Hansard Europe DAC
Solvency and Financial Condition Report (“SFCR”)
(for the financial year ended 30 June 2018)

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EXECUTIVE SUMMARY

INTRODUCTION AND PURPOSE

This document provides an annual public disclosure of the solvency and financial condition of Hansard Europe DAC ('HEdac' or the 'Company') at 30th June 2018.

The Solvency II Directive was transposed into Irish Law as the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) and the legislation entered into force on 1 January 2016. This report is intended to assist clients in understanding the capital position of HEdac since the implementation of the legislation by covering the following areas:

A. Business and Performance
B. System of Governance
C. Risk Profile
D. Valuation for Solvency Purposes
E. Capital Management

BUSINESS AND PERFORMANCE

BACKGROUND

HEdac is an Irish regulated insurance company authorised to carry out unit linked life assurance business. Unit linked means that the value of the products is directly linked to the value of underlying investments chosen by the policyholder within each policy.

The Company does not offer or provide investment advice.

Following a strategic review of the business in 2013, it was decided that the Company would close to new business from 30 June 2013. The focus of the Board and Management Team is the orderly run-off of the existing book of policies in line with their contractual terms and conditions.

BUSINESS STRATEGY

As at 30 June 2018 the Company remains in run-off and consequently has a short to medium term strategic view focusing on the servicing of the existing book of business. Over time the volume of policies will diminish, as policies mature or are surrendered. As a consequence the expected performance, year-on-year, will reflect a diminishing number of policies and reducing level of assets under management. The Company is required to hold sufficient assets to match its policyholder liabilities at all times and a primary responsibility of the Board is to ensure that the Company's capital is adequate to cover the required solvency for the nature and scale of the business, and the expected operational requirements of the business. A number of mechanisms are in place to evaluate those levels and the outcome of those assessments indicate that the Company's capital is adequate at this time and for the expected requirements in the short to medium term. The Company's strategic objectives are:

a. To administer the existing book in line with their contractual terms and conditions and with due regard to all applicable governance and conduct obligations pursuant to Home and Host State regulatory requirements.
b. To manage client relationships effectively, prudently and ethically
c. To maintain robust governance arrangements which ensure there is effective oversight of the Company's activities and capital management, proportionate to the nature, scale and

complexity of the business and which continue to promote and communicate an appropriate risk and compliance culture at all levels.

BUSINESS PERFORMANCE

The Company prepares its financial statements on a GAAP basis (FRS 101 Reduced Disclosure Framework). The Company's pre-tax loss has increased to £0.4m in 2018 from £0.2m in 2017, primarily from reduced fee and investment income which was partially offset by a decrease in direct costs.

Section A of this document contains further details relating to HEdac's business and performance.

SYSTEM OF GOVERNANCE

The Company has in place a robust governance framework that enables delivery of the strategy.

The Administrative Management Supervisory Body that has responsibility for all governance matters is the Company's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

Section B of this document contains further details relating to HEdac's system of governance.

RISK PROFILE

HEdac is a pure unit-linked business with no investment guarantees. The main risk categories to which HEdac is exposed to are market risk and life risks. These represent 85% of HEdac's risk exposure as measured under the Solvency II regime (2017: 94%).

Market risk is a significant risk for HEdac since the majority of in-force business is unit-linked business and the Company derives a large part of its revenues from related asset values. A significant component of market risk which HEdac is exposed to is associated with the uncertainty related to foreign exchange fluctuations. For example, where HEdac has written business in currencies other than Sterling (its reporting currency) it is exposed to foreign exchange risk as the value of the income streams from those policies fluctuate in Sterling terms with the exchange rate.

Life Risk is a significant risk for HE dac. The significant components of this are lapse risk caused by policyholder behaviours being different to expected and expense risk caused by expenses being higher than expected.

At 30 June 2018, the Company's solvency capital requirement under the Solvency II regime was £4.0m, which has decreased from £4.8m at the start of the reporting period.

Section C of this document contains further details relating to HEdac's risk profile.

VALUATION FOR SOLVENCY PURPOSES

The HEdac Solvency II Balance Sheet is constructed in line with the Solvency II rules and guidance.

On a Solvency II basis, at 30 June 2018 HEdac's total assets were £146.3m and total liabilities were £136.7m.

Total assets on a Solvency II basis at 30 June 2018 were as reported in the statutory financial statements (IFRS basis) with the exception of Deferred Origination Costs. Both Deferred Origination Costs and Deferred Income Reserve are excluded from the valuation of assets and liabilities for solvency purposes.

Section D of this document contains further details relating to valuation for solvency purposes.

CAPITAL MANAGEMENT

The strategy for managing capital is to ensure sufficient capital exists within HEdac to meet the Solvency II Solvency Capital Requirement (SCR) and Solvency II Minimum Capital Requirement (MCR), with a capital buffer to protect against unexpected adverse events. The target solvency range for HEdac is set at 150% of SCR.

HEdac uses the Solvency II Standard Formula to calculate the SCR. The SCR computed at 30 June 2018 was £4.0m (2017: £4.8m) and the MCR was £3.3m (2017: £3.3m).

HEdac's Solvency II Own Funds value at 30 June 2018 was £9.6m (2017: £12.0m), all of which are Tier 1 own funds.

At 30 June 2018, HEdac's solvency coverage ratio was 242% (2017: 249%).

HEdac carries out regular reviews of the capital requirements and solvency coverage ratio as part of capital management and risk monitoring.

Refer to Section E below for further details relating to HEdac's capital management.

A: Business and Performance

A.1 Business

HEdac is a Regulated unit-linked life assurance private company, limited by shares. The Company's operating address is:
Hansard Europe DAC,
Suite 201, SOBO Works,
2 Windmill Lane,
Dublin D02 F206 Ireland

Its registered office is:
Hansard Europe DAC,
IFSC,
25/28 North Wall Quay,
Dublin D01 H104,
Ireland.

The Central Bank of Ireland ("CBOI") is responsible for financial supervision of the Company. The CBOI's address is:
Central Bank of Ireland,
PO Box No 559,
New Wapping Street,
North Wall Quay
Dublin 1
Ireland

The Company's external auditor is PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm and their address is:
One Spencer Dock,
North Wall Quay,
Dublin 1,
Ireland

The Company is wholly owned by Hansard Global plc ("HG plc"), an Isle of Man holding company, listed on the London Stock Exchange.

The Company has a dormant subsidiary, HEM Limited, incorporated in Malta, of which it owns 100% of the equity share capital.

The Company's financial year end is 30 June. The Company is closed to new business and continues to operate, administering its existing policies in line with their contract terms and conditions. Policy administration services are outsourced to Hansard Administration Services Limited ("HASL"), an authorised insurance manager within the Group, based in the Isle of Man.

A.2 Underwriting Performance
Existing policyholders are located principally in the European Union. The six most significant countries being Italy, Belgium, France, Germany, United Kingdom and the Netherlands; the majority of the Company's policyholders are British expatriates currently residing outside the UK.

New premiums received during the year, relate to regular annual premiums on existing policies, and occasionally a small amount of top-up premiums.

Under International Financial Reporting Standards (IFRS), the Company's Unit-linked Contracts are classed as Investment Linked Contracts for financial reporting purposes. Investment Linked contract premiums are not included in the profit and loss account, but are reported as deposits to investment-linked contracts and are included in the linked liabilities in the balance sheet.

Movement in technical provisions for Linked Liabilities:
The following table summarises the movement in liabilities under investment-linked contracts during the year:

	2018	2017
	£'000	£'000
Deposits to investment-linked contracts	**3,299**	4,032
Deductions from contracts	**(28,761)**	(29,042)
Change in provisions for investment-linked contract liabilities	**(19,929)**	18,509
Movement in year	**(45,391)**	(6,501)
At beginning of year	**167,957**	174,458
	122,566	167,957

Change in provisions for investment-linked contract liabilities include dividend and interest income and net realised and unrealised gains and losses on financial investments held to cover financial liabilities.

	2018	2017
	£'000	£'000
Contractually due to be settled within 12 months	**2,636**	3,567
Contractually due to be settled after 12 months	**119,930**	164,390
	122,566	167,957

A.3 Investment Performance
The Company does not provide asset selection advice. The investments linked to insurance policies are selected by policyholders, or their appointed advisers, or where applicable, by asset managers selected by the policyholders and appointed for that purpose by the Company. The assets are owned by the Company. The Company is required to maintain assets to match its policyholder liabilities at all times.

The following investments, cash and cash equivalents, other assets (net of other payables) are held to cover technical provisions for linked liabilities.

	2018	2017
	£'000	£'000
Equity securities	**1,670**	4,968
Investments in collective investment schemes	**107,499**	143,757
Fixed income securities	**4,139**	7,888
Deposits and money market funds	**9,258**	11,344
Net financial assets held to cover financial liabilities	**122,566**	167,957

Where assets are suspended and no market value is available, a "fair value" has been calculated. Fair value is assessed using valuation techniques based on available relevant information and an appraisal of all associated risks (see section D.1).

The value of assets under management is affected by asset and currency performance, as well as policies maturing or surrendering each year. As the Company is closed to new business, this results in a reducing profile year on year.

Investment income comprises dividends, interest and other income receivable, realised gains and losses on investments and unrealised gains and losses. Movements are recognised in the profit and loss account in the period in which they arise. Dividends are accrued on the date notified. Interest is accounted for, on a time proportion basis using the effective interest method.

	2018		2017	
	Technical account	**Non-technical account**	Technical account	Non-technical account
	£'000	**£'000**	£'000	£'000
Dividend income	**564**	**-**	760	-
Interest income	**3**	**74**	11	68
	567	**74**	771	68
Net gains on realisation of investments	**4,518**	**-**	4,396	-
Investment income	**5,085**	**74**	5,167	68
Unrealised (losses)/gains on investment	**(24,987)**	**(23)**	13,469	(10)
Investment return	**(19,902)**	**51**	18,636	58

The unit linked insurance policies are valued by reference to their linked asset values at any point in time. The performance of the policies therefore depends on the performance of the assets selected and the application of policy related charges in line with the policy's contractual terms and conditions.

A.4 Performance of Other Activities

The Company's only activity is that of unit-linked life insurance company.

Income for the Company is in respect of fees which are charged to investment-linked 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 below:

	2018 **£'000**	2017 £'000
Contract fee income	**2,796**	3,360
Fund management charges	**1,559**	1,715
	4,355	5,075

Operating costs of the Company excluding director's fees and auditor fees are charged through the Technical Account of the Profit and Loss Statement.

Net operating expenses	**2018** **£'000**	2017 £'000
Origination costs	**1,080**	1,571
Administrative, investment and other expenses	**3,596**	3,756
	4,676	5,327

Expenses during the year ended 30 June 2018 have decreased due to lower origination costs as the Company is closed to new business it is running off the balance of previously deferred origination costs. Additionally reduced intercompany charges (as the number of policies being administered, decreases), a revised tariff structure and lower property costs from moving to smaller offices have also impacted on a reduction in costs.

Results and Dividends

The total comprehensive loss after tax for the year was £0.4m compared to a loss of £0.2m in the previous financial year. No dividends were paid during the year to 30 June 2018, (2017: £nil).

A.5 Any Other Information

During the financial year the Company's main focus has been to continue to implement its strategy, which is to protect the interests of policyholders and other stakeholders and ensure an orderly wind-down of the business whilst maintaining the financial and commercial stability of the Company.

The Company is subject to a number of legal actions primarily with regard to asset performance. The majority of the assets on the Company's balance sheet are held in respect of unit-linked contracts, where the Policyholder, or their appointed advisor, or the appointed asset manager, has selected the assets to be linked to their policies.

The Company does not provide asset selection advice, and is robustly defending these cases.

B: System of Governance

B.1 General Information on the System of Governance

B.1.1 Overview:

The Company is classified as a Medium Low Risk firm under the Central Bank of Ireland's risk-based framework for the supervision of regulated firms, known as PRISM or Probability Risk and Impact SysteM and is subject to the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015.

The Company's Board of Directors carry responsibility for the oversight of the business and sets its strategy and risk appetite. With effect from 1 July 2013 the Board sits as a minimum Board of five members, consistent with the Company's Corporate Governance obligations and with the approval of the Central Bank of Ireland. All members of the Board sit as members of the Risk Committee. The Audit Committee membership consists of two independent non-executive directors and one executive director.

Board of Directors:

G S Marr LLB (Chairman)
M J Coffey Dip Corp Gov
T N Davies MAcc, FCA
C G Long FSAI (Independent)
R T R Woods MA FCA (Independent)

Company Secretary:

C N Cormican FCCA Dip IFR

The Board retains primary responsibility for the corporate governance arrangements and the adequacy and effectiveness of those arrangements at all times. Pursuant to these responsibilities the Board has completed an annual review of the Company's governance arrangements and associated Committee structures in accordance with the standards and obligations imposed by the Corporate Governance Requirements for Insurance Undertakings 2015.

The review has confirmed that the Committees and Control Functions established by the Board, to assist in the discharge of its obligations are fit for purpose in substance and form and, have operated effectively throughout the year under review. Each Committee operates according to defined terms of reference and reports to the Board at each Board meeting. The Audit Committee and the Risk Committee both met on five occasions during the financial year to 30 June 2018. The Chair of each Committee is an Independent Non-Executive Director:

- Audit Committee (Chairman: R T R Woods)
- Risk Committee (Chairman: C G Long)

The Audit Committee, inter alia, assists the Board in discharging its responsibilities for:

- The integrity of the Company's financial statements;
- The effectiveness of the Company's internal controls;

- The Company's arrangements for its employees to raise concerns, in confidence, about possible wrong-doing in financial reporting or other matters;
- The effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system; and
- Monitoring the effectiveness, independence and objectivity of the external auditor.

The Risk Committee, inter alia, assists the Board in discharging its responsibilities for:

- The effectiveness of the Company's risk management systems;
- The implementation of the Company's risk strategy and maintenance thereof;
- The oversight of Solvency II developments;
- The oversight of investment issues;
- The timely reporting of material deviations from defined risk appetite; and
- Monitoring the effectiveness, independence and objectivity of the Risk function.

Additionally there is an Investment Committee, which is a sub-committee of the Risk Committee. The duties and responsibilities of the Investment Committee are primarily to assist the Board and/or the Risk Committee to discharge of their respective statutory duties and oversight responsibilities in relation to shareholder funds and policyholder funds within the overall risk appetite and control framework of the Company.

B.1.2 Independent Control Functions:

The Governance arrangements of the Company include the four key independent control functions required under the Corporate Governance Requirements for Insurance Undertakings 2015 - risk management, compliance, actuarial and internal audit. These functions, which are independent from the day to day operations of the Company, are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework. During the year, the Central Bank renewed a derogation for the Head of Group Risk and Compliance, supported by the Group Risk and Compliance functions, to simultaneously hold the positions of Chief Risk Officer and Compliance Officer. Further details of the independent control functions are set out at B1.2.1 to B1.2.4, below.

B.1.2.1: Chief Risk Officer:

The CRO oversees the implementation and effective operation of the Company's Risk Management Policy, reporting to the Board Risk Committee and the Company's General Manager. The responsibilities of the Chief Risk Officer include:

- Oversight of the smooth-running of the Company's Enterprise Risk Management framework (ERM) and adherence to the associated policy and procedural obligations
- Establishing and maintaining the Company's governance, risk management and internal control arrangements associated with the capture, reporting and escalation of risk events and 'near misses'
- Identification and analysis of new and emerging risks, such that these can be adequately assessed and material issues reported to the Board Committee, who will determine whether the issue is of such significance that it needs to be reported to the Company's Regulator

- To ensure that the annual ‘Own Risk and Solvency Assessment’ (ORSA) is prepared and submitted to the Board Risk Committee who engage with the process and recommend outputs to the Board for strategic consideration.

B.1.2.2: Compliance Officer:

The Compliance Officer reports to the Board Risk Committee and the Board, and raises issues as they arise, to the Company’s General Manager. The responsibilities of the Compliance Officer include:

- The reporting of significant instances of non-compliance with external obligations or associated internal policy or procedural arrangements to the Board Risk Committee and the Company’s management
- Monitoring compliance within the Company and its service providers, making recommendations where change is required, and maintenance of the Company’s Breach Register
- Monitoring the external environment to identify, analyse and assess regulatory change and to inform the Company and its service providers where such changes have implications for the Company’s strategy, planning, organisation or activities.

The Board Risk Committee oversees the ‘risk based’ Compliance Monitoring Plan and outcomes thereof.

B.1.2.3: Head of Actuarial Function (“HoAF”):

The function of the HoAF is outsourced to KPMG (Ireland); this adds an independent oversight of the Company’s Actuarial Function. The responsibilities of the HoAF and the Actuarial Function, in line with guidance from the Central Bank of Ireland and the Society of Actuaries, include, but are not limited to the following matters:

- Coordinating the calculation of the firm’s technical provisions
- Assessing the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in Solvency II
- Continuous monitoring of the solvency position of the Company and the required level of statutory reserves
- Reporting on the solvency position of the Company
- The provision of advice and support to the Company on the ORSA (Own Risk and Solvency Assessment) process, including the financial consequences of stresses and scenarios and the impact of management actions

B.1.2.4: Head of Internal Audit:

The Company’s Internal Audit services are provided by the Group Internal Audit Function under a formal outsourcing arrangement. Following changes in the staffing and structure of the Group function during the year ended 30 June 2017 a separate outsourcing arrangement was established with KPMG (Ireland),approved by the Central Bank of Ireland, to oversee the Company’s Head of Internal Audit role. The Group Internal Audit Function provides independent and objective assurance and consulting services, overseen by the HE DAC Head of Internal Audit, with due regard to the adequacy of the governance, risk management and internal control frameworks. Audits are conducted within a Board approved ‘Internal Audit Charter’ framework. The Head of Internal Audit reports to the Company's Chair of the Audit Committee. The Audit Committee oversees the Board approved 'risk based' Audit Plan and outcomes thereof.

Internal Audit Reports highlight any significant control failings or weaknesses identified and the impact they have had, or may have, and the actions and timings which management have agreed to take, to rectify them. In addition to their regular reporting the Head of Internal Audit prepares an annual report for the Audit Committee, which provides a balanced assessment of the effectiveness of the Company's systems of risk management and internal controls, in accordance with Internal Audit professional accountabilities and statements and the findings of their audits during the year.

B.1.3 Other Control Functions:

The Company has two other Control Functions, based in its Head Office in Dublin:

- General Manager
- Finance and Outsourcing Manager

The Company has also outsourced its Money Laundering Reporting Officer Role (a Preapproval Control Function), and Data Protection Officer to Group employees within the Group Risk and Compliance teams. This is appropriate given the dependence for operational administration processing on Group Service providers.

B.1.4 Remuneration, Employee Benefits and Practices

The Company provides a range of benefits to employees, including contractual salary, life cover, permanent health insurance and paid holiday arrangements. Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The Company pays contributions based on a percentage of salary determined by length of service into Personal Retirement Savings Accounts (defined contribution plans) on behalf of its employees. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. The assets of the plan are held separately from the Company in independently administered funds. Employees contribute additional voluntary contributions to suit their circumstances.

The Company does not offer any performance-based bonuses or incentives. Therefore its remuneration practices are considered to promote sound and effective risk management and do not encourage excessive risk taking. The Group operates an annual bonus plan for employees based on pre-determined criteria, which includes employees of the Company.

B.1.5 Material Transactions

Other than payment for services for those outsourced functions set out in 'B.7' of this report, and contracted employee salaries and benefits mentioned above, there were no material transactions with the Shareholder, with persons who exercise a significant influence on the undertaking and with members of the administrative, management or supervisory body.

B.2 'Fit and Proper' Requirements
The Company has adopted a Fitness and Probity Policy, which sets out the due diligence checks that must be performed in the following areas and which aligns with the Central Bank of Ireland's Fitness and Probity Standards, and guidance thereon. These include:

- Identification (copy of passport)
- Compliance with the minimum competency code, where relevant
- Professional qualification(s)
- Continuous Professional Development
- Interview and application
- References
- Record of previous experience
- Record of experience gained outside the State
- Concurrent Responsibilities
- Individual Questionnaire

The recruitment process of a candidate for a Control Function role includes the following:

- A written job description outlining the duties and responsibilities of the role;
- An assessment of the level of fitness and probity required for the role, on the basis of the formally documented job description and person specification;
- A process (i.e. number and diversity of interviews) that matches the person with the requirements of the role;
- Verification of identity, relevant qualifications, experience, references and professional memberships.

For key Control Functions (referred to as Pre-approval Control Functions or "PCFs"), approval from the Company's Regulator, the Central Bank of Ireland, is required prior to appointment by the Company's Board. Members of the Board are all PCF functions as are all of the Control Functions listed above. Additionally, service providers annually attest to the Company in respect of fitness and probity of those who hold control function roles within their organisations.

B.3 Risk Management System including the Own Risk and Solvency Assessment
The Company's Enterprise Risk Management (ERM) framework has been developed to enable the Board and management to understand, assess and appropriately manage and mitigate the risks associated with the Company's objectives over the short, medium and longer term together with the overall level of risk embedded within functional and operational processes and activities, including those which are the subject of outsourcing arrangements.

The Board Risk Committee receives regular reporting from the Company's Chief Risk Officer in relation to the outcome of the periodic risk assessments undertaken by management in line with the ERM framework.

The main policy objectives of the ERM framework are:

(a) Performance objectives: the efficiency and effectiveness of activities, use of assets and other resources and protecting the Company from loss. The ERM framework seeks to ensure that personnel, including those providing services on an outsourced basis, are working to achieve business objectives with efficiency and integrity, without unintended or excessive cost, or placing other interests before those of the Company.

(b) Information Objectives: the preparation and provision of timely, reliable and relevant reports needed for substantive, informed decision-making. Information objectives also address the need for reliable annual accounts, financial statements and other financial-related disclosures; reports to external parties and stakeholders. The ERM framework seeks to ensure the information received by management, the Board of Directors, Shareholders and regulators is of sufficient quality and integrity that recipients can rely on the information in making decisions.

(c) Compliance Objectives: the ERM framework seeks to ensure that all organisational activities and outputs comply with applicable laws and regulations, supervisory requirements and internal policies and procedures.

The result is a risk management strategy, which is led by the Board whilst being embedded in the Company's business systems, strategy and policy setting processes and the normal working routines and activities of the Company. Consequently risk management is an intrinsic part of the way business is conducted and allows the Company to respond quickly to evolving risks, which may arise internally or externally.

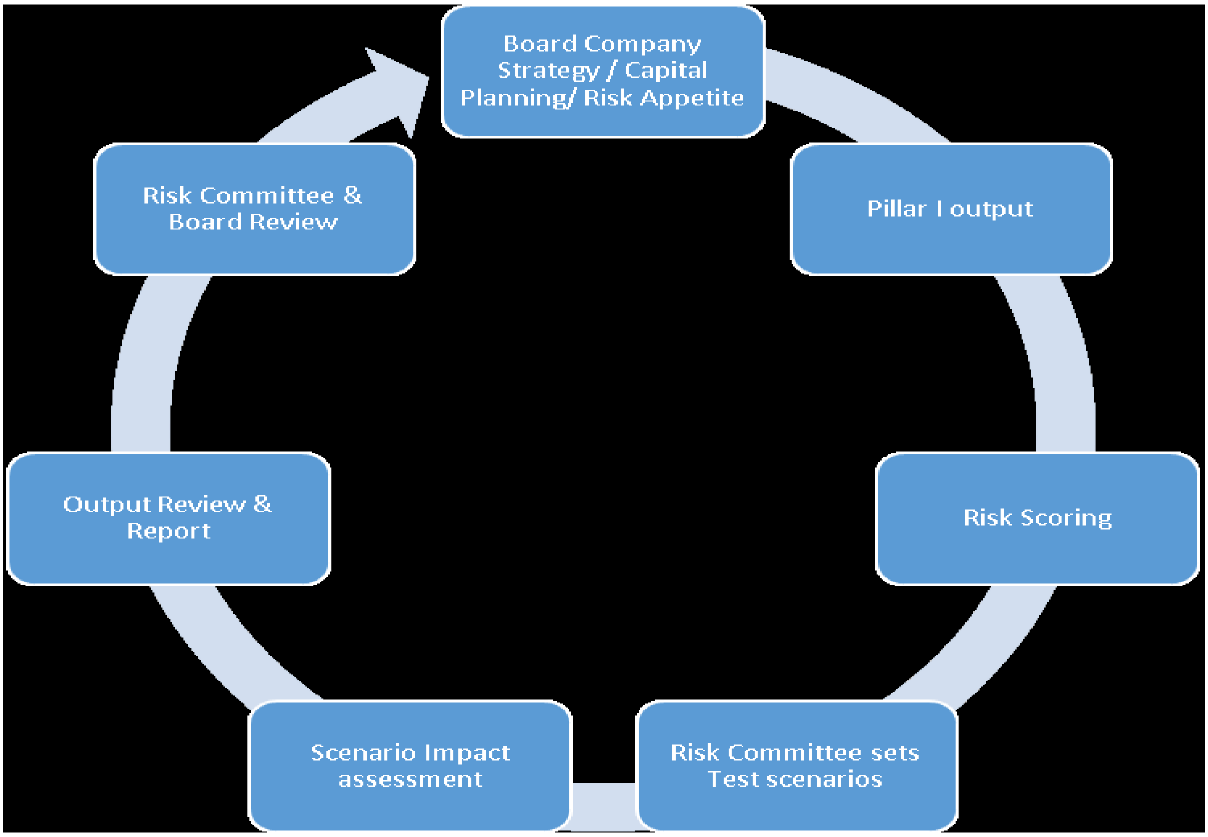
The ERM framework is intended to reduce, but cannot eliminate the range of possibilities, which might cause detriment to the Company. Similarly the ERM Framework cannot provide protection with certainty against any failure of the Company to meet its business objectives, or guard against material errors, losses, fraud, or breaches of laws and regulations. Taking all of these factors into account the ERM Framework is intended to provide reasonable assurance that the Company will conduct its business in an orderly and legitimate manner on a continuing basis and that reasonably foreseeable circumstances will not prevent or limit the Company from achieving its business objectives.

Every year, and on an ad-hoc basis if circumstances materially change, the Company prepares an Own Risk Solvency Assessment (ORSA). The objective of the ORSA process is to enable the Board to assess its capital adequacy in the light of its assessments of its risks and the potential impacts of its risk environment, and enable it to make appropriate strategic decisions. The Board requires that the ORSA process produces meaningful reports on the adequacy of the Company's capital and risk sensitivities that can be used in shaping strategy and risk appetite.

The ORSA process is a cyclical process that relies on key elements of the business:

- Board strategy, policies and plans;
- The Solvency II Pillar I Balance Sheet standard model results, and base assumptions used;

- The ERM process and its outputs, which identifies the key risks;
- The Board Risk Committee who review, challenge and approve the test scenarios including the ORSA output;
- The Actuarial Function who run the tests on the Balance Sheet, for capital adequacy and produce the resultant output;
- The Risk Function, Actuarial Function and management who assess the outputs and prepare the reports;
- The Risk Committee and Board's assessment of the output and resultant capital, strategy and risk appetite review;
- ORSA Reporting to the Company's regulator, the Central Bank of Ireland.



The Board reviews the ORSA report and considers appropriate action for the business such as:

- Decisions in relation to capital;
- Reassessment of risk profile and appetite;
- Additional risk mitigation actions;
- Reassessment of investment strategy

The results and conclusions contained in the ORSA Report and the Board's resultant actions and decisions, are communicated to all relevant staff, including outsourced control functions, once the report has been considered and approved by the Board.

The Board has determined that the Solvency II standard formula would be used to calculate the required solvency capital and to assess the overall solvency needs. A five year base case projection of the Solvency II Balance Sheets and Solvency Capital Requirements ('SCR') position is produced using the standard formula, as well as actuarial and key run-off assumptions. The results are subjected to a range of scenario testing that is reviewed by management and challenged by the Board and, where appropriate, potential management actions are noted and conclusions drawn.

Assessments to date indicate that the Company is adequately capitalised.

B.4 Internal Control System

The Internal Control Framework for the Company has three elements:

(a) Board-level Controls - The Board Manual, policies, reports and minutes of Board and Board Committee meetings form the principal framework, within which the Board operates.

(b) Independent Control Functions - Please refer to details set out at Section B1.

(c) Functional Controls – Functional controls are typically set out in the policies, manuals and procedures governing the function in question.

(d) Controls over Outsourced Activities - The Company requires that any outsourcing partner, be they a sister Group Company or not, manages its control environment to at least the same standards as it would employ and to adhere to the Company's policies and procedures, and employ fit and proper people in its control functions. Key Performance Indicators ("KPI's") are set, and the Company requires regular service reporting and attestations (on the Service Level Agreement and related KPI's) to its 'General Manager' and 'Finance and Outsourcing Manager' and the Board, including certification from its main service providers to the Board on the Fitness and Probity of its Control Functions. Immediate reporting is required should any material incident or exposure occur.

The Head of Internal Audit, through the planned and commissioned reviews of the Company's processes and those of its service providers, provides an opinion via the Internal Audit Annual Report, on the adequacy of the internal control framework of the Company's business.

B.4.1 Operation of Compliance Function

The Compliance Function, headed by the Compliance Officer, is part of the Company's overall corporate governance structure. The function is outsourced to HG plc and is a control function of the Company, which is responsible for the monitoring, managing, and reporting of the Compliance risks to which the Company is exposed. Compliance auditing occurs to check that the Company and its service providers are adhering to their obligations. Compliance reports are issued to the Board Risk Committee assessing the effectiveness and adequacy of compliance within the Company and its service providers. The Board Risk Committee reports its activities and recommendations to the Board of Directors. The activities of the Compliance function are subject to periodic review by Internal Audit.

Management of the Company, and its service providers, are responsible for notifying the Compliance Officer of any breach of applicable laws and regulations that fall within the scope of their responsibilities. Upon receipt of notification, the Compliance Officer records the relevant breach item in the Company's breach register and discusses remedial actions with the management concerned. Where material, reporting is made to the General Manager and to the Board Risk Committee. The breach register is reviewed with the General Manager in service meetings, and significant breaches are reported to the Company's Control Committee and the Board Risk Committee.

B.5 Internal Audit Function

The Internal Audit function both outsourced and within the Hansard Group, operates in accordance with the Chartered Institute of Internal Auditors for UK and Ireland's International Professional Practices Framework and other relevant codes of conduct and is independent from the operational functions. The Internal Audit function constitutes an integral element of the Company's control framework but does not hold any executive responsibilities or any accountability for risk management or systems of internal control, other than to appraise their effectiveness.

As an independent, objective assurance and consulting activity the Internal Audit function provides analysis and evaluation of the adequacy, effectiveness, efficiency and quality of risk management, internal control and governance systems and processes.

The primary role of the Internal Audit Department is to assist the Audit Committee, the Board and Management team to protect the assets, reputation and sustainability of the Group. It does this by:

- Assessing whether all significant risks are identified and appropriately reported by Management and the Group Risk Department to the Board and Executive Management Team
- Assessing whether risks are adequately controlled, having reference to risk appetite
- Challenging Executive Management to improve the effectiveness of governance, risk management and internal controls
- Assessing whether the management of risk is integrated into organisational culture
- Evaluating whether the Group and its subsidiaries are acting with integrity in their dealings with customers and interactions with relevant markets
- Evaluating the management of capital and liquidity risks
- Evaluating whether primary risks associated with key corporate events are adequately addressed and reported and whether the information used to inform decision making on these issues is fair, balanced and reasonable
- Assessing the design and operating effectiveness of organisational policies and processes, including whether the outcomes achieved are in line with the objectives, risk appetite and values of the Group

Internal Audit findings and recommendations are reported to the management who must respond to those findings and recommendations within mutually agreed timeframes.

The Audit Committee considers internal audit plans proposed by the Head of Internal Audit, reporting, resourcing and performance. Any matters of concern that cannot be resolved through normal channels, are escalated to the Board.

The purpose, scope, authority and responsibilities of the Head of Internal Audit and the Internal Audit function are set out in full within the Company's Internal Audit Charter, which is approved and ratified by the Board and which is reviewed and updated on an annual basis, or more frequently, if required.

In support of the outsourcing arrangements governing Internal Audit service provision to the Company, described at Section B.1.2.4, above, regular service meetings occur to ensure appropriate oversight of these outsourced services. Function attestations and service level reporting are provided at those meetings.

The Internal Audit Department, via the Head of Internal Audit, reports directly to:
- The Chair of the Hansard Europe Audit Committee
- The General Manager – for service reporting.

The dual reporting arrangements protects both the organisational status and the objectivity required to maintain the authority and independence of the Internal Audit Department, allowing the Head of Internal Audit direct and unrestricted access to senior management and the Board.

The effectiveness of the Internal Audit Department as an assurance service depends upon its independence from the day-to-day operations of the business, which allows the objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The Head of Internal Audit is required to provide confirmation to the Company's Board, on at least an annual basis, of the organisational independence of the Internal Audit Department. This confirmation is undertaken through reporting to the Audit Committee and relevant representations by the Chairman of the Audit Committee to the Board.

B.6 Actuarial Function

The Actuarial services to support the business are outsourced to the Group Actuarial Department in Hansard Administration Services Ltd.

The activities of the Actuarial Department are split between those involved in preparing work and/or analysis, performed by the Chief Actuary and those activities of the Actuarial Function, performed by the Head of Actuarial Function (HoAF), who provides independent oversight and validation. The role of the Chief Actuary is outsourced to Hansard Administration Services Ltd while the role of Head of Actuarial Function is outsourced to KPMG (Ireland).

The key responsibilities of the HoAF include:
- Co-ordination of the calculation of technical provisions. This consists of assessing the sufficiency of the provisions, assessing the uncertainty in the estimates and justifying the differences between successive periods.
- Review the appropriateness of the models and assumptions, consider the sufficiency and quality of data, and interpret deviations of best estimates against experience. There is also a requirement to consider the verifiability of assumed management actions.

- The Actuarial Function must produce an annual report for the Board. The report should cover all of the information necessary for the Board to form its own opinion on the adequacy of technical provisions and on the underwriting and reinsurance arrangements.
- In addition to responsibilities in relation to the technical provisions, and the requirements to express opinions on underwriting policy and reinsurance arrangements, the HoAF contributes to the effective implementation of the risk management system of the Company. In particular:
    - In relation to the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), the HoAF reviews the output of the model used by the Company to calculate the SCR and MCR. Specifically, any perceived or possible inconsistencies or issues identified in the model results are raised.
    - ORSA - the Chief Risk Officer, together with the HoAF and Chief Actuary (CA), establish the requirements of the audience for the ORSA report, agree how the requirements will be satisfied and agree the format of the draft ORSA reports, the supporting appendices and working papers.

B.7 Outsourcing

The Company outsources and enters into outsourcing arrangements only where there is a sound commercial basis for doing so, and where the risk can be effectively managed. A due diligence process is undertaken prior to any final decision being made as to whether to outsource a material business activity. This addresses all material factors that would impact on the potential service provider's ability to perform the business activity.

Hansard Global plc has established an Outsourcing Policy to establish the requirements for identifying, justifying and implementing material outsourcing arrangements. This Policy, which was included as part of the Company's Run Off Plan, approved by the CBoI, has been adopted by the Company and sets out the following:

- Definition of outsourcing and material outsourcing
- Risk mitigation strategies
- Board and management responsibility
- Business Case
- Due Diligence
- Business Continuity Management (BCM)
- Contractual Agreements
- Management and control of the Outsourcing Relationship
- Offshoring
- Final Approval

The Company's outsourcing arrangements are subject to an annual review and the findings of this report are reviewed by the Board.

The following is a list of the critical or important operational functions the Company has outsourced together with the jurisdiction in which the service providers of such functions or activities are located.

Hansard Europe DAC - Outsourcing Arrangements				
Outsourced Provider	**Service Outsourced**	**Internal/External**	**Jurisdiction**	**Outsourcing Manager**
Hansard Administration Services Ltd (HASL)	Policy Administration	Internal	Isle of Man	Finance and Outsorcing Manager (PCF 11)
	Broker Support			
	Finance			
	Tax			
	IS Infrastructure and Systems Development			
Hansard Development Services Ltd	Marketing, Print Production, Product Maintenance and Introduction of Intermediaries			
Hansard Global plc	Risk			
	HR			General Manager (PCF 08)
	Legal			
	Compliance/MLRO/Data Protection			
	Internal Audit			
HASL	Actuarial Operations			
Capital International Ltd	Custody, dealing and investment administration services	External	Isle of Man	HASL Propositions Department
KPMG (Ireland)	Head of Actuarial Function		Ireland	Group Chief Actuary
	Head of Internal Audit			General Manager (PCF 08)

B.8 Any Other Information

The Company has assessed its corporate governance system 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 a Company which is closed to new business.

C: Risk Profile

Risk Management Objectives and Risk Policies

The Company's objective in the management of financial risk is to minimise, where practicable, its exposure to such risk, except when necessary to support other objectives. The Company seeks to manage risk through the operation of 'unit-linked', investment-linked business, whereby the policyholder bears the financial risk.

Prudent Person Principle

The majority of the assets on the Company's balance sheet are held in respect of unit-linked contracts where the Policyholder or their mandated agent has selected the assets to be linked to their policies. Solvency II regulations have brought in the 'Prudent Person Principle' in relation to investing in assets. The Company is required to apply this principle, and has ensured that its investment policy and asset acceptability framework are aligned with this Principle, for all new asset choices.

Overall responsibility for the management of the Company's exposure to risk is vested in the Board. To support it in this role, an enterprise-wide risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. Additionally, the Board has established a number of Committees with defined terms of reference. These are the Audit, Risk, and Investment Committees.

The more significant financial risks to which the Company is exposed are set out below. For each category of risk, the Company determines its risk appetite and sets its investment, treasury and associated policies accordingly.

C.1 Underwriting Risk

The Company closed to new business 30 June 2013. Top ups to some product lines, with policies in force at closure, continue to be accepted where the legal terms and conditions of the individual policy indicate this to be obligatory.

The Company's strategy, its risk appetite, and the risks it faces are therefore considered in the context of a reducing book of residual business where the assureds are mainly based in various jurisdictions within the European Union.

As a life insurance company, the key element of underwriting risk is mortality risk.

As the Company is closed to new business, no additional new mortality risk underwriting is likely to be required. The mortality risk already accepted by the Company is primarily related to the value of the policyholder benefit – itself determined by the values of the unit funds linked to each policy. There is some mortality risk that is specified in monetary terms.

Reinsurance arrangements are in place to cover a proportion of the sums at risk on the death of the life assured.

C2. Market Risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, analysed between price, interest rate and currency risk. The Company adopts a risk averse approach to market risk, with a stated policy of not actively pursuing or accepting market risk except where necessary to support other objectives. However, the Company accepts the risk that the fall in equity or other asset values, whether as a result of price falls or strengthening of sterling against the currencies in which policyholder assets are denominated, will reduce the level of annual management charge income derived from such policyholder assets and the risk of lower future profits.

<u>Sensitivity analysis to market risk</u>

The Company's business is unit-linked and the direct associated market risk is therefore borne by policyholders (although there is a secondary impact as company income is dependent upon the markets, as mentioned above). Financial assets net of liabilities to support Company capital resources held outside unitised funds primarily consist of units in money market funds, cash and cash equivalents, and other assets and liabilities. Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates. Other assets and liabilities are similarly unaffected by market movements.

As a result of these combined factors, the Company's financial assets net of liabilities held outside unitised funds are not materially subject to market risk, and movements at the reporting date in equity values have an immaterial impact on the Company's profit after tax and equity. Future revenues from annual management charges may be affected by movements in interest rates, foreign currencies and equity values.

(a) <u>Price Risk</u> - An overall change in the market value of the investment-linked funds would affect the annual management charges accruing to the Company since these charges, which are typically 1% p.a., are based on the market value of policyholder assets under administration. Similarly, due to the fact that these charges are deducted from contracts in contract currency, a change in foreign exchange rates relative to sterling can result in fluctuations in reported fee income and expenses. The approximate impact on the Company's profits and equity of a 10% change in fund values, either as a result of price or currency fluctuations, is £0.1m (2017: £0.2m).

(b) <u>Interest Rate Risk</u> - Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from changes in underlying interest rates. The Company is primarily exposed to interest rate risk on the balances that it holds with credit institutions and in money market funds. A change of 1% p.a. in interest rates will result in an increase or decrease of approximately £0.1m (2017: £0.2m) in the Company's annual investment income and equity. A summary of the Company's liquid assets at the balance sheet date is set out in C3 below.

(c) <u>Currency Risk</u> - Currency risk is the risk that the Company is exposed to higher or lower returns as a direct or indirect result of fluctuations in the value of, or income from, specific assets net of liabilities arising from changes in underlying exchange rates.

Company Foreign Currency Exposures - The Company is exposed to currency risk on the foreign currency denominated bank balances, contract fees receivable and other liquid assets that it holds to the extent that they do not match liabilities in those currencies. The impact of currency risk is minimised by regular conversion of excess foreign currency funds to sterling. The Company does not hedge foreign currency cash flows. At the balance sheet date the Company had exposures in the following currencies:

	2018 US$000's	**2018 €000's**	2017 US$000's	2017 €000's
Gross assets	**284**	**1,589**	833	1,075
Matching currency liabilities	**(78)**	**(1,173)**	(236)	(2,462)
Uncovered currency exposures	**206**	**416**	597	(1,387)
Sterling equivalent of exposures (£'000)	**156**	**368**	485	(1,216)

The approximate effect of a 5% change in the value of US dollars to sterling is less than £0.1m (2017: less than £0.1m); in the value of the euro to sterling is less than £0.1m (2017: less than £0.1m).

Financial Investments by Currency - Certain fees and commissions are earned in currencies other than sterling, based on the value of financial investments held in those currencies from time to time. The sensitivity of the Company to the currency risk inherent in investments held to cover financial liabilities under investment-linked contracts is incorporated within the analysis set out in (a) above. At the balance sheet date the analysis of financial investments by currency denomination is as follows:

Currency	**2018 %**	2017 %
Euro	**53**	61
US dollar	**27**	21
Sterling	**17**	16
Others	**3**	2
Total	**100**	100

C3. Credit Risk

Credit risk is the risk that the Company is exposed to lower returns or loss if another party fails to perform its financial obligations to the Company. The Company has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

The clearing and custody operations for the Company's security transactions are managed through an outsourcing arrangement with one broker, namely Capital International Limited, a member of the London Stock Exchange. At 30 June 2018, substantially all policyholder cash and cash equivalents, balances due from brokers and financial investments are placed in custody with Capital International Limited. These operations are detailed in a formal contract that incorporates notice periods and a full exit management plan. Delivery of services under the contract is monitored by a dedicated relationship manager provided by the Company's service provider, Hansard Administration Services Limited, a fellow wholly-owned subsidiary of Hansard Global plc. Both relationships are managed against documented Service Level Agreements and Key Performance Indicators.

The Company has an exposure to credit risk in relation to its deposits with credit institutions and its investments in unitised money market funds. To manage these risks; deposits are made, in accordance with established policy, with credit institutions having a short-term rating of at least F1 and P1 from Fitch IBCA and Moody's respectively and a long term rating of at least A and A3. Investments in unitised money market funds are made only where such fund is AAA rated. Additionally maximum counterparty exposure limits are set.

At the balance sheet date, an analysis of the Company's own cash and cash equivalent balances and liquid investments was as follows:

	2018	2017
	£'000	£'000
Deposits with credit institutions	**13,897**	11,034
Investments in money market funds	**8,014**	13,256
	21,911	24,290

C4. Liquidity Risk

Liquidity risk is the risk that the Company, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost. The Company is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

The Company's objective is to ensure that it has sufficient liquidity over short- (up to one year) and medium-term time horizons to meet the needs of the business. This includes liquidity to cover regulatory capital obligations as well as working capital to fund day-to-day cash flow requirements.
Liquidity risk is principally managed in the following ways:

- Assets of a suitable marketability are held to meet liabilities as they fall due.
- Forecasts are prepared regularly to predict required liquidity levels over both the short- and medium-term.

The Company's exposure to liquidity risk is considered to be low since it maintains a high level of liquid assets to meet its liabilities.

C5. Operational Risk

The principle risks faced by the Company were reviewed during the year and have been sorted into three main risk categories, to match the business objectives and then grouped into Sub–Risk Categories.

These Sub-Risk Categories represent the Company's "Universe of Risk Categories", being the categories of material risk to which the Company is or could be exposed in the pursuit of its business objectives and corporate strategies. The Risk identification, measurement, monitoring, managing and reporting under the Company's Risk Management system is based on the specific risks within the Risk Categories. The Risk and Sub-Risk Categories are as follows:

A. Operational Risks

1. Outsourcing risks. The following are key areas outsourced due to the size and importance of each of the risks

    1.1. Litigation risks

    1.2. Policyholder Relationship risks

    1.3. Policyholder Asset risks

    1.4. Shareholder Asset risks

B. Regulatory

2. Legislation/Regulation

C. Financial and Solvency Risks

3. Capital/Solvency risks

4. Expense Management risk

A. Operational Risks	
1. Outsourcing Risks	The outsourcing of services should not result in a poorer overall quality of service to policyholders or weakened financial controls compared to the Company performing the relevant activities and services in-house. The quality and terms of outsourced services should be clearly defined. The expense should be appropriate for the service being provided. Financially, the cost of outsourcing should reflect efficiencies in processing and be met from policy margins. The Company itself adequately manages, monitors and oversees its outsourcing arrangements with relevant reporting to the Board Risk Committee.

1.1 Litigation Risks	Ongoing litigation cases are primarily managed on the basis of their merit, with due regard for ongoing, as distinct from settlement, expenses, and the implication of the result. New cases are considered on their merits and handled professionally. Financially, the impact of actual or potential litigation is assessed as soon as practical (usually when there is sufficient information to assess the claim).
1.2 Policyholder Relationship Risks	Policyholder relationships are managed with proper regard for the provision of accurate and timely information, due regard for the governing contractual provisions, the prevailing consumer and regulatory environment, and appropriate consideration of individual circumstances, where these are known to the Company. Financially, the costs of handling policyholder relationships are included in the outsourcing tariff.
1.3 Policyholder Asset Risks	Policies are linked to assets that are liquid, marketable and capable of administration and in line with the 'Prudent Person Principle': where assets do not meet these criteria, their handling is appropriate. Financially, pricing suspensions cause the deferral of charges and may increase policyholder complaints. Asset acceptability is overseen by the Investment Committee and applied by Capital International. The Investment Committee reports to the Risk Committee.
1.4 Shareholder Asset Risks	Shareholder assets are invested with trusted counterparties that meet Group and Company requirements, in line with the Investments and Treasury Management Policy.
B. Regulatory/Legislative	
2) Governance Risk	The processes, structures and information flows demonstrably support sound and prudent management of the business, including compliance with regulation. The primary financial impact of poor governance is increased expense: other consequences include damage to reputation.
C. Capital/Solvency and Expense Management Risks	
3) Capital/Solvency Risks	The Company seeks to operate such that its solvency is not materially impaired.(The outcome of most, if not all, of the Company's risks is reduced solvency.) Significantly, reduced solvency calls into question the ability of the Company to progress without external support.

4) Expense Management Risk	Expenses are managed in line with the agreed business plan: the number of policies remitting charges is anticipated in the business plan. The financial impact of worse-than-expected expense performance is reduced solvency.

C.6 Other Material Risks

The key external developments relevant to HEdac's risk and capital profile include the following:

A: Regulatory Environment:

HEdac closed to new business 30 June 2013. The Company's strategy, its risk appetite, and analysis of the risks it faces are predicated on the basis of a reducing book of residual business where the assureds are mainly based in various jurisdictions within the European Union (EU). Notwithstanding that position there are a number of factors generated by the continuing evolution of the regulatory environment which have the capacity to influence the Company's risk and capital profile as the book runs off. In particular:

- The profile of the Company's cost base is increasingly influenced by developments in Home and Host State regulatory environments and associated compliance obligations. As the size of the book decreases this can be expected to result in a disproportionate increase in the expense base and unit costs of administering the book. Experience determines that it is reasonable to conclude the cost base will not reduce proportionately with the size of the book.
- As regulatory focus and expectations in respect of conduct risk continue to evolve, exposures may arise either as the consequence of historic weaknesses in the management of conduct risk, which have not been previously identified, or as the result of enhanced consumer awareness and influence. Analysis of movement in risk appetite metrics for the financial year ended 30 June 2018 indicate that it is prudent to consider that the Company's experience in terms of increased litigation exposures might continue and / or deteriorate over time.

B: International Economic and Financial System Developments:

Risks to international financial stability remain elevated. Policy uncertainties, including the form that the UK's exit from the European Union (Brexit) will take, geopolitical tensions and the possibility of greater protectionism could trigger disorder in global financial markets.

Whilst the Company is less exposed as a closed book to such uncertainties and unit-linked products carry no interest rate risk for the Company, the impact of Brexit on the local economy, both in the short and long term is likely to be negative and potentially material. To date, Brexit's effects have been predominantly through the depreciation of sterling against the euro. Any adverse effects on economic, regulatory or financial market conditions will need to be monitored and assessed on a continuing basis. In particular there is uncertainty as to the impact of Brexit on HEdac's continued ability to service its UK based policyholders, although minimal transitional provisions are currently being developed. The situation will require continued monitoring in the near term to understand and quantify the impacts as they materialise.

D: Valuation for solvency purposes

D.1 Assets

The following table analyses the Company's financial assets at 30 June 2018:

	Solvency II value		Statutory accounts value	
Financial Assets	**2018**	**2017**	**2018**	**2017**
Assets held for index-linked and unit-linked contracts:				
Equity Securities	1.7	4.9	1.7	4.9
Collective Investment Schemes	107.8	144.1	107.8	144.1
Fixed Income Securities	4.1	7.9	4.1	7.9
Deposits and Money Market Funds	9.0	11.3	9.0	11.3
Deposits other than cash equivalents	14.2	11.1	9.3	9.1
	136.8	179.3	131.9	177.3
Cash and cash equivalents	8.0	13.3	12.9	15.3
Debtors	1.5	0.5	1.6	0.5
Deferred Origination costs	0.0	0.0	3.6	4.7
Total	**146.3**	**193.1**	**150.0**	**197.8**

Deferred origination costs of £3.6m (2017: £4.7m), are excluded from the valuation of assets for solvency purposes. This is the only material difference between valuation for solvency purposes and the valuation in the financial statements.

Origination costs include commissions, intermediary incentives and other distribution-related expenditure. Origination costs which vary with, and are directly related to, securing new contracts and incremental premiums on existing single premium contracts are deferred to the extent that they are recoverable out of future net income from the relevant contract. Deferred origination costs are amortised on a straight-line basis over the estimated average life of the underlying investment-linked contract. This is currently estimated at between 6 and 16 years, depending on the product type. As noted earlier, the Company closed to new business on 30 June 2013.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where the Directors determine that there is no active market for a particular financial instrument, fair value is assessed using valuation techniques based on available, relevant, information and an appraisal of all associated risks. This process requires the exercise of significant judgement by the Directors.

IFRS 13 requires the Company to classify fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring that fair value. The hierarchy is as follows:

- Level 1: fair value is determined as the unadjusted quoted price for an identical instrument in an active market.
- Level 2: fair value is determined using observable inputs other than unadjusted quoted prices for an identical instrument and that does not use significant unobservable inputs.
- Level 3: fair value is determined using significant unobservable inputs.

The following table analyses the Company's financial assets at fair value through profit or loss, at 30 June 2018:

Financial assets at fair value through profit or loss (£m)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity Securities	1.7	-	-	1.7
Collective Investment Schemes	88.9	-	18.9	107.8
Fixed Income Securities	4.1	-	-	4.1
Deposits and Money Market Funds	23.2	-	-	23.2
Total financial assets at fair value through profit or loss	**117.9**	**-**	**18.9**	**136.8**

In total, assets with a fair value of £18.9m are classified as Level 3 as the directors believe that valuations can no longer be obtained for these assets from an observable market price due to suspension in trading of the asset or the asset becoming illiquid.

D.2 Technical Provisions

The technical provisions comprise the Best Estimate of the Liabilities ("BEL") and the Risk Margin. At 30 June 2018, the technical provisions are:

Technical Provisions £m	**2018**	2017
Best Estimate of Liabilities	**125.9**	170.2
Risk Margin	**1.2**	1.7
Total	**127.1**	171.9

A. <u>Best Estimate of Liabilities (BEL)</u>

The BEL represents unit linked liability less the projected future surplus from the unit-linked policies plus certain non-linked reserves. The calculations have been performed on a best estimate basis in accordance with Articles 75 to 86 of the Solvency II Directive. The underlying policyholder behaviour assumptions are based on policyholder behaviour experience (e.g. surrenders/lapses, fund choices etc). Economic assumptions have been set consistent with economic conditions prevailing at 30 June

2018. The calculations do not make any allowance for transitional measures or assumed management actions.
The main assumption in calculating the future surplus from the unit linked policies are regarding the level and duration of future expenses.

B. <u>Risk Margin</u>
The Risk Margin is an addition to the Best Estimate Liabilities to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The risk margin is calculated as the amount of capital needed to support the Solvency Capital Ratio over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

The technical provisions represent a realistic estimate of the Company's future obligations with an allowance for some deviation for plausible changes in estimation in the form of the risk margin. They are not expected to be sufficient to meet the Company's obligations in all scenarios.

The key sources of uncertainty for the Company are expenses, policyholder behaviour assumptions and potential costs arising out of litigation.

The technical provisions in the financial statements are shown as the technical provisions for linked liabilities amount to £122.6m (2017: £168.0). The difference between the technical provisions in the valuation for solvency (£127.1m) and the financial statements (£122.6m) in relation to the financial year ending 30 June 2018 is the amount of the risk margin and the difference between the unit-linked liability and the BEL. The difference amounts to £4.5m (2017: £3.9m).

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.

The Company recovered £200 from reinsurance contracts during the year 1 July 2017 to 30 June 2018 (2017: £2,260).

There were no material changes in the assumptions used in the calculation of the technical provisions.

D.3. Other Liabilities

<u>Contingent liabilities</u>

For the valuation for solvency purposes, material contingent liabilities have to be recognised as liabilities, unlike IFRS principles under which they are only recognised if the payment of a liability is probable (“more likely than not”) and can be estimated reliably. The contingent liabilities in the valuation for solvency purposes are valued on the expected present value of future cash-flows required to settle the contingent liabilities over its lifetime.

For each contingent liability, consideration has been given to the possible exposure of each liability and the likelihood of these outcomes in the determining the value of each contingent liability. The overall amount has been calculated at £5.3m (2017: £4.0m).

<u>All other liabilities</u>

These comprise of insurance and intermediaries payables, £1.8m (2017: £2.9m) and other liabilities £2.5m (2017: £2.0m). No adjustment is required to these valuations for the valuation for solvency purposes as the amounts held under IFRS measurement principles are deemed to be approximations of fair value.

<u>Deferred Income reserve</u>

Under IFRS recognition principles, fees charged for services related to the management of investment-linked contracts are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred. These are amortised over the anticipated period in which services will be provided.

The Deferred Income Reserve is not relevant for the valuation for solvency purposes.

D.4 Alternative Methods for Valuation

The Company does not use any alternative methods for valuation.

E. Capital Management

E.1 Own funds

The Company is a single shareholder entity whose issued shares are fully paid up. It has no debt financing nor does it have any plans to raise debt or issue new shares in the short or medium term.

The Company's own funds are primarily invested in cash deposits or money market funds. There is no intention to change the disposition of own fund items.

The medium-term capital management plan set by the Board is as follows:

- Own funds to be maintained at an agreed level of at least 150% of the SCR
- No capital is planned to be issued in the short or medium term;
- Own fund items (other than the value arising from the existing policies) are invested in bank deposits or cash funds according to a Board approved Treasury Policy.

Own funds are comprised of paid-in ordinary share capital, a paid up capital contribution and a reconciliation reserve.

Own Funds £m		**2018**		**2017**
Ordinary Share Capital		10.1		10.1
Capital Contribution		3.0		3.0
Own Funds - Financial Statements		13.1		13.1
Difference in the valuation of assets	3.6		4.6	
Difference in the valuation of technical provisions	4.5		4.0	
Difference in the valuation of other liabilities	1.0		(1.5)	
Total of reserves and retained earnings from financial statements	(5.6)		(6.0)	
Reconciliation reserve		(3.5)		(1.1)
Basic own Funds		**9.6**		**12.0**

The eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Capital Requirement is £9.6m. This is comprised entirely of Tier 1 Basic Own Funds.
The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes.

Reconciliation of Basic Own Funds to Equity in the financial statements as at 30 June 2018 (£m)	2018	2017
Total Equity in financial statements	**18.8**	**19.2**
Deduct items not recognised in financial statements:		
Difference between unit linked liabilities and BEL	(3.3)	(2.2)
Contingent Liabilities	(5.3)	(4.0)
Risk Margin	(1.2)	(1.7)
Add items not recognised in Solvency II Balance Sheet:		
Deferred Income Reserve	4.3	5.5
Deferred Origination Costs	(3.7)	(4.8)
Solvency II - Basic Own Funds	**9.6**	**12.0**

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The amount of the Company's Solvency Capital Requirement at the end of the reporting period is £4.0m (2017: £4.8m).

The table below shows the components of the SCR (using the Standard Formula) at 30 June 2018.

SCR Components (£m)	**2018**	**2017**
Market Risk analysed by:	1.7	2.1
- Equity Risk	1.2	1.6
- Currency Risk	0.8	1
- Interest Rate Risk	0	0
- Concentration Risk	0	0
- Spread Risk	0.2	0.1
- Market Diversification Benefit	-0.5	-0.6
Life Risk analysed by:	1.7	2.4
- Lapse Risk	1	1.3
- Expense Risk	1	1.4
- Catastrophe Risk	0	0
- Mortality Risk	0	0
- Longevity Risk	0	0
- Insurance Diversification Benefit	-0.3	-0.3
Default Risk	0.8	0.8
Basic Solvency Requirements ('BSCR') pre Diversification	4.2	5.3
Overall Diversification Benefit	-1.1	-1.4
BSCR	3.1	3.9
Operational Risk	0.9	1
Deferred Tax Liability	0	0
SCR	**4.0**	**4.8**
MCR	**3.3**	**3.3**

The Company uses EIOPA's Solvency II Standard Formula. It does not use Company specific parameters and does not use simplified calculations in its computation.

The Minimum Capital Requirement at 30 June 2018 is €3.7m (£3.3m) which is the minimum, calculated from the formula, using the pre-determined exchange rate per EIOPA guidance as at 31 October 2017.

E.3 Any Other Information

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

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

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

Annex 1: Annual Quantitative Reporting Templates

(all figures are £000's)

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	14,176
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	1
Equities	**R0100**	
Equities - listed	**R0110**	
Equities - unlisted	**R0120**	
Bonds	**R0130**	
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	14,175
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	122,564
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	1,200
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet	**R0400**	
Cash and cash equivalents	**R0410**	8,014
Any other assets, not elsewhere shown	**R0420**	363
Total assets	**R0500**	146,318

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best Estimate	R0670	
Risk margin	R0680	
Technical provisions – index-linked and unit-linked	R0690	127,091
TP calculated as a whole	R0700	
Best Estimate	R0710	125,872
Risk margin	R0720	1,219
Contingent liabilities	R0740	5,341
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	1,829
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	2,463
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	136,723
Excess of assets over liabilities	R1000	9,594

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

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		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	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**									
Reinsurers' share	**R1420**									
Net	**R1500**									
Premiums earned										
Gross	**R1510**			3,299						3,299
Reinsurers' share	**R1520**			11						11
Net	**R1600**			3,288						3,288
Claims incurred										
Gross	**R1610**			25,523						25,523
Reinsurers' share	**R1620**			0						0
Net	**R1700**			25,523						25,523
Changes in other technical provisions										
Gross	**R1710**			-45,150						-45,150
Reinsurers' share	**R1720**									
Net	**R1800**			-45,150						-45,150
Expenses incurred	**R1900**			3,198						3,198
Other expenses	**R2500**									
Total expenses	**R2600**									3,198

Annex I
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		BE	NL	FR	GE	LU	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410							
Reinsurers' share	R1420							
Net	R1500							
Premiums earned								
Gross	R1510		876	835	805	332	136	2,985
Reinsurers' share	R1520		3	3	3	1	0	10
Net	R1600		873	833	802	331	136	2,975
Claims incurred								
Gross	R1610		7,898	3,661	3,210	1,855	1,498	18,122
Reinsurers' share	R1620		0	0	0	0	0	0
Net	R1700		7,898	3,661	3,210	1,855	1,498	18,122
Changes in other technical provisions								
Gross	R1710		12,729	5,900	5,174	2,989	2,414	29,205
Reinsurers' share	R1720							
Net	R1800		12,729	5,900	5,174	2,989	2,414	29,205
Expenses incurred	R1900		3	3	3	1	1	11
Other expenses	R2500							
Total expenses	R2600							11

Annex I
S.12.01.02
Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance		
		Insurance with profit participation		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**	**C0080**
Technical provisions calculated as a whole	**R0010**							
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0020**							
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	**R0030**			125,872				
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**							
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**			125,872				
Risk Margin	**R0100**		1,219					
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole	**R0110**							
Best estimate	**R0120**							
Risk margin	**R0130**							
Technical provisions - total	**R0200**		127,091					

Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees			
C0090	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
		125,872						
		125,872						
		1,219						
		127,091						

Annex I
S.23.01.01

Own funds		**Total**	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	10,122	10,122			
Share premium account related to ordinary share capital	**R0030**					
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**					
Subordinated mutual member accounts	**R0050**					
Surplus funds	**R0070**					
Preference shares	**R0090**					
Share premium account related to preference shares	**R0110**					
Reconciliation reserve	**R0130**	-3,528	-3,528			
Subordinated liabilities	**R0140**					
An amount equal to the value of net deferred tax assets	**R0160**					
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	3,000	3,000			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**					
Total basic own funds after deductions	**R0290**	9,594	9,594			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	9,594	9,594			
Total available own funds to meet the MCR	**R0510**	9,594	9,594			
Total eligible own funds to meet the SCR	**R0540**	9,594	9,594			
Total eligible own funds to meet the MCR	**R0550**	9,594	9,594			
SCR	**R0580**	3,958				
MCR	**R0600**	3,251				
Ratio of Eligible own funds to SCR	**R0620**	242.43%				
Ratio of Eligible own funds to MCR	**R0640**	295.16%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	9,594	
Own shares (held directly and indirectly)	**R0710**		
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	13,122	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	-3,528	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	-571	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**	-571	

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0090**	**C0120**
Market risk	**R0010**	1,739		
Counterparty default risk	**R0020**	809		
Life underwriting risk	**R0030**	1,719		
Health underwriting risk	**R0040**			
Non-life underwriting risk	**R0050**			
Diversification	**R0060**	-1,180		
Intangible asset risk	**R0070**			
Basic Solvency Capital Requirement	**R0100**	3,087		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	871
Loss-absorbing capacity of technical provisions	**R0140**	
Loss-absorbing capacity of deferred taxes	**R0150**	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	3,958
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	3,958
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	**R0010**	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
Medical expense insurance and proportional reinsurance	**R0020**		
Income protection insurance and proportional reinsurance	**R0030**		
Workers' compensation insurance and proportional reinsurance	**R0040**		
Motor vehicle liability insurance and proportional reinsurance	**R0050**		
Other motor insurance and proportional reinsurance	**R0060**		
Marine, aviation and transport insurance and proportional reinsurance	**R0070**		
Fire and other damage to property insurance and proportional reinsurance	**R0080**		
General liability insurance and proportional reinsurance	**R0090**		
Credit and suretyship insurance and proportional reinsurance	**R0100**		
Legal expenses insurance and proportional reinsurance	**R0110**		
Assistance and proportional reinsurance	**R0120**		
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**		
Non-proportional health reinsurance	**R0140**		
Non-proportional casualty reinsurance	**R0150**		
Non-proportional marine, aviation and transport reinsurance	**R0160**		
Non-proportional property reinsurance	**R0170**		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_{L} Result	**R0200**	888

		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**		
Obligations with profit participation - future discretionary benefits	**R0220**		
Index-linked and unit-linked insurance obligations	**R0230**	125,872	
Other life (re)insurance and health (re)insurance obligations	**R0240**		
Total capital at risk for all life (re)insurance obligations	**R0250**		10,004

Overall MCR calculation

		C0070
Linear MCR	**R0300**	888
SCR	**R0310**	3,958
MCR cap	**R0320**	1,781
MCR floor	**R0330**	989
Combined MCR	**R0340**	989
Absolute floor of the MCR	**R0350**	3,251
		C0070
Minimum Capital Requirement	**R0400**	3,251