# RSA Insurance Ireland DAC

## Solvency and Financial Condition Report (SFCR) 2017

# 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 2017, 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 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 2017 is set out below and in more detail in section A.2.

The year-on-year improvement in underwriting performance, reporting a loss of €2.3m in 2017 versus a loss of €50.0m in 2016, has been driven by improving loss ratios, through better pricing sophistication and better risk mix selection, as well as through a continued focus on sustainably reducing the cost base. The focus on the cost base will continue within 2018, with a restructuring programme to be completed as part of the Company's ongoing Target Operating Model ('TOM') review. This review will aim to further improve operational effectiveness as well as support the ambition of the business to attract and retain more customers and provide excellent customer outcomes. Our focus will also continue on improving our operational excellence and centralisation of activities to our operations centre in Galway and the RSA Shared Service Centre in Liverpool.

During the reporting period the Company also launched 'Strategy 2021' to enable its ambition of being 'Best in Class' and has made significant progress in each of its key pillars of 'customer experience', 'product and process simplicity' and 'pricing and data capability'.

In addition, an Enhanced Transfer Value ('ETV') programme was substantially completed on the Company's defined benefit pension scheme in 2017 which provided flexible options for pension scheme members and resulted in a reduction of pension scheme liabilities of circa 30%.

## 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 profit on ordinary activities before taxation for the year ended 31 December 2017 per the Company's FRS 101 statutory financial statements amounted to €12.3m, which was €58.3m better than prior year (2016: €46.0m loss).

Gross premiums written for the year ended 31 December 2017 of €357.7m were 8% lower than the prior year and net premiums written included a one off adjustment of €125.4m reflecting the change in the recognition of the variable quota share reinsurance arrangement (earned to written basis) on 1 January 2017. On a like-for-like basis, ignoring the quota share change, net premiums written reduced by €13.2m in the current year.

Both the Company's variable quota share ('QS') and adverse development cover ('ADC') reinsurance arrangements with its immediate parent Royal & Sun Alliance Insurance Plc ('RSAI plc.') continued in force during 2017.

### Underwriting result

The underwriting loss for the year ended 31 December 2017 amounted to €2.3m (2016 loss: €50.0m) and represents an improvement of €47.7m year-on-year.

### Investment result

The investment result for the year ended 31 December 2017 amounted to a gain of €16.9m (2016 gain: €11.4m). Realised investment income of €19.5m decreased by €1.7m, reflecting a reduction in the scale of our investment portfolio as a consequence of the outward reinsurance premiums and claim settlements under the ADC and QS contracts. This included an increase of €1.5m to €10m (2016: €8.5m) of dividends declared by 123 Money Limited in 2017. There were no impairments recognised to the Company's investment in subsidiaries in 2017 (2016: €4.4m).

## Capital position

| Solvency II position | Requirement (SCR) €'m | Basic own-funds €'m | Ancillary own-funds €'m | Eligible own-funds €'m | Surplus €'m | Coverage ratio % |
|---|---|---|---|---|---|---|
| 31 December 2017 | 99.5 | 127.1 | 90.0 | 176.8 | 77.3 | 178 |
| 31 December 2016 | 127.7 | 99.2 | 90.0 | 163.2 | 35.5 | 128 |

The Company is able to comfortably cover the Solvency Capital Requirement ('SCR') with Unrestricted Tier 1 capital of €127.1 i.e. 128% coverage ratio.

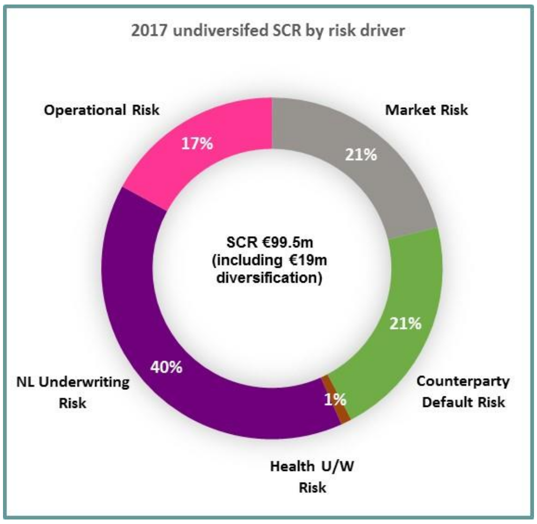
The ratio of Eligible Own Funds to the SCR stands at 178% and within the Company's Board approved risk appetite.

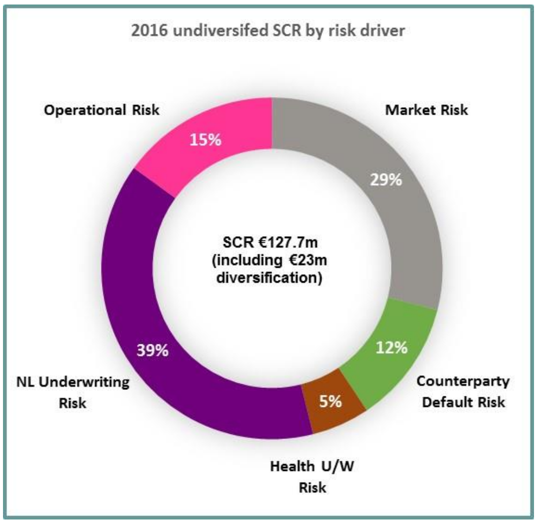
The improvement in coverage ratio year-on-year was primarily driven by the following:

- A decrease in the SCR – see Risk profile changes below, and
- An improvement in eligible own-funds materially driven by:
  - Improved business profitability, and
  - Changes in the net pension position reflecting market movements and de-risking activity.

## Risk profile changes in the year – capital requirement

The SCR at €99.5m decreased by approximately €28m at 31 December 2017 from year end 2016 (see section E.2.2 for the change in risk charges). Percentage splits are provided as per the diagram below and indicate that non-life underwriting risk, market risk and counterparty default risk remain the principal drivers of the SCR.




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

- The continued run-off of historic claims retained under the ADC reinsurance contract and the continuation of the intra-Group variable quota share arrangement result in lower net claims and premium capital charges
- The underlying investment portfolio has reduced in size given the lower technical provisions and reduced market risk on the Company's investments
- Availability of look-through data in relation to the Company's defined benefit pension scheme which allowed a more accurate mapping of underlying investments to standard formula risk modules and sub-modules and reduced the SCR contribution of this ring-fenced fund
- A reduction in the Company's risk to pension fund liabilities through a series of transfers from the employee defined benefit scheme to the defined contribution scheme

dampened by:

- The intra-Group reinsurance receivable from the Company's parent ('RSAI plc.') has increased (more of the business written being subject to the quota share agreement) and contributed to an increase in counterparty default risk.

## Capital activity and dividends

Following receipt of approval from the Central Bank of Ireland (24 March 2016), the Company continues to hold an ancillary own-funds ('AOF') facility within the meaning of the Solvency II Framework (Directive 2009/138/EC) with its immediate parent company, RSAI plc. This facility takes the form of issued but unpaid share capital callable on demand and has 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 2017.

## System of governance

The Company maintains a stable system of governance and has not experienced any material changes in how the business has been operated over the course of 2017. 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.

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 2017 is unchanged.

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.

## 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
New Wapping Street
North Wall Quay
Dublin 1
D01 F7X3

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 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.

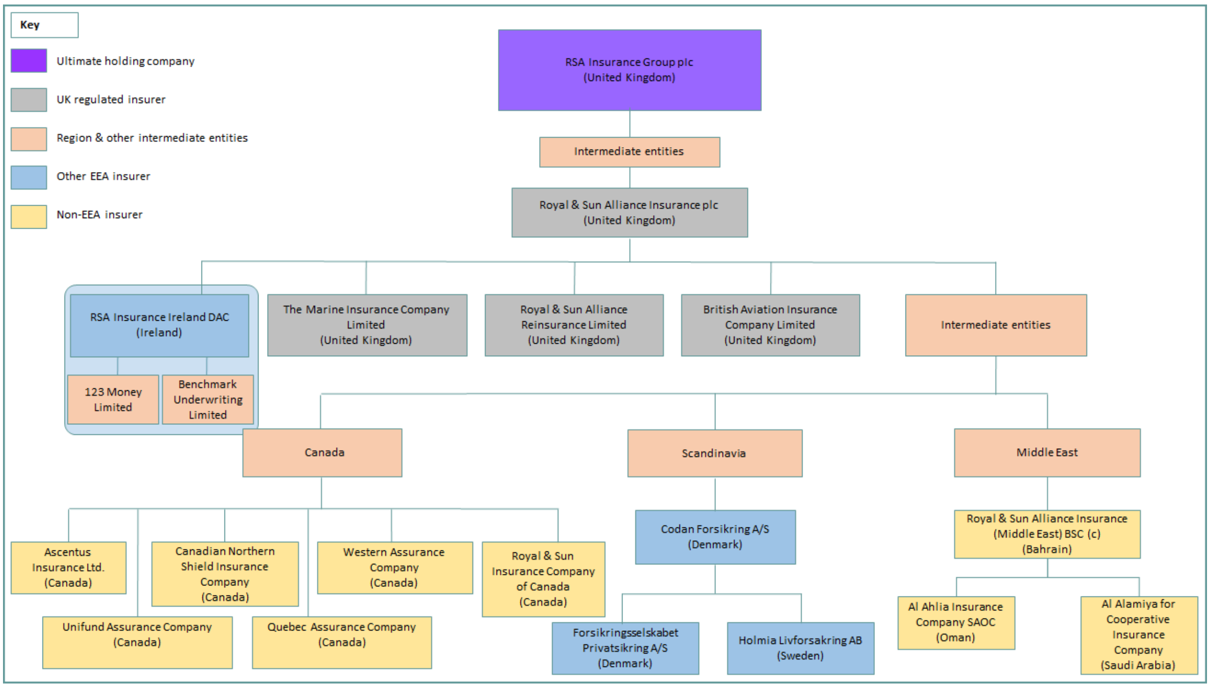
## A.1.6 Material related undertakings

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:

**Geographic regions:**

Ireland
UK

**Line of business: non-life**

Medical expense
Income protection
Motor vehicle liability
Other motor
Marine, aviation and transport
Fire and damage to property
General Liability
Assistance
Miscellaneous financial loss

## 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 2017 and which have had a material impact on the Company's reported statutory financial performance for the current reported period.

These 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 and was written on a funds withheld basis.

(b) The Company signed a multi-year, variable quota share reinsurance contract with its parent company on 2 October 2015. The contract provides cover in respect of the 2015, 2016 and 2017 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 amended effective 1 January 2017 to reflect a change in the accounting treatment (recognising premiums written rather than earned) in order to align it with external contracts in place. The contract was renewed to also cover the year ended 31 December 2018.

### Defined benefit pension scheme Enhanced Transfer Value programme

During 2017 an Enhanced Transfer Value ('ETV') programme was implemented to reduce the risk of the employee defined benefit pension scheme to the Company. The programme offered members the choice to take an enhanced transfer value and was well received (49% of active and 20% of deferred members accepted). It resulted in a reduction the Company's defined benefit pension scheme liabilities of circa 30% which consequentially led to an improvement in the risk profile of the defined benefit pension scheme in general and reduced the associated capital charge by approximately €8m.

### 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. This AOF facility remained available to the Company throughout the 2017 financial year and 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 called. There were no changes to the AOF arrangement during 2017.

# 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 2017 together with a comparison against the previous reporting period. 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.

| | **2017 €'000** | 2016 €'000 |
|---|---|---|
| Gross written premiums | 357,650 | 388,113 |
| Net written premiums | (36,585) | 102,032 |
| Net earned premiums | 93,581 | 96,309 |
| Net incurred claims | (64,149) | (96,667) |
| Commissions incurred | (58,280) | (65,071) |
| Commissions earned | 67,775 | 60,002 |
| Operating expenses | (41,198) | (44,621) |
| **Underwriting loss** | **(2,270)** | (50,048) |
| | | |
| Investment income | 19,456 | 21,118 |
| Investment expenses and charges | (1,647) | (3,614) |
| Value readjustments on investments | - | (4,372) |
| Other charges including value adjustments (foreign exchange) | (875) | (1,777) |
| **Investment result** | **16,934** | 11,355 |
| | | |
| Other income | - | 63 |
| Operating expenses | (2,386) | (7,321) |
| **Operating result** | **12,278** | (45,951) |
| | | |
| **Profit/ (Loss) before tax** | 12,278 | (45,951) |
| Tax | 115 | (5,789) |
| **Profit/ (Loss) after tax** | **12,393** | (51,740) |

The underwriting loss for the year ended 31 December 2017 amounted to €2.3m (2016 loss: €50.0m).

Gross written premiums for the year ended 31 December 2017 of €357.7m was 8% lower than the prior year. This primarily reflected the continued application of rate with adverse movements seen on the Commercial Property, Commercial Fleet, Personal Motor and Personal Home portfolios.

Net written premiums were negative €(36.6m) and included a one off adjustment of (€125.4m) which reflected the change in the accounting treatment of the variable quota share arrangement from 1 January 2017 i.e. recognising premiums on a written basis (rather than earned) in order to align the reinsurance contract with external contracts in place. On a like-for-like basis the net premiums written reduced by €13.2m in the current year.

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'). This transfer of risk to the reinsurer also materially reduces the Company's SCR – see Section E.

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 an agreed 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.

The quota share contract remained in-force during 2017 with outward reinsurance premiums amounting to €365.6m (2016: €256.4m) and commission income amounting to €98.8m (2016: €59.2m) of which €32.0m is deferred (2016: nil). At 31 December 2017, the Company held a balance of €351.7m (2016: €268.8m) in relation to the reinsurers' share of technical provisions in relation to this contract and recognised a reinsurance recovery of €99.1m (2016: €92.7m) on an FRS101 basis.

In 2017, the ADC breached its attachment point (€400m), from which point all claims from 2014 and prior are fully recoverable through settlement of assets within the Company's funds withheld portfolio. At the 31 December 2017, the Company held a reinsurers' share of technical provisions amounting to €237.6m (2016: €324.9m) in relation to this contract. Investment funds withheld relating to the ADC as at 31 December 2017 amounted to €201.3m which comprise of €199.2m principal amount and €2.1m accrued interest (2016: €250m and €5.9m accrued interest).

The Company's reinsurance arrangements meant that only 27% of gross claims incurred were retained with net incurred claims for the year amounting to €64.2m. The current year claims ratio was 68.6% (2016: 100.3%) showing an improvement of 32 points year-on-year as the Company continued to benefit from the remediation of underperforming portfolios.

Overall, outward reinsurance premiums for the year ended 31 December 2017 (inclusive of the €125.4m one off adjustment reflecting the change in the quota share accounting treatment) amounted to €394.2m (2016: €286.1m) or 110% of gross written premium.

Operating expenses of €41.2m were €3.4m or 7.5% lower than the same period last year. Total employee costs were €4.2m lower than 2016 with a decrease in average employee numbers of 2% reflecting the Company's ongoing restructuring activity. The Company recognised a gain on retirement benefits of €3.8m (2016: cost €2.8m) driven by a once-off settlement gain on the ETV scheme. Operating expenses also included an impairment on intangible assets of €1.5m and exceptional costs of €8.5m (2016: €5.6m) recognised as part of the continued restructuring of the Company's operations. The underlying expense ratio on net earned premium for the year ended 31 December 2017 was 47% which was 7 points lower than 2016.

## A.2.2 Underwriting result by geographic area

| | **Ireland** | | **UK** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 |
| Gross written premium | 323,214 | 346,004 | 34,436 | 42,109 | 357,650 | 388,113 |
| Net earned premium | 83,677 | 87,972 | 9,905 | 8,337 | 93,581 | 96,309 |
| Net incurred claims | (72,186) | (87,085) | 8,037 | (9,582) | (64,149) | (96,667) |
| Underwriting expenses | (28,593) | (42,194) | (3,110) | (7,496) | (31,703) | (49,690) |
| **Underwriting profit/ (loss)** | **(17,102)** | (41,307) | **14,832** | (8,741) | **(2,270)** | (50,048) |

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

### A.2.3 Performance by material line of business

An analysis of underwriting performance for the Company for the years ended 31 December 2017 by material line of business together with a comparison against the previous reporting period is detailed below:

| | Net written premium | | Underwriting result | |
|---|---|---|---|---|
| | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 |
| Motor vehicle liability insurance | (48,288) | 18,521 | (6,593) | (13,713) |
| Other motor insurance | (8,563) | 3,798 | 36 | (5,229) |
| Fire & other damage to property insurance | 23,624 | 65,030 | 11,651 | (12,027) |
| General liability insurance | (4,661) | 11,078 | (9,099) | (19,571) |
| **Total material lines of business** | **(37,888)** | 98,428 | **(4,005)** | (50,540) |
| Other | 1,302 | 3,604 | 1,735 | 492 |
| **Total** | **(36,586)** | 102,032 | **(2,270)** | (50,048) |

Fire and other damage to property generated a profit of €11.7m during the period underpinned by strong household performance. This was dampened by underwriting losses on both the Motor (€6.6m) and General Liability (€9.0m) books with the former continuing a positive trend due to improved performance on direct motor and fleet, and the latter improving due to prior year claims stability.

# 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 together with a comparison against the previous reporting period. Net unrealised gains/ (losses) on investments which have been recognised directly in equity are considered in section A.3.2.

| | Investment income | | Net realised gains/ (losses) | | Impairments | | Total investment income | |
|---|---|---|---|---|---|---|---|---|
| | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 |
| Income from participating interests | 10,000 | 8,500 | - | - | - | (4,372) | 10,000 | 4,128 |
| Equity securities | | | | | | | | |
| Available for sale | 626 | 619 | 8 | 34 | - | - | 634 | 653 |
| Debt securities | | | | | | | | |
| Available for sale | 7,237 | 9,721 | 1,652 | 2,280 | - | - | 8,889 | 12,001 |
| Deposits, cash and cash equivalents | (67) | (36) | | - | - | - | (67) | (36) |
| **Total net investment income** | **17,796** | 18,804 | **1,660** | 2,314 | **-** | (4,372) | **19,456** | 16,746 |

The net investment income of €19.5m recognised in the income statement for the year ended 31 December 2017 was €2.7m higher than the prior year's €16.7m. Dividend income receivable from 123 Money Limited increased by an additional by €1.5m. Realised investment income decreased by €0.7m reflecting a reduction in the scale of our investment portfolio as a consequence of the outward reinsurance premiums and claim settlements under the ADC and QS contracts.

### Investment management expenses

A summary of investment management expenses by asset class together with a comparison against the previous reporting period is given below:

| | **2017 €'000** | 2016 €'000 |
|---|---|---|
| Equity securities | (57) | (56) |
| Debt securities | (344) | (258) |
| **Total investment management expenses** | **(401)** | (314) |

## A.3.2 Gains and losses recognised in equity

Unrealised gains and losses recognised in other comprehensive income for available for sale assets together with a comparison against the previous reporting period are as follows:

| | **Net unrealised gains/ (losses)** | | **Net realised (gains)/ losses transferred to income statement** | | **Impairments transferred to income statement** | | **Net movement recognised in other comprehensive income** | |
|---|---|---|---|---|---|---|---|---|
| | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 |
| Equity securities | (36) | 31 | (8) | (34) | - | - | (44) | (3) |
| Debt securities | (8,849) | (1,110) | (1,652) | (2,280) | - | - | (10,502) | (3,390) |
| **Total** | **(8,886)** | **(1,079)** | **(1,660)** | **(2,314)** | **-** | **-** | **(10,546)** | **(3,393)** |

Net movements of €10.6m (2016: €3.4m 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 2017 together with a comparison against the previous reporting period 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

| | **2017 €'000** | 2016 €'000 |
|---|---|---|
| Restructuring costs | 8,500 | 5,553 |
| Solvency II costs | - | 1,422 |
| Impairment of Intangible Assets | 1,454 | - |
| Defined benefit pension scheme: | | |
| Pension gain | (6,758) | - |
| Interest income on scheme assets | (2,051) | (2,878) |
| Interest expense on scheme liabilities | 2,310 | 2,786 |
| Administrative expenses | 384 | 438 |
| **Other material expenses** | **3,839** | 7,321 |

Other operating expenses of €3.8m were €3.5m lower than the same period last year. Restructuring costs included a charge of €4.5m (2016: €3.2m) in relation to a voluntary redundancy programme and a charge of €4.0m (2016: €2.3m) relating to transformation and restructuring projects. The impairment charge relates to software. The pension gain €6.8m represents a settlement gain relating to the ETV programme (see section A.1.9).

### Finance costs

| | **2017 €'000** | 2016 €'000 |
|---|---|---|
| **Interest payable** | **1,246** | 3,300 |

Interest of €1.3m (2016: €3.3m) 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 for the year ended 31 December 2017 together with a comparison against the previous reporting period are as follows:

| | **Land & Building** | | | **Other** | **Total** | |
|---|---|---|---|---|---|---|
| | **2017 €'000** | 2016 €'000 | **2017 €'000** | 2016 €'000 | **2017 Total** | 2016 Total |
| Within one year | 2,231 | 2,078 | 136 | 99 | 2,367 | 2,177 |
| Between one and five years | 1,658 | 3,279 | 259 | 167 | 1,917 | 3,446 |
| After five years | - | - | - | - | - | - |
| **Total future minimum lease payments** | **3,889** | 5,357 | **395** | 266 | **4,284** | 5,623 |

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

Nothing to report.

## 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 Control 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 seven directors, five of whom are non-executive, four 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.

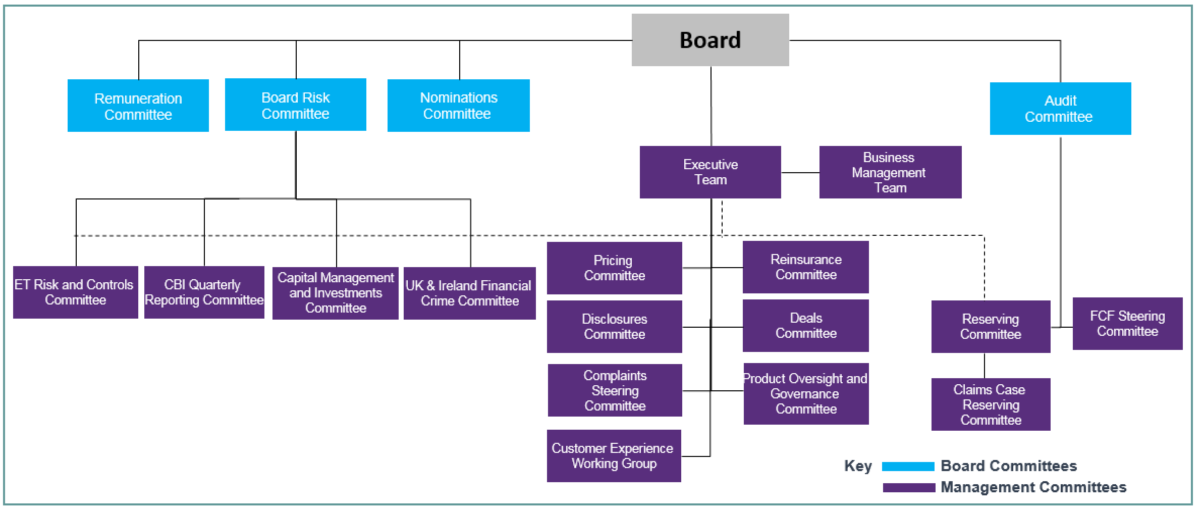
Directors have access to the services and advice of the Company Secretary, Head of Legal, Internal Audit, Regulatory Compliance, Actuarial and Risk functions and in addition may take independent professional advice at the expense of the Company in furtherance of their duties.

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 was completed in the final quarter of 2017.

### 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 Chief Actuary and such other Material Risk Takers (as defined by regulation) as may be proposed for appointment.

#### The Board Risk Committee

The primary role of the Board Risk Committee is to advise the Board on risk management issues, recommend the 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 Audit Committee

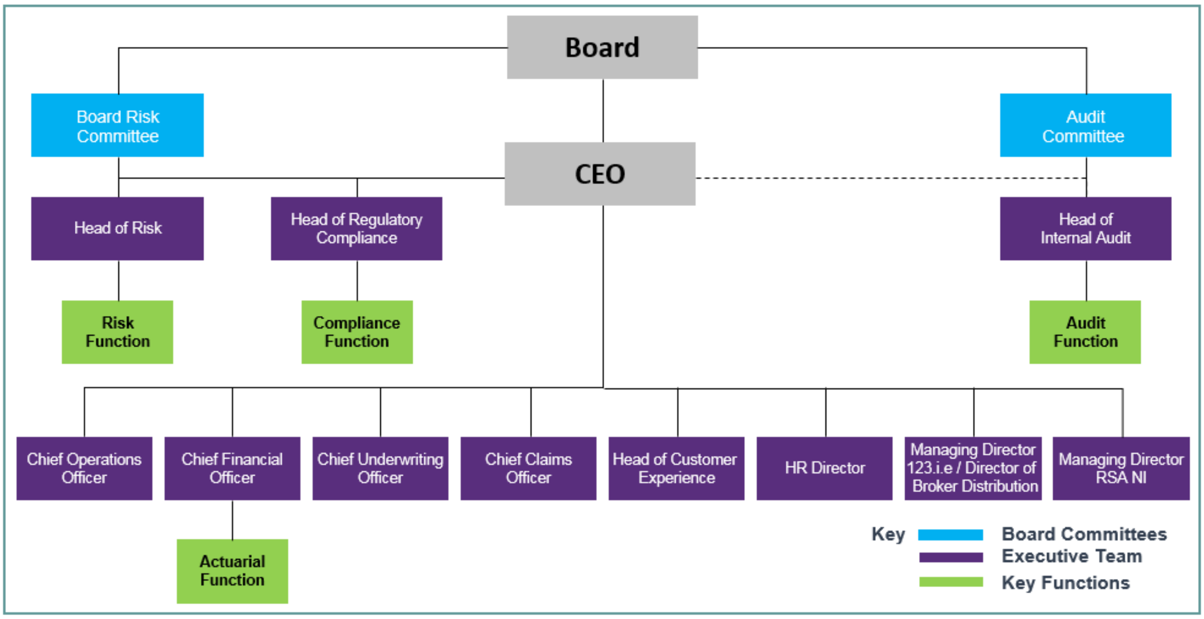
The primary role of the Audit Committee is to discuss, challenge and make suggestions concerning the following matters:

- Co-ordination and oversight of the integrity of the financial reporting process, appropriateness of accounting policies, estimates and judgements
- Monitoring compliance with relevant regulations, industry codes and legal requirements
- Oversight of internal and external audit functions including the monitoring and control of the external auditor's independence in particular in relation to the provision of non-audit services
- Management of the effectiveness of systems of internal controls
- Review financial performance, and integrity of financial statements

- Review and provide assurance on the effectiveness of the Company's financial risk management arrangements; and
- Review and recommend quarterly individual solvency requirements, including adequacy assessment of assumptions and calculation methods.

## 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 are designated by Solvency II as 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 meet at least annually with the Audit Committee without the Executive Directors or management being present.

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 2017.

The following director resignations took place during the year:

- Ciaran McGettrick, 5 August 2017
- Leo Blennerhassett, 31 August 2017

The following Director appointments were made during the year:

- Emer Daly, 1 September 2017
- Gavin Wilkinson, 16 November 2017

No changes were made to Committees last year.

## B.1.4 Principles of remuneration policy

The Remuneration policy outlines RSAII's approach to remuneration and the governance 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 it 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 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 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. The directors' and secretary held no interests in other group companies.

Furthermore, the interests of the directors and secretary and their families who held office at 31 December 2017 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 2017 (2016: Nil).

### Key management transactions

The following transactions were carried out with key management:

| | **2017 €'000** | 2016 €'000 |
|---|---|---|
| Aggregate emoluments paid to or receivable by directors in respect of qualifying services | 1,758 | 1,168 |
| Employer contribution to defined contribution pension schemes | 29 | 61 |
| **Total** | **1,787** | **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
- Conflicts of interest, 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

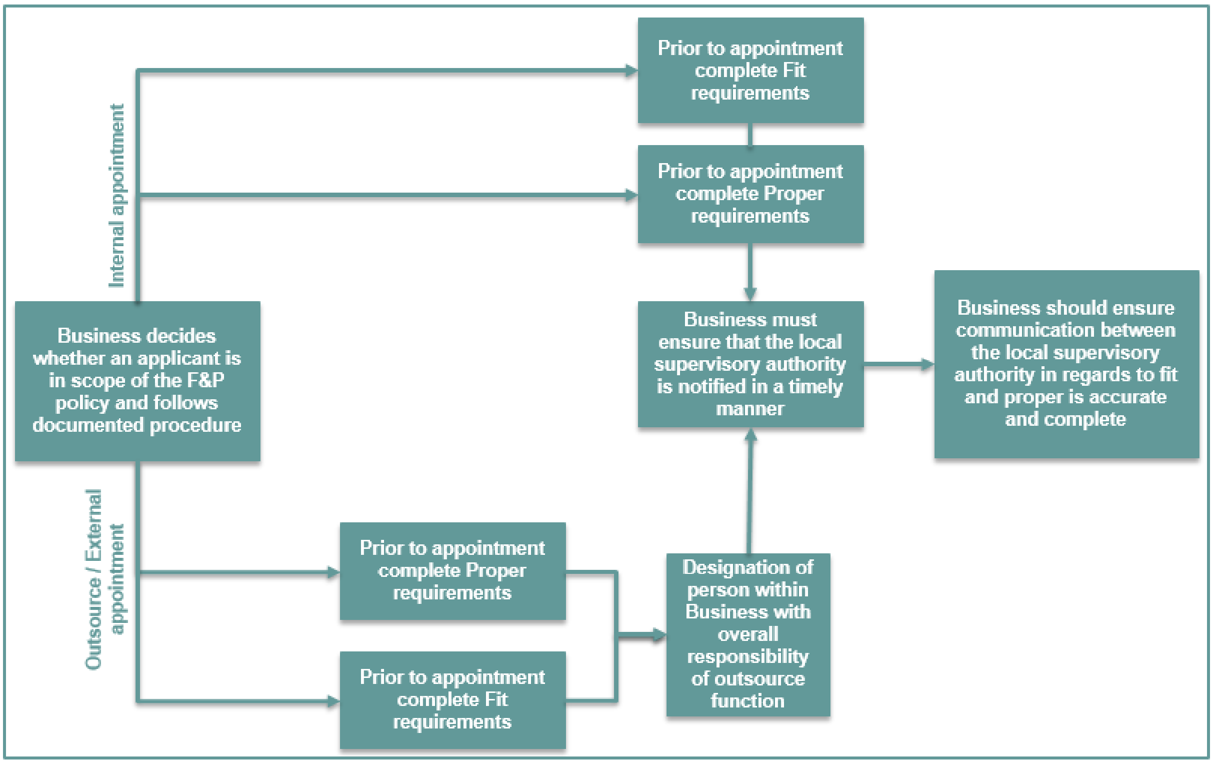
Competence and capability assessment will include an assessment of professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other businesses and must take into account the respective duties allocated to that person, and, where appropriate, 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<br>• Delivers the business plan within risk appetite, identifying all material risks and monitoring and managing the risk profile<br>• Produces regular and timely reports on all material risk positions and associated action plans<br>• 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 2nd 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 risk 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 in place.

#### 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 the 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 regular update and review. The Risk Management policy establishes 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 Overall 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 overall 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 policy management - with appropriate validation, assurance and reporting arrangements at all levels of the Group, a delegated authority framework and a compliance policy. The internal control system is underpinned by the three lines of defence model.

The internal control system comprises the following key elements:

- Policy management, whereby policies establish standard controls, which are implemented and operated by the business; supplemented by objective 1st line control validation and independent 2nd line assurance processes.
- The Financial Control Framework is aimed at ensuring best practice in financial control and is the methodology and assurance process to mitigate material financial reporting misstatement and financial loss by identifying financial reporting risks, developing controls to mitigate those risks, assessing and monitoring the effectiveness of controls.
- Delegated Authority Framework, whereby authority is cascaded down from the Board to the business, and
- Regulatory Compliance policy 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 Compliance function.

## Policy management, control validation and assurance

Policy management 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.

## Financial Control Framework

The Financial Control Framework is assessed by the 1st line (specifically Finance) on an ongoing basis with formal assessment of the effectiveness of controls and the reporting on same conducted quarterly. The process of risk refreshes is a core component of the annual Financial Control Framework process. Self-certification, provided by the Chief Financial Officer, is required to confirm there is no material financial misstatement in the financial statements.

## 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 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 policy

The Regulatory Compliance 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 policy has been developed to deliver assurance around our compliance culture to both internal and external stakeholders. The policy defines 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 primary reporting lines to the Chairman of the Audit Committee and the UK and International Chief Auditor, with a secondary line to the CEO. The UK & International Chief Auditor reports directly to the Group Chief Auditor. 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, culture trends and emerging issues that could impact the Company.

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 as it relates to the Company has a multi-year outlook in line with the company's strategic and Operational Plan.

The Head of Audit will ensure that GIA as it relates to the Company has the appropriate budget and resources and that GIA collectively has the skills and capabilities to effectively deliver its purpose and Mandate. This includes consideration of trends and emerging issues that could impact the Company. Where appropriate, independent internal or external co-sourced resources may be engaged to supplement the core team and deliver all or part of an audit engagement.

Annually, the Head of Audit provides the Audit Committee with an assessment of the skills and capabilities required to conduct the work needed, and whether the budget is sufficient to allow the function as it relates to the Company to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the Company and to Executive Management.

The Audit Committee is responsible for approval of GIA's plan and budget as it relates to the Company, and 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.

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).

Independence and objectivity may also be impaired if an individual is approached about, or receives, an offer of employment from an area that they will be, or are, auditing. To prevent undue influence, the Head of Audit must be advised of any approach and has the option to defer the offer for up to six months following completion of the audit.

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.

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.

The Head of Audit reports, at least annually, to the 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 if applicable, together with an independence self-certification.

The Head of Audit will disclose any interference and its implications to the Board via the Audit Committee

Where the tenure of the Head of Audit exceeds seven years, the Audit Committee will discuss the Chairman of the Audit Committee's assessment of the Head of Audit's independence and objectivity. Thereafter the Audit Committee will consider the Head of Audit's independence and objectivity annually.

# 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 that the Solvency II technical provisions comply in all material respects with all relevant Solvency II requirements 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 arrangements are managed by 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 policy 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 Company currently has four contractual arrangements which are deemed critical or important: two investment management contracts (one external and one intra-group) and two external IT system maintenance and support contracts.

### 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.

Examples of material intra-group arrangements include the provision by RSAI of certain investment services to the Company and also the provision of cash and banking services from a shared service centre in Liverpool.

## 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 system. Gaps in compliance with the controls require either a Remediation Plan Agreed (RPA) or a Risk Acceptance against the respective control(s) under the Policy Management process. Underwriting and Claims monitor the progress of RPAs 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, Chief Claims Officer 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 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 process. 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 Board Risk Committee. 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 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 Board Risk Committee through the quarterly risk appetite scorecard.

The Board Risk Committee 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 ‘investment limits’ 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 2017, the Company held over 51% 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.

### 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 40% 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 Board Risk Committee 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 - see section C.6.3.

### 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.

## 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 covering claims before 1 January 2015 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 40% 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 €2.5m. 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.<br><br>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.<br><br>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. |
| 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.<br><br>A Company loses or discloses customer records/ personal details as a result of staff negligence or loss of mobile media devices. |

| Risk | Description |
|---|---|
| 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.<br><br>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.<br><br>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.<br><br>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:

- Policy management, 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 policy management, 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 regular review in line with materiality, 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:

- Pension 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 can remain on alternative bases, 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.

The scheme implemented a hedging programme in 2016 to mitigate the risk of market movements adversely impacting the financial position of the scheme with a particular focus on interest rate risk.

During 2017 an Enhanced Transfer Value (ETV) exercise was conducted and completed which further de-risked the scheme.

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 Company'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

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).

## The RSAII Solvency II Balance Sheet

| **Assets** | **Statutory accounts value €'000** | **Reclassif-ication €'000** | **SII Valuation adjustment €'000** | **Solvency II value €'000** |
|---|---|---|---|---|
| Deferred acquisition costs | 35,858 | | (35,858) | - |
| Intangible assets | 23,486 | | (23,486) | - |
| Pension benefit surplus | 3,958 | | | 3,958 |
| Property, plant & equipment held for own use | 2,453 | | (339) | 2,114 |
| Investments (excl. assets held for index/unit-linked contracts) | **444,339** | | **(48,303)** | **396,036** |
| *Holdings in related undertakings, incl. participations* | 55,059 | | (48,308) | 6,751 |
| *Bonds* | 348,010 | (1,911) | | 346,100 |
| *Collateralised securities* | - | 1,911 | | 1,911 |
| *Collective investments undertakings* | 41,270 | | | 41,270 |
| Reinsurance recoverables | 779,986 | | (106,474) | 673,512 |
| Insurance and intermediaries receivables | 53,296 | | (49,938) | 3,358 |
| Reinsurance receivables | 21,402 | | | 21,402 |
| Receivables (trade, not insurance) | 33,660 | | (488) | 33,172 |
| Cash and cash equivalents | 68,670 | | | 68,670 |
| Any other assets, not elsewhere shown | 3,707 | | (187) | 3,519.586 |
| **Total assets** | **1,470,815** | **-** | **(265,078)** | **1,205,738** |
| **Liabilities** | | | | |
| Technical provisions - non-life | 918,264 | | (156,110) | 762,154 |
| Provisions other than technical provisions | 8,201 | | - | 8,201 |
| Deposits from reinsurers | 201,328 | | - | 201,328 |
| Debts owed to credit institutions | 10,122 | | - | 10,122 |
| Reinsurance payables | 2,010 | | - | 2,010 |
| Payables (trade, not insurance) | 72,980 | | 10,120 | 83,100 |
| Any other liabilities, not elsewhere shown | 43,972 | | (32,234) | 11,738 |
| **Total liabilities** | **1,256,877** | **-** | **(178,224)** | **1,078,653** |
| **Excess of assets over liabilities** | **213,938** | | **(86,853)** | **127,085** |

# D.1 Assets

## D.1.1 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 in valuing those assets 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.

### 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 Implementing Technical Standard on reporting – Regulation 2015/2450 (as amended) and Solvency II Implementing Technical Standard 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 |

### 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. There are no deferred acquisition costs under Solvency II as all acquisition costs not incurred by the reporting date are | Balance sheet QRT log (S.02.01) | Deferred acquisition costs ('DAC') are reported in the Company's 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. |

| | | |
|---|---|---|
| included in the calculation of technical provisions. | | 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 in the Company's 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.<br><br>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.<br><br>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.<br><br>Only a positive value shall only be ascribed to deferred tax assets where it is probable that future taxable profits will 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.<br><br>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, | DA Art 15<br><br>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.<br><br>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 the FRS 101 balance sheet and so will not be accounted for in the Solvency II balance sheet.<br><br>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.<br><br>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. |

| Solvency II guidance | Solvency II reference | Valuation methods and assumptions |
|---|---|---|
| deferred tax balances shall not be discounted. | | 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:<br>• Elimination of goodwill and intangible assets<br>• Adjustments to technical provisions valuation<br>• Recognition of contingent liabilities<br>• Revaluation of plant and equipment (for own use).<br><br>No deferred tax asset is held at 31 December 2017 for either FRS 101 or Solvency II reporting. See section D.1.2 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. | GL valuation (final report) - table | Pension schemes are treated in the same way under both FRS 101 and Solvency II. |
| 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 be discounted at a risk-free rate and would include a risk margin. | | Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided.<br><br>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:<br>• The present value of defined benefit obligation of the scheme at the end of the reporting period<br>• 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.<br><br>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.<br><br>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. |

| Solvency II guidance | Solvency II reference | Valuation methods and assumptions |
|---|---|---|
| | | 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 provisions.<br><br>For those individual schemes in surplus, an asset is recognised in the balance sheet to the extent that the Company 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.<br><br>The amounts charged (or credited where relevant) relating to post retirement benefits in respect of defined benefit schemes are as follows:<br><br>• The current service cost<br>• The past service costs and gains or losses on settlements<br>• Net interest on the net defined benefit asset/ liability<br>• Administration costs of operating the pension schemes.<br><br>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.<br><br>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 | 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.<br><br>Property for own use is valued on a fair value basis (as per FRS 101 basis) on the Solvency II balance sheet. For all other property and equipment FRS 101 values are assumed to approximate fair value, except in specific |

| | |
|---|---|
| from that which would be determined using fair value'. | instances where an adjustment is deemed necessary. |

## 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:<br><br>(i) Valued based on quoted prices in active markets where such prices are available<br>(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)<br>(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<br><br>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.<br><br>Investments in subsidiaries are valued at cost, including any deferred consideration, less any impairment losses.<br><br>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.<br><br>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 | DA Art 10<br><br>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 the Company in estimating the fair value of financial assets are:<br><br>• 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 |

| Solvency II guidance | Solvency II reference | Valuation methods and assumptions |
|---|---|---|
| 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 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. | | 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 relevant instruments and reclassified into the Solvency II balance sheet categories<br>• 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<br>• 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<br>• Collective investment schemes: Quoted market prices are used where available; otherwise, 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<br>• 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 FRS 101 balance and make adjustments to derecognise any prepaid expenses that cannot be converted into cash. Premium debtors and recoveries falling due for payment after the balance sheet date are reclassified from receivables to technical provisions. See section D.2 for further detail.<br><br>**Reinsurance recoverables**<br><br>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. See section D.2 for further detail. |

## D.1.2 Analysis of deferred tax

Deferred tax assets and liabilities have been offset resulting in a nil net deferred tax position on a Solvency II basis. The offset has been done as there is a legally enforceable right to set off current tax assets against current tax liabilities. For the year ended 31 December 2017 a potential deferred tax asset of €49.3m in respect of unutilised tax losses and capital allowances has not been recognised. This asset will be recognised when sufficient taxable profits are generated in the future which are eligible for relief against the unutilised tax losses brought forward of €378.8m and capital allowances of €15.4m - which may be carried forward indefinitely.

For reference, deferred tax was calculated at the Irish tax rate of 12.5% which is expected to apply in the period when the liabilities are settled and the asset are realised.

## D.1.3 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

Properties for own use are valued on a vacant possession basis using third-party valuers. 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.

# 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
- Difference in the treatment of expenses for claim provisions, Solvency II being on an ongoing basis and FRS 101assuming the business is put into run off
- 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 expenses 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 particularly relevant to RSAII which has significant reinsurance arrangements in place.

The following table quantifies the differences in the Solvency II net technical provisions (inclusive of Risk Margin) 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 €'000 | Risk margin €'000 | Statutory accounts €'000 | Difference €'000 | Note |
|---|---|---|---|---|---|
| Motor vehicle liability insurance | 34,823 | 5,062 | 48,475 | (8,590) | (1 & 2) |
| Other Motor Insurance | (1,524) | 41 | 2,220 | (3,703) | (1 & 3) |
| Fire and other damage to property insurance | 14,890 | 329 | 40,012 | (24,793) | (1 & 4) |
| General liability insurance | 30,250 | 3,626 | 40,357 | (6,481) | (1 & 5) |
| **Total Material Lines of Business** | 78,439 | 9,058 | 131,065 | (43,568) | |
| Other | 1,123 | 22 | 3,304 | (2,160) | |
| **Total** | **79,561** | **9,080** | **134,369** | **(45,728)** | |

1. Allowance for future premium within Solvency II technical provisions is a significant difference impacting multiple lines of business – see below.
2. **Motor Vehicle Liability Insurance:** The main driver of the €8.6m lower Solvency II figure is future premium and commission cashflows (€18.2m). This decrease is counteracted in part by the additions of Risk Margin (€5.1m), RI Default adjustment (€3.9m) and the change in expense basis (€1.4m)
3. **Other Motor Insurance:** The main driver of the €3.7m lower Solvency II figure is future premium and commission cashflows (€3.8m)

4. **Fire & other damage to Property:** The main driver of the €24.8m lower Solvency II figure is future premium and commission cashflows (€24.6)
5. **General Liability insurance:** The main driver of the €6.5m lower Solvency II figure is future premium and commission cashflows (€5.4)

## 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 to support existing liabilities, 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 net of 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 not yet incepted contracts.

The reinsurer default allowance is calculated assuming a 1% load on all reinsurance recoverables. Given that the Company has a funds withheld arrangement with its parent RSAI plc., its most significant reinsurer, this simplification is considered prudent.

## 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 increased uncertainty in premium provisions as ultimate claims costs need to be estimated for future events. The ultimate level of future claims costs is significantly 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

A range of excess of loss reinsurance treaties (including catastrophe cover) are in place. In addition the Company purchases facultative cover on a selected risks.

### 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 from an earned to a written basis during the year ended 31 December 2017.

### D.2.6 Changes in assumptions

The Company, in conjunction with Group, routinely adjusts the assumptions underlying the calculation of technical provisions in light of emerging trends in the data. Many of these assumptions only have minor impacts on the level of technical provisions reported.

During 2017 the Company changed its approach to the treatment of future premiums within the technical provisions calculation. As at the end of 2016, future premiums representing instalment premiums were included in technical provisions. During 2017 future premiums not overdue according to the policy terms of trade were additionally included in the technical provisions. This has caused both technical provisions and debtors to reduce by equal amounts in the 2017 Solvency II balance sheet compared with the 2016 approach.

In the 2016 technical provision best estimate, the assumption underlying the Ogden discount for UK injury claim settlements was 2.5%. Following announcements from the UK Government during 2017 the assumption has been changed to 0%, reflecting the Company's best estimate of the likely future rate to apply in these circumstances.

# D.3 Other liabilities

### D.3.1 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 in valuing those assets 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.1.1 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 the Company in estimating the fair value of financial liabilities are:<br>• 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<br>• For borrowings that carry a variable rate of interest (other than subordinated debt), carrying values approximate to fair values<br>• 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.<br><br>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.<br><br>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. |

## 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).<br><br>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<br><br>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.<br><br>This applies to non-insurance risks only, as insurance risks are already captured by the best estimate component of technical provisions.<br><br>Contingent liabilities acquired in a business combination are valued on a basis consistent with that used for FRS 101 reporting. |

## Provisions other than technical 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 | DA Art 9 | Provisions are valued in the same way under both FRS 101 and Solvency II.<br><br>Provisions are recognised when there is a present legal or constructive obligation as a |

| | | |
|---|---|---|
| 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. | GL valuation (final report) - table | 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.1.3 for details of estimation techniques, risks, and uncertainties relating to assets and liabilities; section D.1 for an explanation of the bases, methods and assumptions used for the valuation of deferred tax assets and liabilities, and section D.1.2 for deferred tax analysis.

## D.3.2 Liabilities for employee benefits including defined benefit plan assets

### 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 2017 by the Scheme Actuary.

The value of the defined benefit scheme liability included at 31 December 2017 in the financial statements is as follows:

| | **2017** | 2016 |
|---|---|---|
| | **€'000** | €'000 |
| Equities | **23,974** | 34,530 |
| Bonds | **34,515** | 40,716 |
| Other | **29,872** | 31,763 |
| **Fair value of assets with a quoted market price** | **88,361** | 107,009 |
| Present value of pension liabilities | **(84,403)** | (121,470) |
| **Net (deficit)/ surplus** | **3,958** | (14,461) |
| Related deferred tax asset/ (liability) | **(496)** | 1,807 |
| | | |
| Pension fund asset | **88,361** | 107,009 |
| Pension fund liability | **(84,403)** | (121,470) |
| **Net pension (liability)/ surplus** | **3,958** | (14,461) |

The main assumptions at 31 December 2017 were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **%** | % |
| **Assumptions used in the calculation of retirement benefit obligation:** | | |
| Interest rate used to discount liabilities | 2.3 | 2.1 |
| Annual rate of general inflation | 1.7 | 1.6 |
| Annual rate of increase in salaries | 1.7 | 1.6 |
| Annual rate of increase in pensions | 1.7 | 1.6 |
| Post-retirement mortality table | S2PNA CMI 2016[1.5%] | S2PNA CMI 2013[1.5%] |
| **Assumptions used in calculation of profit and loss account charge:** | | |
| Discount rate | 2.1 | 2.9 |
| Annual rate of general inflation | 1.6 | 1.6 |
| Annual rate of increase in salaries | 1.7 | 1.6 |
| Annual rate of increase in pensions | 1.6 | 1.6 |
| Post-retirement mortality table | S2PNA CMI 2016[1.5%] | S2PNA CMI 2013[1.5%] |
| **Expected return on:** | | |
| Equities | 2.1 | 2.9 |
| Bonds | 2.1 | 2.9 |
| Other | - | - |

### D.3.3 Lease liabilities

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

# 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 2017 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") including any non-compliance with those measures.

# 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 as follows:

| Solvency II Tier | Capital item |
|---|---|
| Tier 1 | Paid in ordinary share capital, and the related share premium<br>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:

| | | 2017 | 2016 |
|---|---|---|---|
| **Basic own funds:** | | €'000 | €'000 |
| Tier 1 | Equity capital | 623,756 | 623,756 |
| | Reconciliation reserve | (496,671) | (524,583) |
| | Total tier 1 capital | **127,085** | **99,173** |
| Tier 1 restricted | Not applicable | - | - |
| Tier 2 | Not applicable | - | - |
| Tier 3 | Not applicable | - | - |
| **Total basic own funds** | | **127,085** | **99,173** |
| **Ancillary own funds:** | | | |
| Tier 2 | Unpaid and uncalled ordinary share capital callable on demand | **90,000** | **90,000** |
| **Total available own funds** | | **217,085** | **189,173** |

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

- 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.

#### Movements

Core Tier 1 own-funds increased €28m in the period primarily driven by:

- Improved business profitability, and
- Changes in the net pension position reflecting market movements and de-risking activity.

All other basic own-fund and ancillary own-fund capital tiers remained as per the previous reporting period.

### Subordinated debt 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 | 127,085 | | - | 127,085 | - | 127,085 | n/a | |
| Tier 2 | - | 90,000 | - | 90,000 | (40,235) | 49,765 | 49,765 | Tier 2/ 3 <= 50% of SCR |
| Tier 3 | - | | - | - | - | - | - | |
| **Total** | **127,085** | **90,000** | **-** | **217,085** | **-** | **176,850** | **49,765** | **-** |
| | | | | | SCR | 99,531 | | |
| | | | | | Surplus | 77,320 | | |
| | | | | | SCR Coverage | 178% | | |

### 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.

| | Basic Own Funds €'000 | Availability restrictions €'000 | Available Own Funds €'000 | Eligibility restrictions €'000 | Eligible Own Funds €'000 | Eligibility Capacity €'000 | Eligibility rule |
|---|---|---|---|---|---|---|---|
| Tier 1 | 127,085 | - | 127,085 | - | 127,085 | n/a | |
| Tier 2 (AOF) | 90,000 | (90,000) | - | - | - | - | |
| Tier 3 | - | - | - | - | - | - | |
| **Total** | **217,085** | **(90,000)** | **127,085** | **-** | **127,085** | **-** | **-** |
| | | | | MCR | 24,883 | | |
| | | | | Surplus | 102,202 | | |
| | | | | MCR Coverage | 511% | | |

### 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 comparison between the Company's FRS 101 net equity and its basic own-funds (excess of assets over liabilities as calculated for solvency purposes) is set out in sections D, with valuation of assets, technical provisions and other liabilities on a Solvency II basis set out in sections D.1, D.2 and D.3 respectively.

### 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 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. This AOF facility remained available to the Company throughout the 2017 financial year and 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 2017 are as follows:

| | SCR<br>€'000 | MCR<br>€'000 |
|---|---|---|
| **Total** | 99,531 | 24,883 |

### E.2.2 SCR split by risk

In December 2016, the Company received notification that the Central Bank of Ireland ("CBI") expect standard formula firms to treat employee defined benefit pension schemes as ring-fenced funds for SCR market risk calculation purposes, with no diversification benefits across other ring-fenced funds or other funds of the Company. This treatment has been applied in the calculation of both the 2017 and 2016 SCR.

The resultant aggregate SCRs split by Standard Formula risk modules is provided in section F - QRT S.25.01.21.

### 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 Movements in the SCR and MCR

#### E.2.8.1 Movements in the SCR

The year-end 2017 SCR of €99.5m (2016: €127.7m) has decreased by approximately €28m (22%) primarily driven by:

- The continued run-off of historic claims retained under the ADC reinsurance contract and the continuation of the intra-Group variable quota share arrangement resulting in lower net claims and premium capital charges;
- The underlying investment portfolio has reduced in size given the lower technical provisions and reduced market risk on the Company's investments;
- Availability of look-through data in relation to the Company's defined benefit pension scheme which allowed a more accurate mapping of underlying investments to standard formula risk modules and sub-modules and reduced the SCR of this ring-fenced fund;
- A reduction in the Company's risk to pension fund liabilities through a series of transfers from the employee defined benefit scheme to the defined contribution scheme (see ETV programme section A.1.9).

dampened by:

- The intra-Group reinsurance receivable from the Company's parent ('RSAI plc.') has increased (more of the business written being subject to the quota share agreement) and contributed to an increase in counterparty default risk.

#### E.2.8.2 Movements in MCR

The year-end 2017 MCR of €24.9m (2016: €32.3m) is determined by the 25% of SCR floor as the calculated Linear MCR, at approximately €10m, is below this level. The Linear MCR decreased over the period driven by a reduction in the associated inputs. Net Technical Provisions volumes reduced by 70% (€257m to €81m), Net Written Premium volumes reduced by 75% (€102m to €25m) primarily driven by a Loss Portfolio Transfer of €125.4m under the variable quota share arrangement in Q1.

## 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 (Not required as >90% of business is in home 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 2017 templates are provided below:

S.01.02e

## General information

| | |
|---|---|
| Undertaking name | RSA Insurance Ireland DAC |
| Undertaking identification code | 635400PUDJ8XTX9SFW67 |
| 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 2017 |
| Currency used for reporting | EUR |
| Accounting standards | Local GAAP |
| 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 by country (Not required as >90% of business is in the home 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

**S.02.01.02**

## Balance sheet

| Assets | Solvency II value C0010 |
|---|---|
| Intangible assets | |
| Deferred tax assets | |
| Pension benefit surplus | 3,958 |
| Property, plant & equipment held for own use | 2,114 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 396,036 |
| *Property (other than for own use)* | |
| *Holdings in related undertakings, including participations* | 6,751 |
| *Equities* | |
| *Equities - listed* | |
| *Equities - unlisted* | |
| *Bonds* | 348,015 |
| *Government Bonds* | 170,398 |
| *Corporate Bonds* | 175,706 |
| *Structured notes* | |
| *Collateralised securities* | 1,911 |
| *Collective Investments Undertakings* | 41,270 |
| *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: | 673,512 |
| *Non-life and health similar to non-life* | 673,512 |
| *Non-life excluding health* | 671,886 |
| *Health similar to non-life* | 1,626 |
| *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 | 3,358 |
| Reinsurance receivables | 21,402 |
| Receivables (trade, not insurance) | 33,172 |
| 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 | 68,670 |
| Any other assets, not elsewhere shown | 3,515 |
| **Total assets** | 1,205,738 |

| Liabilities | Solvency II value C0010 |
|---|---|
| Technical provisions - non-life | 762,154 |
| Technical provisions - non-life (excluding health) | 760,223 |
| TP calculated as a whole | |
| Best Estimate | 751,156 |
| Risk margin | 9,067 |
| *Technical provisions - health (similar to non-life)* | 1,931 |
| *TP calculated as a whole* | |
| *Best Estimate* | 1,918 |
| *Risk margin* | 13 |
| *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* | 8,201 |
| Pension benefit obligations | |
| *Deposits from reinsurers* | 201,328 |
| *Deferred tax liabilities* | |
| *Derivatives* | |
| *Debts owed to credit institutions* | 10,122 |
| *Financial liabilities other than debts owed to credit institutions* | |
| *Insurance & intermediaries payables* | |
| *Reinsurance payables* | 2,010 |
| Payables (trade, not insurance) | 83,100 |
| Subordinated liabilities | |
| Subordinated liabilities not in BOF | |
| Subordinated liabilities in BOF | |
| Any other liabilities, not elsewhere shown | 11,738 |
| Total liabilities | 1,078,653 |
| | |
| Excess of assets over liabilities | 127,085 |

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: 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 | -27 | 3,373 | | 143,967 | 25,084 | 2,941 | 129,127 | 51,465 | | | 1,272 | 11 | | | | | 357,213 |
| Gross - Proportional reinsurance accepted | | | | | | | 362 | 75 | | | | | | | | | 437 |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | |
| Reinsurers' share | 221 | 2,989 | | 192,255 | 33,647 | 2,097 | 105,864 | 56,201 | | | 871 | 90 | | | | | 394,236 |
| Net | -247 | 383 | | -48,288 | -8,563 | 844 | 23,624 | -4,661 | | | 401 | -79 | | | | | -36,586 |
| **Premiums earned** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 441 | 3,460 | | 149,479 | 26,286 | 2,905 | 131,939 | 52,812 | | | 1,202 | 20 | | | | | 368,544 |
| Gross - Proportional reinsurance accepted | | | | | | | 349 | 64 | | | | | | | | | 413 |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | |
| Reinsurers' share | 220 | 2,197 | | 133,783 | 23,483 | 1,507 | 74,123 | 40,029 | | | 614 | 10 | | | | | 275,966 |
| Net | 220 | 1,263 | | 15,697 | 2,803 | 1,397 | 58,165 | 12,846 | | | 588 | 10 | | | | | 92,991 |
| **Claims incurred** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | 520 | 991 | | 108,283 | 22,163 | -19 | 48,503 | 38,699 | -498 | | 686 | -14 | | | | | 219,313 |
| Gross - Proportional reinsurance accepted | | | | | | | 31 | -6 | | | | | | | | | 25 |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | |
| Reinsurers' share | 454 | 1,322 | | 93,324 | 20,668 | 45 | 29,157 | 28,618 | 55 | | 465 | -8 | | | | | 174,099 |
| Net | 65 | -331 | | 14,959 | 1,495 | -64 | 19,378 | 10,075 | -553 | | 221 | -6 | | | | | 45,239 |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | |
| Reinsurers' share | | | | | | | | | | | | | | | | | |
| Net | | | | | | | | | | | | | | | | | |
| **Expenses incurred** | 264 | 821 | | 5,554 | 1,086 | 819 | 24,712 | 10,560 | | | 206 | 27 | | | | | 44,048 |
| **Other expenses** | | | | | | | | | | | | | | | | | 8,500 |
| **Total expenses** | | | | | | | | | | | | | | | | | 52,547 |

S.17.01.02

**Non-Life Technical Provisions**

| | 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 | -35 | -735 | | 29,611 | 5,770 | 347 | 9,498 | 5,854 | | | 185 | 3 | | | | | 50,498 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 0 | 271 | | 34,070 | 7,947 | 187 | 11,066 | 6,896 | | | 111 | 31 | | | | | 60,579 |
| **Net Best Estimate of Premium Provisions** | -35 | -1,006 | | -4,459 | -2,177 | 160 | -1,568 | -1,042 | | | 74 | -27 | | | | | -10,081 |
| **Claims provisions** | | | | | | | | | | | | | | | | | |
| Gross | 394 | 2,294 | | 400,264 | 5,276 | 616 | 55,224 | 237,925 | 4 | | 577 | 2 | | | | | 702,575 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 258 | 1,097 | | 360,982 | 4,623 | 246 | 38,766 | 206,633 | 3 | | 324 | 1 | | | | | 612,933 |
| **Net Best Estimate of Claims Provisions** | 136 | 1,197 | | 39,282 | 653 | 370 | 16,458 | 31,292 | 0 | | 253 | 1 | | | | | 89,642 |
| **Total best estimate - gross** | 360 | 1,558 | | 429,875 | 11,046 | 963 | 64,722 | 243,778 | 4 | | 763 | 6 | | | | | 753,074 |
| **Total best estimate - net** | 102 | 190 | | 34,823 | -1,524 | 530 | 14,890 | 30,250 | 0 | | 327 | -26 | | | | | 79,561 |
| **Risk margin** | 1 | 12 | | 5,062 | 41 | 5 | 329 | 3,626 | 0 | | 3 | 0 | | | | | 9,080 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | | | | | | | | | | | | | | | | | |
| Best estimate | | | | | | | | | | | | | | | | | |
| Risk margin | | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | 361 | 1,570 | | 434,938 | 11,087 | 968 | 65,051 | 247,404 | 4 | | 766 | 6 | | | | | 762,154 |
| **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | 258 | 1,368 | | 395,052 | 12,570 | 433 | 49,832 | 213,528 | 3 | | 435 | 32 | | | | | 673,512 |
| **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total** | 103 | 202 | | 39,885 | -1,483 | 535 | 15,219 | 33,875 | 0 | | 330 | -26 | | | | | 88,641 |

**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 | Sum of years |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | year | (cumulative) |
| Prior | | | | | | | | | | | 2,876 | 2,876 | 2,876 |
| 2008 | 111,808 | 63,188 | 19,225 | 15,483 | 11,999 | 7,214 | 6,152 | 5,272 | 2,258 | 2,208 | | 2,208 | 244,807 |
| 2009 | 116,343 | 84,075 | 31,259 | 25,271 | 18,024 | 12,518 | 10,825 | 5,103 | 5,602 | | | 5,602 | 309,018 |
| 2010 | 132,329 | 121,346 | 23,892 | 21,500 | 14,864 | 11,226 | 5,508 | 4,782 | | | | 4,782 | 335,447 |
| 2011 | 100,352 | 76,822 | 39,744 | 36,964 | 21,017 | 12,436 | 11,812 | | | | | 11,812 | 299,147 |
| 2012 | 89,138 | 75,401 | 49,955 | 39,989 | 27,620 | 17,379 | | | | | | 17,379 | 299,482 |
| 2013 | 91,714 | 72,012 | 49,354 | 43,654 | 36,008 | | | | | | | 36,008 | 292,742 |
| 2014 | 103,787 | 59,816 | 42,538 | 31,215 | | | | | | | | 31,215 | 237,355 |
| 2015 | 82,533 | 59,566 | 31,439 | | | | | | | | | 31,439 | 173,539 |
| 2016 | 71,445 | 54,739 | | | | | | | | | | 54,739 | 126,184 |
| 2017 | 55,604 | | | | | | | | | | | 55,604 | 55,604 |
| | | | | | | | | | | | Total | 253,666 | 2,376,202 |

**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 |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | data) |
| Prior | | | | | | | | | | | 14,526 | 13,378 |
| 2008 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,140 | 6,919 | | 6,911 |
| 2009 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18,018 | 11,492 | | | 11,475 |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 28,794 | 24,333 | | | | 24,301 |
| 2011 | 0 | 0 | 0 | 0 | 0 | 33,051 | 32,194 | | | | | 32,210 |
| 2012 | 0 | 0 | 0 | 0 | 61,021 | 37,110 | | | | | | 37,048 |
| 2013 | 0 | 0 | 0 | 112,940 | 69,932 | | | | | | | 69,775 |
| 2014 | 0 | 0 | 131,310 | 95,067 | | | | | | | | 94,964 |
| 2015 | 0 | 137,226 | 104,907 | | | | | | | | | 104,568 |
| 2016 | 191,357 | 135,180 | | | | | | | | | | 134,777 |
| 2017 | 173,664 | | | | | | | | | | | 173,168 |
| | | | | | | | | | | | Total | 702,575 |

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 | -496,671 | -496,671 | | | |
| 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** | | | | | |
| **Deductions for participations in financial and credit institutions** | | | | | |
| **Total basic own funds after deductions** | 127,085 | 127,085 | | | |
| **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 | 217,085 | 127,085 | | 90,000 | |
| Total available own funds to meet the MCR | 127,085 | 127,085 | | | |
| Total eligible own funds to meet the SCR | 176,850 | 127,085 | | 49,765 | |
| Total eligible own funds to meet the MCR | 127,085 | 127,085 | | | |
| **SCR** | 99,531 | | | | |
| **MCR** | 24,883 | | | | |
| **Ratio of Eligible own funds to SCR** | 177.68% | | | | |
| **Ratio of Eligible own funds to MCR** | 510.74% | | | | |

| **Reconcilliation reserve** | C0060 |
|---|---|
| Excess of assets over liabilities | 127,085 |
| 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** | -496,671 |
| **Expected profits** | |
| Expected profits included in future premiums (EPIFP) - Life business | |
| Expected profits included in future premiums (EPIFP) - Non- life business | 2,485 |
| **Total Expected profits included in future premiums (EPIFP)** | 2,485 |

**S.25.01.21**

## Solvency Capital Requirement - for undertakings on Standard Formula

| | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|
| | C0110 | C0090 | C0120 |
| Market risk | 25,104 | | 0 |
| Counterparty default risk | 25,178 | | |
| Life underwriting risk | 0 | | 0 |
| Health underwriting risk | 1,175 | | 0 |
| Non-life underwriting risk | 47,107 | | 0 |
| Diversification | -19,280 | | |
| | | | |
| Intangible asset risk | 0 | | |
| | | | |
| **Basic Solvency Capital Requirement** | 79,285 | | |

| | |
|---|---|
| **Calculation of Solvency Capital Requirement** | C0100 |
| Operational risk | 20,246 |
| Loss-absorbing capacity of technical provisions | 0 |
| Loss-absorbing capacity of deferred taxes | 0 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| **Solvency Capital Requirement excluding capital add-on** | 99,530 |
| Capital add-ons already set | 0 |
| **Solvency capital requirement** | 99,530 |
| | |
| **Other information on SCR** | |
| Capital requirement for duration-based equity risk sub-module | 0 |
| Total amount of Notional Solvency Capital Requirements for remaining part | 87,731 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | 11,800 |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

**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 | 9,577 |

| | 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 | 102 | |
| Income protection insurance and proportional reinsurance | 190 | 383 |
| Workers' compensation insurance and proportional reinsurance | | |
| Motor vehicle liability insurance and proportional reinsurance | 34,823 | |
| Other motor insurance and proportional reinsurance | | |
| Marine, aviation and transport insurance and proportional reinsurance | 530 | 844 |
| Fire and other damage to property insurance and proportional reinsurance | 14,890 | 23,624 |
| General liability insurance and proportional reinsurance | 30,250 | |
| Credit and suretyship insurance and proportional reinsurance | 0 | |
| Legal expenses insurance and proportional reinsurance | | |
| Assistance and proportional reinsurance | 327 | 401 |
| Miscellaneous financial loss insurance and proportional reinsurance | | |
| Non-proportional health reinsurance | | |
| Non-proportional casualty reinsurance | | |
| Non-proportional marine, aviation and transport reinsurance | | |
| Non-proportional property reinsurance | | |

| **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 | 9,577 |
| SCR | 99,531 |
| MCR cap | 44,789 |
| MCR floor | 24,883 |
| Combined MCR | 24,883 |
| Absolute floor of the MCR | 3,700 |
| **Minimum Capital Requirement** | 24,883 |