and "claw back" provisions apply to cash bonuses and vested long-term incentives awards. Variable remuneration arrangements for those responsible for Key Governance Functions are designed to be independent from the performance of the operational units and areas submitted to their control. These specific additional remuneration arrangements are intended to promote effective risk management, and in the case of the heads of the Key Governance Functions, to preserve their independence.

Individual performance assessments are based not only by considering what is delivered, but also how goals are achieved, and take into account financial and non-financial criteria.

B.1.6 Supplementary pensions/ early retirement

No supplementary pensions are operated for the members of the administrative, management or supervisory body and other Key Function holders. The Company's defined benefit pension plans are closed to all new entrants, but some employees have historic benefits accumulated which, in accordance with the current RSAII policies and the scheme rules, can be paid early without reduction in certain circumstances.

B.1.7 Shareholder or Board transactions

The directors and secretary of the Company held no direct interest in the called-up share capital of the Company at any point during the financial period.

Furthermore, the interests of the directors and secretary and their families who held office at 31 December 2016 in the share capital of RSA Insurance Group plc are less than 1% in nominal value of the issued voting share capital of that entity and so in line with section 329 of the Companies Act, 2014, have not been disclosed.

There were no other transactions with the directors or the Company secretary during the period.

Dividends

The Company did not pay a dividend during the year and the directors do not recommend a payment of a dividend in respect of the year ended 31 December 2016.

Key management transactions

The following transactions were carried out with key management:

	€'000
Aggregate emoluments paid to or receivable by directors in respect of qualifying services	1,168
Employer contribution to defined contribution pension schemes	61
Total	**1,229**

Key management personnel comprise members of the Executive Team, Executive directors and non-Executive directors.

B.2 Fit and proper requirements

B.2.1 Specific fit and proper requirements

The Company's Fitness and Propriety policy documents the controls and minimum requirements that must be in place to minimize and/ or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with the regulatory fit and proper requirements.

The policy applies to directors and all employees of the Company, with a higher level of requirements for those employees who are deemed to be:

- Individuals who are effectively running and overseeing the business (whether they are directly employed by that business or not)
- Key Governance Function holders, and
- Individuals working in the Key Governance Functions.

All other employees must be assessed on their skills and knowledge, expertise and personal integrity prior to commencement, with a re-assessment annually through appraisals.

Ultimate responsibility to comply with local regulatory rules and requirements of fitness and propriety rests with the Board of the Company, and is based on advice, challenge and interpretation by the Regulatory Compliance function. The Board believes that it has the appropriate balance of skills, experience and knowledge to enable it and its Committees to discharge their duties and responsibilities effectively. The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments and to this end one of the key responsibilities of the Company's Nomination Committee is to keep under review Board membership and succession planning to ensure that the balance remains appropriate.

B.2.2 Assessment process

The Fitness and Propriety policy outlines the minimum requirements to assess and ensure fitness and propriety, including the governance over roles and responsibilities to ensure compliance.

The assessment process must include an assessment of the person's:

- Honesty, integrity and reputation
- Competence and capability, and
- Financial soundness.

The policy also requires continued assessment of both fitness and propriety post appointment.

Responsibility for complying with local regulatory rules and requirements rests with the Board.

Fit requirements

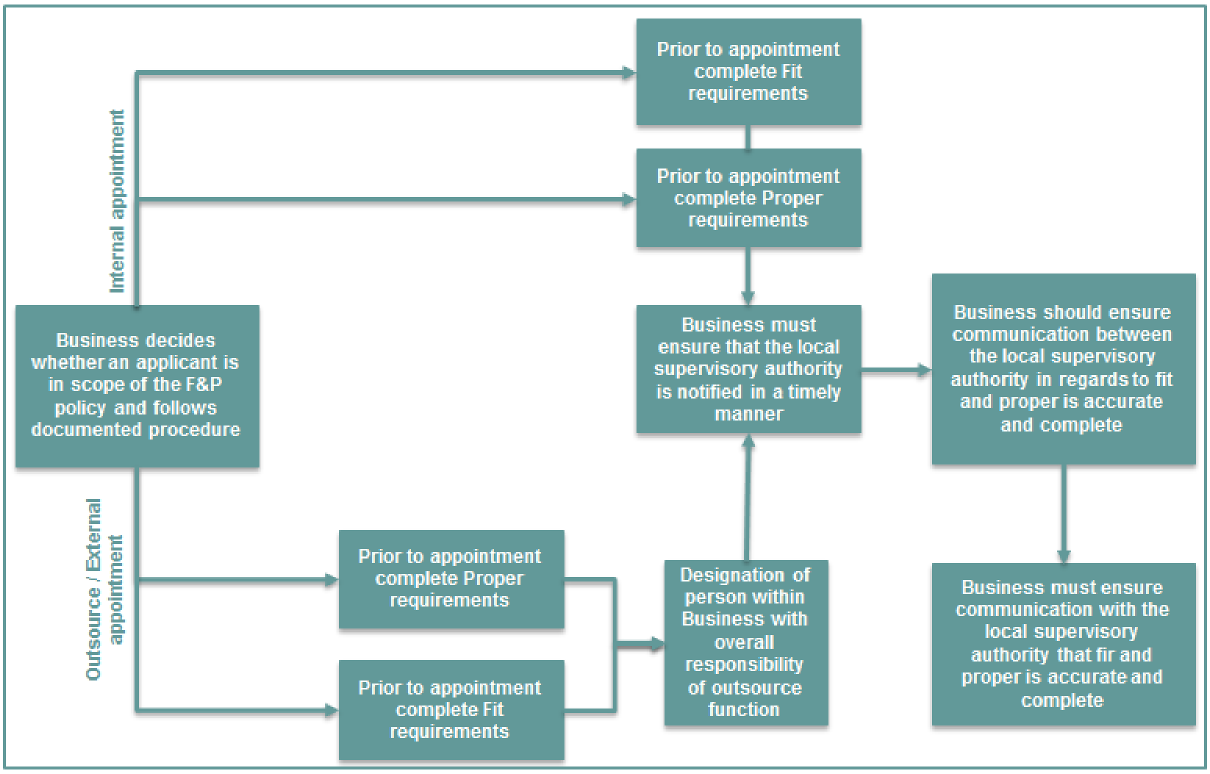
Competence and capability assessment will include an assessment of professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other businesses and must take into account the respective duties allocated to that person, and, where appropriate, the insurance, financial, accounting, actuarial and management skills of the person. The requirements are to ensure the individual is fit for their role, so applies to internal promotions or internal moves to relevant roles.

Proper requirements

This will include an assessment of the person's honesty and financial soundness and will be based on evidence regarding their character, personal behaviour and business conduct. When assessing whether a person is 'proper', the following is considered:

Relevant criminal offences	Any offence under the laws governing banking, financial, securities or insurance activity, or concerning securities markets or securities or payment instruments. This includes, but is not limited to laws on money laundering, market manipulation, or insider dealing and usury, as well as offences of dishonesty such as fraud or financial crime. They can also include any other criminal offences under legislation relating to companies, bankruptcy, insolvency, or consumer protection.
Other criminal offences	Other criminal offences being tried or having been tried in the past may also be relevant, as they can cast doubt on the integrity of the person.
Relevant disciplinary or administrative offences	Offences made under an activity of the finance sector, including offences under legislation relating to bankruptcy, insolvency, or consumer protection.
Other circumstances	Other circumstances that may cast doubt on the repute and integrity of the person, e.g. current investigations or enforcement actions, the imposition of administrative sanctions for non-compliance with provisions governing banking, financial, securities or insurance activity, security markets, securities or payment instruments or any financial services legislation.

The application of the requirements to new appointees is shown below:



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

B.3.1 Description of the risk management system

The three lines of defence

The Company has a comprehensive risk management system which includes a full range of risk policies, procedures, measuring, reporting and monitoring techniques, and a series of stress tests and scenario analysis to ensure that the risk exposures that arise from operating the Company's businesses are managed appropriately.

The risk management system is underpinned by the three lines of defence model where:

1st line	• Conducts activities to ensure that risks are identified and controlled to bring within Appetite • Delivers the business plan within risk appetite, identifying all material risks and monitoring and managing the risk profile • Produces regular and timely reports on all material risk positions and associated action plans • Is accountable for designing and implementing standard controls, operating the controls and performing control validation
2nd line	• Independently reviews and challenges 1st line activities, provides assurance that the controls and control validation are designed and operating effectively and sufficiently mitigates the risk to bring within risk appetite
3rd line	• Evaluates the effectiveness of the organisation's risk management, control and governance processes; auditing whether 1st line control and second line assurance is effective and appropriate. Its assurance activities are cyclical and take a risk based approach and as such are not a substitute for second lines of defence.

The Board is responsible for ensuring the effectiveness of the Company's Risk Management System, for setting the Company's overall risk strategy and risk appetite (including Company level risk limits and tolerances) and for approving the main risk management strategies and policies.

Risk appetite and strategy

The Board is responsible for setting the business strategy which is used to inform the risk strategy statement. The risk strategy statement, describes the Company's overall strategy and objectives for managing risks based on a set of key principles.

The risk appetite is set annually by the Board. It establishes the appetite for risk by risk category plus high level risk limits and tolerances, and drills down into more detailed risk statements. These are expressed through associated Key Risk Indicators with associated risk limits and risk tolerances.

Risk control cycle

The risk control cycle describes the process used to set, identify, measure, manage, monitor and report on risk impacting the business.

Risk identification (new and emerging risk)

Risks are identified through a range of activities that include policy and control design; stress and scenario testing; and an analysis of risk incidents including a root cause analysis. The identified risks, including emerging risks, are recorded in the business function's risk profile matrix which records the likelihood of occurrence, the expected residual loss impact, and whether the residual risk is within risk appetite or if not, whether there is an appropriate action plan.

Risk measurement

Once risks have been identified the business must update its risk profile by including the residual risk (the risk of an event occurring which would crystallise a loss assuming existing controls and other mitigating actions are effective) on a standard 5 x 5 probability and impact matrix.

Managing, monitoring and reporting risk

All residual risks are assessed and monitored to determine if the risk is within risk appetite and, if not, whether there is a plan with an owner to bring within appetite within a reasonable timeframe.

Action owners must track all action plans to ensure risk is brought within appetite within planned timeframe and report progress at least quarterly.

Risk reporting at the aggregate Company level is to the Board Risk Committee and the relevant executive level committees.

B.3.2 Implementation and integration

The Company operates under a common Group-wide framework through which risk management and control is embedded and where each business is required to follow consistent processes (using a common language) to identify, measure, manage, monitor and report its risks, in line with a consistent and comprehensive set of policies.

The policies set out risk assessment standards and risk appetite together with detailed procedures including minimum requirements to identify, measure, manage, monitor and report material risks, and any internal controls and control testing requirements.

Risk policies are linked to risk appetite and define the Company's material risk categories. Each policy is assigned a managing owner with responsibility for ensuring that the policy is embedded within the business.

Risk Management processes are mandated in an overarching Risk Management policy, which is approved by the Company's Board Risk Committee and Board and is subject to annual update and review. The Risk Management policy establishes the framework of standard risk management processes and policies across the business and also defines the dependencies and interaction with the ORSA and the Company's approach to stress and scenario testing. Further detail is given in a comprehensive suite of policies, which cover all key activities and risk categories.

The Board is responsible for organising and directing the affairs of the Company, including the effectiveness of the Risk Management System, ensuring that an appropriate system of internal control is maintained.

The Board Risk Committee is responsible for ensuring that material risks are identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Executive Team is responsible for the day to day management of the Company in accordance with the strategy and Operational Plan which includes implementing systems and controls to manage risk exposures within risk appetite and to identify, measure, manage, monitor and report on its risks.

B.3.2.1 Internal model governance and assurance

The Company uses the EIOPA Standard Formula to determine its regulatory SCR.

B.3.3 Own risk and solvency assessment (ORSA)

B.3.3.1 ORSA process

The ORSA process is a continuous process that takes input throughout the year, to assess how the risks of the business change over time and the consequential impact on the solvency needs of the business. During the year, the Board and Board Risk Committee consider a range of activities and a final report is presented to the Board

Risk Committee and Board for review and approval. This summarises papers and associated decisions taken during the period and highlights key areas of action needed over the forthcoming year.

B.3.3.2 ORSA review and approval

Papers are presented to the Board and Board Risk Committee throughout the year dealing with individual elements of the ORSA.

The ORSA report is presented for approval annually to management, the Board Risk Committee and the Board each year.

B.3.3.3 Own solvency needs

The level of risk exposure based on the projected risk profile is assessed by the Company as part of the ORSA process.

The level of capital required, including buffers to allow for adverse events, is compared against the amount of current and projected capital that the Company expects to hold based on the current or latest version of the Operational Plan. This takes into account strategy and risks and forms a key part of the ORSA process. The Company uses an internal economic capital model to inform the capital required (including buffers) to allow for adverse events.

Actual and projected capital shortfalls are reported in line with the requirements of the Capital Appetite and Capital Plan so that corrective action can be taken.

To ensure that the Company holds appropriate levels of capital in line with its overall risk profile the overall capital appetite is reviewed on an annual basis and proposed to the Board for approval. This review process considers regulatory capital requirements, stress and scenario analysis and outputs from the Company’s internal economic capital model.

The own solvency needs assessment is a core component of the ORSA process.

B.4 Internal control system

B.4.1 Description of the internal control system

The Company has put in place an effective internal control system which contains administrative and accounting procedures, an internal control framework, with appropriate validation, assurance and reporting arrangements at all levels of the Group, a delegated authority framework and a compliance framework. The internal control system is underpinned by the three lines of defence model.

The internal control system comprises three key elements:

- Internal control framework, whereby policies establish standard controls, which are implemented and operated by the business; supplemented by objective 1st line validation and independent 2nd line assurance processes. The internal control framework includes financial controllership. It is subject to assurance through the Financial Control Framework. It specifies control reporting
- Delegated Authority Framework, whereby authority is cascaded down from the Board to the business, and
- Regulatory Compliance framework sets out the standard control processes to minimise and/ or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with regulatory requirements. Ultimate responsibility for compliance with the relevant rules and regulations rests with the Board, the executive and the senior management in each business. Advice, challenge, and interpretation is provided to these bodies by the Regulatory Risk and Compliance function.

Internal control framework

The internal control framework is designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

Existing policies cover all material risk types to which the Company is exposed and set out both minimum requirements and standard control sets for business activities, including delegated activities, which allows the Company to achieve its objectives including effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Policies also establish control validation activities (1st line checks) which ensure controls are designed and operating effectively and assurance activities (2nd line) which examine and oversee business control validation activities to provide additional independent comfort that objectives are being achieved and adequate controls are in place and working effectively.

Adherence to the control sets and the progress and findings of assurance and validation activity are reviewed by a management Risk & Control Committee on a quarterly basis. Key issues identified in these committee meetings are escalated to the Board or Board Audit Committee as appropriate. Relevant trends and risks will also be notified to the Board Risk Committee as appropriate.

Delegated authority framework

The Delegated Authority Framework ("DAF") specifies how executive authority is delegated from the Board to the Chief Executive Officer, and onwards to senior management within the Company. The Chief Executive and senior executives across the Company receive an executive licence setting out their specific limits of authority in terms of entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

Effective management of Delegated Authority enables the business to:

- Ensure that all employees execute their responsibilities within a clearly defined set of limits and subject to specified terms and conditions appropriate to their role, competence, experience and technical capability so as to mitigate the risk of the Group being exposed/committed to material financial, operational, legal, reputational and/ or regulatory risk and/ or loss
- Ensure consistency is applied over separate policies that have been written covering operational and technical matters
- Ensure that the risks associated with managing and delegating authorities are mitigated through the use of appropriate preventative and detective controls and remain within risk appetite, and
- Ensure compliance with relevant regulatory and statutory requirements.

The Delegated Authority Framework is applied across the Group's businesses where individuals must operate and/ or authorise within limits delegated by the Group Chief Executive, his direct reports and/ or governing bodies, and ensures consistency between each of the operating subsidiaries within the Group. The powers of the Board, and the extent to which these powers may be delegated or must be retained, are set out in detail in the Matters Reserved for the Board or Terms of Reference for the Board Committees.

Regulatory compliance framework

The Regulatory Compliance Framework and policy is owned by the Compliance function. Its purpose is to safeguard the Company, its customers, reputation and assets by creating a compliant culture, complying with regulatory requirements and identifying and mitigating regulatory risk.

The Regulatory Compliance Framework has been developed to deliver assurance around our compliance culture to both internal and external stakeholders. It consists of a Compliance policy and related processes and tools. Together they define the minimum standards and controls to be applied in order to identify and mitigate the risk of regulatory breaches and censure.

Each function within the business is responsible for implementing controls to comply with local regulatory requirements and ensuring these controls remain effective with ultimate responsibility resting with the Board, executive and senior management.

Legal control processes provide oversight of data protection, competition law, financial crime and other legal risk. Human Resources control processes primarily provide oversight of whistleblowing and people risk.

B.4.2 Regulatory compliance function

The purpose of the Regulatory Compliance (“RC”) function is to ensure that RSAII meets relevant regulatory requirements and uses similar tools as that of other country and regional Regulatory Compliance functions within the Group. RC must ensure there is a strong regulatory compliance culture and ensure mechanisms are in place to identify, report and resolve issues to avoid or minimise business impact and surprises.

RC manages and develops the relationship with the regulator, the Central Bank of Ireland (“CBI”). RC provides advice and assurance to the business on compliance with financial services legislation and the requirements of the Regulator on both consumer and prudential matters. RC supports the business in assessing, monitoring and mitigating regulatory risk.

RC establish, implement and maintain an annual Compliance plan which sets out the compliance work to be undertaken in the upcoming year. The Compliance plan is presented to the Board Risk Committee for approval and updates on progress and material changes are provided on a quarterly basis.

B.5 Internal audit function

B.5.1 Implementation

The primary purpose of the Group Internal Audit (“GIA”) function is “to keep RSA safe and improving”. Specifically, it helps the Board and Executive management to protect the assets, reputation and sustainability of the Company.

GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the second line of defence to the Board and Executive management; assessing whether they are adequately controlled; and by challenging Executive management to improve the effectiveness of governance, risk management and internal controls.

GIA is an independent and objective function reporting to the Board. The Head of Audit in Ireland attends the Business Management Team and has a primary reporting line to the Chairman of the Audit Committee, with a secondary line to the CEO. The Head of Audit reports to the UK & International Chief Auditor who reports directly to the Group Chief Auditor, while recognising local regulation. The Head of Audit is the approved person within the CBI’s regulatory regime.

GIA’s scope of activities is unrestricted and its audit universe extends to all legal entities, joint-ventures and other business partnerships, outsourcing and reinsurance arrangements. Its scope includes first line control validation, second line control assurance and the system of governance as set out under Solvency II. While it is not the role of GIA to second guess any decisions made by the Board, its scope does include information presented to the Board.

On a semi-annual basis the Head of Audit in RSAII will submit a six monthly rolling risk based audit plan (i.e. detailed plan for the upcoming six months, together with an outlook for the subsequent six months), including emerging and systemic risks to the Ireland Audit Committee for review and approval. The six monthly rolling audit plan is developed based on GIA’s independent risk assessment and a prioritisation of the audit universe, which considers inputs from the Executive Team, senior management and the Audit Committee, and GIA’s assessment of various “planning lenses” which include fraud risk and culture.

GIA coverage of the audit universe should be based on the principles of a three year rolling coverage in which it shall aim to cover all inherent high risks twice and all inherent medium risks once. Any high or medium risk areas not covered within the three year time period shall be made transparent to the Audit Committee.

The Head of Audit will review and adjust the plan, as necessary, in response to changes in the business, risks, operations, programs, systems, controls and CBI's requirements. Any material changes from the GIA plan will be communicated through quarterly reporting to the Audit Committee for approval. When necessary, GIA may conduct audit engagements which are not included in the audit plan, these may be carried out without notice.

In addition to the six monthly rolling audit plan that is reviewed and approved by the Audit Committee, the Head of Audit ensures that the function has a multi-year outlook in line with the company's strategic and Operational Plan.

The Audit Committee is responsible for approval of GIA's plan as it relates to the Company. The 2016 Group Internal Audit budget was approved by the Group Audit Committee and updates on audit activity were provided to the Audit Committee regularly throughout the period. The 2017 budget specifically for the Ireland element of the audit plan was approved by the Audit Committee in December 2016. The Group Audit Committee reviews and confirms annually that GIA is staffed appropriately and operating effectively.

Compliance of audits with the professional standards is monitored within GIA through an independent quality assurance process, outsourced to Deloitte and operated on a continuous basis. The function is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria.

B.5.2 Independence and objectivity

GIA must be independent from management at all times in order to be effective in delivering on its purpose and mandate. Internal Auditors have no operational responsibility or authority over any business activities, day-to-day risk management or control activities. Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mind-set.

Internal auditors are expected to remain independent and objective in all assignments and do nothing that might prejudice or be perceived as prejudicing independence and objectivity. Impairments to independence and objectivity may include, but are not limited to:

- Auditing business areas for which an individual previously worked or was previously responsible (auditors must refrain for a period of at least 12 months), and
- Auditing an area where an individual has a close relationship with one of its staff (e.g. partner, family member).

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed immediately to the Head of Audit, who will determine whether the Audit Committee will need to be informed.

The Group Chief Auditor reports, at least annually, to the Group Audit Committee on the independence of the Function and its staff. This is supported by a formal assessment of independence and objectivity for long serving staff, together with an independence self-certification. Updates on independence are provided by the Head of Audit Ireland to the Audit Committee.

B.6 Actuarial function

The Actuarial Function undertakes the duties and responsibilities set out for an Actuarial Function in accordance with the CBI's Domestic Actuarial Regime and Related Governance Requirements under Solvency II.

The Actuarial function coordinates the calculation of technical provisions. It provides assurance that the actuarial information to set technical provisions uses appropriate methods, models, and assumptions and it assesses the appropriateness, completeness and accuracy of the underlying data. It also confirms the adequacy of the Solvency II technical provisions and informs areas where experience is different and how this has influenced methods, models and assumptions.

The Actuarial Function provides an opinion on the Underwriting policy and the adequacy of reinsurance arrangements. It also provides and opinion on the appropriateness of the stress tests conducted during the ORSA and contributes to the effective implementation of the risk management system. On an annual basis the function produces an Actuarial Function Report summarising the key conclusions of the Actuarial Function's work during the year. This is presented to both the Audit Committee and the Board.

The Actuarial function holder was appointed by the Company (approved by the CBI) and has unrestricted access to all relevant information necessary for the exercise of their function. The Actuarial function holder has independent access to the Audit Committee and is represented in several other management committees.

B.7 Outsourcing

B.7.1 Policy and key activities

The Company's outsourcing framework is set out in the Company's Third Party Contracts policy (which also covers intra-group outsourcing). The policy has been reviewed against and incorporates the outsourcing policy requirements of the Solvency II Directive and the associated Delegated Acts.

The Third Party Contracts policy provides a definition of critical and important activities and functions to ensure consistency of approach. The policy sets out the provisions to be followed in relation to all outsourcing, with additional controls being imposed on critical and important outsourcing. It additionally specifies the operational responsibility and establishes the provisions to be taken into consideration in supplier agreements.

The framework also establishes the necessary responsibilities, maintaining a proper separation of activity, so as to ensure correct local service control through Group approved local supply chain processes and maintenance of oversight within the Group.

The service types outsourced (in whole or in part) include:

- IT infrastructure services
- IT application development/ maintenance
- Loss adjusting
- Print services
- Certain claims handling activity related to pet, travel and a portion of low value property claims
- Investment and treasury activity (see section B.7.2 below)

B.7.2 Intra-Group outsourcing arrangements

The Company enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

The Company also enters into outsourcing agreements with other members of the RSA Group in relation to the efficient provision of services across the Group. Regardless of whether an internal or third party outsourcing arrangement has been entered into, ultimate responsibility for the outsourced activity and regulatory compliance lies with the board of the Company.

An example of material intra-group arrangements include the provision by RSAI of certain investment services to the Company.

B.8 Any other material information

B.8.1 Adequacy of system of governance

The adequacy of the System of Governance is formally considered by the Board annually. This process considers both changes and recommendations previously made during the year (such as through internal audit reports) and any recommendations by the Group corporate centre departments based on their observations or regulatory change. Should it be deemed necessary, changes can also occur outside of this formal annual review process.

B.8.2 Any other material information

Nothing to report.

C Risk profile

The previous section of the report (B. System of Governance) included information on the Company's risk management system (see section B.3). This section of the report provides more detail on the risks faced, including how the Company measures and mitigates against them. The Company is exposed to the following main categories of risk:

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk
- Pension risk

The first five categories are described in sections C.1 to C.5 respectively; since Pension risk and Group risk are not separate categories in the prescribed SFCR structure, they are addressed under the "C.6 Other material risks" heading. Insurance risk includes claims risk and reserving risk and these are all described under the prescribed heading "C.1 Underwriting risk".

Section C.7 addresses the Company's stress testing and sensitivity analysis across all categories of risk.

For quantification of the relative importance of each risk type to the Company see section E.2.2.

The Company has adopted the RSA Group's risk management system, reflecting the close alignment between RSAII's risk strategy and risk appetite and that of the RSA Group.

C.1 Underwriting risk

C.1.1 Introduction

Underwriting, claims and reinsurance risks

The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

The Company's risk appetite statement sets the high level appetite for Insurance Risk.

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

In addition the Company's Portfolio Strategy Statements set the appetite for the writing of individual risks and the Underwriting and Claims Policies define the controls implemented across the business to manage these risk categories.

Reserve risk

The Company establishes technical provisions for claims to account for the anticipated ultimate cost of all claims and relevant expenses for claims that have already occurred. The Company establishes technical provisions for both reported and unreported claims. Technical provisions estimates are based on known facts and on interpretation of circumstances including the Company's experience with similar cases and historical claims payment trends. The Company also considers the development of claims payment trends, levels of unpaid claims, judicial decisions and economic conditions.

C.1.2 Measures used to assess risk

Underwriting and claims risk

The Company's underwriting strategy and risk appetite are reviewed, challenged and approved by the Board annually.

Key risk indicators assess risk against the Board risk appetite and these are reported at the quarterly Board Risk Committee. Underwriting risk indicators include measures for exposure control, pricing, the control environment and licences.

Portfolio strategy is reviewed quarterly under the Portfolio Risk Management process (Insurance Risk Portfolio Classification - IRPC). This enables ongoing, proactive management of the implementation of portfolio strategies together with facilitation of forward looking portfolio risk assessments against measured key risk indicators. Risks and issues are escalated to the management Risk and Control Committee, the Pricing Committee and to the Board Risk Committee.

Claims fall within the scope of IRPC, but claims risks are also monitored separately to facilitate management within appetite. The scope of claims risk indicators covers financial control, technical quality, case reserving, fraud, and control of delegated authorities. Case reserving is monitored by the Case Reserving Committee.

Scenario and Stress testing and Risk Profiling are undertaken within each function and are reported through the management Risk and Control Committee and to the Board Risk Committee.

Accumulations for static exposures are modelled using the GAIA Exposure Data Management system to identify 'Per Risk' and Catastrophe risk concentrations and to inform scenario modelling and reinsurance purchase. The Exposure Management Working Group has formal oversight and reporting of the standards for data quality and the minimum requirements for identifying and controlling 'Per Risk' and Catastrophe risk concentrations.

The effectiveness of pricing tools and process is measured through the Pricing Capability Assessment Questionnaire (PCAQ) to benchmark the capability against defined measures. The PCAQ defined measures include an assessment of the pricing components i.e. use of historical claims frequencies and severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns and allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance, and for a profit loading that adequately covers the cost of capital.

Underwriting and Claims Validation Reviews are held periodically to test the effectiveness of the processes and controls in the risk management frameworks. Gaps in compliance with the controls require either a Remediation Plan or a Risk Acceptance against the respective control(s) under the Policy Management process. Underwriting and Claims monitor the progress of Remediation Plans and are the approvers for Risk Acceptances.

Breaches of controls are escalated and reported, with material Risk Events escalated to the Risk function.

Reserve risk

The Company has a Reserving Committee chaired by the Chief Financial Officer and consisting of the Chief Executive, Underwriting Director, Head of Actuarial Function and Head of Risk. Independent Non-Executive Directors also attend the Reserving Committee.

The Reserving Committee monitors the decisions and judgements made by the Company as to the level of reserves to be held and recommends to the Board via the Audit Committee the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

- An actuarial indication of ultimate losses together with an assessment of key assumptions, risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications

- Input from internal peer reviewers and other parties including actuaries, legal counsel, risk practitioners, underwriters and claims managers, and
- How previous actuarial indications have developed.

C.1.3 Material risks

Material risks identified during the reporting period include:

- **Catastrophe Risk:** Covers the risk that a single event or series of events of major magnitude usually over a short period, leads to a significant increase in actual claims compared to total expected claims. Losses can arise from either natural perils, for example hurricane, windstorm, flood and earthquake, or from man-made perils, for example industrial accident
- **Pricing Risk:** The risk that portfolio pricing strategies, monitoring and rating are insufficient to generate sufficient returns in key portfolios to maintain profitability and pay claims
- **Reserving Risk:** The risk that reserves are insufficient, untimely or inaccurate leading to unforeseen adverse development. The risk that more claims are reported in future than anticipated. The risk that legislative changes have a retrospective effect on claim settlements
- **Underwriting Risk Selection:** Covers the risk that claims arising on exposures after the valuation date are higher (or lower) than assumed in the pricing other than due to catastrophes. This can arise as the result of bad experience, third party interventions, ineffective portfolio management, poor pricing, poor risk selection or failure to underwrite effectively, or failure to handle claims effectively due to management information or process deficiencies (claims leakage), and
- **Claims Management Risk:** Financial losses through ineffective claims management processes.

There have been no material changes to the risks identified above through the reporting period.

C.1.4 Application of the prudent person principle

The prudent person principle is not applicable to underwriting risk.

C.1.5 Material risk concentrations

The Company is exposed primarily to risk concentrations associated with i) Motor injury classes of business in Ireland, and ii) weather and flood events, although this concentration is in general well managed within appetite.

C.1.6 Risk mitigation

The Company operates a comprehensive risk management system and policy management framework. This system includes policies which govern key activities such as Underwriting, Claims, Reinsurance and the assessment of insurance risks. The policies introduce a system of mandatory control frameworks which stipulate a system of minimum requirements and standard controls, and Key Risk Indicators which are used to measure the effectiveness of these controls in mitigating risk. Each quarter management are required to report on the operation and effectiveness of these controls to governance committees, key risks are escalated to the management Risk and Control Committee and to the BRC. Controls which are not considered effective are subject to remedial action and risk oversight.

The Underwriting and Claims governance and control framework spans a number of key activities, including (but not limited to):

- The Delegation of Technical Authority (Internal and External) including Licensing and Referrals
- Portfolio Strategy, Performance and Risk Management

- Pricing
- Accumulation and Exposure Management
- Multi-National Risks
- Risk Control / Inspection
- Underwriting and Claims File Review / Validation
- Claims Management Processes, and
- Case Reserving.

The management and mitigation of credit risk for reinsurance is described in section C.3.6 Risk Mitigation.

Reinsurance is a key tool used to mitigate the effect of catastrophe and underwriting risks. Reinsurance arrangements in place include facultative and treaty covers. External reinsurance protection is sourced centrally by Group and the Company participates in this centrally sourced reinsurance protection.

The Group's treaty reinsurance is largely excess of loss in nature but also includes a small number of proportional covers. The effect of such reinsurance arrangements is that both the Company and the Group should not suffer total net insurance losses beyond risk appetite in any one year.

The Company is exposed to both multiple insured losses and losses arising out of a single occurrence.

The Group centrally purchases significant catastrophe cover, buying to a minimum return period of 1:200. All catastrophe reinsurance is placed with reinsurers with a Standard & Poor's credit rating of A- or better. The Group Catastrophe Treaty protects all the Group entities – including the Company - and any locally placed covers will sit beneath the Group cover and will comply with the Group standard of counterparty and minimum reinstatement provisions.

The 2015 reinsurance programme included a Group Volatility Cover ("GVC"), designed to protect against aggregate losses (i.e. to reduce the company's net exposure to multiple, moderate losses) but was also available as a top-most layer on the Catastrophe reinsurance programme in years where the aggregate protection is not used. This cover was placed on a three year term, and in 2016 the cover was renegotiated to provide the same level of cover, but attaching at a slightly lower level to reflect the changes in the Group due to disposal of business in Asia and Latin America. The cover remains in place for 2017.

The Company remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer (and the Group) is liable to the Company to the extent of the insurance risk ceded.

In addition to the Company's share of externally purchased Group protection the Company has additional intra group reinsurance in place. The details of this intra group reinsurance are included in section C.6 below.

C.1.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.2 Market risk

C.2.1 Introduction

The Company is exposed to Market risk which is the risk of potential losses from adverse movements in market prices including (where applicable) those of bonds, equities, property, exchange rates and derivatives as well as credit rating downgrade risk, credit spread risk, credit default risk and asset liability matching risk.

C.2.2 Measures used to assess risk

The Company assesses market risk exposures through a number of factors including: exposure by asset class; credit rating of counterparties; asset-liability mismatch due to divergence in duration and currency exposures; and concentration exposures. In addition stress and scenario analysis is undertaken to assess market risk exposures.

Exposures are controlled by the setting of “Investment Limits” and managing asset-liability matching in line with the Company’s risk appetite.

Both the Capital Management and Investment Committee (CMIC) and the Board are responsible for reviewing and approving the investment strategy for the Company. They provide approval for all major changes of the Company’s investment strategy. In addition, asset-liability matching both by currency and duration is monitored and reported to the CMIC and the BRC through the quarterly risk appetite scorecard.

The BRC sets the Company’s market risk appetite – with Group input.

This includes limits on asset class exposures, single counterparty exposures, aggregate bonds by credit rating, portfolio duration etc. These limits aim to keep exposures within the Company’s risk appetite whilst ensuring the portfolio is sufficiently diversified. Investment exposures relative to these limits are regularly monitored and reported.

Currency risk is managed within the Company’s individual lines of business by broadly matching assets and liabilities by currency.

There have been no material changes in market risk exposure over the reporting period.

C.2.3 Material risks

The Company is exposed to the following material Market risks:

Interest rate risk

The fair value of the Company’s portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa.

In assessing this risk the Company will have reference to the interest rate exposures of its liabilities with risk being the difference between asset and liability exposures.

Equity price risk

The Company does not have any material exposure to equity price risk outside of equity exposure within the Company’s Defined Benefit Pension Scheme.

Property price risk

The Company does not have any material exposure to property price risk.

Currency risk

The Company operates in the Republic of Ireland and in Northern Ireland. Accordingly, its net assets are subject to foreign exchange rate movements mainly linked to movements in the Euro / Sterling exchange rate. If the value of the Euro strengthens then the value of non-Euro net assets will decline when translated into Euro and consolidated.

The Company incurs exposure to currency risk mainly by holding investments and other assets and by underwriting liabilities in currencies other than the currency of the primary environment in which the business operates - this can be termed Operational currency risk.

There have been no material changes in currency risk throughout the reporting period.

C.2.4 Application of the prudent person principle

The Company applies both Market Risk and Liquidity Risk policies that set out the minimum requirements for the identification, measurement, monitoring and reporting of Market and Liquidity Risk for the Company's investment portfolio. A set of key risk indicators in the form of an investment limits framework have been developed alongside the policy, and to which the policy refers for investment risk management and reporting purposes.

In addition, the prudent person principle ("PPP") requires prudence in relation to the management of the investment portfolio and to ensure assets are appropriate to the nature and duration of liabilities (ALM). The Company must also be able to show that it has appropriate systems and controls to hold and manage any such investments.

The PPP also requires a duty of care that must be applied for investments that are of non-routine nature, or that are not admitted to trading on a regulated financial market or to complex products such as derivatives or securitised instruments.

The Company follows a high quality, low risk investment strategy with limited exposure to higher volatility investment classes such as equities, or to balance sheet foreign exchange volatility. Asset and liability duration is broadly matched, with limited flexibility for tactical asset management.

The Company's portfolio focus is on high quality bonds and cash. At 31 December 2016, the Company held over 58% of its investment assets in cash, cash instruments, unencumbered "AAA" rated bonds and appropriate domestic government bonds minimising any liquidity risk and enabling funds to be transferred when required.

C.2.5 Material risk concentrations

The Company's investment portfolio consists predominantly of high quality, investment grade, fixed income assets reflecting the duration of its underlying insurance liabilities.

The fixed income assets are well diversified by sector and geography with 53% of the investments in the Solvency II balance sheet comprising government securities (see section D.1.1 for a breakdown of investment assets).

C.2.6 Risk mitigation

The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash. Credit risk exposure is mitigated by the high quality nature of the portfolio with 99% investment grade and 37% rated AA or above and less than 1% in sub investment grade. Counterparty concentration risk is limited through limits placed on single counterparties reflecting a number of criteria including the counterparties' credit rating, industry and geography.

The Company ensures that it maintains sufficient liquidity for its needs by retaining at least a minimum exposure to highly liquid assets such as cash, bonds rated AAA and government and government guaranteed bonds.

Interest rate risk is limited through the Company maintaining a strong match of its bond asset duration relative to its liabilities. The Company maintains a limit of its asset duration being within one year relative to the duration of its liabilities. Exposures are monitored by the CMIC on a quarterly basis and reported to the BRC through the risk appetite scorecard.

The Company does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes.

Refer to the Risk Management System in section B.3 for a description of how the Company manages and monitors market risk.

C.2.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.3 Credit risk

C.3.1 Introduction

Credit risk is defined as the risk of loss resulting from a counterparty failing to fulfil its contractual obligations to the Company or failing to do so in a timely manner. The Company is exposed to credit risk in respect of its reinsurance contracts; insurance operations (where counterparties include brokers, policy holders and suppliers); and investments (where counterparties include governments and corporate bond issuers).

C.3.2 Measures used to assess risk

Credit risk arises any time the Company’s funds are extended, committed, invested or otherwise exposed through actual and/ or implied contractual agreements with counterparties whether reflected on or off balance sheet.

The Board Risk Committee is responsible for ensuring that the Board approved credit risk appetite is not exceeded. This is done through the setting and imposition of the Company’s policies, procedures and limits.

In defining its appetite for counterparty credit risk the Company distinguishes between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Company’s overall credit profile and specific concentrations are managed and controlled within risk appetite.

Financial assets are graded according to company standards. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Company’s investment managers as to the level of exposure to various rating categories including unrated securities.

External reinsurer counterparty Credit risk is set in aggregate by Group Reinsurance and also included locally as part of the Company’s risk appetite statement. Exposure monitoring and reporting is embedded within the risk appetite scorecard with aggregate credit positions reported and monitored on a quarterly basis.

The Company also has a significant counterparty Credit risk exposure to its parent (RSAI plc). This is monitored on a quarterly basis by the Company within its risk appetite scorecard mainly through a look through to the solvency position of the RSA Group.

C.3.3 Material risks

The Company is mainly exposed to the following types of credit risk:

- **Counterparty risk:** Defined to be the risk that a counterparty fails to fulfil its contractual obligations and/ or fails to do so in a timely manner. This includes all types of counterparties such as Agents, Brokers, Reinsurers including the RSA Group and other third parties
- **Credit Concentration risk:** Defined to be an uneven distribution of exposure to counterparties, single-name or related entity credit concentration, and/ or in industry and/ or services sectors and/ or geographical regions
- **Credit Downgrade risk:** Defined to be the loss or gain from a change in a investment's credit rating agency rating and/ or an analyst buy, sell, hold opinion, and
- **Credit spread risk:** Defined as the spread in returns between Treasury and/ or Government securities and/ or any non-Treasury security that are identical in all respects except for the quality of the credit rating of the non-Treasury security’s counterparty

Within the Company, the management of credit risk is divided into three key areas, which are governed by separate policies:

- Reinsurance
- Investments
- Insurance Operations

C.3.3.1 Reinsurance credit risk management

Reinsurance Credit risk is defined as the credit risk arising from the purchase of all Group treaty reinsurance and at the local level (where applicable) for the purchase of treaty reinsurance and facultative reinsurance by underwriters in accordance with their licences.

In the case of the Company it also includes the risk of default of the RSA Group. This is particularly relevant to the Company given the internal reinsurance structures and Group support that is in place.

C.3.3.2 Invested assets credit risk, credit downgrade and credit spread risk

Invested Assets Credit risk is defined as the non-performance of contractual payment obligations on invested assets, and adverse changes in credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives etc. Invested asset credit risk arises in all investment portfolios. Credit downgrade is defined to be the loss or gain from a change in an investment's credit rating agency's rating and/ or an analyst's buy, sell, hold opinion. Spread risk is defined as the risk that arises from negative movement in price in a sector relative to the market resulting for example from the changes in the markets perceived view of the industry sector.

C.3.3.3 Credit risk arising from insurance operations

Insurance Operations Credit risk is defined as credit risk arising from carrying out daily insurance business operations. This includes loss of principal or financial reward resulting from a counterparty's failure to pay or fulfil all or part of its contractual obligations. For example, if the Company trades with an insolvent broker there is a risk that the Company will not receive all the premiums due from that broker.

Subrogated recoveries, which are derived from legal and claims department activities and are an insurance risk mitigation, are covered under the Insurance Risk policy.

C.3.4 Application of the prudent person principle

See section C.2.4 for the application of the prudent person principle to credit risk arising from investments. The prudent person principle is not applicable to credit risk in relation to reinsurance and insurance operations

C.3.5 Material risk concentrations

The Company is exposed to the following types of credit risk concentrations:

- Reinsurance counterparties (including the Company's parent – RSAI plc)
- Investment counterparties, and
- Off balance sheet capital structures. The main off balance sheet facility the Company has in place is €90m Tier 2 capital in the form of an Ancillary Own Funds facility. This was approved in March 2016 and is subject to eligibility criteria in line with Solvency II rules. The facility increases the Company's reliance on its parent RSAI plc and this is monitored through the Company's risk appetite statement on a quarterly basis.

For material investment risks, see section C.2.5.

The Company has a total exposure of €51.8m to 10 external reinsurance counterparties, where the individual exposure to each reinsurance counterparty is greater than €1.5m.

C.3.6 Risk mitigation

The Company employs the following mitigating techniques and monitoring procedures in order to manage the different types of credit risk:

C.3.6.1 Reinsurance credit risk management

Mitigation techniques

Group Corporate Centre

- **Group Reinsurance Credit Committee (GRCC)**: The Committee is responsible for the oversight of the Group's reinsurance counterparty credit risk
- **Approved Reinsurance Counterparties (ARC)**: Group Reinsurance assess and approve all reinsurance counterparties. Group Reinsurance maintain information on all reinsurance counterparties used across the Group
- **Approved Reinsurance Counterparties (ARC) meet Corporate Standards**: Due diligence is performed, Group Reinsurance monitor and maintain the ARC lists as part of an ongoing risk assessment of reinsurance counterparties. Where a reinsurance counterparty credit risk metric is approached or breached, risk response actions must be effected and reported to the GRCC, and
- **Appropriate Metrics**: Group Reinsurance establish metrics which are appropriate for quantifying reinsurance counterparty credit risk across the Group.

Company requirements

- **Contract initiation**: Before entering into an outward reinsurance contract the Company must ensure and document that it has followed all the requirements of the Reinsurance policy, this policy and the requirements of the Group's provisioning policy and reinsurer watch-list requirements, notifying Group Reinsurance of material recovery issues, or pending legal actions, so that the Group can ensure that the Group's interests are not jeopardised
- **Exposure approval**: The Company must seek approval for reinsurance exposures outside the Reinsurance Credit policy and standards through the Group's reinsurance appeals process, and
- **Risk mitigation techniques:** Where risk mitigation techniques, such as the acceptance of collateral, are used they should be well understood by the Company and appropriate processes and procedures must be established to operate the mitigant. The use of off balance sheet guarantees or letters of credit are approved on an individual basis. The principal risk to the Company is its credit risk exposure to RSAI plc, and in the event of the failure of RSAI plc, the negation of the reinsurance protection and ceded insurance. The risk is mitigated to some extent by the Company holding the premium for the Reinsurance policy in a funds withheld account.

Monitoring process

- **Credit Risk profile**: Group Reinsurance review the reinsurance counterparty credit risk profile quarterly, and monitor reinsurance counterparty exposure against Maximum Probable Exposure (MPE) limit quarterly
- **Breaches**: Where a reinsurance counterparty credit risk metric is approached or breached, risk response actions are effected and reported to the GRCC
- **Ongoing information on counterparties**: Group Reinsurance must maintain information on all reinsurance counterparties used across the Group, and

- **Quarterly reporting**: The Company must produce regular quarterly reinsurance counterparty credit risk reports covering their relevant counterparties and notify all known breaches of policy or appetite immediately to the Board. The Company also monitors its exposure to the RSA Group within its quarterly risk appetite reporting.

C.3.6.2 Investment credit risk

Mitigation techniques

- The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash
- Credit risk exposure is mitigated by the high quality nature of the portfolio with 37% in securities rated AA and above and less than 1% in sub investment grade. Limits are placed over the maximum aggregate exposure by credit ratings to ensure that the high quality nature of investments is maintained, and
- Single counterparty credit risk is mitigated through having minimum exposure limits to government bonds as well as having maximum exposure limits to individual counterparties that reflect a number of criteria including counterparties' credit rating and industry.

Monitoring process

The Company reviews its investment exposure against limits delegated by the Board and report these to the Capital Management and Investments Committee and onward to the Board Risk Committee on at least a quarterly basis in the risk appetite scorecard.

C.3.6.3 Insurance operations credit risk

Mitigation techniques

- **Credit Risk Committee**: All businesses must have a Credit Risk committee, responsible for identifying, assessing, maintaining, monitoring and reporting on Insurance Operations Credit Risk (IOCR) exposures.
- **Debt reconciliations**: Outstanding balances from the General Ledger have to be agreed to supporting documentation and overdue payments chasing letters sent to policy holders
- **Completion of due diligence activities**: The Company must confirm material facts about the counterparty by reviewing several elements such as annual and quarterly financial information for the past 3 years, financial projections, capital structure, summary of current tax positions and history, list of top 10 suppliers and history of the past 2 fiscal years (including current year to date)
- **Credit terms are set for each counterparty**: The Company must set credit terms prescribed by Group according to the nature and credit standing of each counterparty. These criteria and the acceptable credit terms are documented on the Insurance Operation Credit Risk policy (approved by the Board and Board Risk Committee).

Monitoring process

The Company has to provide the following on a quarterly basis:

- Aged debtors and balances
- Breakdown of debtors
- Assessment of the Top 20 debtors- how much they owe coupled with their credit rating
- Aged debtors variance analysis
- Major credit concentrations by counterparty, counterparty groups. or connected counterparties,
- Key performance indicators, for example debtor days (movement against prior quarter and prior year) are monitored by the Finance function, and

- Bad debt provision is noted at the Credit Risk Committee together with an aging analysis.

C.3.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.4 Liquidity risk

C.4.1 Introduction

Liquidity risk refers to the risk of loss to the Company as a result of assets not being available in a form that can immediately be converted into cash or the securing of such assets at excessive cost (whether through borrowing or overdraft arrangements for example), and therefore the consequence of not being able to pay its obligations when due.

C.4.2 Measures used to assess risk

The Company breaks down liquidity risk into three subcategories:

- **Funding liquidity risk**: The risk that the Company may be unable to liquidate assets or secure funding and/ or contingency funding arrangements, free from excessive or prohibitive clauses. Additionally, the risk of withdrawal and/ or curtailment of funding facilities by third parties
- **Foreign currency liquidity risk:** The risk that actual and/ or potential future outflows in a particular currency are unable to be met from likely available inflows in that currency or purchased in the foreign exchange market
- **Intra-day liquidity risk:** The risk that liquidity requirements increase during the course of a business day due to delays in settlement proceeds being received and/ or problems in the workings of banking or other settlement systems.

Suitable monitoring processes are in place to assess all of the above including:

- Creation and maintenance of short-term cash flow forecasts
- Regular dialogue with the Company's operational bankers where applicable and relevant, and
- Use of liquidity KPIs to measure the proportion of assets that can be liquidated within a specified time period.

C.4.3 Material risks

The Company considers that there are currently no material liquidity risks.

C.4.4 Application of the prudent person principle

See section C.2.4 for information on the prudent person principle.

C.4.5 Material risk concentrations

Company considers that there are currently no material liquidity risk concentrations.

C.4.6 Risk mitigation

The Company minimises this risk by operating a high quality, low risk investment strategy which matches a relatively short liability duration.

The Company adheres to a Liquidity policy that ensures that adequate liquid resources are maintained as all times such that liabilities can be met as they fall due.

In addition, the Company produces a range of cash flow forecasts from short-term operational plans to 3 year forecasts in conjunction with the Company's core planning processes.

Group Treasury maintain a contingency funding plan that considers access to a range of funding options and sources under normal and stressed scenarios.

C.4.7 Expected profit in future premiums

The Company has assessed its expected profit in future premium and, on a net basis allowing for all existing reinsurance arrangements, has aggregated this as €0.8m. This value has been disclosed on the Company's annual S.23.01.01, see section F - Quantitative Reporting Templates.

C.4.8 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.5 Operational risk

C.5.1 Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are inherent in the Company's operations and are typical of all enterprises.

C.5.2 Measures used to assess risk

Operational risk exists in almost every aspect of business within the Company, and the effective management of operational risk plays a significant role in enabling the business to meet its strategic objectives.

The Risk Management policy documents both the policy requirements for the identification, measurement, management, monitoring and reporting of operational risk, as well as setting out the processes and procedures for the effective operation of the risk management system. The risk management system sets out the Company's approach to minimising and/ or preventing the risk of material loss, reputational damage or liability arising from the failure to comply with risk requirements with a particular focus on operational risk.

In order to facilitate identification and control, the business breaks down operational risk into four sub-categories:

- Process risk: The risk of direct or indirect loss resulting from inadequate or failed internal processes
- Systems risk: The risk of direct or indirect loss resulting from inadequate or failed infrastructure of the organisation including network, hardware, software, communications and their interfaces
- People risk: The risk of direct or indirect loss resulting from the deliberate or unintentional actions of employees and/ or management of the business or from their inaction, and

- External risk: The risk of direct or indirect loss resulting from events outside the business control or from events that impact on an external relationship.

The line 1 business functions, supported by the Risk function, ensure that new risks are identified, which can include risks created by changes to the business strategy and are appropriately reflected in their risk profiles and risk appetite scorecards.

A number of information sources should be used to support identification processes. These include:

- Control assessments supported by testing such as validation and assurance activities
- Key risk indicators supporting the risk appetite framework
- Material business changes, including transformational activity
- Emerging risk assessments, and
- External incidents and internal incidents, which are supported by root cause analyses where appropriate.

Once material risks have been identified the business function must update its risk profile by including the risk net of mitigation i.e. the residual risk (the risk of an event occurring which would crystallise a loss assuming existing controls and other mitigating actions are effective) and recorded on a standard 5x5 probability and impact matrix. The assessment of impact is made using both quantitative financial measures and qualitative reputational scales with consideration to potential impacts that could be incurred should the risk arise. Probability assessments run from very high (more likely than not to happen) to Very Low (less than once in 200 years) and are made with reference to the probability of a scenario arising that would result in these impacts being incurred. Assessments are made by the line 1 risk owner supported (and challenged) by the Risk function.

The business function assesses all residual risks to determine if the risk is within risk appetite, and if not whether there is a plan with an owner to bring the risk within appetite within a reasonable timeframe.

Risk profiles, risk appetite scorecards and where applicable action plans are reviewed and challenged by the Risk function and at both the management Risk and Control Committee and the Board Risk Committee.

C.5.3 Material risks

Some examples of material operational risks that the Company is exposed to are as follows.

Risk	**Description**
Legal/ legislative non-compliance	The Company incorrectly interprets law or legislation and/ or erroneously excludes crucial T&Cs (from non-insurance policy contracts) leading to minor sanctions, negative reputational consequences and/ or change in business practices/decisions. The Company fails to comply with changes in legislation, laws, supervisory directives, market directives, accounting practices, taxation requirements, or other requirements issued by relevant authorities within prescribed time. Receipt of bribes/ inducements to secure business/ opportunities, acting in a way considered anti-competitive.
Inappropriate underwriting	Failure (of the Company or management) to exercise appropriate levels of oversight on sales practices being adopted by individuals or related entities authorised to represent the Company or distribute its products and services directly to the market.

Risk	Description
Theft or corruption of data	An external party attacks the Company's computer/ electronic system with the purpose of defrauding the Company, theft or corruption of data, destroying systems, etc. A Company loses or discloses customer records/ personal details as a result of staff negligence or loss of mobile media devices.
Inaccurate or incomplete data entry/ processing from EUCA	A failure to correctly input, manipulate data/ systems or in the transaction process has resulted in a significant reserving, or other, error. Information communicated to reserving and claims teams is inaccurate, inadequate, poor quality or untimely, leading to inappropriate reserve projections and incorrect pricing decisions being made.
Regulatory breach	Regulatory breaches or failures that cause detriment to customers, clients or significant trading partners. Inadequate sanctions systems, processes or failed sanction controls.
Business interruption	A disaster event causing damage or disruption to business operations, assets, utilities and third parties, including natural disaster, war, riots, terrorism, explosion, vandalism, social unrest, fire etc. Systems (software or hardware) failure resulting in staff being unable to use critical systems to work.

C.5.4 Application of the prudent person principle

The prudent person principle is not applicable to Operational risk.

C.5.5 Material risk concentrations

Whilst there are many inter-dependencies between Operational risks there are no material risk concentrations. Our IT outsourcer, Wipro, represents one of our bigger operational risk concentrations but this is not considered to be material in capital terms.

C.5.6 Risk mitigation

The operational risk management strategy is achieved through the following:

- The policy management framework, which includes the Risk Management policy
- The operational risk process and procedures, and
- The risk appetite and/ or risk limits and tolerance levels.

The Risk Management policy, and other policies within the policy management framework, are supported by a standard set of controls. The effective operation of the controls, control validation and assurance outlined is important to mitigate the risk of override at all levels, including that of management. Policies are developed to provide a consistent set of controls so that risks remain within risk appetite.

This is detailed in the risk management system detailed in the system of governance.

- Assurance that the business are complying with policy requirements is managed through control validation and assurance procedures which assess the effectiveness of the standard controls
- Policies are subject to an annual review, led by the line 1 owner and supported by the Risk function. Any change is subject to review, challenge and agreement from the Board Risk Committee before formal approval from the Board
- Policy owners must ensure that the minimum requirements defined in the policies are in place across business functions to meet the requirements of the policy, and
- Requests for variation, risk acceptance and/ or remediation plans agreed must follow the policy management lifecycle.

The business manages risks on an ongoing basis in line with risk appetite. The business clearly documents the management and/ or mitigation of the risk exposure through risk avoidance, risk reduction, risk transfer or risk acceptance. Where the risk exposure is judged to be unacceptable relative to risk appetite, actions must be taken to mitigate and/ or manage the risk.

In managing and/ or mitigating risk, the following four areas are considered.

- **Risk avoidance:** Defined as not engaging in the activity that gives rise to the risk exposure. This may include a change in the scope of activities that present the risk exposure
- **Risk reduction:** Defined as a reduction in the probability and/ or impact of the risk exposure. This would be achieved by either:
  - Implementing new or enhancing existing controls, or
  - Transferring the business activity, for example to an outsourced provider
- **Risk transfer:** Defined as the movement of the risk exposure to another party who is more willing to bear the impact, for example through an insurance arrangement. Risk transfer must be assessed and referenced to the risk appetite, the type of risk, the scale of the potential impact and/ or costs and exclusions, and
- **Risk acceptance:** Defined as an agreement by the business to retain and manage the risk exposure, for example where no mitigation is available to mitigate the risk or the cost of mitigation is deemed to be excessive in relation to the risk mitigation benefit.

Action plans are developed by the functional business teams where needed to bring risks back within appetite, with action plans being reviewed and challenged by the Board Risk Committee. Action plans include assigned owners, actions to be followed and delivery dates.

The business functions, supported by the Risk function, will:

- Review the reports presented to the management Risk and Control Committee and consider if any of the control weaknesses reported need to be reflected as residual risks out of appetite on the risk profiles reported to the Board Risk Committee
- Review the risk incident reports to assess trends and highlight any potential breaches of operational risk appetite
- Consider the impact of any major strategic or structural change within the organization or the business environment on the risk profiles, and
- Consider the impact of any emerging risk reviews, scenario tests or other deep dives on the risk profiles.

The business maintains and reports operational risk assessments in the risk profile to evidence regular monitoring and reporting against risk appetite. As a minimum, risk reporting provides sufficient data to:

- Inform risk exposure by key risks and control indicators
- Describe the impacts, including regulatory breaches, non-compliance with policies and overdue audit actions

- Monitor action plans that include improvements to the control environment
- Identify systemic operational risks
- Identify emerging risks, and
- Monitor and report material operational risk losses and near misses.

C.5.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.6 Other risks

C.6.1 Other material risks

Two additional material risks faced by the Company are described below. These are:

- Pensions risk, and
- Group risk.

Each of these is addressed in turn below.

C.6.2 Pension risk

C.6.2.1 Introduction

Pension risk covers the risk that the defined benefit pension scheme poses to the Company due to the financial position of the scheme deteriorating resulting in an adverse impact on the capital strength of the Company and/ or an increase in the required level of deficit funding payable to the scheme.

The Company's defined benefit scheme is closed to new entrants and was closed to future accruals on 31 January 2016.

C.6.2.2 Measures used to assess risk

The Company analyses the financial position of its defined benefit pension scheme on a number of different liability measures including:

- IAS 19 "Employee Benefits": Benefit payments are projected using best estimate assumptions and then discounted using appropriate corporate bond yields
- Funding measure: Liabilities are valued using prudent assumptions in line with under local regulatory requirements for determining cash contribution requirements and reflecting actual agreed investment strategy, and
- Wind-up/ "buy-out" measure: The position of the scheme if the scheme was wound up and all liabilities were bought out with an independent third party insurer.

C.6.2.3 Material risks

Risks to the financial position of the scheme can largely be categorised as market risks (for example assets not performing as well as expected) or demographic risks (for example, members living longer than expected).

Exposures to market risks depend significantly on the measure being used to assess the value of liabilities but broadly breakdown as follows:

- **Equity/ property risk**: All measures are exposed to falls in the value of equity, property and other risk assets held by the scheme
- **Interest rate and Inflation risk**: The scheme has significant exposure to interest rates and inflation in both assets and liabilities. The net exposure of the scheme will depend significantly on which liability measure is being analysed. For example, the scheme maybe broadly matched against movements in interest rates and inflation on an IAS 19 measure of liabilities but significant exposure remains on the wind-up measure, and
- **Credit spreads**: The IAS 19 measure has a particular exposure to credit spreads given the use of AA bond yields to discount the value of liabilities.

C.6.2.4 Application of the prudent person principle

The assets of the pension scheme are held under trust and investment strategy is ultimately controlled by the Trustees of the scheme after consultation with the Company. Therefore the prudent person principle in respect of these exposures does not apply in relation to the Company's risk profile.

C.6.2.5 Material risk concentrations

The scheme holds a well-diversified portfolio of assets with extensive controls in place over the size of any single counterparty exposure.

C.6.2.6 Risk mitigation

The Company and the Trustees of the scheme work together to reduce the risks identified above through agreement of investment policy.

The scheme has taken steps over recent years to de-risk from return seeking assets such as equities into bonds and other asset classes that produce a stable stream of cash flows that match liabilities. Market conditions and funding levels are also monitored dynamically on an ongoing basis to identify opportunities for further de-risking.

In addition, the scheme has implemented a hedging programme to mitigate the risk of market movements adversely impacting the financial position of the scheme with a particular focus on interest rate risk.

Both the Company and the Trustees, with the support of their investment advisers, regularly review the performance of the scheme's assets against pre agreed benchmarks to ensure that the scheme's assets are performing in line with expectations.

C.6.2.7 Risk sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk.

C.6.3 Group risk

C.6.3.1 Introduction

The Company has a significant dependency on its parent RSAI plc. The two main sources of dependency come from:

- Internal reinsurance treaties between the Company and its parent RSAI plc, and
- Tier 2 capital in the form of Ancillary Own-Funds (callable on demand).

C.6.3.2 Measures used to assess risk

The Company assesses this risk each quarter by considering the strength and liquidity position of its parent RSAI plc. The Company reports on its exposure to its parent through its quarterly risk appetite scorecard.

C.6.3.3 Material risks

The Company's exposure to its parent RSAI plc is a material risk.

C.6.3.4 Application of the prudent person principle

The prudent person principle is not applicable.

C.6.3.5 Material risk concentrations

The Company's exposure to its parent RSAI plc is a material risk concentration.

C.6.3.6 Risk mitigation

The Company considers this risk separately within its risk appetite statement.

Part of the risk is mitigated by holding the premium for the ADC reinsurance contract covering claims incurred before 1 January 2015 in a funds withheld account.

The Board pays close attention to the creditworthiness of RSAI plc and has the option not to extend the quota share agreement.

The Ancillary Own-Funds are callable on demand at the discretion of the Company.

C.6.3.7 Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all categories of material risk

C.7 Stress and scenario testing

Once a year, the Company performs a stress and scenario testing exercise aimed at quantifying the impact on own-funds of several scenarios, including a reverse stress test. The exercise is led by the Risk function with input from other functions. The stress and scenario tests (and results) are agreed by the Executive Team and also by the Board Risk Committee and Board as part of the ORSA process.

The stress testing and sensitivity testing activities cover all material risk classes to which the Company has an exposure with the purpose of evaluating the Company's vulnerabilities to exceptional but plausible events. It is an opportunity to demonstrate that solid risk management processes are in place that would allow the Company to perform under mild and extreme strains on existing conditions.

D Valuation for solvency purposes

This section of the report sets out the value of the assets (D.1), technical provisions (D.2) and other liabilities (D.3) of the Company. Assets, technical provisions and other liabilities are broken down into material classes and lines of business as required by Solvency II. Two sets of values are presented:

- Figures prepared in accordance with Solvency II rules and guidance, and
- Figures prepared in accordance with the accounting standards used for the entity's statutory financial statements Irish GAAP (FRS 101).

A description of the differences between the Solvency II basis of preparation and the statutory accounts basis is also provided. It is important to note that all statutory accounts values presented in the tables below have been presented according to Solvency II rules, thereby enabling a simpler like-for-like comparison between the two sets of numbers.

Section D.4 sets out details of assets from D.1 that have been valued using alternative valuation methods in accordance with Article 10(5) of the Solvency II Delegated Regulation 2015/35 (as amended).

D.1 Assets

D.1.1 Balance sheet assets

The assets as per the Company's Solvency II balance sheet and statutory account as at 31 December 2016 are:

	Solvency II value	**Statutory accounts value**	**Difference**
	€'000	**€'000**	**€'000**
Deferred acquisition costs	-	37,419	(37,419)
Intangible assets	-	25,724	(25,724)
Property, plant & equipment held for own use	237	3,633	(3,396)
Investments (other than assets held for index-linked and unit-linked contracts)	646,488	693,444	-
Holdings in related undertakings, including participations	8,103	55,059	(46,956)
Bonds	597,305	597,305	-
Government bonds	342,089	342,089	-
Corporate bonds	255,216	255,216	-
Collective investments undertakings	41,080	41,080	-
Reinsurance recoverables	577,436	655,668	(78,232)
Insurance and intermediaries receivables	29,266	55,627	(26,361)
Reinsurance receivables	9,957	9,957	-
Receivables (trade, not insurance)	16,163	19,353	(3,190)
Cash and cash equivalents	49,670	49,670	-
Any other assets, not elsewhere shown	11,153	11,506	(353)
Total assets	**1,340,370**	**1,562,001**	**(221,631)**

D.1.2 Valuation of assets

The Company's assets are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 (as amended) and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provisions.

The following pages describe, for each material class of assets, the bases, methods and main assumptions used for valuation for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing those assets in financial statements.

D.1.2.1 Overview

Solvency II requires assets and liabilities to be valued on a basis that reflects their fair value (described as 'economic valuation') with the exception that liabilities should not be adjusted to take account changes in an insurer's own credit standing.

The Company's financial information is prepared using FRS 101 recognition and measurement bases (which is consistent with IFRS), meaning the valuation of the other assets and liabilities for Solvency II purposes begins with the FRS 101 values and adjusts these for specific differences in valuation between Solvency II and FRS 101. The adjustments made are classified into two broad categories:

- Reclassifications of the FRS 101 balance sheet items into the appropriate Solvency II categories
- Revaluation adjustments for areas where the FRS 101 valuation techniques are not considered to be consistent with Solvency II requirements.

For further details of the accounting policies adopted for the purposes of preparing statutory accounts, see the accounting policies section of the Company's financial statements.

Abbreviation	Meaning
DA	Delegated Acts i.e. Solvency II Delegated Regulation 2015/35 (as amended)
QRT LOG	Guidance as extracted from Solvency II ITS on reporting – Regulation 2015/2450 (as amended) and Solvency II ITS on public disclosure – Regulation 2015/2452
GL Valuation	EIOPA-BoS-15/113 EN Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions

There are no differences in valuation principles between IFRS and Irish GAAP (FRS 101), so the items below apply equally to the Company.

Goodwill

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Goodwill should be valued at nil	DA Art 12(1)	Goodwill is reported as an asset in the IFRS balance sheet however should be valued at nil for Solvency II reporting. No goodwill is reported in the FRS 101 financial statements.

Deferred acquisition costs

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Acquisition costs relating to contracts in force at the balance sheet date which are carried forward from one reporting period to subsequent reporting periods, relating to the unexpired periods of risks. In relation to life business, acquisition costs are deferred when it is probable that they will be recovered. There are no deferred acquisition costs under Solvency II as all acquisition costs not incurred by the reporting date are included in the calculation of technical provisions.	Balance sheet QRT log (S.02.01)	Deferred acquisition costs ('DAC') are reported on the FRS 101 balance sheet and comprise the direct and indirect costs of obtaining and processing new insurance business, which are recognised as deferred acquisition costs and are deducted from the provision for unearned premiums. DAC is fully eliminated in the Solvency II balance sheet.

Intangible assets

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Intangible assets are ascribed a value only where they can be sold separately and the insurer can demonstrate that there are quoted prices in an active market for the same or similar assets, in which case the asset shall be valued in accordance with the valuation hierarchy.	DA Art 12(2)	There are a number of intangible assets recorded on the FRS 101 balance sheet, including renewal rights, customer lists and software development costs. Intangible assets are amortised over their estimated useful lives and are subject to impairment test whenever indicators of impairment exist. Intangible assets are not deemed to be capable of being sold separately and certainly do not have quoted prices on an active market (nor do such prices exist for similar assets); they are therefore valued at nil in the Solvency II balance sheet, with corresponding adjustments to deferred taxes.

Deferred tax assets and liabilities

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Insurers should recognise and value deferred tax balances in relation to all assets and liabilities that are recognised for solvency or tax purposes. Deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) shall be determined by reference to the Solvency II balance sheet. Only a positive value shall only be ascribed to deferred tax assets where it is probable that future taxable profits will	DA Art 15 GL Valuation (Final Report) – Table	The valuation method for deferred tax balances is the same under FRS 101 and Solvency II. Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts on the Solvency II balance sheet. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting, nor taxable profit or loss, it is not accounted for in

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
lead to the realisation of that deferred tax asset. This assessment should take into account any time limits that apply to the carry forward of unused tax losses or credits. EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that the measurement principles of IAS 12 (as applied to the temporary difference between Solvency II values and the tax values) are consistent with Solvency II's requirements. A corollary of this is that, consistent with IAS 12, deferred tax balances shall not be discounted.		the FRS 101 balance sheet and so will not be accounted for in the Solvency II balance sheet. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised. In preparation of the Solvency II balance sheet there are a number of adjustments to move from an FRS 101 to Solvency II valuation basis. These adjustments are considered (other than deferred tax assets from carry-forward credits and losses) in assessing the temporary differences upon which the deferred taxes are derived. The key valuation adjustments which impact the estimates of deferred taxes for Solvency II purposes are: • Elimination of goodwill and intangible assets • Adjustments to technical provisions valuation • Recognition of contingent liabilities • Revaluation of plant and equipment (for own use). No deferred tax asset is held at 31 December 2016 for either FRS 101 or Solvency II reporting. See section D.1.3 for more information on deferred tax.

Pension benefit surplus and deficits

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
The requirements of IAS 19 are considered to be consistent with Solvency II's requirements. In practice, IAS 19 requires pension obligations to be calculated on a best estimate liability (with no risk margin) discounted at a corporate bond rate. This is likely to lead to a lower valuation that would result from applying a model based on the Solvency II valuation principles for insurance liabilities (such as deferred annuities) which, under Solvency II, would	GL valuation (final report) - table	Pension schemes are treated in the same way under both FRS 101 and Solvency II. Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided. The value of the net defined benefit asset/ liability recognised in the Solvency II balance sheet for each individual post retirement scheme is calculated as follows:

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
be discounted at a risk-free rate and would include a risk margin.		• The present value of defined benefit obligation of the scheme at the end of the reporting period • Less the fair value at the end of the reporting period of the scheme assets out of which the obligations are to be settled directly. The present value of defined benefit obligations and the present value of additional benefits accruing during the period are calculated using the Projected Unit Credit Method. The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at the end of each reporting period by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations. For those individual schemes in deficit, the resulting net liabilities are recognised in the statement of financial position in provisions. For those individual schemes in surplus, an asset is recognised in the statement of financial position in other debtors and other assets to the extent that the RSAII can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled. The amounts charged (or credited where relevant) relating to post retirement benefits in respect of defined benefit schemes are as follows: • The current service cost • The past service costs and gains or losses on settlements • Net interest on the net defined benefit asset/ liability • Administration costs of operating the pension schemes. Re-measurements of the net defined benefit asset/ liability comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit asset/ liability). Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of scheme liabilities.

Property, plant and equipment

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Property, plant and equipment shall not be valued at cost less depreciation and impairment. EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that the revaluation model in IAS 16 should be applied (even where the alternative cost model is used for accounting purposes). This model requires that valuations shall be made 'with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value'.	GL valuation (final report) - table	Property and equipment comprise land and buildings for own use, fixtures, fittings and equipment (including computer hardware and motor vehicles). Property for own use (land and buildings) is stated at fair value and other property and equipment is stated at depreciated cost for FRS 101 reporting. Property for own use is valued on a fair value basis (as per FRS 101 basis) on the Solvency II balance sheet. For reasons of practicality, other property and equipment is not revalued for Solvency II reporting and is therefore valued at nil on the Solvency II balance sheet.

Property other than for own use

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that investment property should be valued using the fair value model in IAS 40 (even where the alternative cost model is used for accounting purposes).	GL valuation (final report) - table	Investment property, comprising freehold and leasehold land and buildings is recorded at fair value for FRS 101 reporting and this basis is also used for the Solvency II balance sheet. Investment properties are valued using discounted cash flow models which takes into account the net present value of cash flows to be generated from the properties. The cash flow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re–let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors. These cash flows are discounted at an appropriate rate of interest to determine their present value.

Participations and related undertakings (subsidiaries, associates and joint ventures)

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Investments in related undertakings (subsidiaries, associates and joint ventures) shall be valued using the following hierarchy: (i) Valued based on quoted prices in active markets where such prices are available (ii) Where quoted prices in active markets are not available, valuation will be on an 'adjusted equity method' where the value of the investment is determined as the insurer's share of the related undertaking's net assets (based on Solvency II valuation of underlying net assets or, for related undertakings other than insurers where this is not practicable, based on IFRS with the deduction of goodwill and intangibles that would be valued at nil under Solvency II rules) (iii) For related undertakings other than subsidiaries, where quoted prices in active markets are not available and where it is not possible to apply an adjusted equity method, an alternative valuation method (e.g. mark to model) may be used.	DA Art 13 DA Art 335	A "participation" is a Solvency II term for a holding (direct or indirect) of at least 20% of the voting rights or capital of another undertaking. It can therefore be a subsidiary, an associate or a joint venture. Included here are investments in the debt issued by subsidiaries (although this is not applicable to the entities in the RSA Group), as well as equity investments. Investments in subsidiaries are valued at cost, including any deferred consideration, less any impairment losses. For Solvency II reporting, investments in participations that do not have quoted market prices (none of them are quoted) are valued using the 'adjusted equity method' i.e. as a share of that participation's excess of assets over liabilities, as valued under Solvency II rules (especially if an insurer). This means that the balance sheet of that participation needs to be adjusted to Solvency II rules before the share of net assets in the investment may be valued (bottom-up approach). If the participation is not an insurance or reinsurance company, the same method as above is to be adopted or, if that is not possible, the equity method in FRS 101 (with any goodwill and inadmissible intangible assets valued at nil) may be adopted instead. This applies irrespective of whether the participation is in a net assets or net liability position.

Financial assets

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Financial assets shall not be valued at cost or amortised cost. EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that all financial assets shall be measured at fair value. Whilst reinsurance recoverables in respect of unsettled claims are subject to the rules regarding technical provisions, payments due in relation to settled insurance claims should not be measured under those rules and so would fall to be treated as financial assets. Only future premiums which fall due after the valuation date are	DA Art 10 DA Art 6	Financial assets are valued at fair value for both FRS 101 and Solvency II balance sheet valuation purposes. The methods and assumptions used by RSAII in estimating the fair value of financial assets are: • Bonds: Fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. For Solvency II reporting accrued interest is added to the

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
subject to the rules regarding technical provisions; therefore any premium debts due would fall to be treated as financial assets although EIOPA has previously indicated that the risk of non-payment by the policyholder can be ignored if that will result in waiving the insurance cover.		relevant instruments and reclassified into the Solvency II balance sheet categories • Equity securities: Fair values are based upon quoted market prices. For Solvency II reporting the equity securities are reclassified into the various CIC categories as per the Solvency II balance sheet • Derivatives: Fair values are generally based upon quoted market prices. Positive values are reported as assets and negative values reported as liabilities in the Solvency II balance sheet • Collective investment schemes: Quoted market prices are used where available; else, funds are valued using data from third-party administrators or, in the case of loan funds, fund manager data. All funds are reviewed regularly for signs of underlying impairment. As such, it is considered that all values approximate to fair values • Cash and deposits, loans and mortgages, receivables and other assets: Carrying amounts approximate to fair values as these are generally short term balances. For Solvency II reporting, except for cash in hand, accrued interest is added to the relevant instruments and balances are reclassified into the various categories as per Solvency II definitions. For prepayments, the approach is to start with the IFRS balance and make adjustments to derecognise any prepaid expenses for which the rights attached are not transferable to a willing third party. Premium debtors and recoveries falling due for payment after the balance sheet date are reclassified from receivables to the premium provision within technical provisions. More information is provided in section D.2. **Reinsurance recoverables** The sub-categories in the Solvency II balance sheet of reinsurers' share of technical provisions mirrors those of the gross balances and the same mapping of Solvency II lines of business is to be used.

D.1.3 Analysis of deferred tax

A net deferred tax asset of nil is recognised for both FRS 101 and Solvency II. At the balance sheet date, the Company had unused tax losses of €378.9m (2015: €325.6m) available for offset against future profits. A deferred tax asset of €0.6m (2015: €11.0m) has been recognised in respect of tax losses of €5.0m (2015: €88.1m) on the basis that future taxable profits will be available against which these can be utilised.

A potential deferred tax asset of €46.7m (2015: €29.7m) in respect of unutilised tax losses of €373.9m (2015: €237.5m) has not been recognised. This asset will be recovered when sufficient taxable profits are generated in the future which are eligible for relief against the unutilised tax losses. These losses may be carried forward indefinitely.

D.1.4 Estimation techniques, risks, and uncertainties relating to assets and liabilities

The preparation of the Solvency II balance sheet requires the Company to exercise judgements in the use of estimates and assumptions in a number of key areas. The most significant of these are as follows:

Recognition and valuation of deferred tax assets

Deferred tax assets, where relevant, have been recognised on the basis that future taxable profits will be available against which these deferred tax assets can be utilised. The evidence for the future taxable profits is a forecast consistent with the three-year operational plans prepared by the Company, which is subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

Retirement benefit obligations

Independent actuaries calculate the value of the defined benefit obligations by applying the Projected Unit Credit Method. The future expected cash outflows (calculated based on assumptions that include inflation and mortality) are discounted to present value, using a discount rate determined at the end of each reporting period by reference to current market yields on high quality corporate bonds ('AA' rated) identified to match the currency and estimated term of the obligations.

The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends.

If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the valuation of the liability is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Financial assets and liabilities

Fair value is used to value a number of assets and represents market value at the reporting date.

Cash and cash equivalents, loans and receivables

For cash, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values on the basis that these are short term assets.

Property for own use and investment property

Properties for own use are valued on a vacant possession basis using third-party valuers. Investment properties are valued, at least annually, at their highest and best use. The fair value of property has been determined by external, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuations of buildings with vacant possession are based on the comparative method of valuation with reference to sales of other vacant buildings. Fair value is then determined based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) as appropriate. Investment properties are valued using discounted cash flow models which take into account the net present value of cash flows to be generated from the properties. The cash flow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable.

The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

These cash flows are discounted at an appropriate rate of interest to determine their present value.

In both cases the estimated fair value would increase/ (decrease) if:

- The estimated rental value is higher/ (lower)
- Void periods were shorter/ (longer)
- The occupancy rate were higher/ (lower)
- Rent free periods were shorter/ (longer), or
- The discount rates were lower/ (higher).

D.2 Technical provisions

D.2.1 Valuation and comparison of FRS 101 to Solvency II

Technical provisions are valued using the methods and assumptions described in section D.2.2.

The main differences between Solvency II technical provisions and the FRS 101 equivalent are:

- Inclusion of a margin above best estimate in FRS 101. Solvency II technical provisions include a risk margin calculated on a different basis
- Differences in discounting. In Solvency II all technical provision cash flows are discounted using the EIOPA yield curve. In FRS 101 only some lines of business are discounted and these are discounted using a different discount rate
- Inclusion of an allowance for Events Not In Data (‘ENIDs’) in Solvency II, covering estimates of low frequency events that are not captured in historical data sets
- Solvency II technical provisions are net of future premium cash flows where premium income due in the future is covered within the bound contract terms and conditions
- For future exposures, Solvency II considers only the best estimate of liability cash flows and not an unearned premium reserve (as is covered in FRS 101). As a result, profit relating to future exposures (after allowance for ENIDs) will come through as a difference in the liability valuation, and
- Within Solvency II, an allowance for reinsurer default is calculated, this is relatively small for most RSA entities, however, some entities are fully reinsured within the Group and as such this allowance for default contributes materially to the net technical provisions.

The following table quantifies the differences in the Solvency II net technical provisions and the equivalent FRS 101 provisions (net of deferred acquisition costs) for each material Solvency II line of business. The table is followed by notes explaining how the different valuation approaches set out above contribute to the differences observed for each line of business.

	Best estimate	**Risk margin**	**Statutory accounts**	**Difference**	**Note**
	€'000	**€'000**	**€'000**	**€'000**	
Motor vehicle liability insurance	117,215	4,801	123,824	(1,809)	
Other Motor Insurance	10,817	39	12,963	(2,107)	1
Fire and other damage to property insurance	64,664	298	75,642	(10,681)	2
General liability insurance	59,146	3,906	60,561	2,492	3

Total Material Lines of Business	251,842	9,044	272,991	(12,105)
Other	4,695	26	7,223	(2,502)
Total	**256,537**	**9,069**	**280,214**	**(14,607)**

1. **Other Motor Insurance:** The main driver of the €2.1m lower Solvency II figure is future premiums (€2.2m)
2. **Fire & other damage to Property:** The main driver of the €10.7m lower Solvency II figure is future premiums (€16.4)
3. **General Liability:** The main drivers of the €2.5m higher Solvency II figure are the high risk margin due to long tail nature of business, ENIDs and expenses, partly offset by future premiums.

D.2.2 Basis of preparation of technical provisions

Under Solvency II, technical provisions are made up of:

Claims provision + premium provision + risk margin

The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date.

The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies that the Company has written, or bound but not incepted, at the valuation date.

The risk margin is calculated as per the Solvency II Directive as the cost of capital required to hold future SCRs over the life of the technical provisions as they run-off.

The valuation of the best estimate for claims provisions and for premium provisions are carried out separately. Claims and premium provisions are calculated both gross of outwards reinsurance and for outwards reinsurance. The risk margin is only calculated net of reinsurance.

D.2.2.1 Bases, methods and assumptions used for valuation

The claims provision comprises the estimated cost of claims incurred but not settled at the end of the reporting period. The provisions are calculated by valuing future cash flows including claims payments, related expenses, salvage and subrogation recoveries and reinsurance transactions. The provision is determined using the best information available of claims development patterns, forecast inflation and estimated claims settlement amounts.

Future claims cash flows include an allowance for Events Not in Data (‘ENIDs’).

The premium provision comprises estimated cost of future claims and associated expenses for unearned business on a best estimate basis, offset by future premiums due. The cash flows also include profit commissions and the costs of policy administration.

All expenses that would be incurred in running-off the existing business, including a share of the relevant overhead expenses are taken into account. This share is assessed on the basis that the Company continues to write new business. The expense provision includes items such as investment expenses that would not be covered on an FRS 101 basis.

Future claims cash flows are generally determined by considering how past gross claims payments have materialised with separate explicit cash flows determined on a gross and reinsurance basis.

All cash flows are discounted for the time value of money using yield curves prescribed by EIOPA.

The risk margin is calculated by determining the present value of the cost of holding the solvency capital requirement (“SCR”) necessary to support the Company’s insurance obligations over their lifetime. This approach is intended to reflect the costs incurred by a notional (re)insurer, the reference undertaking, of holding the capital to accept a transfer of liabilities.

D.2.2.2 Significant simplified methods

For the premium provision, under the legal obligation basis of Solvency II, all existing bound contracts are to be valued, whether the contracts have incepted or not. This includes future premium and claims cash flows for policies not yet incepted by the valuation date, but already forming part of contractual obligations (bound but not incepted ('BBNI') business). Due to the low materiality of such contracts on the technical provisions, RSAII does not value bound but unincepted contracts.

For the risk margin, the future SCRs of the reference undertaking are estimated by considering the remaining claims at each future valuation date. As claims run-off, a higher proportion of long tail, e.g. liability, claims remain which require a proportionally higher level of capital to support them. The method used reflects the proportionally increasing levels of capital required in the future.

D.2.3 Uncertainties and contingencies

There is an inherent uncertainty in estimating claims provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified.

Other uncertainties include the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation.

There is also increased uncertainty in premium provisions as ultimate claims costs need to be estimated for future events. The ultimate level of future claims costs are partially mitigated by reinsurance.

D.2.4 Use of adjustments and transitional arrangements

In valuing the Company's technical provisions, none of the following have been applied:

- The matching adjustment referred to in Article 77b of Directive 2009/138/EC
- The volatility adjustment referred to in Article 77d of Directive 2009/138/EC
- The transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC
- The transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.2.5 Recoverables from reinsurance contracts and SPVs

External reinsurance

Reinsurance arrangements in place include excess of loss, catastrophe and facultative coverage.

Internal reinsurance

As referred to in section A, the Company has significant reinsurance protection provided by the wider RSA Group. The cover is mainly provided by two contracts:

- An ADC reinsurance contract is in-force for claims incurred prior to 1 January 2015; and
- A variable quota share contract covers claims arising on premiums earned from 1 January 2015. The quota share cedes 90% of long-tail business and 50% of short-tail business to the reinsurer. This contract was converted to a written basis during the year ended 31 December 2016.

D.2.6 Changes in assumptions

Changes in assumptions are not applicable for this reporting period as permitted by Article 303 of the Delegated Act (Solvency II Delegated Regulation 2015/35 (as amended)).

D.3 Other liabilities

D.3.1 Other balance sheet liabilities

The other liabilities as per the Company's Solvency II balance sheet at the valuation date are as follows:

	Solvency II value €'000	Statutory accounts value €'000	Difference €'000
Provisions other than technical provisions	703	703	-
Pension benefit obligations	14,461	14,461	-
Deposits from reinsurers	255,906	255,906	-
Debts owed to credit institutions	17,771	17,771	-
Insurance & intermediaries payables	4,063	4,063	-
Reinsurance payables	1,366	1,366	-
Payables (trade, not insurance)	82,010	75,175	6,835
Any other liabilities, not elsewhere shown	21,874	17,736	4,138

D.3.2 Basis of valuation of other liabilities

The Company's liabilities are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 (as amended) and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provisions.

The following pages describe, for each material class of liabilities (other than technical provisions) the bases, methods and main assumptions used for valuation for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing those liabilities in financial statements. Refer to section D.1.2 for further detail.

Financial liabilities

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Insurance and reinsurance undertakings shall value financial liabilities, as referred to in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002, in accordance with Article 9 of this Regulation upon initial recognition. There shall be no subsequent adjustment to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition	DA Art 14(1)	Financial liabilities are valued at fair value for both FRS 101 and Solvency II balance sheet valuation purposes. The methods and assumptions used by RSAII in estimating the fair value of financial liabilities are: • Loans payable and subordinated debt: Fair values are determined by reference to quoted market prices or estimated using discounted cash flow calculations based upon prevailing market rates

- For borrowings that carry a variable rate of interest (other than subordinated debt), carrying values approximate to fair values
- Other liabilities and accruals: Carrying amounts approximate to fair values as they are short term liabilities.

Upon subsequent measurement of financial liabilities, any changes in own credit risk are not reflected in the fair value.

Under FRS 101, debtors and payables relating to future premiums are included within insurance and reinsurance debtors and payables; however, under Solvency II future premiums are included within Solvency II technical provisions as future cash flows.

As per the principle of correspondence, the only insurance business to be recognised as ceded is bound business i.e. business recognised within gross technical provisions. Reinsurance payables are adjusted for amounts that do not meet this criterion, unless the cost is sunk in which case it must be recognised in full.

Lease liabilities

See section A.4.2 for information on leases. No adjustments have been made to the FRS 101 valuation of liabilities pertaining to leases.

Contingent liabilities

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Insurers should recognise all material contingencies as liabilities. Contingent liabilities are material if information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information (including supervisors). Such liabilities should be valued at the expected present value of future cash flows required to settle the contingent liability, discounted at the basic risk-free interest rate term structure.	DA Art 11 DA ART 14(2)	Material contingent liabilities are recorded on the Solvency II balance sheet and are valued at the expected present value of future cash flows to settle the obligation liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure. This basically means multiplying a possible outcome by its probability and discounting the result using the risk-free interest rate. This applies to non-insurance risks only, as insurance risks are already captured by the best estimate component of technical provisions. Contingent liabilities acquired in a business combination are valued on a basis consistent with that used for FRS 101 reporting.

Accounting provisions

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that, in accordance with the principles in IAS 37, provisions are recognised where there is a present obligation as a result of a past event which will probably give rise to an outflow of resources and which can be measured reliably. Provisions are valued at a best estimate of the expenditure required to settle the present obligation at the balance sheet date.	DA Art 9 GL valuation (final report) - table	Provisions are valued in the same way under both FRS 101 and Solvency II. Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Current taxes and liabilities (included in other liabilities)

Solvency II guidance	Solvency II reference	Valuation methods and assumptions
Current tax assets and liabilities should be valued at the amount expected to be recovered or paid in accordance with the provisions of IAS 12.	GL valuation (final report) - table	The valuation method for current tax assets and liabilities is the same under FRS 101 and Solvency II.

See section D.1.4 for details of estimation techniques, risks, and uncertainties relating to assets and liabilities; section D.1.2 for an explanation of the bases, methods and assumptions used for the valuation of deferred tax assets and liabilities, and section D.1.3 for deferred tax analysis.

D.3.3 Liabilities for employee benefits including defined benefit plan assets

Defined contribution pension schemes

Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided. The Company has no further payment obligations once the contributions have been paid. Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the balance sheet. The Company operates four defined contribution pension schemes. The combined pension charge represents contributions payable by the Company to the funds and amounted to €2.28m for the year ended 31 December 2016 (2015: €0.47m).

Defined benefit pension schemes and other post-retirement benefits

The Company has a funded defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. The defined benefit scheme is subject to regular valuation using the projected unit method which is the basis used to determine the pension cost in the profit and loss account. Independent, qualified actuaries carry out valuations of the defined benefit scheme for the purposes of assessing pension costs. The last statutory actuarial valuation of the RSA Insurance Ireland Defined Benefit Pension Scheme was carried out, on behalf of the Trustees, as at 1 January 2016 by the Scheme Actuary.

The value of the defined benefit scheme liability included at 31 December 2016 in the financial statements is as follows:

	2016	**2015**
	€'000	**€'000**
Equities	34,530	32,288
Bonds	40,716	67,807
Other	31,763	(335)
Fair value of assets with a quoted market price	107,009	99,760
Present value of pension liabilities	121,470	97,378
Net (deficit)/ surplus	**(14,461)**	**2,382**
Related deferred tax asset/ (liability)	1,807	(298)
Pension fund asset	107,009	99,760
Pension fund liability	(121,470)	(97,378)
Net pension (liability)/ surplus	**(14,461)**	**2,382**

The main assumptions at 31 December 2016 were as follows:

	2016 %
Assumptions used in the calculation of retirement benefit obligation:	
Interest rate used to discount liabilities	2.1
Annual rate of general inflation	1.6
Annual rate of increase in salaries	0
Annual rate of increase in pensions	1.6
Post-retirement mortality table	S2PNA CMI 2013[1.5%]
Assumptions used in calculation of profit and loss account charge:	
Discount rate	2.9
Annual rate of general inflation	1.6
Annual rate of increase in salaries	1.6
Annual rate of increase in pensions	1.6
Post-retirement mortality table	S2PNA CMI 2013[1.5%]
Expected return:	
Equities	2.9
Bonds	2.9
Other	-

D.4 Alternative methods for valuation

Assets and liabilities valued using alternative valuation methods include collective investment schemes, taking the form of real estate funds, and a small number of corporate securities.

The collective investment schemes are illiquid credit investments. No market data exists for these investments and their valuation is not based on observable inputs (e.g. interest rate curves, etc.). In this regard, the Company has a valuation policy to use the latest net asset value provided by the fund manager for the investment as the valuation price, adjusted for any capital movements or distributions since the valuation date. This adjusted net asset value is compared to a discounted cash flow valuation to confirm that the net asset value is lower, and so provide comfort that the NAV does not overstate the value of the investment.

The corporate securities using alternative valuation methods at 31 December 2016 are disclosed as such as, while broker prices are available, the markets on which they trade are not considered sufficiently active to qualify them as being traded on an active market.

D.5 Any other information

Nothing to report.

E Capital management

This section of the report describes how the Company manages capital in terms of:

- Information on the objectives, policies and processes employed by the Company for managing its own-funds
- The structure, amount and quality of the Company's own-funds, and
- The amount of the Company's Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR").

E.1 Own-funds

E.1.1 Objectives, policies, processes and material changes

Capital management: Policies and processes for managing own-funds

The primary objective of the Company's capital management is to ensure that the business has sufficient capital to meet its obligations. This is achieved by optimising the balance between return and risk, while maintaining economic and regulatory capital in accordance with the Company's risk appetite.

The Company's Capital policy identifies the roles and responsibility to govern, monitor and oversee capital resources, ensuring that these are within risk appetite and meet appropriate regulatory/ accounting rules and guidelines. This includes the calculation, estimation and forecasting of capital resources and capital requirements such as Solvency II available and eligible own-funds and the Solvency II SCR and MCR.

Own-funds are comprised of items on balance sheet (basic own-funds) and items that may be called up to absorb losses (off balance sheet items referred to as ancillary own-funds). The main constituent of basic own-funds is the excess of assets over liabilities, as valued on a Solvency II regulatory basis.

Business planning

Consistent with the Group's planning protocol, RSAII operates a three year time horizon for business planning. Plans are refreshed and reviewed annually at local, regional and Group executive level.

Material changes over the reporting period

No material changes to the objectives, policies or processes for managing own-funds were made over the period.

E.1.2 Structure, amount and quality of own-funds

Classification and eligibility of capital

The Company's own-funds are classified per the Solvency II requirements overleaf.

Solvency II Tier	Capital item
Tier 1	Paid in ordinary share capital, and the related share premium Reconciliation reserve
Tier 1 restricted	Not applicable
Tier 2	Approved ancillary own-funds in the form of unpaid and uncalled ordinary share capital callable on demand
Tier 3	Not applicable

Capital composition

The Company's Solvency II balance sheet is derived from the FRS 101 balance sheet by making suitable adjustments in accordance with the detailed rules specified under the Solvency II Directive (2009/138/EC) and as further detailed in the Company's Basis of Preparation document. The resultant Solvency II basic own-funds are then used to derive the Company's eligible own-funds for assessing coverage of its SCR and MCR.

The Company's capital structure by tier is as follows:

Basic own-funds:		**€'000**
Tier 1	Equity capital	623,756
	Reconciliation reserve	(524,583)
	Total tier 1 capital	99,173
Tier 1 restricted	Not applicable	-
Tier 2	Not applicable	-
Tier 3	Not applicable	-
Total basic own-funds		**99,173**
Ancillary own-funds:		
Tier 2	Unpaid and uncalled ordinary share capital callable on demand	**90,000**
Total available own-funds		**189,173**

Tier 1 own-funds includes the Solvency II reconciliation reserve; the key elements of which are as follows:

- Excess of assets over liabilities as presented in the Solvency II balance sheet, and
- A deduction for amounts already included in Tier 1 own-funds, including ordinary share capital and share premium account.

Loan capital characteristics

The Company has no debt capital.

E.1.3 Eligible own-funds to cover the SCR

Basic own-funds to eligible own-funds

Solvency II requires that basic own-funds are first considered against availability rules, and then subjected to eligibility criteria based on both the SCR and capital structure. Eligible own-funds are considered available to cover the SCR.

The Company's basic own-funds are reconciled to eligible own-funds below:

	Basic own-funds €'000	Ancillary own-funds €'000	Availability restrictions €'000	Available own-funds €'000	Eligibility restrictions €'000	Eligible own-funds €'000	Eligibility capacity €'000	Eligibility rule
Tier 1	99,173	-	-	99,173	-	99,173	None	
Tier 2	-	90,000	-	90,000	(26,136)	63,864	63,864	Tier 2 & 3 < = 50% of SCR
Tier 3	-	-	-	-	-	-	-	
Total	**99,173**	90,000	**-**	**189,173**	**(26,136)**	**163,037**	**63,864**	
					SCR	127,728		
					Surplus	35,309		
					SCR coverage	128%		

Capital not available to cover the SCR

The Company has no capital which is not available to meet the SCR.

Ineligible capital to cover the SCR

The Delegated Act (Solvency II Delegated Regulation 2015/35 - as amended) requires that limits are imposed upon the eligible amounts of restricted tier 1, Tier 2 and Tier 3 capital, according to the calculation of the SCR:

- Eligible tier 1 items shall be at least 50% of the SCR
- Eligible tier 3 items shall be no more than 15% of the SCR, and
- The sum of eligible tier 2 and eligible tier 3 items shall be no more than 50% of the SCR.

The limits on the sum of eligible tier 2 and eligible tier 3 available capital (i.e. no more than 50% of the SCR) per Article 82 of the Delegated Regulation are the only restrictions on the Company's available own-funds to meet the SCR.

E.1.4 Eligible own-funds to cover the MCR

Solvency II requires that basic own-funds are first considered against availability rules and then subjected to eligibility criteria based on both the MCR and capital structure. Eligible own-funds are considered available to cover the MCR.

The Company's basic own-funds to eligible own-funds to cover the MCR is shown below:

	Basic own-funds €'000	Ancillary own-funds €'000	Availability restrictions €'000	Available own-funds €'000	Eligibility restrictions €'000	Eligible own-funds €'000	Eligibility capacity €'000	Eligibility rule
Tier 1	99,173	-	-	99,173	-	99,173	n/a	
Tier 2 (AOF)	-	90,000	(90,000)	-	-	-	-	Not eligible
Tier 3	-	-	-	-	-	-	-	
Total	**189,173**	**90,000**	**(90,000)**	**99,173**	**-**	**99,173**	**-**	
					MCR	32,255		
					Surplus	66,918		
					MCR coverage	307%		

Capital not available to cover the MCR

Ancillary own-funds items do not form a part of basic own-funds and therefore cannot form a part of available own-funds to meet the MCR.

Ineligible capital to cover the MCR

The Delegated Act (Solvency II Delegated Regulation 2015/35 - as amended) requires that limits are imposed upon the eligible amounts of restricted tier 1, tier 2 and tier 3 capital, according to the calculation of the MCR:

- Eligible tier 1 items shall be at least 80% of the MCR
- Eligible Tier 2 items shall be no more than 20% of the MCR, and
- Tier 3 items are ineligible to cover the MCR.

E.1.5 Differences between equity and net assets

Comparison between FRS 101 net equity and Solvency II basic own-funds

The difference between the Company's published FRS 101 net equity and its basic own-funds (excess of assets over liabilities as calculated for solvency purposes) is set out in the following table, with differences explained in sections D.1.2, D.2.2 and D.3.

	€'000
FRS 101 net asset value	201,518
Solvency II basic own-funds	99,173

Foreseeable dividends

The Company did not pay a dividend during the period being reported on and the directors do not recommend that a dividend should be paid.

E.1.6 Transitional arrangements

The Company has no own-funds items which are subject to transitional arrangements.

E.1.7 Ancillary own-funds

On 24 March 2016 and following receipt of approval from the Central Bank of Ireland, the Company executed an ancillary own-funds transaction within the meaning of the Solvency II Framework (Directive 2009/138/EC). This took the form of issued but unpaid share capital callable on demand and the counterparty was the Company's immediate parent undertaking, RSAI plc. The transaction had the effect of increasing the Company's available own-funds under Solvency II by €90m. These shares represent an off balance sheet arrangement.

The ancillary own-funds represent tier 2 capital and are subject to eligibility rules in terms of SCR coverage. They are not available for use against the Company's MCR.

E.1.8 Deductions and restrictions

See sections E.1.3 and E.1.4 for a description of the nature and amount of restrictions on own-funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Overall SCR and MCR

The Company has elected to use the Standard Formula to calculate its SCR. The Company's SCR and MCR at 31 December 2016 are as follows:

	SCR €'000	MCR €'000
Total	127,728	32,255

E.2.2 SCR split by risk

The Company has derived its SCR by assessing the insurance entity separately (and without diversification benefit) from its defined benefit pension scheme, which for capital requirement purposes it has treated as a ring-fenced fund.

The resultant aggregate SCR split by Standard Formula risk modules is detailed below:

Risk module	SCR €'000	Undiversified module %
Market risk	43,537	29%
Counterparty default risk	17,616	12%
Life underwriting risk	-	-
Health underwriting risk	8,294	6%
Non-Life underwriting risk	58,561	39%
Total undiversified components	**128,010**	
Diversification	(22,860)	
Basic SCR	**105,149**	
Operational risk	22,580	14%
Total SCR	**127,728**	**100%**

E.2.3 Standard formula simplifications

Standard Formula simplifications are not utilised.

E.2.4 Standard Formula USPs

Standard Formula Undertaking Specific Parameters are not utilised.

E.2.5 Capital add-on and USP non-disclosure

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters are not utilised.

E.2.6 Capital add-on and USP impact

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters are not utilised.

E.2.7 MCR calculation inputs

The Solvency II MCR is the lower threshold on the “ladder of regulatory intervention” and was originally calibrated to provide an 85% probability of capital adequacy over the one year horizon. Bounded between 25% and 45% of the latest calculated SCR it represents the absolute minimum capital required under the Solvency II Directive. Capital eligibility for the MCR is restricted beyond the restrictions applied to the SCR, see section E.1.4.

The principal inputs to the MCR calculation are net technical provisions and net written premiums by Solvency II line of business.

E.2.8 Changes to the SCR and MCR

The SCR has decreased from year-end 2015 to year-end 2016 primarily driven by non-life underwriting risk which reduced by 5%, primarily as a result of lower claims provisions. This was due to the run-off of claims incurred prior to 1 January 2015, up to the adverse development cover reinsurance contract retention level, and the extent to which 2015 and 2016 claims have been reinsured under intra-Group quota share.

The adoption of a “look-through” parameterisation for an investment fund helped to reduce market risk, as did an underlying reduction in the size of the Company’s investment portfolio as premiums are paid on the quota share.

These decreases were counteracted in part by the decision not to renew a layer within the Property Catastrophe reinsurance programme (increasing retention by €7.5m), a change in the modelling assumption of the defined benefit pension scheme to a ring-fenced fund and the modelling of the defined benefit pension scheme longevity risk within the SCR rather than considering as part of the ORSA.

The MCR decreased over the year driven by a reduction in net best estimate technical provisions following settlement of prior year claims not ceded under the ADC contract.

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

The duration-based equity risk sub-module is not used.

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

The Company uses the EIOPA Standard Formula to determine its regulatory SCR.

E.5 Non-compliance with the MCR and non-compliance with the SCR

RSAII has been fully compliant with the SCR and the MCR during the reporting period.

E.6 Any other information

Nothing to report.

F Quantitative report templates

The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the Solvency and Financial Condition Report in accordance with the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009.

Template Code	Template Name
S.02.01.02	Balance sheet
S.05.01.02	Premium, claims, expenses
S.05.02.02	Premium, claims, expenses by country
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own-funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

The completed 2016 templates are provided below:

S.01.02

General information

Undertaking name	RSA Insurance Ireland DAC
Undertaking identification code	
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	IE
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	EUR
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.23.01.01 - Own Funds

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

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

S.02.01.02
Balance sheet

	Solvency II value
Assets	C0010
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	237
Investments (other than assets held for index-linked and unit-linked contracts)	646,488
Property (other than for own use)	
Holdings in related undertakings, including participations	8,103
Equities	
Equities - listed	
Equities - unlisted	
Bonds	597,305
Government Bonds	342,089
Corporate Bonds	255,216
Structured notes	
Collateralised securities	
Collective Investments Undertakings	41,080
Derivatives	
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	577,436
Non-life and health similar to non-life	577,436
Non-life excluding health	577,013
Health similar to non-life	423
Life and health similar to life, excluding index-linked and unit-linked	
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	29,266
Reinsurance receivables	9,957
Receivables (trade, not insurance)	16,163
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	49,670
Any other assets, not elsewhere shown	11,153
Total assets	1,340,370

	Solvency II value
Liabilities	C0010
Technical provisions - non-life	843,043
Technical provisions - non-life (excluding health)	840,683
TP calculated as a whole	
Best Estimate	831,628
Risk margin	9,055
Technical provisions - health (similar to non-life)	2,360
TP calculated as a whole	
Best Estimate	2,346
Risk margin	14
Technical provisions - life (excluding index-linked and unit-linked)	
Technical provisions - health (similar to life)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - life (excluding health and index-linked and unit-linked)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - index-linked and unit-linked	
TP calculated as a whole	
Best Estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	703
Pension benefit obligations	14,461
Deposits from reinsurers	255,906
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	17,771
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	4,063
Reinsurance payables	1,366
Payables (trade, not insurance)	82,010
Subordinated liabilities	
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	21,874
Total liabilities	1,241,197
Excess of assets over liabilities	99,173

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

Non-life

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
	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	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																	
Gross - Direct Business	1,424	3,580		151,774	34,375	2,844	142,128	50,411			1,187	-2					387,720
Gross - Proportional reinsurance accepted							359	72									431
Gross - Non-proportional reinsurance accepted																-38	-38
Reinsurers' share	837	2,361		133,253	30,577	1,477	77,456	39,405			687	28					286,081
Net	587	1,219		18,521	3,798	1,366	65,030	11,078			500	-30				-38	102,032
Premiums earned																	
Gross - Direct Business	1,674	3,818		147,948	34,017	2,621	143,066	51,235			1,359	47					385,785
Gross - Proportional reinsurance accepted							335	70									405
Gross - Non-proportional reinsurance accepted																-38	-38
Reinsurers' share	837	2,406		133,524	30,637	1,264	82,806	40,028			687	28					292,217
Net	837	1,413		14,424	3,380	1,356	60,595	11,277			672	19				-38	93,935
Claims incurred																	
Gross - Direct Business	1,241	755		125,326	28,214	380	70,608	72,723	41		780	-47					300,021
Gross - Proportional reinsurance accepted							-41	4									-37
Gross - Non-proportional reinsurance accepted															-525	-646	-1,171
Reinsurers' share	662	231		104,159	21,248	184	36,785	55,407			457	-26				-44	219,062
Net	579	523		21,167	6,966	196	33,782	17,320	41		323	-21			-525	-602	79,751
Changes in other technical provisions																	
Gross - Direct Business																	
Gross - Proportional reinsurance accepted																	
Gross - Non-proportional reinsurance accepted																	
Reinsurers' share																	
Net																	
Expenses incurred	385	1,522		7,279	1,720	1,136	39,645	14,264			291	-14				0	66,228
Other expenses																	5,553
Total expenses																	71,781

S.05.02.01
Premiums, claims and expenses by country

Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			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
	Home Country	GB					Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	345,612	42,109					387,720
Gross - Proportional reinsurance accepted	431						431
Gross - Non-proportional reinsurance accepted	-38						-38
Reinsurers' share	251,711	34,370					286,081
Net	94,294	7,739	0	0	0	0	102,032
Premiums earned							
Gross - Direct Business	345,000	40,786					385,785
Gross - Proportional reinsurance accepted	405						405
Gross - Non-proportional reinsurance accepted	-38						-38
Reinsurers' share	257,395	34,822					292,217
Net	87,972	5,963	0	0	0	0	93,935
Claims incurred							
Gross - Direct Business	267,755	32,265					300,021
Gross - Proportional reinsurance accepted	-37						-37
Gross - Non-proportional reinsurance accepted	-1,171						-1,171
Reinsurers' share	199,161	19,900					219,062
Net	67,386	12,365	0	0	0	0	79,751
Changes in other technical provisions							
Gross - Direct Business							
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net			0	0	0	0	
Expenses incurred	64,019	2,209					66,228
Other expenses							5,553
Total expenses							71,781

S.17.01.02
Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance				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	C0180
Technical provisions calculated as a whole																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
Gross	-14	-510		45,808	9,969	491	24,177	10,372			199	46					90,537
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-69	-286		-1,533	-486	-213	-17,223	-2,958			-68	-29					-22,865
Net Best Estimate of Premium Provisions	55	-224		47,341	10,455	704	41,400	13,330			267	75					113,403
Claims provisions																	
Gross	654	2,215		419,476	2,554	1,484	48,806	267,243	572		414	18					743,436
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	222	555		349,603	2,192	609	25,542	221,427			143	9					600,302
Net Best Estimate of Claims Provisions	432	1,660		69,873	362	875	23,264	45,816	572		272	9					143,134
Total best estimate - gross	640	1,706		465,284	12,523	1,974	72,983	277,615	572		613	63					833,973
Total best estimate - net	486	1,436		117,215	10,817	1,579	64,664	59,146	572		539	84					256,537
Risk margin	3	11		4,801	39	7	298	3,906	1		2	0					9,069
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole																	
Best estimate																	
Risk margin																	
Technical provisions - total	643	1,716		470,085	12,562	1,982	73,280	281,521	574		615	64					843,043
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	154	270		348,070	1,706	396	8,319	218,468			75	-20					577,436
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	490	1,447		122,015	10,856	1,586	64,961	63,053	574		541	84					265,607

S.19.01.21
Non-Life insurance claims

Total Non-life business

Accident year / underwriting year Accident Year

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

	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
	0	1	2	3	4	5	6	7	8	9	10 & +		
Prior											6,859	6,859	6,859
N-9	95,813	59,156	13,668	18,972	12,239	18,566	10,481	3,358	3,740	2,452		2,452	238,445
N-8	111,913	63,299	19,288	15,514	12,047	7,225	6,160	5,295	2,258			2,258	242,999
N-7	116,863	84,439	31,353	25,320	18,052	12,531	10,883	5,107				5,107	304,549
N-6	133,528	122,683	24,008	21,583	14,959	11,262	5,491					5,491	333,514
N-5	101,229	77,268	40,238	37,215	21,068	12,465						12,465	289,484
N-4	89,505	76,143	50,281	40,176	27,823							27,823	283,927
N-3	91,870	72,187	49,459	43,723								43,723	257,239
N-2	104,051	61,006	42,645									42,645	207,702
N-1	88,872	59,961										59,961	148,833
N	79,275											79,275	79,275
											Tot	288,061	2,392,827

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Year					**Development year**							**Year end (discounted data)**
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											14,036	12,990
N-9	0	0	0	0	0	0	0	0	0	4,681		4,690
N-8	0	0	0	0	0	0	0	0	9,146			9,162
N-7	0	0	0	0	0	0	0	18,035				18,068
N-6	0	0	0	0	0	0	28,848					28,887
N-5	0	0	0	0	0	33,149						33,176
N-4	0	0	0	0	61,166							61,221
N-3	0	0	0	113,324								113,409
N-2	0	0	131,783									131,887
N-1	0	137,586										137,750
N	192,071											192,196
											Total	743,436

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	48,811	48,811			
Share premium account related to ordinary share capital	574,945	574,945			
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
Subordinated mutual member accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	-524,583	-524,583			
Subordinated liabilities					
An amount equal to the value of net deferred tax assets					
Other own fund items approved by the supervisory authority as basic own funds not specified above					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	99,173	99,173			
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	90,000			90,000	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds	90,000			90,000	
Available and eligible own funds					
Total available own funds to meet the SCR	189,173	99,173		90,000	
Total available own funds to meet the MCR	99,173	99,173			
Total eligible own funds to meet the SCR	163,037	99,173		63,864	
Total eligible own funds to meet the MCR	99,173	99,173			
SCR	127,728				
MCR	32,255				
Ratio of Eligible own funds to SCR	127.64%				
Ratio of Eligible own funds to MCR	307.47%				

Reconcilliation reserve	C0060
Excess of assets over liabilities	99,173
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	623,756
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	-524,583
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non- life business	773
Total Expected profits included in future premiums (EPIFP)	773

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0080	C0090
Market risk	43,537		
Counterparty default risk	17,616		
Life underwriting risk			
Health underwriting risk	8,294		
Non-life underwriting risk	58,561		
Diversification	-22,860		
Intangible asset risk			
Basic Solvency Capital Requirement	105,149		

Calculation of Solvency Capital Requirement	C0100
Operational risk	22,580
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency Capital Requirement excluding capital add-on	127,728
Capital add-ons already set	
Solvency capital requirement	127,728
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	97,845
Total amount of Notional Solvency Capital Requirements for ring fenced funds	29,884
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations	C0010
MCR_{NL} Result	32,255

	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	486	587
Income protection insurance and proportional reinsurance	1,436	1,219
Workers' compensation insurance and proportional reinsurance		
Motor vehicle liability insurance and proportional reinsurance	117,215	18,521
Other motor insurance and proportional reinsurance	10,817	3,798
Marine, aviation and transport insurance and proportional reinsurance	1,579	1,366
Fire and other damage to property insurance and proportional reinsurance	64,664	65,030
General liability insurance and proportional reinsurance	59,146	11,078
Credit and suretyship insurance and proportional reinsurance	572	
Legal expenses insurance and proportional reinsurance		
Assistance and proportional reinsurance	539	500
Miscellaneous financial loss insurance and proportional reinsurance	84	
Non-proportional health reinsurance		
Non-proportional casualty reinsurance		
Non-proportional marine, aviation and transport reinsurance		
Non-proportional property reinsurance		

Linear formula component for life insurance and reinsurance obligations	C0040
MCR_L Result	

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

Overall MCR calculation	C0070
Linear MCR	32,255
SCR	127,728
MCR cap	57,478
MCR floor	31,932
Combined MCR	32,255
Absolute floor of the MCR	3,700
Minimum Capital Requirement	32,255