

Acorn Life Designated Activity Company



Solvency and Financial Condition Report

For year ending 31 December 2020

Table of Contents

Executive Summary	4
Business and Performance Summary	4
System of Governance Summary.....	5
Risk Profile Summary	6
Valuation for Solvency Purposes Summary	6
Capital Management Summary	6
A. BUSINESS AND PERFORMANCE	8
A.1 Business.....	8
A.2 Underwriting Performance.....	10
A.3 Investment Performance	11
A.4 Performance of other activities.....	12
A.5 Any other information.....	12
B. SYSTEM OF GOVERNANCE.....	13
B.1 General Information on the system of governance	13
B.2 Fit and proper requirements	17
B.3 Risk management system including the own risk and solvency assessment	18
B.4 Internal control system	22
B.5 Internal Audit Function.....	25
B.6 Actuarial Function.....	25
B.7 Outsourcing	26
B.8 Assessment of governance and any other disclosures.....	27
C. RISK PROFILE.....	28
C.1 Underwriting risk.....	28
C.2 Market risk.....	32
C.3 Credit risk.....	35

C.4 Liquidity risk.....	37
C.5 Operational risk.....	39
C.6 Other material risks.....	39
C.7 Any Other Disclosure.....	40
D. VALUATION FOR SOLVENCY PURPOSES.....	42
D.1 Assets.....	42
D.2 Technical Provisions.....	42
D.3 Other liabilities.....	47
D.4 Alternative methods for valuation.....	47
D.5 Any other information.....	47
E. CAPITAL MANAGEMENT.....	48
E.1 Own funds.....	48
E.2 Solvency Capital Requirement and Minimum Capital Requirement.....	49
E.3 Use of the duration-based equity risk submodule in the calculation of the SCR.....	51
E.4 Difference between the standard formula and any internal model used.....	51
E.5 Non-compliance with the MCR and non-compliance with the SCR.....	51
E.6 Any other information.....	51
Appendix A: Public QRTs (all figures are in €'000s).....	52

Executive Summary

Acorn Life Designated Activity Company (the Company) is a regulated life assurance company offering protection, savings, pension and investment products designed for the Irish market. The Company fulfils the minimum and solvency capital requirements as set down under the Solvency II regime as at the reporting date 31 December 2020 and during the 2020 financial year.

This Solvency and Financial Condition Report (SFCR) published by the Company has been reviewed and approved by its Board of Directors. This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The ultimate administrative body that has the responsibility for these matters is the Company's Board of Directors, with the help of the governance and control functions that it has put in place to monitor and manage the business.

The solvency objective of the Company is to ensure that it has and will have in the future sufficient capital to pay its policyholders and all other creditors in full as these liabilities fall due. This means that the Company must hold an appropriate amount and quality of capital in order to meet regulatory requirements as well as additional capital relevant to its specific capital needs given its risk profile, financial condition, business model and strategy, overall complexity, sensitivity to changing conditions and other factors that may arise from time to time. A strong capital position enables the Company to continue to operate through periods of severe stress. The Company measures and calculates capital using the Solvency II Standard Formula. As at 31 December 2020, the Company has a solvency coverage ratio of 157% (2019: 150%).

Key Figures: Solvency II Balance Sheet	2020	2019
	€'m	€'m
Assets	898.5	882.3
Gross Technical Provisions	829.7	825.0
Other liabilities	20.9	18.2
Eligible Own Funds	47.9	39.1
Capital Requirements		
Minimum Capital Requirement (MCR)	7.6	7.6
Solvency Capital Requirement (SCR) (after tax & diversification benefits)	30.5	26.0
Coverage Ratio		
Ratio of Eligible Own Funds to MCR	627%	515%
Ratio of Eligible Own Funds to SCR (<i>Solvency Ratio</i>)	157%	150%

Business and Performance Summary

We expected the Coronavirus Disease (COVID-19) outbreak to impact the Company through increased claims costs, adverse movements in the financial markets and business interruption during 2020. While this has not transpired to the same degree as initially expected, the pandemic continues to impact on our ability to grow policy count. We recognise that the economic and business impact of COVID-19 may impact longer-term profitability and that a significant economic downturn may immediately follow a removal of stimulus from the

economy in 2021. We continue to successfully use our Business Continuity Plans to enable employees to support our customers during the crisis. During 2020 we introduced a significant number of changes in the business ranging from remote working and sales processes to the introduction of electronic signatures. Overall, the business demonstrated resilience and an ability to adapt to a new working environment during 2020 while ensuring that effective controls and oversight were not compromised. Remote working arrangements for most staff remain in place into 2021, and we continue to take measures to minimise the risk to the health and wellbeing of our staff.

As at 31 December 2020 the Company was adequately capitalised at 157% (2019: 150%) of its Solvency Capital Requirement (SCR). We reported a profit on ordinary activities before tax during the year of €2.7 million (2019: €12.1 million). In 2020 the Company introduced a one-off Voluntary Parting Scheme (VPS) which was available to all employees in order to support a strategic reduction in the Company's cost base. The ordinary profit before tax includes a €1.9m charge related to the VPS. The profit for the year arose primarily due to management actions related to expenses following the COVID-19 outbreak and higher than expected risk profits. The profit during 2019 arose primarily due to reinsurance commissions received when the Company ceded a share of future risk experience in its unit-linked protection portfolio. The Company had policyholders' assets under management of €857 million at 31 December 2020 (2019: €846 million). The Company progressed the cost optimisation phase of its Distribution 21 business strategy during 2020 which seeks to future proof the business model by addressing key underlying risks such as product design, customer value, scale and cost base.

More information on the business and performance can be found in section A below.

System of Governance Summary

The Company has an effective system of governance, which provides for sound and prudent management. The Board continues to take measures to maintain a strong corporate governance framework and risk management function.

The governance structure comprises the Board of Directors who are responsible for organising and directing the affairs of the Company, the Chief Executive, Board Risk Committee, Board Audit Committee, Board Remuneration Committee and Management Committees. Risk Management, Compliance, Actuarial and Internal Audit are considered key functions with governance responsibilities to ensure the sound and prudent management of the business.

The Risk Management Function is responsible for managing the Company's risks. The Risk Management Function oversees the Own Risk and Solvency Assessment (ORSA) which analyses the risks faced by the Company and looks for ways to limit the impact of these risks. The Compliance Function is responsible for ensuring that the Company complies with all relevant regulatory requirements for life insurers. The Actuarial Function is responsible for ensuring that the Company sets aside enough funds to cover policyholders' claims and expenses of the business. The Internal Audit Function's role is to support the Board and Management in discharging the operation of internal controls and corporate governance responsibilities by reviewing the work

undertaken by various departments and recommending possible improvements. The Company has a comprehensive set of internal controls in place, including operating a three lines of defence model where the first line represents the various departments performing their regular duties, the second line represents the work of the risk and compliance functions and the third line represents independent review i.e. internal and external audit. More information on the system of governance can be found in section B below.

Risk Profile Summary

In the context of its business operations the Company enters into a broad variety of risks. These risks are deliberately accepted, steered and monitored. They specifically concern underwriting risk, capital market risks, counterparty default and operational risks. We describe the cause of these risks and how we deal with them in Section C.

Underwriting risk is one of the main risks to which the Company is exposed; it relates to the risk of an increase in claims, expenses or lapses which reduce future profits. Reinsurance is used to limit the risk of increases in claims volumes and to reduce the volatility of cash flows.

The second largest risk relates to market risk which arises from the risk of falls in the value of the Company's investments or falls in the value of policyholders' funds which lead to a reduction in the Company's income. The Company manages its investments through the use of limits in terms of the types and amounts of assets in which it can invest.

Counterparty risk is the risk that some of the Company's counterparties, such as the bank in which overnight deposits are held or the reinsurers used, default. This risk is managed by the Company through the use of limits in terms of the amount of exposure to a single counterparty and limits on the creditworthiness of counterparties that the Company will deal with.

Operational risk is defined as the risk of direct or indirect losses or of reputational damage arising from inadequate or failed internal process, people and systems or from external events. The Company has controls in place to manage this risk.

Valuation for Solvency Purposes Summary

Assets comprising investments, cash and cash equivalents and other from debtors are valued in accordance with Solvency II valuation requirements. The Company's liabilities consist of technical provisions which represent the value of future claims and expenses less the value of future income. This is the amount of money that the Company sets aside to ensure it is able to cover its liabilities to policyholders. The Company has other liabilities representing payments due to creditors.

More information on the valuation of assets and liabilities can be found in section D below.

Capital Management Summary

As at 31 December 2020, the Company has a solvency coverage ratio of 157% (2019: 150%). A primary responsibility of the Board is to ensure that the Company maintains sufficient capital in order to meet regulatory requirements as well as the additional capital relevant to its specific capital needs given its risk

profile, financial condition, business model and strategy, overall complexity, sensitivity to changing conditions and other factors that may arise from time to time. A number of mechanisms are in place to evaluate capital adequacy and those evaluations indicate that the Company's capital is adequate.

The Company uses the Solvency II 'standard formula' for the purposes of calculating the Solvency Capital Requirement (SCR). The Solvency Ratio is continuously monitored and assessed as part of planning activities and in the event of large transactions. The future development of the Solvency and Minimum Capital Requirements are forecast at regular intervals as part of the planning process. Own funds in the Solvency II balance sheet comprise the excess of assets over liabilities. All of the own funds available to cover the Company's capital requirements are tier 1 own funds.

More information on the Company's capital can be found in section E below.

A. BUSINESS AND PERFORMANCE

A.1 Business

The Company is a regulated life assurance company offering protection, savings, pension and investment products designed for the Irish market. The Company is a private company limited by shares, based in Ireland and authorised by the Central Bank of Ireland (CBI) to conduct business in the Republic of Ireland. The ultimate parent undertaking of the group to which the Company belongs is Acorn Life Group Limited, a private company limited by shares. The group headed up by Acorn Life Group Limited is also supervised by the CBI for Group Reporting.

The Group consists of the following companies:

Acorn Life Group Limited:	A holding company which is the parent to the Group companies.
Tanis Limited:	A holding company of Acorn Life DAC, Acorn Brokerage Limited and Orcan Limited.
Acorn Life DAC:	A regulated insurance company offering protection, savings, pension and investment products.
Acorn Brokerage Limited:	A regulated insurance intermediary predominantly distributing home, motor, commercial and health insurance policies as well as mortgages.
Orcan Limited:	A group company which was created to facilitate the operation of a Revenue Approved Employee Share Ownership Scheme and to create liquidity for the shareholders of Acorn Life Group Limited.

The focus of this report is on Acorn Life DAC as this is the only insurance company within the group.

The Company's registered and operating address is:

Acorn Life DAC
 NZI Plaza
 St Augustine Street
 Galway

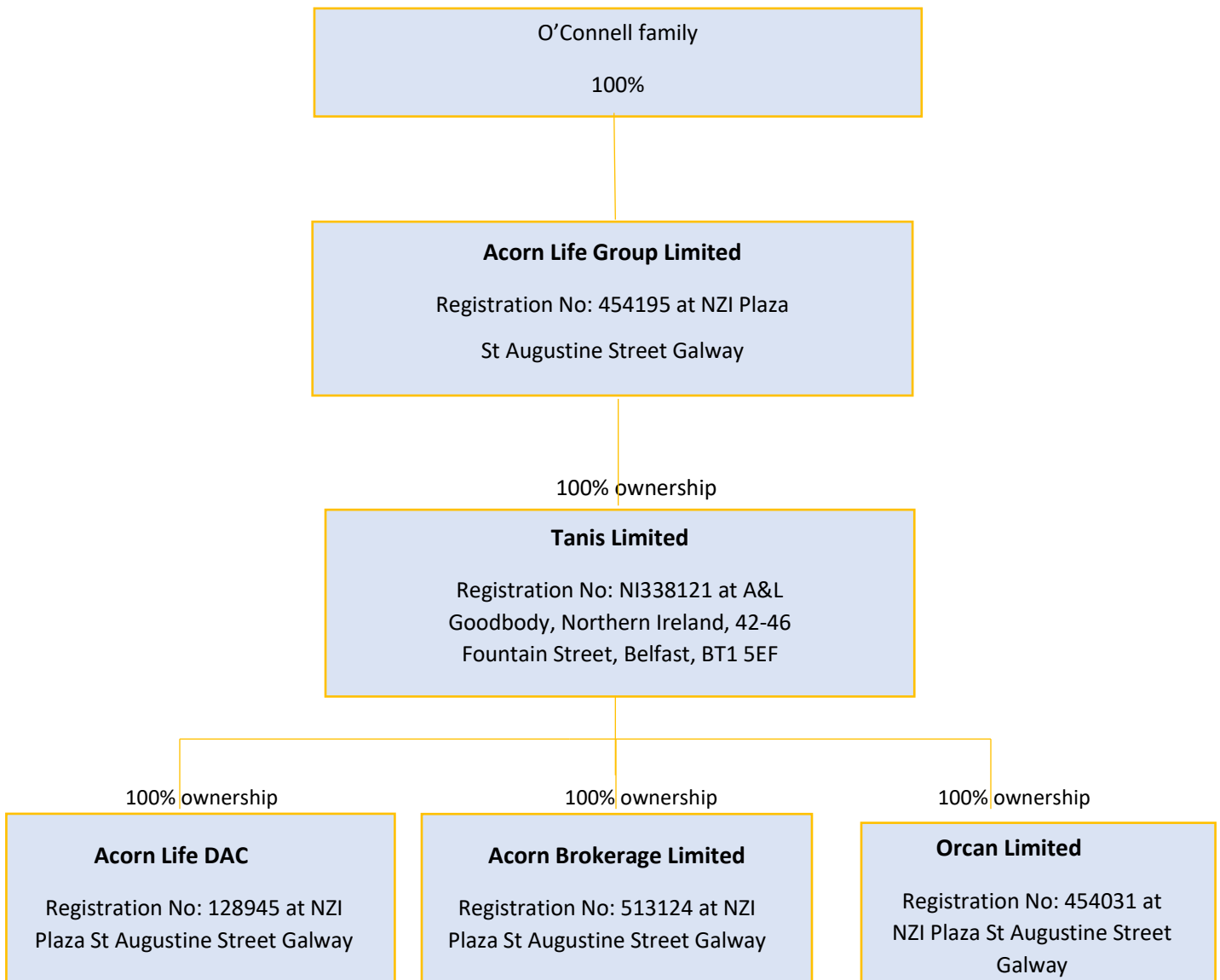
The CBI is responsible for the financial supervision of the Company:

Central Bank of Ireland
 New Wapping Street
 North Wall Quay
 PO Box 559
 Dublin 1

The Company's independent auditor is:

KPMG
Chartered Accountants and Statutory Audit Firm
1 Harbourmaster Place
Dublin 1

Acorn Life Shareholders and Group Companies are:



A.2 Underwriting Performance

The underwriting performance provided in this section is on an FRS 102 and 103 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) basis as the Company prepares its Financial Statements in accordance with these accounting standards.

The Company uses reinsurance to limit its overall risk exposure as well as to reduce the volatility of its claims and underwriting performance.

We reported a profit on underwriting activities before tax during the year of €2.7 million (2019: €12.1 million). In 2020 the Company introduced a one-off, Company-wide Voluntary Parting Scheme (VPS) for all employees in order to support a strategic reduction in the Company's cost base. The profit for the year includes a €1.9m charge related to the VPS. The profit for the year arose primarily due to management actions related to expenses following the COVID-19 outbreak and higher than expected risk profits. The profit during 2019 arose primarily due to reinsurance commissions received when the Company ceded a share of future risk experience in its unit-linked protection portfolio.

The table below sets out the Company's profit and loss account for the year ended 31 December 2020, as reported in its Financial Statements.

Year-ended 31 December	2020	2019
	€'000	€'000
Net insurance premiums written and earned	27,611	26,827
Other technical income, net of reinsurance	10,992	9,236
Investment return	107	24,443
Total Income	38,710	60,506
Claims incurred, net of reinsurance	(16,833)	(17,559)
Changes in insurance liabilities	3,773	(18,438)
Net operating expenses (including reinsurance commission)	(22,965)	(12,425)
Total Expenses	(36,025)	(48,422)
Ordinary profit before tax	2,685	12,084

Differences in premiums, claims and expenses between this table and the Solvency II QRT S.05.01.02 are because the Financial Statements record premiums and claims in respect of insurance business whereas the Solvency II QRT records premiums and claims in respect of insurance and investment business.

The table below is a summary of QRT S.05.01.02. It sets out the Company's premiums, claims and expenses split by material Solvency II lines of business for the period ended 31 December 2020. All business was written in the Republic of Ireland.

	2020			2019		
	Index-linked and unit linked insurance	Other life insurance	Total	Index-linked and unit linked insurance	Other life insurance	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Net Premiums earned	99,754	512	100,266	99,598	509	100,107
Net claims incurred	64,411	-	64,411	61,999	-	61,999
Expenses incurred	20,890	84	20,973	23,050	96	23,146

A.3 Investment Performance

The assets invested by the Company fall into the following asset classes:

- Cash and Deposits
- Government Bonds
- Corporate Bonds
- Equity (within unit-linked funds)
- Investment Funds (within unit-linked funds)
- Structured Notes (primarily within unit-linked funds)

Investment performance as reported in the Company's Financial Statements can be seen in the table in section A2 above. The following table which is based on information contained in the Company's QRTs summarises investment performance by asset class. It differs to the investment performance in the Financial Statements because the Financial Statements only show investment performance in respect of insurance contracts and shareholder's funds while the QRTs show investment performance on all policies and on shareholders' funds.

Investment performance during 2020 was less favourable than 2019 primarily due to market conditions in both years.

Investment performance by asset class	2020	2019
	€'000	€'000
Government bonds	58	103
Corporate bonds	(7)	5
Investment funds	1,070	136,235
Structured notes	(105)	342
Cash and deposits	(333)	(213)
Total	683	136,472

Looking at shareholder investments in isolation, losses were €0.07 million (2019: gains of €0.5 million). These figures are included within the figures in the previous table together with the performance of policyholder funds. The Company has no investments in securitisation.

A.4 Performance of other activities

Other technical income

The Company's unit-linked business is classified as either investment business or insurance business in its Financial Statements, depending on the nature of the contract. The Financial Statements record premiums and claims in respect of insurance business only. Fee income generated on investment contracts is recorded as such in the Financial Statements.

Fee income relates to fees charged to investment contracts for contract administration services, investment management services, payment of benefits and other services related to the administration of investment-linked contracts. Fees are recognised as revenue for the services provided. The fees charged for the current and previous years are shown in the Financial Statements table in section A.2 above.

The Company does not have any material leasing arrangements.

A.5 Any other information

The Company is satisfied that there is no other material information that needs to be disclosed.

B. SYSTEM OF GOVERNANCE

B.1 General Information on the system of governance

B.1.1 Company Overview

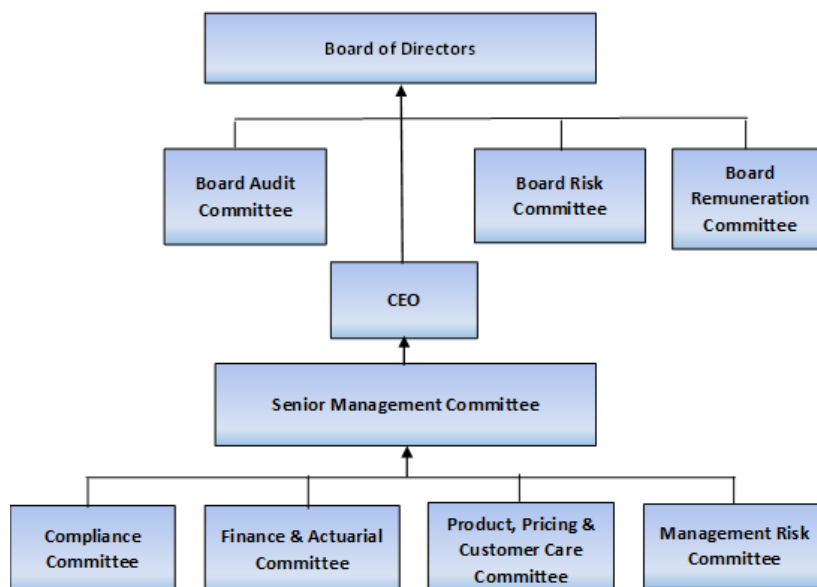
As an insurance undertaking, the Company is subject to the Corporate Governance Requirements for Insurance Undertakings 2015 issued by the CBI and is classified as low impact under the CBI's risk-based framework of supervision (PRISM).

The governance structure in place in the Company includes clear allocation and appropriate segregation of duties. The Board retains primary responsibility for corporate governance within the Company at all times. The Management team plays an important part in ensuring effective governance and is responsible for operating effective oversight consistent with Board policies. The Company is governed through a structure of Committees. The responsibilities and authorities of the Board, Chairman, Board Committees, Chief Executive and Management Committees are outlined below.

Effective governance is achieved through the integration of the Corporate Governance Framework, the Risk Management Framework, and key functions.

B.1.2 Governance Structure

The governance structure comprises the Board of Directors who are responsible for organising and directing the affairs of the Company, the Chief Executive and sub-committees. Each of these Committees operates within well-defined Terms of Reference. There were no material changes in governance structures during 2020.



The Board of Directors as at 31 December 2020 is comprised of:

1. Mr John Lyons (Independent Non-Executive, appointed Chairman 27 January 2021)
2. Mr Brian Neilan (Independent Non-Executive, appointed 15 October 2020)
3. Mr Gerry O'Connell (Non-Executive)
4. Mr Keith Butler, CEO
5. Mr Anthony Johnstone, Chairman (Independent Non-Executive, resigned 1 February 2021)
6. Mr Patrick Byrne, (Non-Executive, resigned 27 January 2021)
7. Mr Paul Shelly (Independent Non-Executive, resigned 27 January 2021)
8. Mr James Kehoe (Independent Non-Executive, resigned 27 January 2021)

Mr Brian O'Malley (Independent Non-Executive) was appointed on 27 January 2021

The Company Secretary is Ms Sarah Whelan.

Board meetings are held at least quarterly in Ireland. The Board is collectively responsible for determining the overall strategic objectives of the Company in line with the Company's Constitution and ensuring that it has the appropriate human and financial resources in place to meet those objectives.

The Board has established robust key functions across Risk Management, Compliance, Actuarial and Internal Audit and is satisfied that all such key functions are appropriately independent of business units and have adequate resources and authority to operate effectively.

The Chairman leads the Board, encourages open and challenging discussions and promotes effective communication between executive and non-executive directors.

The Board has established a Board Risk Committee, a Board Audit Committee and a Board Remuneration Committee in line with the CBI's governance requirements for insurance undertakings, each chaired by an Independent Non-Executive Director.

Board Risk Committee (Chaired by Mr Brian O'Malley)

The purpose of the Committee is to ensure that all potential business risks are identified, evaluated, mitigated and controlled. The Committee provides oversight and advice to the Board on the current risk exposures, risk appetite, risk policies and future risk strategy of the Company. The Committee oversees the risk management function of the Company. The Committee oversees the implementation of the ORSA policy, reviews and approves the methodology for the ORSA process, reviews and provides initial challenge to the results of the ORSA, reviews the ORSA report and ORSA Supervisory reports and recommends them to the Board for approval. It also considers Risk Appetite and Solvency II policy reviews before recommendation to the Board for approval.

Board Audit Committee (Chaired by Mr Brian Neilan)

The purpose of the Committee is to ensure that the inherent risks within the business are subject to an appropriate level of independent review and to assist the Board in fulfilling its oversight responsibilities in respect of financial reporting and financial risks, the system of internal control, the audit process and compliance with laws and regulations. The Committee reviews the scope and the result of the annual external audit, assesses auditor independence and the effectiveness of the audit process, reviews the Financial

Statements and relevant Solvency II returns of the Company before recommending to the Board for approval, reviews the scope, resources, results and effectiveness of the internal audit function and reviews specific areas of financial reporting as required.

Board Remuneration Committee (Chaired by Mr Brian Neilan)

The purpose of the Committee is to establish remuneration policies and procedures within the Company. The Committee;

- is responsible for setting remuneration policy for all executive directors and determining the remuneration package of each executive director
- recommends and monitors remuneration of Management so as to attract, retain and motivate Management of the quality required to run the Company successfully without paying more than is necessary and having regard to the risk appetite of the Company and alignment to its strategic goals
- reviews the on-going appropriateness and relevance of the remuneration policy
- approves the design of any performance-related pay schemes operated by the Company
- oversees any major changes in employee benefit structures throughout the Company
- oversees the policy for authorising claims for expenses from the directors.

B.1.3 Key Functions

Risk Management, Compliance, Actuarial and Internal Audit are considered key functions with governance responsibilities to ensure the sound and prudent management of the business.

B.1.3.1 Risk Management

The Company has a Risk Function, responsible for the oversight and management of risk within the organisation. The Chief Risk Officer (CRO) leads the Risk Management Function. The CRO reports to the CEO and has a direct line of responsibility to the Board Risk Committee and to the Board. The Risk Management Function is responsible for providing direction, guidance and support to the business regarding the Company's risk management systems, and for ensuring that a consistent process is applied across the Company for managing risk. It has the primary responsibility for designing the framework that is applied by the Company in identifying, assessing, measuring, mitigating and monitoring risks. The Risk Management Function also undertakes independent monitoring of risk management systems and processes to assist the Company, and the Board of Directors, in assessing the robustness of the Company's risk management processes.

More information on the Risk Function can be found in section B.3 below.

B.1.3.2 Compliance

The Company has an independent Compliance Function with responsibility for the oversight of compliance within the business. The Compliance Function reports to the Board Risk Committee. The Compliance function also maintains oversight of consumer protection risks and the Company has developed a consumer protection risk management framework and conduct risk policy to help ensure that consumers' best interests are protected.

More information on the Compliance Function can be found in section B.4 below.

B.1.3.3 Actuarial

The Company has an Actuarial Function headed by the Head of Actuarial Function (HoAF). More information on the Actuarial function can be found in section B.6 below.

B.1.3.4 Internal Audit

The Internal Audit Function's role is to support the Board and the Management of the Company in achieving its strategic and operational objectives and in discharging its control and corporate governance responsibilities.

It satisfies this purpose by providing the Audit Committee and the Chief Executive Officer with independent assurance as to whether adequate and effective risk management, governance and internal control procedures are in place and are functioning effectively. The Head of Internal Audit reports to the Board through the Audit Committee Chairman.

The Internal Audit Function is outsourced. The Head of Internal Audit prepares an annual Audit Plan and individual Terms of Reference for each audit. More information on the Internal Audit Function is included in section B.5 below.

B.1.4 Remuneration Policy

Principles

The Company's Remuneration Policy is designed to support key business strategies and create a strong, performance-orientated environment. It is designed to attract, motivate and retain talented individuals who will contribute to the success of the company and to provide clarity on the overall remuneration approach and structure within the Company.

The policy is also cognisant and reflective of obligations of all regulatory codes including but not limited to:

- Corporate Governance Requirements for Insurance Undertakings
- Consumer Protection Code
- Insurance Distribution Regulations 2018
- Solvency II Regulations
- CBI's guidelines on variable remuneration

The Company seeks at all times to provide competitive salaries and to reward employees fairly. The duties and responsibilities of each role determine the salary for the position along with the skills and experience of the person appointed to the position.

The Company's remuneration policy is:

- Established, implemented and maintained in line with the undertaking's business and risk management strategy as approved by the Board of Directors
- Consistent with its risk profile, objectives, risk management practices

- Reflective of the long-term interests and performance of the undertaking as a whole and shall incorporate measures aimed at avoiding conflicts of interest
- Designed not to promote excessive risk taking which is not aligned with the tolerable risks as per the risk appetite statement.

Permanent employees are encouraged to join the Acorn Life Defined Contribution Pension Scheme; however, it is optional; it is also optional for fixed term contract employees. The Company also contributes to the scheme. The Company's contributions are based on basic salaries and subject to relevant upper limits. Death in service entitlements also apply.

The Company generally operates an annual Staff Bonus Scheme for designated categories of staff. The scheme aims to reward staff for achieving key company-wide success metrics. The Staff Bonus Scheme is submitted to the Board annually for approval.

Independent Non-Executive Directors remuneration consists entirely of a fixed fee. Executive Directors participate in the Staff Bonus Scheme.

No dividends were paid in 2020 (2019: €13.2m). There are no plans to pay dividends during 2021. There were no material transactions between the Company and members of the Board during 2020.

B.2 Fit and proper requirements

B.2.1 Fitness & Probity Policy

The Central Bank Reform Act 2010 provides that any person performing a pre-approval controlled function (a "PCF") or a controlled function (a "CF") must have a level of fitness and probity appropriate to the performance of that particular function. These Fitness and Probity standards require that such individuals must be:

- Competent and capable
- Honest, Ethical and act with Integrity
- Financially sound

The Company operates a Fitness and Probity Policy which documents the due diligence checks that must be performed for those operating in key roles, including Board directors. Key roles are referred to within the policy as PCFs and approval from the CBI is required to be received prior to the appointment of any person to any such role.

For PCF roles, the Company carries out an assessment of competency that includes the following, where relevant to the role in question:

- Professional qualifications and proof of same
- Experience and personal competency of the individual to carry out the role
- Individual's skill set, including educational and professional background
- Records of previous employments
- References as appropriate
- Concurrent responsibilities

- Individual Questionnaire
- Continuous Professional Development
- Proof of compliance with the Minimum Competency Code where relevant

The Compliance Function is responsible for carrying out the assessment in line with the policy, which is then considered by the Board prior to approval.

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

B.3.1 Risk Management Framework

The Company's risk management system includes the interaction of a number of key components, which operate together as an integrated whole. The key components of the risk management system are as follows:

Risk Universe

The Risk Universe is the Company's categorisation and definition of the risks facing the business. It provides a common risk language, which is used across the Company. The Company's material risk categories are outlined within the Risk Management Policy.

Risk Appetite

Risk appetite is the aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. It reflects the Company's risk objectives and influences its culture and operating style. The Company's appetite is determined by its business strategy, risk management competencies and core values.

The Company's risk appetite is proposed by the Risk Management Function and is reviewed, challenged and approved by the Risk Committee and the Board of Directors on, at least, an annual basis. The risk management process is designed to manage risk within the appetite. Risk Appetite, limits and trigger levels are integral to the Company's strategic decision-making process, its day-to-day business and risk management.

The Company's Risk Appetite consists of a focused number of key measures which are used by the Board and Management to steer the business from a risk perspective. The parameters used to describe the Risk Appetite are not expected to change significantly year-to-year. However, some parameters may change occasionally to reflect changes in strategy, business volumes and external environment.

The Company uses trigger levels to anticipate breaches of appetite and to initiate management action in advance of the breach occurring. These actions may include avoiding, controlling, transferring or accepting the risk.

A well-articulated Risk Appetite provides the Company with:

- A firm basis for risk input to strategic decisions
- Clear guidance to Management

- Strengthened confidence of external stakeholders
- More efficient use of scarce risk-related resources (e.g. capital and liquidity)
- A basis to apply a holistic enterprise approach to risk management.

Risk Policies

Risk management processes and requirements of the risk management system are set out in the Risk Management Policy and other policies which govern the material risks facing the business. Each material risk in the Risk Universe is covered by one of the Company's risk policies. These have been written to provide clear guidance to all levels of staff in the Company on the way it manages material risks.

Policies are ultimately owned at Board level but are owned executively at Management level and there is no appetite for discretion to diverge from policy. Risk Policies set out the principles to be followed to manage the risk within acceptable limits or bring those risk exposures that are outside limit back within limit. They establish monitoring and reporting requirements and describe consequences and escalation requirements of breaches. They drive risk management actions and address how the Company manages its business and the impact its actions may have on the business. The policies also link directly to the governance requirements of the Company.

Certain policies may be supported by more detailed procedures and documented methodologies, where required. These provide operational guidance at a process level and their application is reviewed by the Internal Audit Function.

Risk Identification

The risks that the Company faces are identified at company and departmental levels and logged on the Risk Register. The risk identification process is carried out by individual risk owners within the business, facilitated by the Risk Management Function. The Risk Management Function ensures that the risk identification process is refreshed by the business on a regular basis. The business is also required to report all risk incidents, and any emerging risk identified, to the Risk Management Function.

The Company appreciates that planned changes to products and business processes may affect the risk profile of the Company. Consequently, the business is required to analyse the risk of all proposed changes to products and business processes to ensure that any new risks are identified in a timely manner.

There are a number of processes by which risks are identified and brought to the attention of the Risk Management Function:

- Regular Risk Reporting
- Annual Risk Appetite Review
- Clear Risk Reporting Lines
- The Annual ORSA Process
- Risk Event Reporting
- Annual Risk Identification Exercise

The Annual ORSA process

The annual ORSA process analyses the risks faced by the Company and looks for ways to limit the impact of these risks. The aggregate impact of risks is assessed on an annual basis by way of the ORSA process that is facilitated by the Risk Management Function. The ORSA provides the Management Committees and the Board with detailed information on the risks of the business, the cost of assuming or mitigating the risk, and how it compares to the Company's risk appetite and solvency position.

The risks captured on the Risk Register are reviewed as part of the Own Solvency Needs (OSN) assessment to determine whether the risk is adequately covered by the Standard Formula, or whether an additional provision is required. Stress testing and scenario analysis, used as part of the ORSA process, are also used as risk management tools. The Board reviews and approves the ORSA report annually.

Risk Assessment and Measurement

Robust risk assessment and measurement is necessary to generate appropriate management information that enables informed decision-making. The Company's risk assessment and measurement methodologies are based on industry practice and form a key part of the Company's policy and procedures. Each methodology explains how the measurement process works from the identification of a risk, through to the assessment of the risk, its quantification (if appropriate), and the assessment of the capital (or other risk mitigant) that the Company should set aside to mitigate the risk.

Key Risk Indicators (KRIs) and Key Risk Controls (KRCs) are monitored on a regular basis by the Risk Management Function. If there are significant movements in the values of the parameters used for measuring risk, the Risk Management Function instigates appropriate action by the business and its Management team, within a fixed timeline. Risk management action may also be required if there is a significant business change proposal (e.g. revised business plan / strategy) or material new information emerges regarding the business environment.

Risk Control

The business implements a number of controls to manage risks (e.g. investment mandates, reinsurance, liquidity buffers and process requirements). Relevant risk mitigants may reduce the likelihood and/or the impact of the risk. Control effectiveness is required to be taken into consideration while assessing and aggregating risks.

The regular review and measurement of the Company's risk profile contributes to the assessment of the amount of own solvency capital the business needs and/or the need for additional risk controls.

The process of implementing control improvements is owned by the business, reviewed by the Risk Function and overseen and directed by the Board.

Any business change (as opposed to a process change) proposal requires that a risk analysis be performed. This analysis identifies control improvements that are necessary to manage any increase in risk that might result from the change.

Risk Monitoring and Reporting

Each business unit has responsibility for operating the risk management system and reporting information on adherence to the prescribed system to the Risk Management Function. The Risk Management Function reviews and challenges the information provided and reports to the Board (via the Board Risk Committee) on the level of risk, the risks to new initiatives, the status of the control framework and the effectiveness of the risk management system. The Internal Audit Function tests key controls and provides assurance over the control environment within the business, including its risk management processes, as relevant.

The Company has developed a suite of risk metrics and management information to facilitate and support effective risk management and decision-making at all levels of the Company. The management information contains a mix of financial, risk and operational indicators to ensure that reporting is clear, consistent and efficient. Reports aim to provide information that is appropriately balanced between predictive and historic data and includes commentary and explanations where relevant. Overall, there is an emphasis on analysis of forward-looking information as opposed to mere production of risk data. The Company monitors and reports a comprehensive range of KRIs and KRCs which are outlined in the Risk Management Policy.

Risk Management Function

The Chief Risk Officer (CRO) leads the Risk Management Function which maintains and monitors the effectiveness of the risk management policy and framework in the Company. The CRO has a direct line of responsibility to the Board Risk Committee and to the Board. The CRO also provides input, via Management Committees into ongoing business decisions, ensuring consistency with risk policies and any Board escalation protocols.

The Risk Management Function:

- Assists the Board, and its Risk Committee, in the effective operation of the Company's risk management system.
- Develops and implements an annual Risk Plan.
- Carries out the annual ORSA process, and any ad hoc ORSA processes required.
- Facilitates, and provides inputs into, the process of setting the risk strategy and appetite of the Company.
- Facilitates the process by which the business identifies and assesses the risks it faces (including emerging risks) and maintains a central repository of all risks facing the business along with the corresponding controls and mitigation measures in place.
- Supports the business in developing and implementing risk policies, risk identification, monitoring and reporting.
- Ensures that risk policies and procedures are communicated throughout the business in order to foster the risk culture set out by the Board.
- Monitors that the risk policies, procedures and the risk governance framework are up to date and fit for purpose.
- Monitors the effectiveness of the risk management system by utilising Key Risk Indicators ("KRIs") and Key Risk Controls ("KRCs").

- Monitors the overall risk profile of the Company and reports to the Board Risk Committee, on a periodic basis (at least 3 times a year), on the Company's risk exposures against its risk appetite, key risk events and also on emerging risks facing the Company.
- Advises the Board, and its Risk Committee, on risk management matters including those related to strategy, investment and change projects.
- Fulfils a stewardship role with respect to embedding the Company's risk culture, and the policies and processes that support it, within the business.

B.4 Internal control system

B.4.1 Internal Control Framework

The Company's internal control framework consists of a combination of elements as described below.

B.4.1.1 Governance and Internal Control structures:

- a) The Board is ultimately responsible for setting and overseeing the Internal Control Framework
- b) The Board has delegated the responsibility for the establishment, review and maintenance of the system of internal control to its Risk, Audit and Remuneration Committees
- c) The key control functions within the Company provide guidance, set relevant policies and provide assurance on the internal control environment.

B.4.1.2 Three Lines of defence:

The Company has adopted the 3 lines of defence approach to internal control as follows:

- The first line of defence encompasses the business functions which carry out the day-to-day operations of the organisation.
- The second line of defence sets control policies and undertakes monitoring and surveillance of business operations.
- The third line of defence undertakes independent monitoring and assurance activities. Internal Audit provides independent assurance in relation to the various frameworks and controls in the 1st and 2nd lines of defence.

B.4.1.3 Policies

A suite of supporting policies is in place, approved by the Board, implemented and maintained by the business functions. The policies set out the minimum standards with which the Company must comply. The policies are implemented throughout the Company via processes, procedures and controls. Policies are reviewed annually by the Board.

B.4.1.4 Training:

The Company provides relevant internal control training to all staff, the content of this training will include but is not limited to:

- The importance of an adequate system of internal control for the Company
- The roles and responsibility toward internal control, tailored for the level of staff being trained

- Reporting lines for potential control deficiencies/failures.

B.4.1.5 General Accounting Controls

The Company has developed and maintains an appropriate internal accounting control system including internal controls at different levels and operational structures, for different time periods and with different levels of detail, as needed.

General Accounting Control activities include but are not limited to:

- Approvals, authorisations, verifications, reconciliations, management reviews, and other appropriate measures applicable to each business area and unit;
- Development of accounting policies and procedures to ensure accounting records provide a true and accurate view of the financial position (this is reviewed by external audit on an annual basis and by internal audit as and when required) of the Company
- Physical controls to the premises and assets
- Access control to key financial data
- Checks on agreed exposure limits (e.g. deposit limits) and operating principles
- Appropriate segregation of duties.

B.4.1.6 Communication

A formal line of communication is developed to ensure all staff report on:

- Control breaches
- Control deficiencies
- Fraudulent activities

The Company will ensure quality, timely, accurate and complete reporting and will encourage suggestions for improvements.

The Company's reporting lines are designed to enable functional managers to inform the risk management function, internal audit, compliance and actuarial functions of facts relevant to the performance of their duties.

B.4.1.7 Monitoring and Reporting

Monitoring and reporting mechanisms are implemented and take place on an on-going basis in order to:

- Provide timely and relevant information relating to the internal control framework to assist management in decision-making processes - this includes financial and non-financial data.
- Report annually on the overall state of the Company's internal controls; and
- Identify deficiencies in the system of internal control and rectify them in a timely manner.

Regular internal audits are conducted as required over the process of internal control by the Internal Audit function. In addition to the internal audits reviews, further reviews are performed by the Compliance Function to ensure compliance with all relevant codes, policies and regulatory requirements. The results of these reviews are reported to the relevant areas.

In addition to the above, the Company ensures that the mechanisms within internal control provide information for decision making processes in a timely manner for reporting to the Board.

B.4.1.8 Compliance Function

The Compliance Function undertakes the following key roles and responsibilities:

- Implementation of policies and procedures to support compliance with all relevant legislation
- Establishment of a Compliance Plan – the Annual Compliance Plan is reviewed by Management and approved by Board Risk Committee and the Board of Directors
- Promotion of a Culture of Compliance
- Identification of External Requirements and Trends
- Provision of advice to the Board and Management of new and upcoming regulations and assists in making submissions on behalf of the Company to both the CBI and industry bodies
- The issue of Policies and provides Guidance on compliance related matters
- Act as business partners by providing strategic, transactional and day to day compliance advice and direction. This includes providing interpretation and judgement in respect of business practices and applicable rules
- Establishment of a compliance universe of applicable legislation, regulation, codes and guidance and identifies areas within the business responsible for the operation of compliant processes and controls relevant to each requirement
- Undertake an annual programme of independent risk-based compliance monitoring and reporting
- Maintain a log of breaches and errors and will identify compliance risks and issues ongoing remediation recommendations to the respective departments and Management
- Ensure the Compliance Committee meets regularly and acts in accordance with this System of Governance Policy document and its terms of reference
- Ensure that all directors, staff and agents are trained on their obligations under relevant codes and regulations and ensures AML monitoring is reported to the Board and Compliance Committees.

This is a non-exhaustive list of items that are conducted by the Compliance Function. From time to time the Compliance Function may also be involved in certain first line of defence projects. During the tenure of these projects, the Compliance Function will always ensure that its independence will never be undermined. Furthermore, the Compliance Function will not be involved in any activities where the performance of tasks gives rise to potential conflicts of interest.

B.5 Internal Audit Function

The Company's third line of defence against risk is comprised of the Internal Audit Function and the Audit Committee. The role of Head of Internal Audit is outsourced. This ensures the role is independent from other operational functions within the Company. Outsourcing allows the Company access to specialist technical areas of internal audit in a very cost-effective manner which is important considering the size of the organisation.

The responsibilities of Internal Audit are defined by the Board in its terms of reference which are approved by the Board. Internal Audit examines and evaluates the functioning of the Company's internal controls and other elements of the Company's system of governance, as well as the adequacy of and compliance with regulatory obligations, internal strategies, policies, processes and reporting procedures. Internal Audit exists to provide the Company with independent assessments of the quality of internal controls and administrative processes and provide recommendations and suggestions for continuous improvement.

The Internal Audit Function reports on the relevant audit items to the Audit Committee, including audit findings from completed reviews, audits in progress and any notable issues including overdue actions. A standing item at Board meetings is an update from the Chairman of the Audit Committee with respect to issues raised at Audit Committee and any recommendations arising from the Audit Committee.

B.6 Actuarial Function

The Company has an Actuarial Function headed by the Head of Actuarial Function (HoAF). A brief summary of responsibilities of the Actuarial Function are:

- Coordinating the calculation of Technical Provisions, Reinsurance Recoverable and Solvency Capital Requirement on a quarterly basis
- Adhering to the Company's Reserving Policy
- Reporting to the Board and the CBI in line with requirements under both Solvency II and the CBI's "Domestic Actuarial Regime and Related Governance Requirements" (e.g. the Actuarial Function Report, Actuarial Opinion on Technical Provisions (AOTPs), Actuarial Report on Technical Provisions (ARTPs))
- Ensuring that the calculation of Technical Provisions is appropriately controlled and reporting any deficiencies in the control environment to the Board
- Providing an annual opinion on the ORSA, Underwriting and Reinsurance arrangements of the organisation
- Completing cash-flow and capital modelling, stress and scenario modelling for input to the ORSA process.
- Assisting with production of SFCR and RSR reports annually
- Embedded value and appraisal value calculations
- Experience analyses
- Product pricing
- Considering PRE (Policyholder Reasonable Expectations) and reporting on PRE issues to the Board.
- Providing recommendations on dividend
- Monitoring compliance relating to disclosure of information to policyholders

B.7 Outsourcing

The Company has a Board approved outsourcing policy which documents the requirements for the management of outsourcing contracts and service providers. It sets out requirements to identify and justify outsourcing risks and costs, and to implement outsourcing arrangements for the Company. Outsourcing involves transferring responsibility for carrying out an activity to an outsourcing provider for an agreed charge. The outsourcer provides services to the Company based on an agreed contract.

The policy specifies the contractual controls the Company is to have in place with the outsourcing providers to address day to day operations and potential risks involved.

The benefits of outsourcing must be balanced against the risks. This policy assists in choosing the right outsourcing provider ensuring that the Solvency II requirements on outsourcing are complied with, including prior notification to the CBI (where applicable), assessing the risks and ensuring risk appetite alignment, identifying the benefits, carrying out appropriate due diligence, setting service level agreements and forming a contract so that a successful partnership will prevail.

When the Company contracts a third party to process personal information on its behalf, it remains responsible for the personal information processed. The Board of Directors and Management are responsible for ensuring that the outsourcing policy and agreed outsourcing contracts are followed.

Critical or important outsourcing arrangements are defined in the policy as follows:

- The outsourced function or activity is essential to the operation of the Company;
- The Company would be unable to deliver its services to policyholders without the function or activity;
- Responsibility for the performance of a business function is discharged fully to the outsourced company but the Company retains ultimate responsibility for discharging its obligations.

The policy also covers Inter-Group Outsourcing arrangements, Business Continuity Management and ongoing monitoring and management of outsourcing relationships. A report on the performance of the Company's outsourcing arrangements is provided at least annually to the Board and a monitoring schedule is in place for all critical and important outsourcing contracts.

The Company has put in place the following critical and important outsourcing arrangements including details of the jurisdiction of the service provider and the internal owner of the relationship with the service provider:

Outsourced Activity	Jurisdiction of Outsourcing Provider	Internal Owner
Custodian Services	France	Head of Investment
Asset Management	United Kingdom	Head of Investment
Unit Trust administration services and Pensioner Trustee services for Self-Directed Pension contracts	Ireland	CFO
Tele Interviewing	United Kingdom	Head of Underwriting
Internal Audit	Ireland	Head of Finance
Printing, packing and posting of correspondence	Ireland	Chief Operations Officer

B8. Assessment of governance and any other disclosures

The Company is satisfied of its compliance with Corporate Governance Requirements for Insurance Undertakings and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of the Company. The Company is satisfied that there is no other material information that needs to be disclosed.

C. RISK PROFILE

The following is a summary of the Gross SCR (before tax relief & diversification):

	SCR Amount	SCR %	SCR Amount	SCR %
	2020		2019	
Underwriting Risk	€26.3m	60.5%	€21.0m	56.2%
Market Risk	€14.8m	34.0%	€13.8m	36.9%
Counterparty Risk	€1.1m	2.5%	€1.2m	3.2%
Operational Risk	€1.3m	3.0%	€1.4m	3.7%
Solvency Capital Requirement (before tax relief & diversification)	€43.5m	100%	€37.4m	100%

C.1 Underwriting risk

C.1.1 RISK EXPOSURE

Underwriting Risk relates to the uncertainty regarding the occurrence, amount or timing of insurance claims, income, payments or liabilities. The Company is in the business of accepting mortality and morbidity risk in order to generate profits for shareholders. The Company takes a generally prudent approach to managing underwriting risk and has a framework for underwriting new business and managing claims in a manner that is consistent with the pricing basis and reinsurance agreements currently in place. The material product lines, and the risks associated with them which the Company is willing to accept are summarised in the table below:

Product	Risk Exposure
Protection Life Plan including: <ul style="list-style-type: none"> • Life cover benefit • Critical illness benefit • Hospital cash benefit • Surgical cash benefit • Accidental Injury benefit • Accidental death benefit • Personal accident benefit • Premium protection benefit 	<ul style="list-style-type: none"> • Mortality risk • Morbidity risk • Expense risk • Lapse risk • Market risk • Children's mortality risk • Children's critical illness risk • Children's hospital cash benefit
Mortgage Protection	<ul style="list-style-type: none"> • Mortality risk • Lapse risk • Expense risk

<p>Pensions including:</p> <ul style="list-style-type: none"> • Single premium personal pension plan • Personal pension plan • Executive pension plan • Personal retirement bond • Approved retirement funds • Approved minimum retirement fund • Self-Directed pension plan 	<ul style="list-style-type: none"> • Expense risk • Lapse risk • Market risk
<p>Savings and investments including:</p> <ul style="list-style-type: none"> • Savings plan • Investment bond 	<ul style="list-style-type: none"> • Expense risk • Lapse risk • Market risk

Mortality Risk

The Company is exposed to the risk of mortality being higher than expected which can arise through adverse experience trends, anti-selection, catastrophe or risk concentrations.

Given the Company's relatively small book of business, especially for clients at older ages, mortality experience has experienced natural fluctuations year on year. However, over the course of time, the long-term average has been shown to be stable.

Morbidity Risk

The Company is exposed to the risk that illness experience is worse than expected on the following benefits:

- Critical Illness Cover
- Hospital Cash Cover
- Surgical Cash Cover
- Accidental Injury Cover
- Personal Accident Cover
- Waiver of Premium Benefit

The Company's experience in recent years has seen year on year volatility in morbidity claims. However, the long-term trend has remained steady.

Lapse Risk

The Company is exposed to a risk of lapses being higher or lower than expected, as well as the possibility of a once off lapse event.

It is important that, in the long term, the business base continues to expand. High lapses do not significantly affect solvency in the short term however reduced profits emerging as a result over the longer term will subsequently have an adverse impact on solvency in the medium to long term.

Lapse rates can be driven by the wider economy and therefore Management have limited control over movements in a given year.

Expense Risk

Expense risk is very relevant to the Company. The charges deducted from both new and in-force policies aim to cover expenses incurred in running the business. Much of the cost base is relatively fixed and therefore covering costs depends on having sufficient numbers of policies on the books.

Risk Monitoring

It is the responsibility of the HoAF, with support from other areas of the business such as Sales, Underwriting and Finance to monitor the principal risk factors influencing the profitability of business to be written during the next year.

The HoAF maintains appropriate processes to monitor these factors on a regular basis.

This includes at least the following:

- Quarterly monitoring of new business volumes and mix versus the business plan.
- Regular monitoring of business mix by gender to ensure the basis for gender-neutral pricing remains appropriate.
- Regular analysis of change in embedded value including value of new business sold and experience variance impacts.
- Regular monitoring of lapse, claim and expense experience compared with both the business plan and adverse ORSA scenarios for each of these risks.

The HoAF's assessment of these risk factors, their likely impact on future profitability and any need to re-price must be included in the annual opinion on underwriting which is part of the Actuarial Function Report.

Profitability is monitored regularly at a high level through monthly experience investigations and Embedded Value analysis. The Company does not use special purpose vehicles as described under Article 211 of Solvency II Directive.

C.1.2 RISK CONCENTRATION

As an insurer that sells a range of products mainly through its agency distribution within the domestic market only, the Company accepts that its preferred strategy incorporates some element of concentration risk. However, the HoAF monitors concentrations of risk on a regular basis and is satisfied that the Company is not exposed to excessive concentrations of risk. Any potential future excessive concentrations of risk would be managed through reinsurance and/or other appropriate mitigation techniques.

C.1.3 RISK MITIGATION

C.1.3.1. The Underwriting Process

The Underwriting process is the primary method by which mortality and morbidity risks are mitigated.

- It is the Company's policy to follow the underwriting philosophy of our principle reinsurer, SCOR when underwriting new policies and ancillary benefits that are covered by our reinsurance agreements.
- The Head of Underwriting is responsible for ensuring that sufficient training is in place for underwriters on the use of the reinsurer's underwriting manual.
- The Head of Underwriting is responsible for ensuring that the underwriting manual sufficiently mitigates the risk of anti-selection through appropriate medical and financial underwriting.
- All Underwriters must be members of an appropriate professional body, to be designated by the Head of Underwriting, and must engage in continuing professional development activities.

C.1.3.2 The Claims Process

- The Company maintains a Claims Management manual at all times which sets out the claims management process in detail.
- It is the responsibility of the Head of Claims to ensure that all claims handlers have sufficient training around using the claims manual.
- Any changes in the Claims Management manual must be approved by the Head of Claims.
- Any changes to the claims philosophy must be agreed with our reinsurers.

C.1.3.3. Reinsurance

Reinsurance arrangements are in place to cover a proportion of sums assured on death, critical illness and accidental death benefits. Reinsurance is a key risk management tool which reduces the volatility of cash flows, transfers risk to a third party that is independent of the Company and reduces the Company's SCR. The primary objectives of the Company's reinsurance strategy are as follows:

- Reduce the volatility of cash flows
- Cap exposure to individual lives
- Raise capital/increase capacity to write new business
- Reduce the volatility of own funds
- Reduce the size and volatility of the SCR
- Support the pricing of new business
- Support the underwriting and claims management processes
- Support the product design process

The Company currently reinsures sums at risk with two reinsurers, Munich Re and SCOR. Both reinsurers have at least an A rating (with Moody's) in line with the Company's Risk Appetite and Credit risk associated with both reinsurers is low. The Company also has a reinsurance financing arrangement in place.

C.1.4 RISK SENSITIVITY

As part of the ORSA process in 2020, a number of underwriting stresses were tested. These included expenses, claims and lapse stresses. In addition, several scenarios which looked at a combination of stresses, including underwriting stresses, were analysed. These stresses involved the recalculation of the projected Solvency II own funds and capital requirements (SCR) to determine if the Company would have sufficient own funds to cover the SCR at each future point in time. In terms of standalone stresses, the underwriting stress which was most onerous was the mass lapse stress where the Company is assumed to lose a large proportion of its portfolio immediately. Even in this extreme stress the Company's free capital remained positive. Solvency coverage remained above 100% with own funds continuing to exceed solvency capital requirements over the business planning horizon.

C.1.5 Dependencies between risk modules

The Company uses the correlations specified for the Solvency II Standard formula to determine dependencies across underwriting risks and between these and other risks. The Company's insurance risk profile does not exhibit any unique features which would suggest that the correlation between sub-modules would be any lower than suggested by the prescribed formula.

C.1.6 Any other information regarding the underwriting risk profile

The Company is satisfied that there is no other material information that needs to be disclosed.

C.2 Market risk

C.2.1 RISK EXPOSURE

Market Risk arises from the level or volatility of market prices of financial instruments. Exposure to market risk is measured by the impact of movements in the level of financial variables such as stock prices, interest rates, immovable property prices and exchange rates.

The overall Market Risk SCR calculated at 31 December 2020 was €14.8m (2019: €13.8m) made up of Interest Rate, Equity, Spread, Currency and Property Risk SCRs.

The Company pursues a policy of full matching in terms of policyholder liabilities (except for daily mismatching that occurs naturally due to facilitation of daily transactions, limits are set out in the ALM policy) and has no appetite for other mismatching of policyholder unit liabilities in any way as reflected in the policy.

Shareholder funds are invested in highly liquid assets (cash, gilts, bank deposits, trackers, bonds) and in the Head Office property and these are exposed to a number of financial risks. The Company is comfortable to hold the Head Office building as its only direct property investment and has no additional appetite for direct property investment of shareholder funds at this time. This is subject to Board review. Overall investment policy for shareholder funds is covered in the Investment Policy.

Interest rate risk exposure is not material for the Company. The Company is exposed to an element of interest rate risk through shareholder gilt and corporate bond holdings, DB scheme assets, shareholder tracker holdings and indirectly through policyholder funds.

Equity Risk SCR is calculated in respect of DB scheme assets, shareholder tracker holdings and indirectly through management charges on policyholder funds; it comprises 67% (2019: 68%) of total Market SCR. The income generated through unit related charges on policyholder funds makes this SCR significant for the Company. However, the net impact of the Equity SCR on free capital is not material due to the presence of a corresponding asset (a negative Technical Provision representing the present value of future profits including charges levied on policyholders' equity exposures) permissible for solvency purposes.

The Property Risk SCR generated in respect of the Head Office property is not material.

The Spread Risk SCR is calculated in respect of Shareholders' Corporate Bond Holding, Shareholders' Tracker Holding, Policyholder Funds (and future management charges generated) and is 13% (2019: 12%) of overall Market SCR.

Investments are made in accordance with the Prudent Person Principle giving due regard to the security, quality, liquidity and profitability of individual investments and the portfolio as a whole. Investment is limited to certain asset classes and internal risk limits. Tolerance levels have been calibrated to ensure the Company achieves the desired portfolio profile.

C.2.2 RISK CONCENTRATION

The Company is potentially exposed to Concentration Risk via its fixed term bank deposits. The exposure to any single bank is limited. This is set out in the Company's Treasury Policy. Deposits are well diversified which reduces the Concentration Risk exposure.

C.2.3 RISK MITIGATION

The Company has Board approved policies for:

- Investment and Market Risk Management
- Asset and Liability Management (ALM) Policy, and
- Liquidity Risk Management Policy

The Company has also established market risk limits with respect to the investment portfolio.

Interest rate risk – the Shareholder's appetite for interest rate risk is defined by the Investment Policy in respect of Government Bonds, Corporate Bonds, tracker holdings and unit fund mismatches. It is accepted that the shareholder is also exposed to interest rate risk indirectly through management charge margins generated on policyholder assets.

Equity risk – the Company has no appetite to invest Shareholders' assets directly in equities. The Company policy in respect of exposure to equity risk through Tracker holdings and unit fund mismatches are set out in the Investment Policy. It is accepted that the shareholder is exposed to equity risk indirectly through management charge margins generated on policyholder assets.

Credit spread risk – the shareholder’s appetite for credit spread risk is defined by the Investment Policy in respect of Government Bonds, Corporate Bonds and Tracker holdings and unit fund mismatches. It is accepted that the shareholder is exposed to credit spread risk indirectly through management charge margins generated by policyholder assets.

Currency risk - the Company has no appetite to invest Shareholders’ assets directly in foreign currency. The Company policy in respect of exposure to currency risk through unit fund mismatches is set out in the Investment Policy. It is accepted that the shareholder is exposed to currency risk indirectly through management charge margins generated on policyholder assets.

Valuation Policy

Shareholder assets are not invested in complex products that are difficult to value and there is a valuation source for each asset class in the investment portfolio.

The procedure for the valuation of investment assets (excluding bank placements) and other assets giving rise to market risk is as follows:

- Monthly valuations for bond and gilt investments are provided by the Company’s brokers.
- Tracker deposit/bond values are provided by the investment bank on a monthly basis.
- The freehold property is revalued by an independent valuation specialist on an annual basis.

C.2.4 RISK SENSITIVITY

Market Risk stresses and sensitivity tests are carried out annually through the ORSA process and Actuarial Function Report. As part of the ORSA process in 2020, a number of market stresses were tested. These included an equity shock leading to a reduction in unit-linked fund values and changes in interest rates and fund growth rates. In addition, several scenarios looked at a combination of stresses, including market stresses. In terms of standalone stresses, the Company was able to comfortably withstand adverse changes in market values.

C.2.5 Dependencies between risk modules

The Company uses the correlations specified for the Solvency II Standard formula to determine dependencies across market risks and between these and other risks. The Company’s specific market risk exposures do not exhibit any particular unique fixtures which merit heightened correlation allowance between Market Risk sub-modules.

C.2.6 Any other information regarding the market risk profile

The Company is satisfied that there is no other material information that needs to be disclosed.

C.3 Credit risk

C.3.1 RISK EXPOSURE

Credit (Counterparty) Risk is the risk of financial loss arising from an obligator, borrower, issuer, surety, guarantor or counterparty who fails to meet its obligations in accordance with agreed terms. Exposure to this risk occurs any time funds are extended, committed or invested through actual or implied contractual agreements. The Company has a very low appetite for credit risk. The Company manages this risk carefully by applying a strict set of criteria to investments, confining its dealings to institutions of high creditworthiness and monitoring relevant exposures to counterparties.

The Company has some credit risk exposures to banks via its overnight cash deposits although there is a limit in terms of exposure to a single bank.

The Company currently avails of reinsurance through two reinsurers, Munich Re and SCOR. In line with the Company's Risk Appetite Statement, both reinsurers have a Moody's credit-rating of greater than A. The credit risk associated with both reinsurers is very low. The Company's current free capital position is more than sufficient to absorb an immediate default of either/both reinsurers.

In compliance with the Solvency II Prudent Person Principle, it is the Company's policy to match policyholder unit linked liabilities fully with unit-linked assets.

C.3.2 RISK CONCENTRATION

While Pre-1998 Sums at Risk are reinsured by Munich Re, all other Sums at Risk in force, including new business, are reinsured by SCOR. The Company currently reinsures approximately 62% (2019: 63%) of total mortality and critical illness sums insured, the majority of which are reinsured by SCOR. This position represents a concentration risk in terms of significant exposure to one reinsurer. The Company is confident that alternative cover would be available if SCOR were to withdraw from the market or increase prices. If a particular type of reinsurance became too expensive, the Company has the option to cease or reduce the level of reinsurance cover, subject to an analysis of the impact of such a decision on the current and future solvency position of the Company.

The investment policy and Risk Appetite policy set out clear limits with respect to concentrations of deposits/investments with individual institutions.

C.3.3 RISK MITIGATION

The Risk Appetite Statement sets out limits on reinsurers' credit ratings to limit credit risk.

There are limits on the amount that can be deposited with a single bank and on the ratings of banks that the Company will deal with.

The Company is permitted to invest in Government and Corporate bonds but there are limits on credit ratings and Board Risk Committee approval is needed before the purchase of bonds above a certain duration/size.

Bond investments are to be admitted for trading on a regulated financial market.

C.3.4 RISK SENSITIVITY

The ORSA report considers the impact of a rating downgrade of all banks at the same time. Applying these stresses, the solvency coverage ratio fell but remained well above 100%.

C.3.5 Dependencies between risk modules

The Company uses the correlations specified for the Solvency II Standard formula to determine dependencies between counterparty risks and between these and other risks.

C.3.6 Any other information regarding the credit risk profile

The Company is satisfied that there is no other material information that needs to be disclosed.

C.4 Liquidity risk

C.4.1 RISK EXPOSURE

Liquidity risk is defined as the risk that the Company either does not have sufficient financial resources to meet obligations as they fall due or can only secure such financial resources at excessive cost.

At 31 December 2020, the Company held assets of €899m (2019: €882m) on its Solvency II Balance Sheet in order to meet the its liabilities and Solvency Capital Requirement (SCR). Most of these assets were held in liquid investments. The HoAF has also performed an assessment of the liquidity position of assets representing Own Funds in particular. At 31 December 2020, the Company held Own Funds of €17.4m (2019: €13.1m) over and above the Solvency Capital Requirement. All of this was held in highly liquid investments.

The Company is exposed to liquidity risk as a result of its business operations including cash-flow timing mismatches between policyholder obligations and claims and reinsurance recoveries as well as cash-flow obligations arising on operating expenses, taxation, dividends and other liabilities.

The Company has a limited appetite for liquidity risk and seeks to mitigate it, including via:

- the maintenance of a portfolio of liquid assets and short term/on demand bank placements to ensure that sufficient financial resources are available at all times to allow for settlement of obligations as they fall due;
- active management of re-insurance arrangements to recover claims paid; and
- access to funds from committed borrowing facilities from its bankers.

The Company is exposed to a general Liquidity Risk due to the administrative delay between payment of claims and recovery of reinsurance. Balances due from reinsurers are tracked quarterly by the Finance Function and reported to the Risk Management Function. This allows us to identify any unreasonable delays in the recovery of reinsurance and to address the issue with the reinsurer. The Company is satisfied that reinsurance balances are currently settled in a timely fashion and that current balances outstanding are in line with the Risk Appetite Statement. The delay between the payment of a particularly large claim and recovery of the reinsured portion poses a Liquidity Risk however. Any such large claims are flagged through the Risk Management Framework as soon as they become pending and cash is set aside in advance of payment such that the Liquidity Risk is minimised.

In compliance with the Solvency II Prudent Person Principle, the Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

C.4.2 RISK CONCENTRATION

The Company does not believe that there are any material liquidity risk concentrations.

C.4.3 RISK MITIGATION

Free Capital (defined as Own Funds in excess of those required to meet the Solvency Capital Requirement) are backed entirely by Qualifying Liquid Assets as defined in the Liquidity Risk Management Policy.

A fixed amount is maintained in a callable deposit account at all times so that the funds are immediately accessible. Additional term deposits are maintained in maturities of less than one-year duration. These funds are accessible without onerous break penalties. The maturity profile is actively managed to take account of known and/or expected cash outflows.

In managing and/or mitigating liquidity risk the Company:

- Invests in, and maintains a portfolio of, liquid assets in accordance with permissions and limits as defined in the Liquidity Policy and in the Investment & Market Risk Management Policy;
- Matches unit-linked policies with investment in linked assets with identical duration and cash flow profile subject to minor mismatch limits as set out in the Asset and Liability Management Policy;
- Funds the redemption of client investment contracts by the redemption of the linked assets supporting the contract liability;
- Notifies the relevant reinsurer for claims in excess of an agreed amount when a claim notification is received in order to minimise the timeframe within which cash on reinsurance recoveries is received.

Liquidity risk monitoring and reporting

Liquidity planning is performed by the Company. The purpose of this exercise is to determine its cash-flow needs.

The maturity profile of bank deposits and the composition of the Company's liquid asset portfolio is subject to ongoing monitoring.

An assessment of the liquidity position of the Company's Own Funds is performed on a quarterly basis and reported to the Board Risk Committee. The projected liquidity position of the Company's assets in excess of liabilities under each scenario examined in the ORSA is highlighted within the annual ORSA report.

Expected Profits in Future Premiums ("EPIFP")

EPIFP is the amount of profit arising from including future premiums in the calculation of the Company's technical provisions. The EPIFP is not liquid because it relates to future premiums. The EPIFP for the Company at 31 December 2020 was €1.8 million (2019: €1.6 million).

C.4.4 RISK SENSITIVITY

A meaningful liquidity stress is difficult to apply to a balance sheet with very healthy liquidity. All of the Company's free capital is held in liquid assets. Because of this, when the Company is adequately solvent, it also has a healthy liquidity position. The liquidity position is stressed under each of the scenarios in the ORSA with the level of liquid assets maintained in all such scenarios in line with the regulatory free capital position.

C.4.5 Dependencies between risk modules

Given that liquidity is not a material risk, the Company does not model dependencies between liquidity risks and other risks.

C.4.6 Any other information regarding the liquidity risk profile

The Company is satisfied that there is no other material information that needs to be disclosed.

C.5 Operational risk

C.5.1 RISK EXPOSURE

Operational risk is the risk associated with a loss resulting from failed internal processes, human and system errors, fraud or from external events as well as through the direct and indirect consequences of natural or man-made disasters such as terrorist attacks, fire, flood, earthquake and pandemics. Operational risk includes legal risk but excludes strategic and reputational risk. The Company considers Cyber Security Risk, Outsourcing Risk and Business Continuity Risk as other key operational risks. Mitigation of operational risk is considered in section C.5.3 below.

C.5.2 RISK CONCENTRATION

Operational risks can occur in a number of different areas. There is no obvious concentration in a particular area.

C.5.3 RISK MITIGATION

Operational risks are mitigated to a large extent via the use of internal controls and detailed processes and procedures. The Company considers additional risks in its analysis that it feels are necessary for the nature of its business. Based on this, the Company considers it appropriate to hold additional own solvency needs capital over and above that calculated in the SCR for Operational Risks.

C.5.4 RISK SENSITIVITY

Operational risks exposures are considered as part of the ORSA. As explained above this results in extra capital being set aside to cover such risks.

C.5.5 Dependencies between risk modules

The Company uses the correlations specified for the Solvency II Standard formula to determine dependencies between operational and other risks.

C.5.6 Any other information regarding the operational risk profile

The Company is satisfied that there is no other material information that needs to be disclosed.

C.6 Other material risks

Combined Stresses

In addition to stressing each of the risks discussed in sections C.1 to C.5 above individually, the Company also examined a number of scenarios in which several different stresses were combined. The most strenuous of these scenarios was a severe recession stress which combined falling sales with market stresses and higher lapses. In this scenario the Company's assets remained above the SCR. Management actions are required to be

taken in such a scenario in accordance with the Company's Risk Appetite Statement and Recession Scenario Contingency Plan.

Special Purpose Vehicles

The Company does not use Special Purpose Vehicles.

Upstream Regulatory Change

The Company monitors upstream regulatory developments through its risk management framework to ensure that it is prepared to assess and implement legislative developments as required.

The key areas of focus for the Company at present are;

- Transposition of the IORPS II Pensions Directive and related Master Trust Regulations.
- Central Bank proposals for the establishment of Conduct Risk standards of behaviour for financial services firms, an individual accountability framework for senior managers as well as enhancements to the Fitness and Probity regime.
- The EIOPA review of Solvency II regime.
- Draft regulations on Pre-Emptive Recovery Planning have been issued by the CBI for consultation.
- A consultation on a review of the Consumer Protection Code is due next year.
- Sustainability disclosures are expected in 2021
- EIOPA Guidelines on Outsourcing to Cloud Service providers
- Remaining Aspects of the Consumer Insurance Contracts Act 2019 that come into force in 2021.

Cybersecurity

The risks associated with IT and Cybersecurity are a key area of focus for the Company given the potential to have serious implications for consumer protection, financial stability and the overall reputation of the Irish financial system. The Company recognises its responsibilities in relation to IT, cybersecurity governance and risk management and it places these among its top priorities. The Company is well placed to withstand such risks in the ever-changing world of technology.

Brexit

Brexit introduces business and trading uncertainty for all indigenous Irish businesses which includes the Company's customers. The financial impact of Brexit is mitigated by our exclusive focus on doing business in the Republic of Ireland and our limited exposure to Sterling assets. Operationally we have proactively managed the risks associated with Brexit and we are satisfied that we have dealt with risks which arose as a result of having service providers in the UK. Brexit related risks are managed in line with our Risk Management Framework.

Coronavirus (COVID-19)

We expected the Coronavirus Disease (COVID-19) outbreak to impact the Company through increased claims costs, adverse movements in the financial markets and business interruption during 2020. While this has not transpired to the same degree as initially expected, the pandemic continues to impact on our ability to grow policy count. The Company's business plan recognises that the economic and business impact of COVID-19 may impact the longer-term profitability of the firm and its ability to continue to invest in pursuing a new business strategy. The Company's business plan also recognises that a significant economic downturn may immediately

follow a removal of stimulus from the economy in 2021. We continue to successfully use our Business Continuity Plans to enable employees to work and to support our customers during the crisis. Remote working arrangements for most staff remain in place and we continue to take measures to minimise the risk to the health and wellbeing of our staff. Many of our customers availed of premium holidays during 2020, particularly in cases where businesses had to close because of the pandemic. Reinstatement rates have exceeded our expectations. We will continue to work closely with our customers throughout the COVID-19 crisis.

C.7 Any Other Disclosure

The Company does not believe that there is any other information that needs to be disclosed.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

With some exceptions as described below, the Company recognised and valued its assets for solvency purposes based on the valuation methods it used to prepare its Financial Statements, as provided for by Article 9 of Delegated Regulation (EU) 2015/35. Those methods are consistent with the Solvency II valuation rules which require that assets are valued at the amount for which they could be exchanged between knowledgeable and willing parties at an arm's length transaction.

Assets	2020			2019		
	Irish GAAP Value €'000	Solvency II Value €'000	Variance €'000	Irish GAAP Value €'000	Solvency II Value €'000	Variance €'000
Deferred Acquisition Costs	24,693	0	24,693	26,759	0	26,759
Pension benefit surplus	1	1	0	58	58	0
Property, plant and equipment held for own use	1,989	1,989	0	2,409	2,409	0
Financial Assets - Government bonds	2,442	2,521	(79)	2,495	2,574	(79)
Financial Assets - Corporate bonds	122	125	(3)	124	128	(4)
Financial Assets - Structured notes	192	192	0	500	500	0
Assets held for index-linked and unit-linked contracts	857,343	857,343	0	845,712	845,712	0
Loans and mortgages	231	231	0	233	233	0
Reinsurance recoverables	8,419	(3,854)	12,273	8,590	(3,695)	12,285
Insurance and intermediaries receivables	280	280	0	255	255	0
Reinsurance receivables	0	2,951	(2,951)	0	2,225	(2,225)
Receivables (trade, not insurance)	727	727	0	830	830	0
Cash and cash equivalents	36,039	36,018	21	31,058	31,038	20
Any other assets, not elsewhere shown	61	0	61	61	0	61
Total assets	932,539	898,524	34,015	919,084	882,267	36,817

The Financial Statements are prepared in line with FRS 102 and 103. The differences between the Financial Statements valuations compared to the valuations under the Solvency II framework are as follows;

- **Deferred acquisition costs:** DAC is recognised as an asset in the Financial Statements but is not recognised under the Solvency II framework
- **Reinsurance recoverable** is stated on a discounted best estimate value in line with Solvency II rules. Reinsurance recoverable is not discounted in the Financial Statements valuation.
- **Reinsurance receivable** - part of the reinsurance recoverable in the Financial Statements relating to reinsurance which will be recovered in respect of claims that have been notified to the Company but have not been fully investigated is classified as a reinsurance receivable asset under the Solvency II framework.
- **Accrued interest** is not included in the market value of assets in the Financial Statements but is included in the market value of assets under the Solvency II framework.

The Company does not have a deferred tax asset on its Solvency II balance sheet, nor has it provided any guarantees. The Company does not have any material leasing arrangements.

D.2 Technical Provisions

Technical Provisions by material line of business

The technical provisions comprise the Best Estimate of the Liabilities (“BEL”), the Risk Margin, Gross Technical Provisions (calculated as a whole) and other technical provisions relating to policyholders. Technical Provisions are valued for solvency purposes in accordance with the Solvency II valuation rules which require liabilities to be valued at the amount for which they could be transferred, or settled, between knowledgeable and willing parties in an arm’s length transaction. The tables below show the technical provisions at 31 December 2020 and 31 December 2019 by material line of business:

2020

Line of business	Gross best estimate liability	Risk Margin	Gross technical provisions (calculated as a whole)	Recoverables from reinsurance contracts and SPVs	Total technical provisions net of recoverables
€'000					
Unit-linked life	(34,937)	11,146	855,652	3,102	834,963
Non unit-linked life	(2,519)	362	0	751	(1,406)
Total	(37,456)	11,508	855,652	3,853	833,557

2019

Line of business	Gross best estimate liability	Risk Margin	Gross technical provisions (calculated as a whole)	Recoverables from reinsurance contracts and SPVs	Total technical provisions net of recoverables
€'000					
Unit-linked life	(28,164)	8,903	846,259	3,037	830,035
Non unit-linked life	(2,288)	303	0	658	(1,326)
Total	(30,452)	9,206	846,259	3,695	828,709

A. Gross Best Estimate Liability

The Company’s BEL is calculated using a gross premium valuation for all policies in-force and on risk at the valuation date. The BEL is calculated as the prospective value of future expected cash-flows on a policy-by-policy basis. Future premium income is projected for Decreasing Term Assurance business only. Future premiums are not projected on regular premium Unit-Linked business. This approach is in line with Solvency II rules regarding contract boundaries. Future claims, investment growth, expenses and lapses are projected consistently with contract boundaries. Negative reserves are permitted. The BEL calculation allows for future management actions as approved by the Board.

Main assumptions

Claims assumptions

Claims rate assumptions take account of relevant reinsurance information and, where credible, internal experience over a relevant five-year period. Expert judgement is applied where necessary to make sure there is enough allowance for relevant trends or factors which we expect to change.

Investment Growth Rate

The investment growth rate used to project future investment growth on unit-linked funds is derived from the EUR relevant risk-free structure as specified by the Solvency II regulations. The Company used the rates as provided by European Insurance and Occupational Pensions Authority ("EIOPA").

Discount Rate

The risk-free interest rate term structure used for discounting the projected cash flows in the technical provisions calculation is the EUR relevant risk-free structure as specified by the Solvency II regulations. The Company used the rates as provided by EIOPA. The Company did not use the matching adjustment or the volatility adjustment at 31 December 2020.

Expenses and Inflation

The expenses incurred in servicing the Company's insurance obligations consist of administration, claims management/handling and overhead expenses. The Company performs a regular expense analysis in order to allocate the expenses between initial and renewal and by type of expense. The best estimate expense assumptions are based on the results of this analysis.

Projected investment management expenses are equal to a percentage of the projected future fund values.

The assumption for expense inflation is based on the Company's current best estimate of future salary inflation and non-salary inflation, taking account of uncertainties around the future inflation rate applicable to regulatory and technology costs.

Lapse assumptions

Lapse assumptions are set with reference to the Company's actual experience over a relevant five-year period. Expert judgement is applied where necessary to make sure there is enough allowance for relevant trends or factors which we expect to change.

Changes in Assumptions

The main changes to the assumptions over the 2020 financial year related to per policy renewal expenses, policy fees and management actions relating to expenses in a stressed scenario.

B. Risk Margin

The Risk Margin ensures that the technical provisions are equal to the amounts required to meet insurance obligations. The risk margin is calculated as the amount of capital needed to support the Solvency Capital Requirement over the lifetime of the business at a prescribed cost of capital rate.

In the calculation of the risk margin, future Solvency Capital Requirements are estimated using appropriate risk drivers for each individual Solvency Capital Requirement.

C. Gross Technical Provisions (calculated as a whole)

Gross Technical Provisions (calculated as a whole) consist of the Unit-Linked liability and other reserves relating to policyholders. The Unit-Linked liability is equal to the value of policyholder units plus the value of loyalty bonus units multiplied by the relevant fund valuation price at the valuation date. All of the Unit-Linked liability was matched by unit-linked assets at 31 December 2020.

D. Recoverable from reinsurance contracts and special purpose vehicles

The Company reinsures mortality and morbidity risk on a quota share basis with a maximum retention per life and is split between two reinsurance counterparties depending on the type of cover. The Company also has a reinsurance financing arrangement in place which incorporates risk transfer due to repayments being contingent on policyholders' future premium payments. The reinsurance recoverable is the excess of projected future reinsurance recoveries over projected future reinsurance premiums payable.

The reinsurance recoverable at 31 December 2020 was (€3,854k) (2019: (€3,695k)). The reinsurance recoverable balance relates to the Best Estimate Liability. The reinsurance recoverable amount is negative because the expected reinsurance premiums are greater than the expected claim amounts recoverable.

The Company did not hold any investments in special purpose vehicles at 31 December 2020.

Uncertainty associated with the value of technical provisions

The key sources of uncertainty for the Company are future lapse rates, mortality rates, morbidity rates, interest rates and expense rates. A robust assumption setting process is followed in order to ensure the uncertainty is well understood.

Solvency II and FRS valuation differences of Technical Provisions by material line of business.

The table below compares the Solvency II valuation of gross technical provisions with the Irish GAAP valuation of Technical Provisions, split by line of business, at 31 December 2020.

	2020			2019		
	Irish GAAP Value	Solvency II Value	Variance	Irish GAAP Value	Solvency II Value	Variance
Valuation differences of Technical Provisions	€'000	€'000	€'000	€'000	€'000	€'000
Unit-linked technical provisions	118,067	831,862	(713,795)	119,586	826,998	(707,412)
Non-unit linked technical provisions	14,310	(2,158)	16,467	16,925	(1,985)	18,910
Investment contract liabilities	736,923	0	736,923	723,432	0	723,432
Total technical provisions	869,300	829,704	39,596	859,943	825,013	34,930

The main differences between the Solvency II and Financial Statement Technical Provisions are as follows:

- Solvency II Technical Provisions include Unit-Linked liabilities in respect of both insurance and investment contracts. Financial Statements Technical Provisions include Unit-Linked liabilities in respect of Insurance contracts only. Unit linked liabilities in respect of investment contracts are classified as investment contract liabilities in the Financial Statements.
- Solvency II uses best estimate assumptions while the Financial Statements assumptions include margins for adverse deviation.
- The Solvency II technical provision policyholder fund unit-growth rate is specified by regulation (the relevant risk-free interest rate is provided by EIOPA). In the Financial Statements the expected policyholder fund unit-growth rate is based on the expected return on the underlying assets in which our policyholder funds are invested, incorporating a margin for adverse deviation.
- The Solvency II technical provision discount rate is specified by regulation (the relevant risk-free interest rate is provided by EIOPA). In the Financial Statements the discount rate is based on the expected return on the assets backing the technical provisions, incorporating a margin for adverse deviation.
- Solvency II permits negative technical provisions.
- Solvency II technical provisions include the risk margin.

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC. The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC. The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC. The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

D.3 Other liabilities

As at 31 December 2020, the Company recorded the following classes of liabilities for solvency purposes:

Other Liabilities	2020			2019		
	Irish GAAP Value €'000	Solvency II Value €'000	Variance €'000	Irish GAAP Value €'000	Solvency II Value €'000	Variance €'000
Deferred tax liabilities	1,640	4,809	(3,169)	1,666	3,851	(2,185)
Insurance and intermediaries payables	11,872	11,872	(0)	10,628	10,628	0
Reinsurance payables	1,101	0	1,101	1,637	0	1,637
Payables (trade, not insurance)	4,268	4,269	(0)	3,716	3,716	0
Any other liabilities, not elsewhere shown	18,668		18,668	17,736		17,736
Total other liabilities	37,550	20,950	16,600	35,383	18,195	17,188

Insurance and intermediaries' payables include claims outstanding. The full value of the amount being paid out is included. There is no valuation difference between Solvency II and the financial statements. The provisions for outstanding claims as at 31 December 2020 are not included in the BEL.

Deferred tax liabilities recognised on the Financial Statements relate to historic earned profits, on which the corporation tax liability has not yet fallen due. Deferred tax liabilities are higher under Solvency II reflecting the fact that the Company can take credit for future profits under Solvency II which are not allowed in the Financial Statements.

A deferred income liability of €18.7 million (2019: €17.7 million) is recognised in the Financial Statements but not recognised under the Solvency II framework.

All other liabilities are recognised and valued for Solvency II purposes on the same basis as the Financial Statements.

D.4 Alternative methods for valuation

The Company does not use any alternative valuation methods.

D.5 Any other information

The Company does not believe that there is any other information that needs to be disclosed.

E. CAPITAL MANAGEMENT

E.1 Own funds

The objective of own funds management is to maintain sufficient own funds to cover the MCR, SCR and Own Solvency Needs requirement at all times. The own funds are required to be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company must ensure that it has and will have in the future sufficient capital to pay its policyholders and all other creditors in full as these liabilities fall due. This means that the Company must hold an appropriate amount and quality of capital in order to meet regulatory requirements as well as additional capital relevant to its specific capital needs given its risk profile, financial condition, business model and strategy, overall complexity, sensitivity to changing conditions and other factors that may arise from time to time. A strong capital position enables the Company to continue to operate through periods of severe stress. The Company measures and calculates capital using the Standard Formula. The ratio of Own Funds to SCR is reviewed by the Board Audit Committee, Management and the Finance Committee on a quarterly basis. Responsibility for own funds management ultimately rests with the Company's Board. As part of own funds management, the Company prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The annual ORSA contains a five-year projection of funding requirements under a range of scenarios.

An analysis of own funds is set out in the table below:

	2020	2019
	€'000	€'000
Ordinary share capital	3,912	3,912
Share premium account related to ordinary share capital	507	507
Reconciliation reserve	42,749	33,936
Capital Contributions	703	703
Total basic own funds	47,871	39,058

The Company's ordinary share capital share premium arising on ordinary share capital, reconciliation reserve and capital contributions received are all available as unrestricted Tier 1 items. The ordinary share capital share premium arising, and capital contributions are immediately available to absorb losses and are fully subordinated to all other claims in the event of winding-up. The reconciliation reserve of €42.8m (2019: €33.9m) equals the excess of assets over liabilities less other basic own fund items at the reporting date. The Company's Solvency II liabilities include negative technical provisions meaning that the own funds include an amount representing the expected future profits generated from current fund values on unit-linked business and future premiums on DTA business.

There were no material changes to how capital was managed during 2020. A detailed exercise to define and document the capital management plan for the Company over the medium term 2020-2024 was carried out during 2020. A Strategic Solvency Target ("SST") for the Company that was appropriate to the nature, scale,

ownership structure and risk profile of the firm was also established, using the ORSA model, as a key part of process of developing the capital management plan.

The SST was set in line with the stated appetite of the Board to have solvency coverage above SCR plus OSN capital immediately after the occurrence of the risk events modelled in the ORSA and such that we can regain our SST via the invocation of documented contingency plans over the business planning horizon. The SST is now the reference point for strategy setting and is reviewed annually as part of the ORSA process.

The Company's own funds are Tier 1 unrestricted and available to cover the SCR and MCR. All own funds available to cover the SCR are unrestricted in terms of their being undated and being fully available to absorb losses. There are no material terms and conditions that need to be disclosed in this document.

The difference between equity as shown in the Financial Statements and the Solvency II excess of assets over liabilities comprises differences in the valuation of assets and liabilities, as set out in section D1 and D2 above. In particular, the Solvency II technical provisions are much lower than in the Financial Statements due to the use of best estimate rather than prudent assumptions.

The Company does not make use of ancillary own funds or transitional arrangements.

The Company paid no dividends during 2020 (2019: €13.2m). The Company has no dividend plans for 2021.

E.2 Solvency Capital Requirement and Minimum Capital requirement

The table below sets out the total SCR and MCR at 31 December 2020:

	2020	2019
	€'000	€'000
SCR	30,543	26,021
MCR	7,636	7,591

The required capital has been calculated based on the standard formula for Solvency II. The model is subject to close internal quality control and extensive validation. Both solvency and minimum capital requirements were complied with at all times during the year.

The table below sets out the risk modules that make up the Company's SCR at 31 December 2020:

	2020	2019
	€'000	€'000
Operational risk	1,298	1,360
Market risk	14,750	13,815
Underwriting risk	26,270	20,980
Counterparty risk	1,145	1,246
Diversification benefit	(8,557)	(7,663)
SCR gross of tax relief	34,906	29,738
Tax relief on SCR stresses	(4,363)	(3,717)
SCR net of tax relief	30,543	26,021

The table below describes the calculation of the Company's Minimum Capital Requirement (MCR) at 31 December 2020:

	2020	2019
	€'000	€'000
Absolute Floor	3,700	3,700
Linear MCR	7,613	7,591
SCR	30,543	26,021
Combined MCR	7,636	7,591
MCR	7,636	7,591

Approximations

In order to perform the SCR calculation as efficiently as possible at 31 December 2020, some approximations were necessary in the calculation of the Market Risk and Underwriting Risk SCR. The Company is satisfied that the use approximations at 31 December 2020 did not materially impact the SCR calculation.

Loss Absorbing Capacity of Deferred Tax (LACDT)

LACDT under the Solvency II standard formula allows the Company to reflect the fact that a future loss in profits may also result in a reduction in associated tax liabilities. A reduction in tax liabilities would also reduce the impact that a future loss would have on future Own Funds. In practice this means that for the purposes of calculating its Solvency Capital Requirement (SCR), the Company can reduce its Gross SCR by deferred tax relief on SCR stresses. The Company's policy is to provide for a deferred tax liability in respect of its Solvency II Technical Provisions as well as timing differences related to the taxation of past profits when calculating its eligible Own Funds at each balance sheet date. The Company's policy is to recognise Deferred Tax Assets as a result of unused tax losses only to the extent that it is probable that they will be recovered against future taxable profits. The Company does not have a Deferred Tax Asset. The Company's policy in relation to LACDT is to restrict the tax related reduction to Gross SCR under the standard formula to the amount of the net deferred tax liability on the balance sheet on the basis that it cannot justify loss absorbing capacity from other sources.

Material movements in MCR and SCR

The SCR and MCR both increased over the period. The primary reason for these movements relates to additional capital set aside for underwriting risks.

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

The Company does not use the duration-based equity risk submodule in the calculation of the SCR so this section is not relevant.

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

The Company does not use an internal model, partial internal model or undertaking specific parameters so this section is not relevant.

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

The Company was compliant with the MCR and SCR requirements at all times during 2020.

E.6 Any other information

The Company does not believe that there is any other information that needs to be disclosed.

Appendix A: Public QRTs

S.02.01.02

Balance sheet

	Solvency II value
	C0010
Assets	
Intangible assets	R0030 0
Deferred tax assets	R0040 0
Pension benefit surplus	R0050 1
Property, plant & equipment held for own use	R0060 1,989
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 2,839
Property (other than for own use)	R0080 0
Holdings in related undertakings, including participations	R0090 0
Equities	R0100 0
Equities - listed	R0110 0
Equities - unlisted	R0120 0
Bonds	R0130 2,839
Government Bonds	R0140 2,521
Corporate Bonds	R0150 125
Structured notes	R0160 192
Collateralised securities	R0170 0
Collective Investments Undertakings	R0180 0
Derivatives	R0190 0
Deposits other than cash equivalents	R0200 0
Other investments	R0210 0
Assets held for index-linked and unit-linked contracts	R0220 857,343
Loans and mortgages	R0230 231
Loans on policies	R0240 0
Loans and mortgages to individuals	R0250 231
Other loans and mortgages	R0260 0
Reinsurance recoverables from:	R0270 -3,854
Non-life and health similar to non-life	R0280 0
Non-life excluding health	R0290 0
Health similar to non-life	R0300 0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310 -751
Health similar to life	R0320 0
Life excluding health and index-linked and unit-linked	R0330 -751
Life index-linked and unit-linked	R0340 -3,102
Deposits to cedants	R0350 0
Insurance and intermediaries receivables	R0360 280
Reinsurance receivables	R0370 2,951
Receivables (trade, not insurance)	R0380 727
Own shares (held directly)	R0390 0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400 0
Cash and cash equivalents	R0410 36,018
Any other assets, not elsewhere shown	R0420 0
Total assets	R0500 898,526

Liabilities

	Solvency II value
	C0010
Technical provisions – non-life	R0510 0
Technical provisions – non-life (excluding health)	R0520 0
TP calculated as a whole	R0530 0
Best Estimate	R0540 0
Risk margin	R0550 0
Technical provisions - health (similar to non-life)	R0560 0
TP calculated as a whole	R0570 0
Best Estimate	R0580 0
Risk margin	R0590 0
Technical provisions - life (excluding index-linked and unit-linked)	R0600 -2,158
Technical provisions - health (similar to life)	R0610 0
TP calculated as a whole	R0620 0
Best Estimate	R0630 0
Risk margin	R0640 0
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650 -2,158
TP calculated as a whole	R0660 0
Best Estimate	R0670 -2,519
Risk margin	R0680 362
Technical provisions – index-linked and unit-linked	R0690 831,862
TP calculated as a whole	R0700 855,652
Best Estimate	R0710 -34,937
Risk margin	R0720 11,146
Contingent liabilities	R0740 0
Provisions other than technical provisions	R0750 0
Pension benefit obligations	R0760 0
Deposits from reinsurers	R0770 0
Deferred tax liabilities	R0780 4,809
Derivatives	R0790 0
Debts owed to credit institutions	R0800 0
Financial liabilities other than debts owed to credit institutions	R0810 0
Insurance & intermediaries payables	R0820 11,872
Reinsurance payables	R0830 0
Payables (trade, not insurance)	R0840 4,269
Subordinated liabilities	R0850 0
Subordinated liabilities not in BOF	R0860 0
Subordinated liabilities in BOF	R0870 0
Any other liabilities, not elsewhere shown	R0880 0
Total liabilities	R0900 850,655
Excess of assets over liabilities	R1000 47,871

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

		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	0	0	115,125	1,012	0	0	0	0	116,138
Reinsurers' share	R1420	0	0	15,372	500	0	0	0	0	15,872
Net	R1500	0	0	99,754	512	0	0	0	0	100,266
Premiums earned										
Gross	R1510	0	0	115,125	1,012	0	0	0	0	116,138
Reinsurers' share	R1520	0	0	15,372	500	0	0	0	0	15,872
Net	R1600	0	0	99,754	512	0	0	0	0	100,266
Claims incurred										
Gross	R1610	0	0	74,795	0	0	0	0	0	74,795
Reinsurers' share	R1620	0	0	10,384	0	0	0	0	0	10,384
Net	R1700	0	0	64,411	0	0	0	0	0	64,411
Changes in other technical provisions										
Gross	R1710	0	0	0	0	0	0	0	0	0
Reinsurers' share	R1720	0	0	0	0	0	0	0	0	0
Net	R1800	0	0	0	0	0	0	0	0	0
Expenses incurred	R1900	0	0	20,890	84	0	0	0	0	20,974
Other expenses	R2500									0
Total expenses	R2600									20,974

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	116,138	0	0	0	0	0	116,138
Reinsurers' share	R1420	15,872	0	0	0	0	0	15,872
Net	R1500	100,266	0	0	0	0	0	100,266
Premiums earned								
Gross	R1510	116,138	0	0	0	0	0	116,138
Reinsurers' share	R1520	15,872	0	0	0	0	0	15,872
Net	R1600	100,266	0	0	0	0	0	100,266
Claims incurred								
Gross	R1610	74,795	0	0	0	0	0	74,795
Reinsurers' share	R1620	10,384	0	0	0	0	0	10,384
Net	R1700	64,411	0	0	0	0	0	64,411
Changes in other technical provisions								
Gross	R1710	0	0	0	0	0	0	0
Reinsurers' share	R1720	0	0	0	0	0	0	0
Net	R1800	0	0	0	0	0	0	0
Expenses incurred	R1900	20,974	0	0	0	0	0	20,974
Other expenses	R2500							0
Total expenses	R2600							20,974

S.12.01.02

Life and Health SLT Technical Provisions

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 as a whole

Technical provisions calculated as a sum of BE and RM

Best Estimate

Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

	Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
		Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees					
		C0020	C0030	C0040	C0050	C0060				C0070
R0010	0	855,652			0			0	0	855,652
R0020	0	0			0			0	0	0
R0030	0		-34,937	0		-2,519	0	0	0	-37,456
R0080	0		-3,102	0		-751	0	0	0	-3,854
R0090	0		-31,834	0		-1,768	0	0	0	-33,603
R0100	0	11,146			362			0	0	11,508
R0110	0	0			0			0	0	0
R0120	0		0	0		0	0	0	0	0
R0130	0	0			0			0	0	0
R0200	0	831,862			-2,158			0	0	829,704

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 (EU) 2015/35

Ordinary share capital (gross of own shares)
Share premium account related to ordinary share capital
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
Subordinated liabilities
An amount equal to the value of net deferred tax assets
Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand
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

Available and eligible own funds

Total available own funds to meet the SCR
Total available own funds to meet the MCR
Total eligible own funds to meet the SCR
Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	3,912	3,912		0	
R0030	507	507		0	
R0040	703	703		0	
R0050	0		0	0	0
R0070	0				
R0090	0		0	0	0
R0110	0		0	0	0
R0130	42,749	42,749			
R0140	0		0	0	0
R0160	0				0
R0180	0	0	0	0	0
R0220	0				
R0230	0	0	0	0	
R0290	47,871	47,871	0	0	0
R0300	0			0	
R0310	0			0	
R0320	0			0	0
R0330	0			0	0
R0340	0			0	
R0350	0			0	0
R0360	0			0	
R0370	0			0	0
R0390	0			0	0
R0400	0			0	0
R0500	47,871	47,871	0	0	0
R0510	47,871	47,871	0	0	
R0540	47,871	47,871	0	0	0
R0550	47,871	47,871	0	0	
R0580	30,543				
R0600	7,636				
R0620	157%				
R0640	627%				

Reconciliation reserve

Excess of assets over liabilities
Own shares (held directly and indirectly)
Foreseeable dividends, distributions and charges
Other basic own fund items
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business
Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	C0060
R0700	47,871
R0710	0
R0720	0
R0730	5,122
R0740	0
R0760	42,749
R0770	1,768
R0780	0
R0790	1,768

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

Market risk
Counterparty default risk
Life underwriting risk
Health underwriting risk
Non-life underwriting risk
Diversification
Intangible asset risk
Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk
Loss-absorbing capacity of technical provisions
Loss-absorbing capacity of deferred taxes
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module
Total amount of Notional Solvency Capital Requirement for remaining part
Total amount of Notional Solvency Capital Requirements for ring fenced funds
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios
Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	14,750		
R0020	1,145		
R0030	26,270		
R0040	0		
R0050	0		
R0060	-8,557		
R0070	0		
R0100	33,608		

	C0100
R0130	1,298
R0140	0
R0150	-4,363
R0160	0
R0200	30,543
R0210	0
R0220	30,543
R0400	0
R0410	30,423
R0420	120
R0430	0
R0440	0

S.28.01.01

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

Linear formula component for life insurance and reinsurance obligations

	C0040
MCR _L Result	R0200 7,613

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210 0	
Obligations with profit participation - future discretionary benefits	R0220 0	
Index-linked and unit-linked insurance obligations	R0230 823,818	
Other life (re)insurance and health (re)insurance obligations	R0240 0	
Total capital at risk for all life (re)insurance obligations	R0250	2,637,654

Overall MCR calculation

	C0070
Linear MCR	R0300 7,613
SCR	R0310 30,543
MCR cap	R0320 13,744
MCR floor	R0330 7,636
Combined MCR	R0340 7,636
Absolute floor of the MCR	R0350 3,700
	C0070
Minimum Capital Requirement	R0400 7,636