SOLVENCY AND FINANCIAL CONDITION REPORT

2018

VHI INSURANCE DAC

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Summary

Vhi Insurance DAC ("Vhi Insurance" or the "Company") is Ireland's leading health insurance company by market share. Vhi aims to deliver the highest quality, innovative healthcare and wellbeing services. The Company supports over 1.1 million customers to live longer, stronger and healthier lives through its comprehensive network of professional healthcare and wellbeing service providers. In addition to the Company's focus on assuring the highest quality of care and medical outcomes, it also seeks to ensure affordability of private medical insurance (PMI) as Ireland's only indigenous health insurer established solely for the benefit of its members.

During 2018, the Company continued to reinvest profits back into the business for the benefit of its customers. This was achieved through reduced prices, new and improved medical benefits, product innovation and enhancing customer engagement platforms. Vhi Insurance also delivered additional dedicated services including a new paediatric clinic at Vhi SwiftCare and further expanded its digital capability, providing a variety of new platforms and services making it easier for customers to access Vhi's extensive range of services. Vhi customers were incentivised to engage digitally with Vhi through enrolment in the "Online Advantage" programme, electing for online documentation and automated payment.

IRELAND'S LEADING HEALTH INSURANCE COMPANY

Business and Performance

The business is performing well as a result of the Company's strong capital position, growing membership and an unrelenting focus on cost and financial management. This performance allows Vhi Insurance to reinvest profits back into the business directly for the benefit of Vhi customers. In 2018, Vhi Insurance grew its market share, for the first time in many years, and its PMI membership for the fourth consecutive year. During the year the successful execution of the annual operating plan supports Vhi Insurance's multi-year business strategy and contributed to these positive results.

Vhi Insurance generated a profit for the financial year of €30,762k, compared with €50,429k during 2017. The year on year decrease is principally attributable to price reductions introduced in 2017 and 2018, Vhi's "Online Advantage" programme as well as reduced claims costs incurred gross of reinsurance.

€30,762k
PROFIT AFTER TAX

+ Further Information A. Business and Performance

System of Governance

The Board of Directors of Vhi Insurance has ultimate responsibility for setting the strategy and oversight of the conduct and performance of the Company. The Board recognises that an effective system of governance is essential for the appropriate management of the Company. The system comprises:

- a clear organisational structure with well-defined transparent lines of responsibility,
- effective processes to identify, manage, monitor and report risks to which Vhi Insurance is or might be exposed,

OVER 1.1m CUSTOMERS

- an adequate and effective internal control framework which provides reasonable assurance regarding the achievement of business objectives,
- policies and procedures to ensure persons who run the Company or key function holders within it are, on appointment and throughout their career with Vhi Insurance, fit and proper,
- remuneration practices which foster appropriate cultural behaviours,
- the use, by the Board of the Own Risk and Solvency Assessment (ORSA) as a tool to support informed decision making, enabling the Board to understand risks to which Vhi Insurance is or may be exposed in the future and how they impact strategic objectives or capital needs.

The Board seeks to ensure that governance structures are fit for purpose and adequate for the nature, scale and complexity of the risks inherent in Vhi Insurance's business. This assists the Company in complying with all applicable regulatory requirements, including the Central Bank's Corporate Governance Requirements for Insurance Undertakings and the Code of Practice for the Governance of State Bodies. Vhi Insurance is subject to regulatory oversight by the Central Bank of Ireland and its products are subject to regulation by the Health Insurance Authority (HIA), the statutory regulator of the Irish PMI market.

As at 31 December 2018 the Board consisted of 10 members (with two vacancies), a majority (7) being independent non-executive directors ("INEDs"). It carries out its duties with the support of:

- 5 Board sub-committees, all of which are chaired by an INED; namely the Risk Management and Compliance, Audit, Remuneration, Nomination and Investment Committees;
- 4 executive committees, namely Reserving, Executive Risk, Cost Management Review and Product & Pricing Approval Committees; and
- the Executive Management team, to whom day-to-day management of the Company is delegated.

The Company implements the "three lines of defence" model which is used to structure roles and responsibilities for risk and control activity. Within the three lines of defence the key functions of, Risk Management, Compliance, Actuarial and Internal Audit, are delegated responsibility to monitor and independently challenge the business and to report their findings to a board sub-committee and/or the Board itself.

The Company continually evaluates and seeks to make improvements to the Company's systems of governance and risk management framework. During 2018, the following material changes occurred:

- The establishment of an Executive Risk Committee with a view to ensuring that the Risk Management Framework is appropriately designed and implemented throughout the organisation and to further assist the Risk Management and Compliance Committee ("RMCC") in fulfilling its oversight responsibilities.
- The appointment of a new Director to the Board in January 2018 and the conclusion of the terms of 2 Directors.
- The frequency with which the RMCC meets was increased from quarterly to 6 times a year.

+ Further Information B. System of Governance

ENHANCEMENTS WERE MADE TO A NUMBER OF COMMITTEES

ESTABLISHED A NEW EXECUTIVE RISK MANAGEMENT COMMITTEE

Risk Profile

The principal risks and uncertainties of Vhi Insurance have been determined by assessing potential risks in the categories of capital, value, market, insurance, operations, counterparty default, reputation, compliance, conduct and people. The Company's risk tolerance levels are recorded in the Risk Appetite Statement which is approved by the Board of Vhi Insurance.

Health underwriting risk and market risk are the biggest contributors to the level of solvency capital required to be held by Vhi Insurance. Health underwriting risk relates to the risk of premiums and reserves for insurance liabilities being insufficient to pay claims and for the risk of catastrophic events. Market risk refers principally to the risks to which the Company's investment portfolio is exposed, including equity, concentration, spread, interest rate and property.

The Company made changes to its Risk Appetite Statement during October 2018 – in particular to further refine its risk appetite tolerances and key risk indicators in the short, medium and long term. A further review of the Risk Appetite Statement is underway during 2019.

Risks are monitored and managed on an ongoing basis and overseen by the Board. The Company's risk profile did not change materially in 2018. The Company undertook changes to its investment portfolio asset mix which has increased the Company's market risk. Vhi Insurance has continued progress in managing its business mix and claims volatility risks in its hospital provider arrangements. This is against a backdrop of continued uncertainty over public hospital claims due to changing behaviour with regard to the use of Privately Insured Patient (PIP) forms. Vhi Insurance has further invested in and developed its risk controls for cyber and data protection risks (in light of GDPR) and made its IT systems more resilient. Risk management activity is ongoing to manage Brexit risks including contingency plans for a "no-deal" scenario.

Vhi Insurance DAC conducts, at least annually, an Own Risk and Solvency Assessment ("ORSA"), the purpose of which is to identify Vhi Insurance's risks and conduct stress tests on these. For the purposes of Solvency II the ORSA enables Vhi Insurance DAC to determine an appropriate level of solvency capital to protect policyholders and other beneficiaries. This capital level is called the Solvency Capital Requirement ("SCR").

The 2018 assessment supports the continued use of the standard formula, as prescribed by the European Insurance and Occupational Pensions Authority, for the purposes of determination of Vhi Insurance's regulatory capital requirements. The Company's capital cover projected over the medium term demonstrates that the Company is well capitalised and projects continued compliance with Solvency II capital maintenance requirements and risk appetite tolerances approved by the Board. The Company will continue to progress its risk management plans as a result of the ORSA.

Due to the declaration of a final dividend by Vhi Insurance to its parent, Vhi Group, as well as other factors, the Company's SCR cover reduced over 2018 and remained significantly above the levels required by regulations and the tolerance ranges defined by the Company's Risk Appetite Statement.

+ Further Information C. Risk Profile

€258,020k
HEALTH UNDERWRITING RISK

€57,955k
MARKET RISK

€42,412k
OPERATIONAL RISK

€18,669k
COUNTERPARTY DEFAULT RISK

Valuation for Solvency Purposes

Vhi Insurance prepares its annual statutory financial statements under the historical cost convention, modified to include certain items at fair value, and in accordance with the Companies Act 2014 and Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland" issued by the Financial Reporting Council. The Company is also subject to the requirements of the Companies Acts 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

For Solvency II, all assets and liabilities held at the reporting date are valued according to the rules prescribed in the Solvency II regulations. Additionally, the prescribed headings required for Solvency II disclosures differ from those used by the Company in its statutory financial statements. The principal differences relate to the insurance technical provisions, reinsurance recoverable and deferred tax assets and liabilities.

On a Solvency II basis the Company had total assets of €1,384,860k which is €639,818k lower than the value disclosed in the statutory accounts and €667,453k of liabilities compared with liabilities in the statutory accounts of €1,421,651k. The Company's excess of assets over liabilities for solvency II purposes was €717,406k (2017: €812,881k). This excess constitutes Vhi Insurance's Basic Own Funds, as defined under Solvency II.

The valuation bases for insurance technical provisions differ between the statutory financial statements and Solvency II. This valuation is detailed in section D.2 of this document. The revaluation of the technical provisions under Solvency II gives rise to a revaluation of the related reinsurance and deferred tax assets and liabilities and these are detailed in section D.1 and section D.3 of this document.

Vhi Insurance submitted regulatory returns to the Central Bank during the period under the Solvency II requirements and has complied with the regulations during 2018.

+ Further Information D. Valuation for Solvency Purposes

Capital Management

It is a regulatory requirement that Vhi Insurance maintains a prudent level of capital which will secure its ability to meet its current and future commitments to policyholders and other beneficiaries. The Company acknowledges that the maintenance of an appropriate level of capital is fundamental to meeting its regulatory and legal obligations to policyholders and its shareholder and its ongoing business objectives.

Capital management is used to determine and implement the appropriate amount and mix of capital by type (i.e. common equity, reinsurance, subordinated debt) given the risk profile and performance objectives for the Company. In order to support this objective a Medium Term Capital Plan is prepared by the Company annually and approved by the Board. Vhi Insurance's Medium Term Capital Plan was approved by the Board in June 2018.

€1,384,860k

SOLVENCY II TOTAL ASSETS

€717,406k

SCR ELIGIBLE OWN FUNDS

231%

SOLVENCY COVERAGE RATIO

During 2018 Vhi Insurance declared a final dividend of €30,000k to its parent company Vhi Group DAC, which reduced the Eligible Own Funds through year-end.

Vhi Insurance's capital coverage at year end 2018 as measured under the Solvency II Solvency Capital Requirement ('SCR') is within the risk appetite range for the Company and exceeds the minimum requirement under Solvency II.

At 31 December 2018, the Solvency ratio was 231% (2017: 270%). The Company had Eligible Own Funds of €717,406k (2017: €812,881k), comprising Tier 1 funds of accumulated insurance underwriting profits of €712,406k (2017: €807,881k) and €5,000k (2017: €5,000k) in equity. The reductions in Tier 1 own funds is due to a combination of the declaration of a final dividend of €30,000k and general business performance.

The Company's Basic Own Funds (the nominal value of its regulatory capital instruments) for the year ending 31 December 2018 was €717,406k (2017: €812,881k). As these funds are generated principally from accumulated insurance underwriting profits and equity they are exclusively Tier 1. As these are all Tier 1, Eligible Own Funds (that portion of Basic Own Funds permitted as regulatory capital under Solvency II) are also €717,406k (2017: €812,881k).

+ Further Information E. Capital Management

€309,895k

STANDARD FORMULA SCR

A.
BUSINESS AND PERFORMANCE

A.1 Business

This is a solo Solvency and Financial Condition Report ("SFCR") for Vhi Insurance Designated Activity Company trading as "Vhi Insurance" for the year end 31 December 2018. This means that Vhi Insurance underwrites one line of business that is private medical insurance (PMI). This report is required annually in accordance with Solvency II requirements to disclose information with regard to the solvency and financial condition of Vhi Insurance.

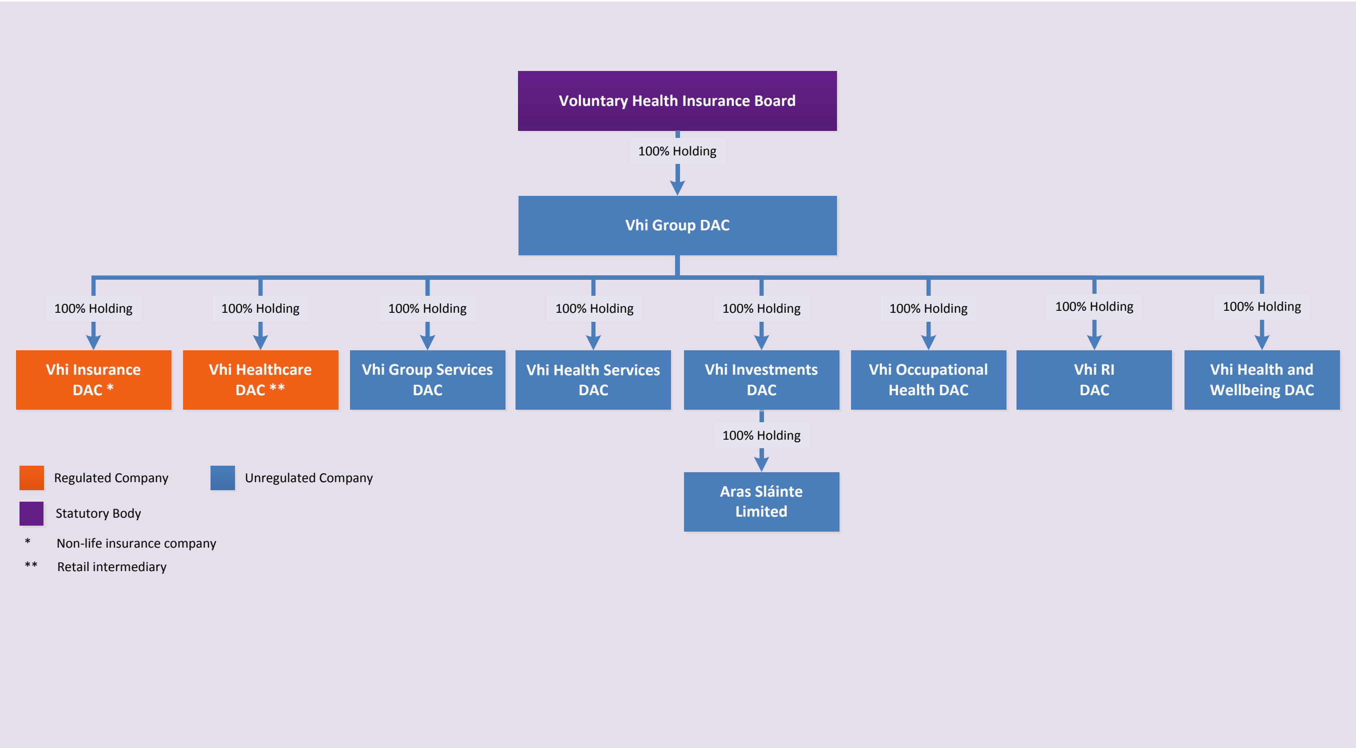
Supervisory Authority	The Central Bank of Ireland
Supervisor Contact Details	PO Box 559, New Wapping Street, North Wall Quay, Dublin 1
External Auditor	Deloitte Ireland LLP
External Auditor Contact Details	Deloitte & Touche House, Earlsfort Terrace, Dublin 2, D02AY28

This report was approved by the Board of Vhi Insurance on 16 April 2019 following recommendation from the Audit Committee. Sections D and E of this report and the related Quantitative Reporting Templates attached have been subject to external audit.

A.1.1 Vhi Insurance DAC and the Vhi group

Vhi Insurance DAC is a part of the Vhi group, which operates exclusively in the Republic of Ireland. The corporate structure of the group and details of the activities of each entity in the group are summarised below.

Vhi Insurance DAC and the Vhi group, as at 31 December 2018



The Voluntary Health Insurance Board is a statutory body established under the Voluntary Health Insurance Act 1957. The Board oversees the activities of the Vhi group.

Vhi Group DAC is a wholly owned subsidiary of the Voluntary Health Insurance Board and acts as a holding company for the wholly owned subsidiaries within the Vhi group.

The subsidiaries are:

- **Vhi Insurance DAC** is a regulated subsidiary which trades as "Vhi Insurance". It is the Relevant Subsidiary for the purposes of the Voluntary Health Insurance (Amendment) Act 2008 and carries on the health insurance business as a regulated non-life insurance undertaking. PMI, which is classified under Solvency II as medical expense insurance, is the Company's only line of business.

  Company Number: 527606 Registered Office: Vhi House, Lower Abbey St., Dublin 1

  Vhi Group DAC is the sole shareholder of Vhi Insurance DAC. There are no other direct shareholders of Vhi Insurance DAC.

  The Voluntary Health Insurance Board, which holds shares in Vhi Group DAC, is an indirect qualifying shareholder of Vhi Insurance DAC. The shareholding of the State is held through the Voluntary Health Insurance Board. The Minister for Health is the "sponsoring" Minister of the Voluntary Health Insurance Board and is not strictly a shareholder, as no shares have ever been issued by the Voluntary Health Insurance Board. However, in the current regulatory context, in terms of ownership and control, the Minister could be considered to be the ultimate qualifying shareholder of Vhi Insurance DAC.

- **Vhi Healthcare DAC** is a regulated insurance intermediary which trades as "Vhi Healthcare". It is responsible for selling PMI products and other insurance products on behalf of the underwriter which are all provided on a tied agency basis with Vhi Insurance DAC, Collinson Insurance Services Limited, Great Lakes Insurance SE, UK branch, Zurich Life Assurance plc and Astrenska Insurance Limited.

  Company Number: 527604 Registered Office: Vhi House, Lower Abbey St., Dublin 1

- **Vhi Group Services DAC** is a subsidiary which provides support services to the other subsidiaries in the Vhi group on the basis of intra-company service agreements viz., Vhi Insurance DAC, Vhi Healthcare DAC, Vhi Health Services DAC and Vhi Investments DAC.

  Company Number: 538110 Registered Office: Vhi House, Lower Abbey St., Dublin 1

- **Vhi Health Services DAC** is a subsidiary which provides occupational health services, employee assistance programmes and a range of homecare treatments for hospital-in-the-home care for a variety of conditions.

  Company Number: 474622 Registered Office: Waverly Office Pk., Old Naas Rd., Dublin 12

- **Vhi Investments DAC** is a subsidiary which specialises in the management of minor injury clinics through its Vhi SwiftCare clinics. Áras Sláinte Limited (Company Number: 350611) is a non-trading subsidiary of Vhi Investments DAC.

  Company Number: 531499 Registered Office: Vhi House, Lower Abbey St., Dublin 1

- **Vhi Occupational Health DAC** is a subsidiary which provides recruitment services for healthcare professionals and the provision of occupational health services.

  Company Number: 461202 Registered Office: Vhi House, Lower Abbey St., Dublin 1

- **Vhi RI DAC** is a subsidiary that is engaged in property development services.

  Company Number: 541492 Registered Office: Vhi House, Lower Abbey St., Dublin 1

- **Vhi Health and Wellbeing DAC** is a subsidiary established to develop medical, health and wellbeing services for Vhi group customers.

  Company Number: 628074 Registered Office: Vhi House, Lower Abbey St., Dublin 1

The changes made to the corporate structure of the Vhi group during 2018 did not affect Vhi Insurance DAC. Further information on the entities within the group is available from Vhi.ie.

A.2 Underwriting Performance

The table below gives a summary of the key components of the Company's underwriting performance for the respective accounting years and the factors contributing to the dis-improvement in underwriting performance in 2018 are outlined in the subsequent notes.

Underwriting Performance	Notes	2018 €'000	2017 €'000
Earned Premium, net of reinsurance	1	1,413,722	1,035,609
Other technical income, net of reinsurance	2	155,111	126,469
Claims incurred, net of reinsurance	3	(1,317,111)	(953,781)
Operating expenses	4	(214,989)	(149,500)
Total underwriting result		**36,733**	**58,797**

Reconciliation of the total underwriting result to the Financial Statements		2018 €'000	2017 €'000
Total underwriting result		36,733	58,797
Net investment income	See A3	(1,275)	670
Balance on the health insurance technical account		**35,458**	**59,467**

+ Further Information Section A.3 Investment Performance

Note 1: Earned premium, net of reinsurance

The earned premium net of reinsurance for Vhi Insurance was €1,413,722k, an increase of €378,113k year on year. This can be explained by the expiration of the reinsurance contract on 31 December 2017, the price reductions introduced during 2017 and 2018 and an increase in membership to 1,106,000 (2017: 1,075,000).

Note 2: Other technical income, net of reinsurance

Other technical income includes the net impact of risk equalisation premium credits, hospital utilisation credits and levies under the Risk Equalisation Scheme (RES) as well as the reinsurers share. This increased in 2018 by €28,642k to €155,111k. The principal drivers of this increase are the reduction in the reinsurer's share due to the expiration of the reinsurance contract on 31 December 2017 as well as the natural ageing of the customers for whom Vhi Insurance receives credits under the scheme.

During 2018, the Minister for Health announced changes to Risk Equalisation levies and credits on insurance policies renewed or entered into after 1 April 2018. Vhi Insurance supports the Government policy of community rating and the enactment of the Health Insurance (Amendment) Act 2017 which represents further progress in assuring affordable health insurance for less healthy customers and supports a sustainable community rated market.

Note 3: Claims incurred, net of reinsurance

Claims incurred net of reinsurance represent the estimated cost of claims which occurred during the year together with changes in estimate for prior years. This increased by €363,330k in 2018 to €1,317,111k. This can be explained by the expiration of the reinsurance contract on 31 December 2017.

Note 4: Operating Expenses

Operating expenses consist of a combination of acquisition costs and administration expenses. For 2018 the operating costs reported were €214,989k. The year on year increase is largely due to costs associated with the once-off "Online Advantage" costs associated with Vhi's incentive to enrol customers to digital correspondence and automated payment.

A.3 Investment Performance

The investment strategy of the Company prioritises capital protection over the earning of high investment returns and it is deemed that this is in the best interest of the Company and its policyholders. As a result, the investment portfolio is primarily invested in debt securities and deposits in banks.

Vhi Insurance held €1,156,650k in investments as at 31 December 2018 compared with €1,157,811k in 2017. The investment return net of investment expenses in 2018 was €(1,275)k compared to a gain of €670k in 2017. The year on year reduction in investment return can be attributed to a decline in yields on fixed income debt securities, most notable during the final quarter of 2018, and reductions in interest rates on cash deposits. Investment expenses included in the net return were €1,293k for 2018 compared with €1,110k for 2017. The net return by asset class is shown in the table below:

Net investment return by asset class	**2018 €'000**	**2017 €'000**
Equities - unlisted	305	434
Government Bonds	(4,947)	(1,524)
Corporate Bonds	(851)	(1,171)
Collateralised securities	(5)	471
Collective Investments Undertakings	(1,072)	(204)
Derivatives*	(850)	-
Deposits other than cash equivalents	(213)	(856)
Property (other than for own use)	6,358	3,520
Total investment return by asset class	**(1,275)**	**670**

**Vhi Insurance uses derivative instruments to hedge foreign exchange and interest rate risks of its portfolio holdings.*

Income from property (other than for own use) is primarily made up of rent charged by the Company to other Vhi group companies for the use of properties that it owns.

A.3.1 Gains and/or Losses Recognised Directly in Equity

No gains or losses were recognised directly in equity in 2018.

A.3.2 Investments in Securitisation

Investments in securitised assets were reduced to nil by year end 2018 (0.3% of total investments at year-end 2017).

Investments in securitised assets	**2018 €'000**	**2017 €'000**
At 1 January	3,080	15,290
Additions	-	-
Disposals	(3,080)	(12,210)
At end of year	**-**	**3,080**

A.4 Performance of Other Activities

Vhi Insurance had no other material income during the reporting period. The table below shows the movement in interest expense year on year.

Other Interest Expense	**2018 €'000**	**2017 €'000**
Other Interest Expense	-	(1,949)

The main driver of the decrease year on year is the settlement of the subordinated debt on 2 June 2017. There was no subordinated debt in 2018.

A.4.1 Leasing Arrangements

Vhi Insurance had no material financial or operating leasing arrangements in 2018.

A.5 Any Other Information

There are no other additional significant events or material information regarding business and performance that have not been disclosed above.

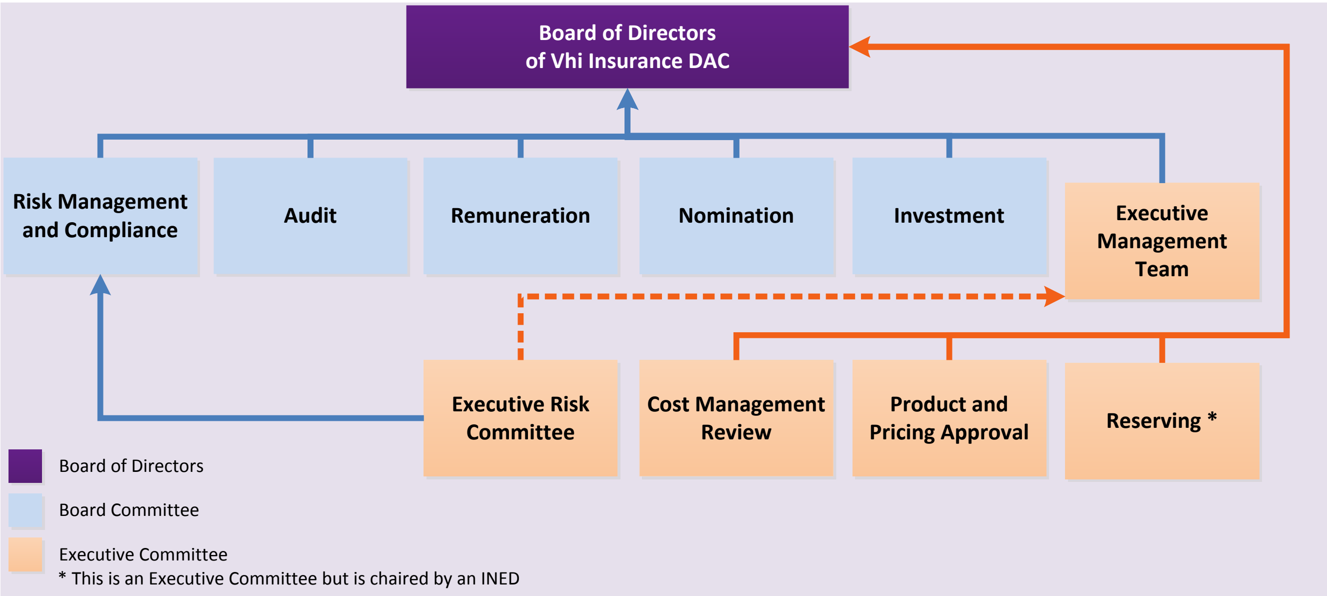
B.
SYSTEM OF GOVERNANCE

B.1 General Information on the System of Governance

The Board of Directors of Vhi Insurance (the "Board") believes an effective system of governance is essential for the appropriate management of the Company. It is committed to ensuring that the Company is well directed and managed in accordance with the high standards of governance required to deliver the sustained success of the business. The Company is subject to and complies with the relevant provisions of the Central Bank of Ireland's ("Central Bank") Corporate Governance Requirements for Insurance Undertakings and related regulations and codes. The Board attests to compliance with relevant requirements in annual Compliance Statements. Compliance, audit and risk management programmes are maintained, documented, monitored and reported upon to the Board. Accordingly, the Board considers the system of governance is adequate to the nature, scale and complexity of the risks inherent in its business.

The material components of the system of governance are described in the sections below.

The Board, Sub-Committees, Executive Management Team and Executive Committees, as at 31 December 2018



B.1.1 The Board of Directors of Vhi Insurance

The Board consists of 10 members (2 vacancies), a majority (7) being independent non-executive directors ("INED") with 3 executive directors ("ED"). The Company considers the independence of a majority of its Board members to be a key feature to good corporate governance. All non-executive directors are deemed independent directors who can exercise sound judgement and decision making independent of the views of management, political interests or inappropriate outside interests.

The Board (while embarked on a recruitment process to fulfil two vacancies) recognises that diversity is also key to its ability to function effectively by drawing on different skill sets, experiences, qualifications and other diversity factors to maximise understanding, identify different abilities, obtain diverse perspectives and balance the decision-making process. The Board currently benefits from the broad professional and educational backgrounds of its directors, which collectively include accounting, actuarial, medical, financial, governance, risk management and regulatory experience as well as experience in both domestic and international organisations.

The Board believes its compensation comprises an appropriate balance of executive and non-executive directors and is suitably qualified to meet its strategic objectives and any applicable regulatory requirements.

The Board of Directors of Vhi Insurance, as at 31 December 2018

Director	Type
Liam Downey (Chairman)	INED
John O'Dwyer (Chief Executive)	ED
Joyce Brennan	INED
Celine Fitzgerald	INED
Dean Holden	INED
Finbar Lennon	INED
Declan Moran	ED
Paul O'Faherty	INED
Greg Sparks	INED
Brian Walsh	ED

Dean Holden was appointed to the Board on 31 January 2018. The Board terms of Seamus Creedon and Ruth Barrington concluded on 21 February and 27 March respectively. Profiles for each Director are available on Vhi.ie.

The Role and Responsibilities of the Board

The Board is responsible for the effective, prudent and ethical oversight of the Company and the setting and oversight of:

- The Company's business strategy.
- The amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Company.
- The strategy for the on-going management of material risks.
- A robust and transparent organisational structure with effective communication and reporting channels.
- A remuneration framework that is in line with the risk strategies of the Company.
- An adequate and effective internal control framework.

The Board seeks to ensure it has:

- The necessary knowledge, skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out its duties.
- A full understanding of the nature of the Company's business, activities and related risks.
- A full understanding of members' individual direct and indirect responsibilities and collective responsibilities.
- An understanding of the Company's financial statements.

The Board gives effect to the above through receipt of management information, regular oversight of the business and an annual cycle of training and briefings, through the support of board sub-committees and executive committees and by having in place policies and structures to enable the appointment of appropriate employees.

Reserved Powers and Delegated Authority

The Board reserves certain key matters for itself and delegates others (within specified limits) to board sub-committees and to the Chief Executive, who in turn delegates authority to executive committees and management. The Terms of Reference of the Board stipulate which decisions are reserved for the Board and which decision-making powers they have chosen to delegate.

Vhi Insurance has a delegated authority framework which includes processes and structures which are reviewed on an ongoing basis whereby it identifies those situations in which it is appropriate to use delegations of authority to ensure the effective management of the business and the procedures that should be followed when such delegations are made.

The Company recognises that the carrying out of certain roles and activities requires specific skills, knowledge and expertise, and should only be performed by suitably competent people. It is on this basis that individuals are delegated the authority to perform tasks and this delegation comes from the top down.

B.1.2 Board and Committee Structure

The Board delegates authority to a number of committees and the Executive Management Team ("EMT"), which acts on behalf of the Board in respect of certain matters. Each committee has detailed Terms of Reference that articulate the role and position of the committee in the governance framework. The Terms of Reference are reviewed annually by the committees to ensure continuing appropriateness, are approved by the Board and require Board approval for material alteration.

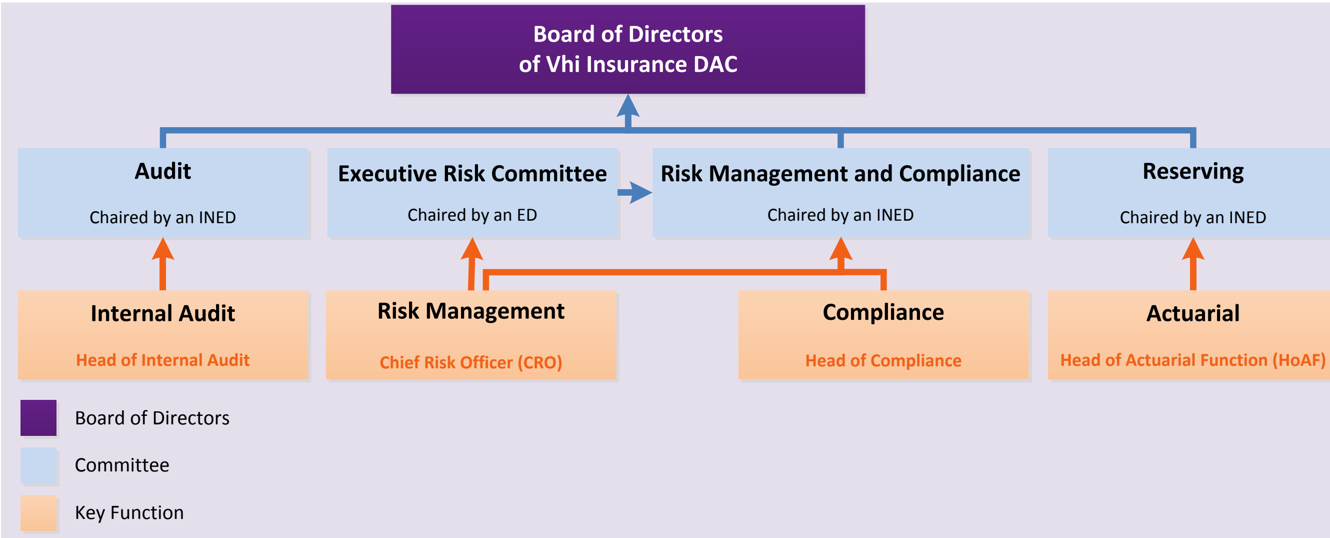
Committee	Meeting Frequency Minimum	Responsibilities
Risk Management and Compliance Committee	6 times a year	Promotes the overall effectiveness of corporate governance including a culture of compliance and risk management, and in particular monitor and review the scope, effectiveness, resources and activities of the Risk Management and Compliance functions. In addition, ensure that the Risk Appetite Statement is appropriate to the strategy and risk appetite of the Company and its business; review annually the Own Risk and Solvency Assessment ("ORSA") and review and recommend for approval of the Board the annual Risk Management and Compliance Plans.
Audit Committee	Quarterly	Provides an independent review of financial reporting and satisfies itself as to the effectiveness of the Company's internal controls and as to the adequacy and sufficiency of external and internal audits. In addition, it monitors the activities of the Internal Audit Function and approves the annual Audit Plan.
Remuneration Committee	Twice Annually	Monitors and makes recommendations to the Board with regard to the Company's overall performance management and reward philosophy for the Chief Executive, the EMT and other senior executives i.e. those that report to the Chief Executive, those categories of staff whose professional activities have a material impact on the Company's risk profile and any such other executives the Board may determine, and ensures they are consistent and aligned with the Company's strategic objectives. The annual remuneration levels for the Chairman and each non-executive Director of the Voluntary Health Insurance Board are set by Government. The Chairman and non-executive directors of the Board of Vhi Insurance are remunerated on the same basis as the Voluntary Health Insurance Board. Executive board members do not receive remuneration for their roles on the Board. The Chairman and non-executive directors are not remunerated for each chairmanship/directorship they hold in the Vhi group. They are remunerated for one position only.
Nomination Committee	Twice Annually	Monitors and makes recommendations to the Board of Vhi Group DAC on the composition of the Board of Vhi Insurance and in accordance with the Skills Matrix and Diversity Policy, making proposals for succession planning for its membership and for identifying and recommending executive and non-executive candidates for appointment to Board positions.
Investment Committee	Quarterly	Advises on the management of the Company's investments to ensure they align with investment policy, solvency requirements and risk considerations. It keeps under review, monitors and makes recommendations to the Board on investment policy, the investment mandate, the investment managers and the custodian.

Committee	Meeting Frequency Minimum	Responsibilities
Reserving Committee	Quarterly	An advisory and oversight committee which has primary responsibility for the booking of reserves, considering quarterly the adequacy of the reserves, related governance, data and control considerations, making recommendations on the Board approved Reserving Policy and ensuring compliance with it. In addition, it reviews annually the Actuarial Report on Technical Provisions and the Peer Review Report.
Executive Management Team	Fortnightly	The EMT, in conjunction with the Chief Executive, is the decision-making unit to which is delegated day-to-day running of the Company. It is responsible for, in conjunction with the Board, the effective, prudent and ethical oversight of the Company, the development of the business strategy for consideration by the Board, the execution of the agreed strategy and ensuring that risk and compliance are properly managed.
Executive Risk Committee	Monthly	Assists the RMCC in fulfilling its oversight responsibilities, with a view to ensuring that the risks within and between the executive team and the Board (and its committees) are appropriately managed and controlled and the risk management framework is appropriately designed and implemented.
Product and Pricing Approval Committee	Quarterly	Ensures that overall product margins, set by the Board, are achieved either through pricing or benefit design. It reviews product profitability and the competitiveness of the product portfolio. The committee also has authority to approve material changes to the health insurance portfolio including product, price and rule changes or medical changes in accordance with certain limits set by the Board.
Cost Management Review Committee	Twice Annually	Acts as a consultative group with the Chief Executive to review and evaluate cost management initiatives undertaken by management with particular reference to claims cost management and overhead management and supports the Chief Executive in seeking to promote effective cost management within the Company.

B.1.3 Key Functions

Vhi Insurance has four key functions, Risk Management, Compliance, Actuarial and Internal Audit.

Key Functions and Reporting Lines, as at 31 December 2018



Key Function	Main Roles and Responsibilities
Internal Audit Function	Provides an independent appraisal service to the Board and management. It provides independent assurance on the adequacy and effectiveness of the system of internal control and elements of the system of governance. Where appropriate, this role extends to the relevant controls surrounding outsourced service providers and other external parties, as well as the Company's own internal controls. + Further Information Section B.5
Risk Management Function	Oversees the operation of the risk management framework, is responsible for setting methodologies and standards to enable business units to identify, measure, monitor and manage their own risks and for providing advice, support and challenge to business units in relation to risk and associated controls. In addition, the function also monitors and reports on the overall risk profile of the Company, including new and emerging risks in addition to monitoring the effectiveness of adherence to the requirements of the risk management system. + Further Information Section B.3
Compliance Function	Oversees and ensures that the Company is being operated in compliance with legislation and regulation, and with related approved internal compliance processes and procedures. The function monitors the compliance risk of the Company and provides compliance advice, support and challenge to the business units of the Company in addition to coordinating the implementation, management and remediation of regulatory requirements. + Further Information Section B.4.3
Actuarial Function	Coordinates the calculation of the technical provisions, capital management programme and supports the provision of pricing and management information. The function is accountable for setting actuarial methodology, reporting to the Board on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements. + Further Information Section B.6

Vhi Insurance is committed to ensuring that an effective structure is in place providing for cooperation and information sharing between key functions; however, each has defined responsibilities as set by the Board. The four key functions are integrated into the group organisational structure in a way that seeks to ensure no undue influence, control or constraint is exercised on the functions with respect to the performance of their duties and responsibilities by other functions, senior management or the Board. Each key function maintains operational independence by staff not being shared between functions, and ensuring no conflicts of interest arise between key function employees and the activities they undertake. Each key function is led by a senior manager, employed by Vhi Insurance, who is assessed to ensure s/he is 'fit and proper', is of good repute and who is approved for appointment by the Central Bank. Key function employees are required to have the appropriate skills, qualifications and experience to fulfil the requirements of their roles.

Each key function reports directly to a committee chaired by an INED of the Board. Each function has the necessary authority and appropriate standing within the Company, as well as unrestricted access to all relevant information necessary to carry out its responsibilities and sufficient resources to discharge its role. Confirmation of these arrangements being in place is provided by the heads of the key functions to relevant committees. The Chief Risk Officer ("CRO") and Head of Compliance meet regularly and at least annually with the Chairperson of the RMCC, on a private basis. The Head of Internal Audit meets privately with the Chairperson of the Audit Committee on a number of occasions annually and the head of each key function also has on-going direct access to the Board Chairman, as required. Each function provides regular scheduled reports to their reporting committee and may escalate issues of concern to the committee(s) or the Board, as deemed appropriate. The Board receives copies of the reports provided to the respective committees and are provided with updates as to the activities of the key functions from the chairpersons of the committees. The head of each function also reports directly to the Board at least annually.

B.1.4 Material Changes in the System of Governance

During 2018 the following material governance changes were made:

- An Executive Risk Committee (ERC) was established to further assist the RMCC in fulfilling its oversight responsibilities, with a view to ensuring that within and between the executive team and the Board (and its committees) are appropriately managed and controlled and the risk management framework is appropriately designed and implemented.
- There were changes to Board membership following the conclusion of the terms of two directors and the appointment of a new director in January, as detailed in section B.1.1.
- Changes were made to the frequency of the meetings of the RMCC, which now meets 6 times a year instead of quarterly.
- The Cost Management Review Committee was reconstituted as an executive committee.

While not a material governance change it should be noted, following engagement with the Department of Health in 2017, 2018 saw the first full year of operation for all the subsidiaries in the Vhi group, including Vhi Insurance DAC, under the revised Code of Practice for the Governance of State Bodies. New governance arrangements (including formal quarterly meetings) were implemented with the Voluntary Health Insurance Board sponsoring department, the Department of Health and NewERA.

B.1.5 Material Transactions with Shareholders, with persons who exercise a significant influence on Vhi Insurance and/or with members of the Board

Shareholders	Vhi Insurance has one shareholder, Vhi Group DAC. The Company declared a final dividend of €30,000k to its shareholder during 2018.
Persons who exercise a significant influence on Vhi Insurance	There were no material transactions with any persons who exercise a significant influence on Vhi Insurance in 2018.
Members of the Board of Directors of Vhi Insurance	There were no material transactions with members of the Board of Directors of Vhi Insurance in 2018.

B.1.6 Remuneration Policy and Practices

Vhi Insurance's remuneration policies seek to ensure that the approach to remuneration is aligned with the Company's operations, business environment, strategic objectives, effective risk management, best practice and any regulatory or legislative requirements.

Remuneration policies are designed to attract, retain and motivate staff of the required calibre for the successful delivery of the Company's strategic and operational objectives. The remuneration framework and policy is kept under review to ensure they remain fit for purpose and are consistent with and promote sound and effective risk management. The remuneration arrangements for Board members and the EMT are set out in section B.1.2. The table below sets out the Company's remuneration framework which incorporates four components.

Fixed Pay Components	
Fixed Remuneration (Base Pay)	Vhi Insurance aims to clearly define expected performance through a structured system of performance management and uses this as the basis for remuneration decisions. Any remuneration increases made are in line with National Wage Agreements or other collective negotiation procedures, subject to the Company's ability to pay. Performance is reviewed at least annually. Fixed remuneration also includes specific role required supplements including car and travel allowances which are provided in accordance with approved expenses and company car policies.
Pensions	Pension schemes for Vhi Insurance employees are sponsored by the Voluntary Health Insurance Board, the ultimate parent entity of Vhi Insurance. The general terms of the pension schemes are subject to collective bargaining agreements and oversight from the Department of Health and the Department of Public Expenditure and Reform. The Scheme Rules of the Vhi group's pension schemes do not permit supplementary pension or early retirement schemes.
Benefits	Staff are provided with a range of benefits based on individual employment contracts and market practice.
Variable Pay Components	
Performance Based Remuneration	Performance based remuneration is subject to the achievement of individual qualitative objectives, in certain cases quantitative objectives and the business performance of Vhi Insurance and the wider Vhi group. It is carefully managed with objectives designed and balanced to ensure they foster an appropriate culture and that unwanted behaviour, including excessive risk taking, are not incentivised. There are no contractual commitments to pay a minimum level of performance based remuneration.

There are no options for directors, executive management or employees to acquire shares or share options in Vhi Insurance.

B.2 Fit and Proper Requirements

Vhi Insurance adheres to the Central Bank's fitness and probity regime which sets minimum standards aimed to ensure that all persons who effectively run the Company, or have other key functions, are at all times competent and capable, act honestly, ethically and with integrity and are financially sound. In addition to complying with these minimum standards Vhi Insurance applies its own internal business requirements and standards and is responsible for ensuring that staff meet the required standards, both on joining the Company and throughout their career with Vhi Insurance.

The Company requires Board members and employees to meet Vhi's ethical standards and to have the qualifications, skills and experience which are essential for them to carry out their duties and responsibilities. Vhi Insurance gives effect to the fitness and probity regime through a Fitness and Probity Standards Policy and supporting processes. The Company has identified and documented in the Fitness and Probity Standards Policy Vhi roles which are subject to the fitness and probity regime as controlled functions.

For appointments to the Board of Directors of Vhi Insurance, the Nomination Committee take full account of the Central Bank's fitness and probity requirements and Corporate Governance Requirements for Insurance Undertakings, in addition to Vhi Insurance's internal requirements, when making recommendations for Board vacancies. The Committee take into consideration factors including but not limited to; the time commitment required for the role, the challenges and opportunities facing the Company, possible conflicts of interests, the independence of any proposed non-executive director and the balance of executive and non-executive directors on the Board. In addition, the evaluation of persons for Board positions is supported by a Diversity Policy and Skills Matrix, which seek to ensure the Board consists of members with diversity of backgrounds, viewpoints, skills, knowledge and expertise to meet both current and future anticipated needs and enable sound and prudent management of the Company.

With regard to Vhi Insurance employees in controlled functions, role specific required competencies are set out in written job descriptions. Assessment of applicants against role specific requirements, in addition to their ethical and culture fit for Vhi, are carried out during the recruitment process, which includes both internal assessment and external verification processes. If a candidate meets the role requirements due diligence checks are carried out. They include, but are not limited to, copies of relevant qualifications and transcripts, professional body checks, previous employer reference checks, self-certification of potential conflicts of interest, regulatory checks and judgement searches, as relevant. Compliance with minimum competency code requirements and concurrent responsibilities are also checked, as relevant.

Certain candidates for controlled functions are subject to pre-approval by the Central Bank before appointment (PCFs), including members of the Board and the heads of key functions. Before taking up a PCF position the candidate must complete and submit an Individual Questionnaire to the Central Bank for their consideration. If approval is not given the candidate is not appointed to the position.

The fitness and probity assessment processes are carried out in advance of position offers and appointments. The assessment process for Board members is facilitated by the Nomination Committee, Head of Compliance and the Department of Health. The assessment process for other key function holders is carried out by the Head of Compliance and HR Function.

Vhi Insurance does not allow a person to perform a controlled function unless it is satisfied that the person complies with the fitness and probity requirements of the Central Bank and has agreed to abide by them on an ongoing basis. This includes a commitment to continuing their professional development and continuing in their roles is contingent on their retention of required qualifications. Annually, persons in controlled functions attest to their continuing to meet the fitness and probity requirements of the Central Bank. Staff, including Board members or other key function holders, who no longer meet fitness and probity requirements can be removed from their position.

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

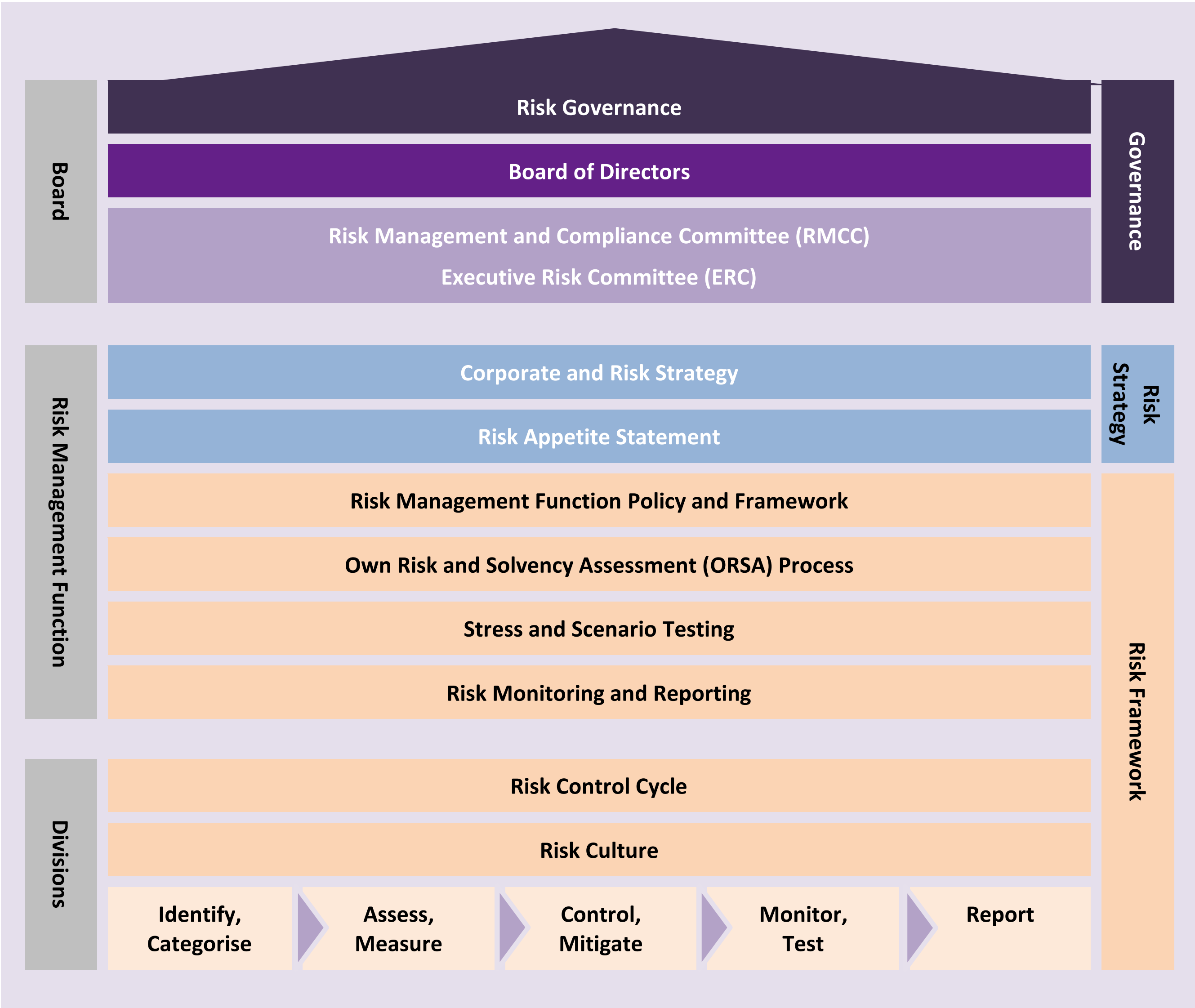
B.3.1 The Risk Management System

Vhi Insurance DAC is subject to internal risks arising from its business operations and external risks arising from economic conditions in Ireland and global financial markets in general, as they affect the PMI sector.

Delivering on the strategic intent of the Company requires an understanding of the nature and significance of the risks to which it is exposed. This enables Vhi Insurance DAC to make the best decisions for the Company, customers and stakeholders and enables it to sustainably deliver on its objectives into the future.

Vhi Insurance DAC operates a Risk Management Framework which ensures an integrated and consistent approach to managing risk with processes to identify, measure, control, monitor and report on risks to enable the achievement of the Company's goals and objectives. This is implemented through a 'three lines of defence' approach, described in section B.4.1, to manage risk; incorporating roles, responsibilities and accountabilities including governance and risk based decision-making. The Company is engaged in continuing review of its risk management framework, implementing an enhanced Risk Control Self-Assessment (RCSA) structure and process. The Company's classification and reporting of risk in its Risk Appetite Statement, ORSA and Risk profile will take account of these ongoing changes and be reflected in subsequent SFCRs.

Vhi Insurance Risk Management System



The Risk Management System is underpinned by:

Risk Governance

The practice, procedures, attitudes and approaches to enable the consistent and effective operation and oversight of the management of risk. It includes rules, oversight, control and assurance in the management of risk principally through the setting of risk appetite, policies, roles and responsibilities with the 'three lines of defence' model and oversight provided through reporting processes.

Risk Strategy

The Risk Management Strategy aims to:

- Protect the Company's assets and prospects and take the right risks.
- Take calculated financial risks to address competitive exposures in the Company's business model.
- Take appropriate risks to support the achievement of higher returns.
- Avoid risks that could fundamentally damage the Company's capital base.

	• Accept operational risk where it is appropriately managed and reduce it where it is cost effective to do so. • Minimise any significant clinical, reputation and compliance risks. These objectives seek to ensure that risks stay within risk appetite tolerances over the medium to long term planning horizon with risks managed to enhance risk weighted value.
Risk Appetite Statement	The level and type of risk the Company is prepared to accept to achieve its goals with limits and tolerances set for the main business risks. Risk appetite informs the strategy, business planning and operational processes and seeks to ensure their execution is in line with the risk appetite parameters set by the Board.
Risk Framework	Processes through which risk is managed as a continuous cycle of activity and enables understanding of the nature and significance of the risks (at an individual and aggregated level) to which the Company is exposed, including the sensitivity to those risks and its ability to mitigate them.

Enterprise Risk Management ("ERM") is the methodology and process, which seeks to understand and manage risk, to support the achievement of the Company's objectives and minimise the effects of risk on capital requirements, by addressing the full spectrum of risks the Company is exposed to and managing the combined impact of those risks. The processes supporting ERM are described below. The Company is making a number of changes to improve its Risk Management Framework throughout 2018 and into early 2019 to further embed risk management across the business.

Enterprise Risk Management (ERM) Life Cycle/ Risk Control Cycle

Risk Framework	
1. Identify and Categorise	Risks, including emerging risks, are identified at business unit (bottom-up) and organisational (top-down) level.
2. Assess and Measure	Risks are assessed in terms of likelihood of occurrence and impact, with key risk indicators and underlying drivers considered, to determine how they interact. Where risk appetite tolerance breaches or risk events are identified, a mitigation plan is put in place with controls assessed to determine adequacy and effectiveness. Business change proposals are subject to a risk assessment to seek to ensure proposals are in line with risk appetite before the change is implemented.

3. Control and Mitigate	Controls are implemented to mitigate risk. Control effectiveness is assessed on a regular basis, with shortcomings reported to the Risk Management Function. Risk assessments of business change proposals consider control adequacy and effectiveness. The regular review and aggregation of risks identifies the amount of capital the Company requires and any requirement for additional controls.
4. Monitor and Test	The business units monitor key risk indicators and underlying risk factors regularly to inform risk self-assessments, which includes an assessment of control adequacy and effectiveness. The Risk Management Function review and challenge these risk self-assessments. The internal and external auditors test key controls and processes. The Executive Management Team (EMT), The Executive Risk Committee, RMCC and Board review the material risks, controls, mitigation plans and capital adequacy on a regular scheduled basis.
5. Report	Risk reporting is a key component of the ERM Life Cycle including regular (e.g. risk assessments) and ad-hoc (e.g. risk appetite tolerance breaches, risk events) reporting by business units to the Risk Management Function. The Risk Management Function provides the RMCC and through it the Board with a regular update on the effectiveness of the Risk Management System including details of the material risks facing the Company and management's implementation of mitigating actions. This is provided through the risk appetite, risk profile, control framework and incident reporting.

B.3.2 How the risk management system including the risk management function are implemented and integrated into the organisational structure and decision-making

The Board is ultimately responsible for ensuring an appropriate Risk Management Framework is in place, implemented on a consistent basis and embedded across the Company.

Oversight on the appropriateness and effectiveness of the Risk Management Framework is underpinned by a governance framework which includes:

- An organisational structure with responsibilities delegated from the Board to management.
- Clear Terms of Reference for the Board, its sub- committees and executive committees.
- An Executive Risk Committee (ERC) which supports the Board and RMCC in their responsibilities.
- Right of access for the CRO to the Board and reporting on specific areas of risks initiated at the request of the Board or on the initiative of the Risk Management Function.
- Ownership of policies.
- Risk and Compliance functions overseeing adherence and compliance.

Risk Appetite	Risk appetite makes explicit the Board's risk management requirements. The Risk Appetite Statement focuses on the following areas: • Managing financial strength. • Engaging in sustainable business activity. • Operating in an effective and efficient manner. • Treating customers in a responsible, fair and compliant manner. The Risk Appetite Statement is reviewed at least annually and in the event of material changes to the Company's activities or operating environment. Decision making in running the business is necessitated by change, including strategic change and changes in the business environment, with a risk assessment performed on business change proposals.
Risk Policies	Risk policies define the high level rules, standards and underlying principles for the management of risk. These policies are reviewed at least annually or where there is a material change to risk appetite.

Risk Framework	The Risk Management Framework sets out the roles and responsibilities and accountability for ensuring that risk is managed appropriately and consistently across the organisation. This includes the 'bottom-up' approach to identifying, assessing, managing and reporting on risks through the Risk and Control Self-Assessment process. It also sets out the key behaviours and culture that indicate a sound risk culture across the company. The 'top-down' approach includes an annual identification exercise completed by the ERC and presented to the RMCC which considers the nature and significance of the risks to which the company is exposed.
Own Risk and Solvency Assessment ("ORSA") Process	The ORSA process is a continuous process comprising annual and recurring activities, undertaken at various times throughout the year, that consider risk and capital impacts on decision making and in particular business and financial planning. **+ Further Information** Section B.3.3

Together with the other three functions with Risk Management section B.1.3, play a significant role in ensuring the effectiveness of the Risk Management System. These functions retain responsibility for taking the decisions necessary for the proper performance of their duties without interference from other functions, senior management or the Board.

B.3.3 The ORSA

The ORSA process assesses the main risks to Vhi Insurance, including relevant considerations from the wider Vhi group, in the light of the business plan and strategy and quantifies their potential risk impact over the medium term. On the basis of this the Company reaches conclusions for its capital requirements and makes recommendations for risk management actions within the business plan. As well as providing a risk assessment of the business plan the ORSA informs the review of the Risk Appetite Statement and the Recovery Plan.

The period (at least three years) under which solvency cover is projected and assessed aligns with the strategic planning process. The planning process considers the key financial and capital metrics over the period. To aid this assessment the plan is stressed for risks that Vhi Insurance is or could be exposed to. A number of stresses and scenarios are developed to test the planning process and to determine the potential impacts on capital requirements and solvency cover. The stresses and scenarios selected cover the material risks (insurance, market, credit, liquidity and operational risks) which the Company is or could be exposed to and are designed to be plausible and sufficiently challenging in order to provide a sound basis upon which to assess the overall solvency needs of the Company.

Vhi Insurance uses the Standard Formula to calculate the amount of capital the company must hold under Solvency II regulations. This is referred to as the Solvency Capital Requirement (SCR). As part of the ORSA process, the Company evaluate the risk profile of its business and test the appropriateness of the Standard Formula for the business. The assessment carried out in 2018 indicated that the Standard Formula continues to be appropriate for Vhi Insurance.

The ORSA process comprises annual and recurring activities undertaken over the year which informs decisions on strategy, growth, risk control and capital. The activities are:

Annual Activities	Recurring Activities
• Business planning • Risk appetite review • Stress and scenario testing • Risk policies review	• Financial reporting • Capital projections • Risk assessment

The key components of the ORSA process are:

Risk Identification	Material risks are identified and informed by risk assessments conducted by business units and risks assessed as part of the strategic planning processes. This includes the consideration of emerging risks and trends.

Risk Assessment and Aggregation	Risk is considered on a forward looking basis to determine the capital requirements and solvency, informed by stress and scenario testing.
Results	The results highlight the appropriateness of solvency cover, resilience of capital to stress tests and adequacy of capital to meet risk appetite requirements. They provide insights to focus mitigation and contingency planning.
Report	The final output, the ORSA Report, documents the risk and solvency assessment and includes a prospective assessment of the solvency position.

The outcome of the process determines the adequacy of capital to continue to meet regulatory capital requirements and the Company's capital and risk appetite requirements over the period. It assists the Board and management in making decisions relating to strategy and planning, risk appetite changes, capital management and funding plans. Additionally, it informs management actions on growth, product development and pricing.

The ORSA process requires the engagement and participation of a wide group of stakeholders including the Board, management and, in particular, the Finance, Actuarial and Risk Management functions. Risk, capital and planning activities, performed by these functions, link the strategic management process with the decision making processes. In particular, the Board take an active part in directing the ORSA process including how the assessment is performed, challenging the results and recommending capital, contingency and de-risking plans based on the results and conclusions from the ORSA process. The Boards review and challenge of the ORSA aims to ensure that a robust assessment of material risks facing the Company has been performed. This review also seeks to ensure risks that would threaten the Company's business model, financial performance and solvency have been appropriately accounted for and the Company can meet its obligations and liabilities over the period of the assessment.

An ORSA report is produced on an annual basis and where there is a significant change in the risk profile of the Company or for significant strategic decisions it requires Board approval. The CRO is responsible for the oversight and implementation of the ORSA process. Following Board approval of the annual ORSA Report it is submitted to the Central Bank.

B.4 Internal Control System

The Internal Control System within Vhi Insurance is designed to provide reasonable assurance regarding the achievement of business objectives. An effective internal control system increases the effectiveness and efficiency of operations, the reliability, completeness and accuracy of financial and non-financial data for reporting and aims to ensure compliance with legal and regulatory obligations. It can provide only reasonable, not absolute, assurance.

The Board is ultimately responsible for ensuring that adequate and effective internal controls exist within the Company. However, operational responsibility for management of this is devolved to board sub-committees and executive management which is responsible for establishing and maintaining adequate internal control.

For consistency internal control principles are set at a group level and apply group-wide in line with the Board Internal Control Policy. The recommendations of the following have been taken into account in establishing the systems of internal control:

- The Central Bank's Corporate Governance Requirements for Insurance Undertakings.
- The Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Solvency II.
- The relevant provisions of the Code of Practice for the Governance of State Bodies.

B.4.1 The Three Lines of Defence

Vhi Insurance operates the 'Three Lines of Defence' model which is used to structure roles and responsibilities for risk and control activity, including risk governance and risk based decisions-making within the business.

The Three Lines of Defence	
1st Line of Defence	The 1st line of defence incorporates all of the business functions which carry out the day-to-day operations of the Company. 1st line activities require employees to operate in accordance with and adhere to policies and frameworks, to identify, manage and own risks and controls.
2nd Line of Defence	The 2nd line of defence develops, maintains and implements control policies and frameworks across the Company, undertakes monitoring of front line business operations along with advising, supporting and challenging the 1st line of defence. The Risk Management and Compliance functions are part of the 2nd Line of Defence.
3rd Line of Defence	The 3rd line of defence undertakes independent monitoring and assurance activities. The Internal Audit Function and external auditors provide the Board and management with independent objective assurance that the policies, various frameworks and controls in place are appropriate, proportionate and adequately adhered to across the group in the 1st and 2nd lines of defence.
Oversight	Although the Board, board sub-committees and the executive committees are not considered to be among the three "lines" in this model, they are the primary stakeholders served by the "lines," and they are the parties best positioned to help ensure that the three lines of defence model is reflected in the Company's risk management and control processes. They do this by overseeing the management of risk, the internal control system, setting policy and monitoring the performance of the key control functions, internal audit and any external assurance providers.

B.4.2 The Internal Control Framework

The Internal Control Policy sets out the principles, expectations, philosophy and framework of internal control within the Vhi group for all staff. The policy is intended to support the implementation and maintenance of a transparent and effective internal control system, underscored by accountability, sufficient in terms of the group's business scale and complexity and facilitating the accomplishment of the group's business goals. The Internal Control Framework of Vhi Insurance has five key elements, in line with the COSO internal control principles.

Components of the Internal Control Framework	
1. The Control Environment	The control environment is defined by and reflects organisational culture. It provides the foundation for all other components of internal control and has a pervasive influence on all decisions and activities throughout the Company. It is the general attitude and behaviour towards internal control as set by the Board and executive management which influences the consciousness of Vhi staff.
2. Risk Assessment	Risk assessment is the identification and analysis of the risks that the Company is exposed to in pursuit of its business objectives. It forms a basis for determining how the identified risks should be managed. Once risks have been assessed a determination can be made on the scale and nature of the internal controls that are required to prevent, detect or mitigate these risks. The aim is not necessarily to try and avoid risk but to be risk aware and to make risk-conscious decisions, understanding where risks are being taken and how much risk is regarded as acceptable in the pursuit of business objectives.
3. Control Activities	Control activities are the actions or process steps that help to ensure that management objectives are carried out in a risk-conscious manner. They are tools, both manual and automated which can prevent or reduce risk and encompass many activities such as approval and authorisation, reconciliations and segregation of duties, supervision, business continuity, back up and disaster recovery.

	Management and employees develop and implement control activities that contribute to the mitigation of risks to acceptable levels, in line with the risk appetite of the Company. All levels of the Company and all functions have responsibility to undertake control activities as part of the internal control system.
4. Monitoring	Monitoring of internal control is an essential process that assesses the quality of internal control performance over time, to ensure controls remain fit for purpose and are functioning as expected. Regular monitoring allows performance expectations to be established and any variances from these can be identified and investigated, possibly providing an early indicator of potential incidents. Monitoring and reporting are also used to provide the Board and executive management with the relevant information required for informed decision-making. Independent monitoring is undertaken by the 2nd and 3rd line functions on an ongoing basis throughout the year. This includes compliance obligation monitoring, risk assessments, internal audits and reviews by external assurance providers such as the external auditors. This monitoring supplements self-assessment monitoring and testing conducted by functions.
5. Information and Communication	Vhi Insurance recognises that a good system of communication is essential for the Company to maintain an effective system of internal control. The communication of relevant information supports decision making and the co-ordination of activities. Relevant information must be identified, captured and communicated within a timeframe, in a manner that enables employees to carry out their duties and responsibilities. The upward dissemination of data from all three lines of defence ensures that the highest levels of the group are provided with a holistic view of the operations of the entire group and companies within it.

Through its internal control system, Vhi Insurance ensures all staff are aware of their role in the system, thereby promoting the importance of performing appropriate internal controls for the sound operation of the business.

B.4.3 How the Compliance Function is implemented

The role of the Compliance Function is to manage the overall compliance risk of Vhi Insurance and to support the Company to achieve its strategic objectives and:

- To conduct its business prudently and in accordance with both the letter and the spirit of relevant laws and regulation.
- To ensure compliance with those related internal policies and standards, designed to achieve the Company's compliance objectives.
- To act ethically, professionally and with integrity, honestly and fairly in dealing with customers.

The Compliance Function is led by the Head of Compliance (a PCF), is an independent second line of defence assurance provider which reports to the RMCC, and administratively to the Chief Financial Officer. The planned activities of the function are detailed in an annual Compliance Plan which sets out the focus of the function for the coming year. The plan is presented annually to the Board, for approval on recommendation of the RMCC. A review and analysis of Vhi Insurance's compliance profile, along with a status update on progress against the Compliance Plan, are now provided to the RMCC 6 times a year.

The Compliance Function maintains the standards and frameworks for compliance within which the Company operates and is responsible for management of overall compliance implementation and the compliance governance framework in the Company. The key activities of the function include, but are not limited to:

- Management of the compliance universe, including identification and assessment of the impact of any changes in legislation/regulation on Vhi Insurance and co-ordination of the implementation of business changes required.
- Overseeing, investigating and managing the reporting/escalation with the business of any potential or actual breaches of regulation.
- Guiding/overseeing compliance remediation programmes.
- Conducting compliance risk-based monitoring and themed reviews including sales monitoring of Vhi Insurance underwritten products, error and complaint activities and monitoring and reporting on actual or potential compliance breaches.

- Co-ordinating the delivery of responsibilities arising under the Company's relationship with regulators and guiding the business and management in this regard.
- Approval of various processes and documentation across product, advertising, sales and customer terms and conditions, information and literature.
- The provision of compliance advice to business units.
- Development and maintenance of compliance documentation, including compliance policies, the Compliance Manual and procedural documentation related to compliance activities and structures.
- Managing the provision of induction and regulatory/compliance training, education and briefings and supporting management in the promotion of a compliant and ethical, commercial and customer focused culture.
- Interacting with the other key functions, including in particular Risk Management and Internal Audit.

Vhi Insurance believes the Compliance Function has appropriate standing in the Company and has the authority and capability to undertake its role.

Compliance Function employees are active members of the Association of Compliance Officers of Ireland. The employees of the function are active participants in industry forums and continually monitor changing regulations, business and customer expectations and requirements.

B.5 Internal Audit Function

B.5.1 How the Internal Audit Function is implemented

The role of the Internal Audit Function is to support the achievement of the Company's business objectives, by providing independent assurance on the adequacy and effectiveness of the system of internal control and identifying areas where improvements in efficiency can be made. This role extends to the relevant controls surrounding outsourced service providers and other external parties.

The Internal Audit Function is an independent third line of defence assurance provider which reports functionally to the Audit Committee, and administratively to the Chief Executive. The planned activities of the function are detailed in an annual Internal Audit Plan which sets out the focus of the function for the coming year. The plan is presented annually to the Audit Committee for its approval.

It is the policy of the Board that the Internal Audit function operates to the best national and international professional standards. In this context, the Internal Audit Function is given the multi-disciplinary resources necessary to effectively discharge its responsibilities. Audit staff must comply with the integrity, objectivity, confidentiality and competency principles contained in the ethical guidelines from the Chartered Institute of Internal Auditors and where appropriate their own various professional associations.

The Internal Audit Function discharges its responsibilities by critically reviewing, on a risk focussed basis:

- The effectiveness and efficiency of the system of internal control.
- The reliability, timeliness and integrity of financial and operating information, and the processes used to identify, measure and report such information.
- Compliance with policies, plans, procedures, laws and regulations.
- The means for safeguarding assets and information, including information stored on computer systems and databases.
- The adequacy and effectiveness of management actions to address issues identified by both Internal Audit and the external auditors.

In carrying out its responsibilities the Internal Audit Function has unrestricted access to all information, explanations, records, assets and staff necessary for audit purposes and is facilitated by management and employees in this regard.

The Internal Audit Function is also responsible for ensuring that audit work takes due account of the potential for fraud and for investigating fraud, either suspected or uncovered, but it should be noted that Internal Audit staff are not expected to have the expertise of any person(s) whose primary responsibility is detecting and investigating fraud. Additionally, the Internal Audit Function evaluates and contributes to the improvement of governance and risk management processes.

In meeting its objectives, the Internal Audit Function liaises with the external auditors, external advisors, and the other key functions to ensure that assurance from all internal and external sources is, insofar as possible, managed in an integrated, complementary and cost-effective manner.

B.5.2 The Independence of the Internal Audit Function

The independence of the Internal Audit Function is achieved:

- Through the objectivity of internal audit staff.
- Through the absence of executive responsibility or authority over the activities or operations it reviews and audits.
- Through the avoidance of conflicts of interest and compliance with the Vhi Conflict of Interest Policy.
- By ensuring that internally recruited auditors do not audit activities or functions they previously performed during the timeframe covered by the audit.
- Through the functional reporting line to the Audit Committee and the administrative reporting line to the Chief Executive.
- Through attendance at meetings of the Audit Committee, including time alone with the Audit Committee on a yearly basis and otherwise as required.
- Through regular private meetings with the Chairperson of the Audit Committee.
- Through attendance at meetings of the RMCC.
- Through regular private meetings with the Chief Executive.
- Through right of access to the Board Chairman at any time.

B.6 Actuarial Function

B.6.1 How the Actuarial Function is implemented

The Actuarial Function supports the business primarily in three broad areas; reserving, capital and pricing. The function is overseen by the Head of Actuarial Function (“HoAF”) (a PCF) who reports administratively to the Chief Financial Officer and is responsible for the management and reporting of actuarial matters to the Board.

The Actuarial Functions responsibilities include, but are not limited to:

- Co-ordination of the calculation of the Technical Provisions, both on an accounting and Solvency II basis. A key component of this process is the determination of the best estimate Outstanding Claims Reserves (“OSCR”), which is calculated using a number of standard actuarial reserving methodologies such as Basic Chain Ladder and Bornhuetter-Ferguson methods, using both paid and incurred data.
- Provision of a formal opinion on the adequacy of the Solvency II Technical Provisions. The Actuarial Opinion on Technical Provisions (“AOTP”) and Actuarial Report on Technical Provisions (“ARTP”), which supports the AOTP, are provided to the Board annually by the HoAF.
- Management of the Board approved Reserving Policy for Vhi Insurance. The function prepares and presents an information pack to the Reserving Committee. The Reserving Committee meets quarterly to review the Technical Provisions for appropriateness and compliance with the Reserving Policy.
- Management of the Board approved Capital Management Policy and Asset Liability Policy for Vhi Insurance. The capital requirements of the Company are monitored continuously over the year through a number of processes either owned by the Actuarial Function or with input from the Actuarial Function. Annual preparation of a Medium Term Capital Plan which makes recommendations regarding capital management. The plan is submitted to the Board for approval.
- Calculation of the Solvency Capital Requirement (“SCR”) on a quarterly basis and also on an ad-hoc basis as may be required.

The HoAF also provides the following to the Board annually:

- Actuarial opinion on the ORSA and the overall contribution to risk management.
- Actuarial opinion on the underwriting policy.
- Actuarial opinion on the reinsurance arrangements.

In addition to the provision of an actuarial opinion on the underwriting policy, the Actuarial Function is also responsible for monitoring the experience of the portfolio and making pricing recommendations.

The Actuarial Function activities undertaken throughout the year are presented in the Actuarial Function Report which is submitted to the Board annually.

B.7 Outsourcing

B.7.1 Outsourcing Policy

The Vhi group's Outsourcing Policy, which applies to Vhi Insurance, sets out the principles used to manage internal and external outsourcing within the Vhi group. The policy is intended to support the implementation and maintenance of an effective and ethical outsourcing regime which is sufficient and proportionate in terms of the Vhi group's business scale and complexity. It recognises that to conduct operations as effectively and efficiently as possible, it may be advantageous to outsource certain function or activities.

The policy addresses outsourcing responsibilities, due diligence to be performed, contractual requirements, risk management requirements and operational supervision and monitoring arrangements to be implemented over outsourcing arrangements. The policy requires the Board to approve the outsourcing of any critical or important operational functions or activities in advance of any contract being signed and for the Board to receive annual reports on the approved arrangements.

B.7.2 Outsourced Functions/Activities

Vhi Insurance outsources some critical or important operational functions or activities to outsourcing provider's external of the Vhi group. Such external outsourced arrangements include:

- Investment management arrangements which are outsourced to professional investment managers in the UK.
- Claims data entry and claims third party recoveries which are outsourced to providers in Ireland.
- Claims coding which is outsourced to a provider in the Republic of Mauritius.
- Software testing which is outsourced to a provider in South Africa.

In addition to external outsourcing Vhi Insurance also engages in intra group outsourcing within the Vhi group. Services outsourced to other Vhi group companies include employees for the key functions, Internal Audit, Risk Management, Compliance and Actuarial. Other internally outsourced critical or important operational functions include but are not limited to; Finance, Human Resources, IT, Legal and Secretarial, Marketing and Corporate Communications. All intra group services are carried out in Ireland.

Although not considered outsourcing, Vhi Insurance also has a tied agency agreement in place with Vhi Healthcare DAC, which acts as an insurance intermediary. The agreement allows Vhi Healthcare DAC to sell the insurance company's products to customers on its behalf.

B.8 Any Other Information

There is no additional material information regarding the system of governance that has not been disclosed above.

C.
RISK PROFILE

The risk profile of Vhi Insurance includes all risks which could impact on the achievement of the Company's objectives, in particular those relating to capital, value, investments, insurance, operations, counterparty default, reputation, compliance, conduct and people. The main capital and solvency risks are underwriting risk, market risk, counterparty default risk and operational risk. Vhi Insurance also monitor and manage other risks to its business model and strategy.

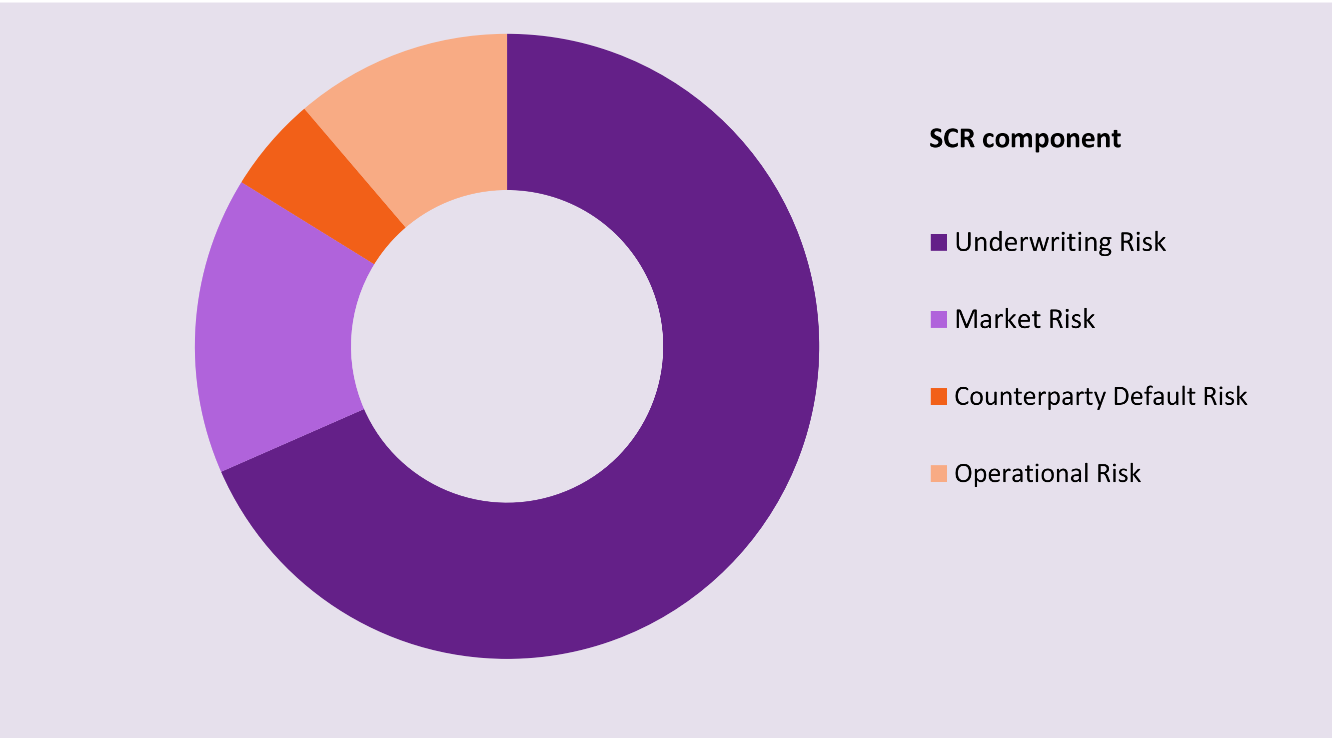
Vhi Insurance considers the RES in Ireland partially effective and requires further enhancement to ensure the industry is focused on healthcare quality and efficiency for customers. Additionally, it should ensure the RES does not place insurers covering a disproportionate share of higher risk less healthy policyholders at a competitive disadvantage in terms of risk of capital, value and sustainability.

Vhi Insurance actively seeks to be risk aware, understand where risks are being taken and how much risk is regarded as acceptable in the pursuit of business objectives that provide a reasonable opportunity to earn a financial return. Risks are regularly reviewed through the ERM Life Cycle, incorporating the identification, measurement, assessment and reporting of risk to determine whether the Company is prepared to accept the risk and to consider the adequacy of planned mitigating actions.

A description of the main risks together with the strategies to mitigate risk is set out in this section.

Risk Exposure

The SCR capital calculation demonstrates the relative exposure to the different components of capital risk. Underwriting and operational risk are the main drivers of the SCR. Other components of the SCR include market risk and counterparty default risk.



+ Further Information

The risk exposure by risk category is detailed in Section E.2 SCR and MCR. The risk sensitivities are discussed in Section C.7.

There are no off-balance sheet positions and no element of risk transferred to special purpose vehicles.

C.1 Underwriting Risk

Underwriting risk is the risk that unexpected variations in frequency, size or timing of claims lead to reductions in financial returns. Factors affecting risk exposure include; macroeconomic trends, medical costs, lapse rates, longevity, morbidity risk, demographics, customer and provider behaviour and technology developments.

The main underwriting risks are:

- Premium and reserve risk – risk of inadequate of premiums and/or technical provisions for claims.
- Claims risk – risk of adverse future claims experience.
- Provider agreement risk - risk of providers changing procedures, increasing capacity or other factors without agreement.
- Competition and regulation risk – risk of Vhi Insurance being at a competitive disadvantage and risk of adverse regulatory changes.

Vhi Insurance gross written premium decreased to €1,400,814k for 2018 from €1,497,067k in 2017 reflecting the price decreases during the year. These decreases were due to lower claims costs than expected in 2018, and the lower premium volume is the main underlying cause of a reduction in the health underwriting risk component of the SCR from €267,928k as at 31 December 2017 to €258,020k as at 31 December 2018. The Company's reinsurance contract expired at the end of 2017.

Vhi Insurance assesses its underwriting risk using analysis of business mix and product profitability, pricing and reserving analysis, and stress and scenario testing, the results of which can be seen in section C.7.

Risk Mitigation

Vhi Insurance use the following risk mitigation techniques to ensure underwriting risk is in line with the Company's overall risk profile:

- Pricing appropriate to the level of risk underwritten and in line with community rating requirements.
- Reserving control, with effective claims management to reduce exposure to large claims.
- Reinsurance, where engaged by Vhi Insurance, to reduce the severity or occurrence of underwriting risk, with reinsurance placed with providers of high credit quality and a limit framework aligned to the Company's risk appetite.

The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by:

- The Risk Management Function, which provides support and independent challenge to business units on the completeness, accuracy and consistency of risk self-assessments, reporting on adherence and compliance with risk appetite together with the outcome of the risk assessment process, which considers risk selection, pricing, claims management, reserving and related risks (credit risk, liquidity risk) quarterly.
- The Actuarial Function, which proposes the optimum reinsurance solution for the Company and the adequacy of its reinsurance arrangements given the current and future business plans.

Risk Concentration

- Concentration of risk is monitored through the limits framework aligned to risk appetite which seeks to ensure an appropriate balance of risk across Vhi Insurance's product suite. Product concentration is monitored and reported regularly with mitigating actions taken on product design, as appropriate.
- Vhi Insurance insure large group arrangements and have a degree of profit divergence by plan however concentration risk is not high given the scale of the Company's portfolio.

C.2 Market Risk

Market risk is the risk of loss due to adverse movements in costs or returns from a change in the market price or rate of investments. Factors affecting risk exposure include; volatility of asset prices and value of assets held and liabilities. In pursuit of its growth objectives Vhi Insurance DAC seeks some level of market risk as part of its investment strategy, however it does so on the basis that it does not introduce any significant solvency risk.

The main market risks are:

- Equity risk – risk of adverse movements in equity prices.
- Concentration risk – risk of amplified losses that may occur from having a large portion of the Company's holdings in a particular investment, asset class or market segment relative to Vhi Insurance's overall portfolio.
- Spread risk – risk of change caused by fluctuations in the level or the volatility of credit spreads.
- Interest rate risk– risk of change in assets and liabilities caused by fluctuations in interest rates.
- Property risk – risk of adverse movements in property prices.

Vhi Insurance has an Investment Policy in place which is reviewed annually by the Investment Committee. All Investments made by Vhi Insurance must adhere to the Investment Policy which is in line with the Prudent Person Principle as required under Solvency II regulations. The Company assesses its market risk by ensuring compliance with the Vhi Investment mandate, reviewing the Investment Managers performance and stress and scenario testing, the results of which can be found in section C7.

Vhi Insurance had total Solvency II assets of €1,384,860k as at 31 December 2018 (2017: €1,541,221k). The market risk component of the SCR was €57,955k as at 31 December 2018 (2017: €30,634k).

The market risk has increased over the period due to changes in the Company's asset mix following changes in the investment mandate introduced in 2018. These changes were introduced to improve Vhi Insurance's risk return balance from the Company's insurance assets, against a backdrop of continued uncertainty with political impacts on financial markets. This has resulted in higher investments in corporate bonds and longer duration investments, together with greater diversification.

Risk Mitigation

Vhi Insurance adheres to an investment mandate which incorporates limits and restrictions. Vhi Insurance mitigate interest rate risk by adopting asset and liability matching criteria. Vhi Insurance also carry out periodic stress testing, the results of which can be found in section C.7.

The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by:

- The Investment Committee, which oversees that the investment portfolio is being managed in accordance with the investment mandate, solvency requirements and risk considerations. This includes reviewing the performance of the investment managers.
- The investment managers, who present to the Board, Investment Committee, and Finance and Risk Management Functions on performance, market and economic issues and risks.
- The Finance Function, which monitors the investment mandate and investment managers.
- The Risk Management Function, which provides support and independent challenge to business units.

Risk Concentration

- Interest rate risk arises primarily from Vhi Insurance's investment in quoted debt securities and deposits. There is no material concentration of interest rate risk.
- Market price risk arises from fluctuations in the value of financial instruments as a result of changes in market prices and the risks inherent in investments. There is no material concentration of price risk.

Application of the Prudent Person Principle

Vhi Insurance invests in assets in accordance with the prudent person principle as set out in Regulation 141 of the *European Union (Insurance and Reinsurance) Regulations 2015*. The investment strategy aims to ensure that assets are invested in a manner appropriate to the nature and duration of the insurance liabilities and to ensure the security, quality, liquidity and profitability of the investment portfolio as a whole and the invested assets are held in locations which ensure their availability. All assets are invested in the best interests of policyholders.

The portfolio consists of assets managed by outsourced asset managers and short term bank deposits managed within the Vhi group. The outsourced asset managers must manage assets within parameters as set out in the Company's investment mandate. Similarly, the internally managed short term deposits are managed within parameters set out by the Board.

The mandate has specific restrictions to ensure that Vhi Insurance only invests in assets which it can properly identify, measure, monitor, manage, control and report on and take into account in the calculation of the SCR. The parameters in the mandate ensure that the portfolio is appropriately diversified in such a way which avoids excessive reliance on any particular asset, issuer, geographical area or accumulation of risk in the portfolio as a whole. The parameters are aligned with the Board's Risk Appetite Statement and business strategy and are set independently of third parties; such as financial institutions, asset managers and rating agencies.

Derivatives are only invested in where they reduce the risks to which Vhi Insurance is exposed or to facilitate efficient portfolio management. Investments in assets which are not admitted to trading on a regulated financial market are kept to prudent levels.

C.3 Credit Risk

Credit risk is the risk of a change in the value of assets and liabilities caused by an unexpected default or deterioration in the credit rating of counterparties and debtors. Debtors include policyholders (where premiums are overdue), corporate policyholders, reinsurers and other third parties. Factors affecting risk exposure include; volatility of asset prices, volatility of liabilities and economic contraction where default rates are elevated. There has been no material change to the Company's credit risk exposure. Favourable economic conditions have persisted over the period. The main credit risk is Counterparty default risk.

Vhi Insurance's gross written premium decreased to €1,400,814k for 2018 from €1,497,067k in 2017 reflecting the price decreases during the year. This is one of the main drivers of a reduction in the counterparty default risk component of the SCR from €29,127k as at 31 December 2017 to €18,669k as at 31 December 2018.

Methods of risk assessment include measuring and monitoring credit risk exposure (including monitoring debtor days and debtor values) and the credit ratings of counterparties. Vhi Insurance also undertake stress and scenario testing, the results of which are shown in section C.7.

Risk Mitigation

Vhi Insurance implements a limits framework aligned to the Company's risk appetite. The Company's investment mandate is also limited by these restrictions and the Company monitors the appropriateness of credit ratings applied to its portfolio of assets. The Company also monitors arrears with a view to ceasing cover if premiums are not paid within specific timelines. The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by:

- The Investment Committee, which engages with the investment manager to oversee the credit quality of the investment portfolio. This includes reviewing the performance of the investment manager.
- The Finance Function, which monitors the investment mandate and investment managers.
- The Risk Management Function, which provides support and independent challenge to business units on the completeness, accuracy and consistency of risk self-assessments, reporting on adherence and compliance with its risk appetite and policy management frameworks.

- The Credit Management team which monitor and report on debtor days and debtor values.
- The Finance Function which monitor premium bookings and receipts and report against credit management targets.

Risk Concentration

- There is no material concentration of credit risk, with the Company exposure managed through limits and diversification requirements in the Company's investment mandate aligned to risk appetite for credit control and asset credit ratings.

C.4 Liquidity Risk

Liquidity risk is the risk that Vhi Insurance will not have available funds to meet its obligations as they fall due. This could result in the forced early realisation of assets causing the Company a financial cost. Factors affecting risk exposure include; net cash flows, investment strategy, credit cycles, external effects on the level of interest rates and other penalties charged on early realisation of assets. The main liquidity risk faced by the Company is having insufficient liquid or realisable assets to meet liabilities as they fall due over the short or medium term. Vhi Insurance held €26,765k in cash and short term deposits as at 31 December 2018 (2017: €25,172k).

The total amount of the expected profit included in future premiums is detailed in the appendix in QRT S.23.01.01.

There has been no material change to the Company's liquidity risk exposure and associated control framework with diversification limits on banks, exposure limits to non-EU banks together with credit rating restrictions.

Vhi Insurance assesses its liquidity risk through monitoring of short term and medium term liquidity. Vhi Insurance also review and monitor forecast and actual cash flows and undertake stress and scenario testing.

Risk Mitigation

Vhi Insurance maintain liquidity buffers in the form of liquid, short term deposits and restrict certain asset allocations. The Company also monitors and projects cash flows, including those provided by the investment manager.

The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by:

- The Investment Committee, which engages with the investment manager to oversee management of the Company's funds.
- The Finance Function, which provides cash flow projections to the investment manager, monitors the investment mandate and investment manager and seeks to ensure investments are being managed in accordance with the investment mandate, solvency requirements and risk considerations.

Risk Concentration

- The nature of the Company's claims payments means liquidity concentration risk is very low. Vhi Insurance operates a closely matched and low risk investment mandate with adequate liquidity buffers.

C.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk is inherent in all business units and can have many impacts, including but not limited to, unexpected losses, reputational damage due to negative publicity, legal, regulatory and compliance risks. The operational risk component of the SCR was €42,412k as at 31 December 2018 (2017: €44,383K).

Whilst there have been no material changes to the Company's operational risk exposure the Company believes cyber-attack and system implementation are risk areas that continue to merit attention. As a result Vhi Insurance DAC continues to implement plans to address potential risk increases in these areas.

Vhi Insurance monitor incidents and near misses in relation to all operational risks. Vhi Insurance assess the adequacy and effectiveness of controls in place to provide assurances regarding the effectiveness of the operating environment and business continuity plans and undertake stress and scenario testing.

Risk Mitigation

Vhi Insurance maintains an effective control environment which includes controls on IT security, data protection and third party supplier contracts and have implemented a limits framework that is aligned to the risk appetite of the Company.

The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by the Risk Management Function. The Risk Management Function monitors and supports operational risk management activities, providing policies, guidance and independent challenge to business units on the completeness, accuracy and consistency of operational risk assessments and controls, reporting on adherence and compliance with risk appetite and company risk policies.

Risk Concentration

- Most Vhi Insurance operations are carried out in Dublin and Kilkenny. Having two sites mitigates concentration of operational risk. There is minimal risk concentration in operational risk.

C.6 Other Material Risks

Strategic and value growth risk
This risk relates to the Company's ability to meet its long term plan and achieve its goals. Factors affecting strategic risk exposure relate to the Company's internal processes and systems as well as the macro-economic environment that could alter the Company's ability to meet these strategic targets.

Specific regulation risk
Vhi Insurance is at risk of loss due to an inadequate community rating system as the Company has a disproportionate share of higher risk customers in the PMI market. Vhi Insurance considers the RES in Ireland remains only partially effective and places insurers covering a disproportionate share of higher risk and less healthy policyholders at a competitive disadvantage with attendant risk to capital, value and sustainability.

Reputation, compliance and conduct risk
This risk relates to the risk of damage to the Vhi brand and loss of customers, the risk of detriment to customers and impairment to the Company's business model, reputation and financial condition and the risk that the Company's actions adversely affect its customers.

People risk and culture
People risk and company culture is a factor in many of Vhi Insurance's risks and the effectiveness of the Company's control framework. Culture is managed actively by the EMT and monitored by the Risk Management Function.

Risk Mitigation

Strategic and value growth risk
Vhi Insurance conduct regular reviews of strategy, business plans and the performance of the underwriting portfolio. Vhi Insurance mitigate this risk through assessing product relevance, differentiated propositions, business mix and pricing. Vhi Insurance focus on sales and relationship management and also managing capital.

Specific regulation risk
Vhi Insurance actively lobby for improvements in the effectiveness of RES. Efforts to improve the RES are likely to require EU Commission approval which will take time.

Reputation, compliance and conduct risk

Vhi Insurance is constantly monitoring the Vhi brand and reputation. All media messaging must maintain brand value and build relationships with customers. The Company also has in place a compliance monitoring programme and an effective control environment with contingency plans to deal with incidents that may arise.

The Board has responsibility for monitoring the effectiveness of these risk mitigation techniques and in doing so relies on reasonable assurance provided by:

- The EMT, which seeks to ensure these risks are identified and managed across all business units with ownership assigned at executive level.
- The Risk Management Function/CRO, who has oversight responsibility in ensuring that adequate capital is held for the risk profile of the Company.
- The Risk Management Function, which provides support and independent challenge to business units on the completeness, accuracy and consistency of risk self-assessments, reporting on adherence and compliance with its risk appetite and policy management frameworks together with the outcome of the risk assessment process quarterly.

Business units, through Compliance Coordinators in each unit, identify, measure and report on compliance, escalating material changes and breaches to the Risk Management and Compliance functions.

People risk and culture

The business is undertaking a number of activities to embed Vhi Insurance's Corporate Culture and Values led by the HR Function in 2019.

Risk Concentration

- **Strategic and Value Growth Risk:** Vhi Insurance's operations are based in Ireland, therefore, the Company is exposed to macroeconomic conditions in Ireland and turbulence in the wider Eurozone and global economy. There are no other significant concentrations of risks in this category.
- **Specific Regulation Risk:** A deterioration in the effectiveness of the RES impacts value and profit concentrations, increasing the Company's exposure to business mix risk.
- **Reputation, Compliance and Conduct Risk:** There is no particular concentration of the risks themselves but correlation can exist between these and operational risks.
- **People Risk and Culture:** The culture of an organisation relates to the way its staff operate, in general. There are variations and exceptions but the Company particularly focus on how things are done by the majority of staff as behaviours spread and become commonplace throughout organisations.

Risk Sensitivity

Assessments utilising expertise across the business is used to agree relevant stresses for the components of the material risks, and to assess and validate impacts as well as controls and agreed management actions. This enables Vhi Insurance to quantify the solvency impact potential of risks using suitable scenarios that are plausible, sufficiently challenging and provide a sound basis upon which to assess solvency for each material risks.

The main assumptions underlying the stress tests and scenario analysis are consistent with those used in the business and financial planning processes. The management actions are a key assumption in scenario testing as these are critical in containing the impact of the incidents modelled. Vhi Insurance ensures the management actions are validated by the relevant decision makers and consistent with the Company's Recovery Plan in the ORSA process. In assessing solvency impact Vhi Insurance look over the planning horizon and allow for the delay in the impact of rectifying management actions so the Company understand the timing of the most adverse impacts.

C.7 Any Other Information

Stress / Scenario		
Underwriting Risk	• Economic downturn • Regulatory Change	• Claims surge
Market Risk	• Equity risk • Spread risk • Interest rate risk	• Property risk • Concentration risk
Credit Risk	• Counterparty default risk	
Liquidity Risk	• Equity risk • Spread risk	• Interest rate risk
Operational Risk	• Cyber Risk	
Other Material Risks	• Strategic, Value Growth, Specific Regulation & Reputation Risks: The Company stress a number of risks including litigation, regulations affecting the Company's markets, competition, risk equalisation and market disruption	

Stress tests are used to understand the sensitivity of the capital cover to material risks. Vhi Insurance calculates these for a range of risks in deriving and testing solvency cover. Vhi Insurance also perform more detailed scenario projections to allow better understanding of the impact of shocks and the management actions required to mitigate risk. High impact low likelihood stress tests of this nature are used in the ORSA process to test the resilience of capital buffers.

The impact of the specific scenarios developed for the most recent ORSA are summarised below and are all based on the Standard Formula parameters:

Risk		Method description	Change in Solvency Cover as a % *	Change in Solvency Capital Requirement (€000s)
Market and Liquidity Risk Sensitivities	Concentration Risk	• Stress reflecting risk that arises from large investment in individual counterparties and single name exposures	0%	995
	Interest Rate Risk	• Stress reflecting changes in the level of the basic risk free interest rates is captured	-6%	18,284
	Spread Risk	• Stress reflecting sensitivity of the value of assets and liabilities to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure	-16%	49,216

	Property Risk	• Stress reflecting risk that arises as a result of sensitivity of assets, liabilities and financial investments to the level or volatility of market prices of property	-4%	11,030
	Equity Risk	• Stress reflecting risk that the value of an asset or liability will change due to fluctuations in the level or volatility of the market prices for equities	-1%	2,506
Credit Risk Sensitivities	Counterparty default risk	• Stress to reflect possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings	-8%	23,794
ORSA Scenarios	Underwriting	• Stress test where claims increases materially both on a one off and recurring basis	-52%	567
	Underwriting	• Stress test where business mix changes adversely	-23%	-12,309
	Underwriting	• Stress test where regulatory conditions adversely change	-50%	-2,797
	Underwriting & Market	• Economic downturn with customer and revenue and investment losses	-51%	-26,161
	Operational	• Stress test under a cyber-attack scenario	-20%	-7,353

* Change in Solvency Cover as a percentage reflects the impact on both Solvency Capital Requirement and Own Funds, Vhi's regulatory capital.

Over the last year, Vhi Insurance's exposure to concentration risk has been reduced and its exposure to interest rate and spread risk has been increased due to a new investment strategy implemented in 2018.

Stress and scenario testing in the ORSA validates the Company SCR assessment and additional capital buffers and capital risk appetite as well as guiding the development of the Company business and risk management plans. Under each of the ORSA scenarios tested, the Company continues to have adequate capital buffers over the business planning period after implementing considered management actions. Management actions include the possibility of increasing prices.

The Company also conducts reverse stress testing which starts at the point of failure of the Company's business models and aims to identify a scenario that may result in such a failure.

Vhi Insurance assess likelihoods and the co-incidence of these material risks when using stress and scenario testing to quantify them in the ORSA but there are limitations to the available data and reliability of any such assessments. Vhi Insurance allow for this in considering the Company target capital margins.

There is no additional material information regarding the risk profile of Vhi insurance that has not been disclosed above.

D.
VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

This section has been completed in the order of how the assets appear on QRT S.02.01.02 Balance Sheet.

Vhi Insurance DAC Solvency II Balance Sheet Extract*	Notes	Solvency II Value 2018 €'000	Statutory Accounts** 2018 €'000
Assets			
Deferred acquisition costs	1	-	38,058
Pension benefit surplus		46	46
Property, plant & equipment held for own use	2	17,702	17,702
Investments			
Property (other than for own use)		34,127	34,127
Equities		5,200	5,200
Government Bonds		236,433	236,433
Corporate Bonds		726,028	726,028
Collateralised securities		-	-
Collective Investments Undertakings		139,648	139,648
Derivatives***		198	198
Deposits other than cash equivalents		15,016	15,016
Total Investments	3	**1,156,650**	**1,156,650**
Reinsurance recoverable from non-life and health similar to non-life	4	3,740	34,289
Deferred Tax	7	-	-
Insurance and intermediaries receivables	5	176,597	610,347
Reinsurance receivables	4	129	3,165
Cash and cash equivalents	3	26,765	26,765
Any other assets, not elsewhere shown	6	3,231	137,655
Total Assets		**1,384,860**	**2,024,677**

** Please note there may be minor differences to the information included in the Appendix due to rounding.*
*** The statutory accounts figures shown have been reclassified to match prescribed SOL II Balance Sheet headings.*
**** Vhi Insurance uses derivative instruments to hedge foreign exchange and interest rate risks of its portfolio holdings.*

Note 1: Deferred Acquisition Costs

The costs incurred during the financial year that are directly attributable to the acquisition of new business are expensed in the same accounting period as the premiums to which they relate are earned.

Under Solvency II, deferred acquisition costs are included in the calculation of the premium provision.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Deferred acquisition costs	-	38,058	(38,058)

Note 2: Property Plant and Equipment Held For Own Use

Property, plant and equipment held for own use is a combination of 'Tangible assets' and 'Land and buildings' in the statutory accounts.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Tangible Assets	9,349	9,349	-
Property - held for own use	8,353	8,353	-
Property, plant & equipment held for own use	**17,702**	**17,702**	**-**

Tangible Assets

For the statutory accounts, tangible assets are stated at cost less accumulated depreciation and impairment. Depreciation is calculated so as to write off the cost of the assets over their estimated useful lives on a straight line basis.

Under Solvency II, tangible assets are valued at cost less accumulated depreciation and impairments, which is held to approximate to fair value.

Property

Property is valued annually on an open market value basis. Valuations are made by independent professionally qualified valuers with recent experience in the location and class of the properties held. These valuations are based on recent market prices adjusted to reflect the condition and location of the specific properties. Valuations are carried out as close as possible to each year end.

Most property held is shared by Vhi Insurance with other Vhi group companies. The property value is split between *Property - held for own use* and *Property - other than for own use* based on the occupation ratio of the buildings by employees of Vhi Insurance and employees of other Vhi group companies.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Property - held for own use	17,702	17,702	-
Property - other than for own use	34,127	34,127	-
Total Property	**51,829**	**51,829**	**-**

Note 3: Investments and Cash

In line with the statutory accounts, investment assets under Solvency II are held at fair value. Fair value is determined as the market value which represents the bid price inclusive of any accrued interest at the balance sheet date.

Where available, market prices are determined by reference to publically available prices of identical assets in active markets. The Company considers a market active in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information to market participants on an ongoing basis. Where actual market prices are not publically available, valuations are calculated by valuation services with access to private market information. Where prices for identical assets are not available, valuations are calculated by reference to prices for similar assets trading on active markets with appropriate adjustments for differences between the assets.

If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

At 31 December 2018, all assets included in the categories of Government Bonds, Corporate Bonds and Collateralised Securities:

- were considered to be trading in active markets as prices were available to market participants; and/or
- were valued by valuation services using quoted prices for identical or similar assets; and
- were subject to minimal valuation uncertainty.

Collective investments undertakings are composed of money market funds with constant or variable net asset values whose value is derived from the market value of the underlying assets held. Such funds are valued by the fund manager and considered to be at risk of minimal valuation uncertainty.

+ Further Information Section D.4. Alternative Methods for Valuation discusses the valuation of unlisted equities.

Bank deposits are carried at face value plus or minus any accrued interest at the balance sheet date. The directors believe that this value does not need to be further adjusted under Solvency II as all accounts mature within one year.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Equities - unlisted	5,200	5,200	-
Government bonds	236,433	236,433	-
Corporate bonds	726,028	726,028	-
Collective investments undertakings	139,648	139,648	-
Derivatives	198	198	-
Investment portfolio assets at fair value	**1,107,507**	**1,107,507**	**-**
Deposits other than cash equivalents	15,016	15,016	-
Property (other than for own use)	34,127	34,127	-
Total investment assets	**1,156,650**	**1,156,650**	**-**
Cash and cash equivalents	26,765	26,675	-
Total	**1,183,415**	**1,183,415**	**-**

**Please note there may be minor differences to the information included in the Appendix due to rounding.*

Note 4: Reinsurance Recoverable and Reinsurance Receivables

Reinsurance recoverable is recognised where the Company has purchased reinsurance and expects to be able to recover claims amounts which are outstanding or yet to be incurred under insurance contracts issued.

Premiums retained from the reinsurer until settlement of the underlying claims are recognised as a liability – *deposits from reinsurers*. Vhi Insurance currently retains premiums equal to the recoverable at all times.

Under Solvency II, these amounts are reduced as underlying provision for claims outstanding is lower due to the elimination of prudence.

Asset & Liability	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Asset Reinsurance recoverable from non-life and health similar to non-life	3,740	34,289	(30,549)
Liability Deposits from reinsurers	(3,740)	(34,289)	30,549

Reinsurance receivables and Reinsurance payables:

Reinsurance receivables or payables are valued at the expected immediate cash inflow or outflow under reinsurance contracts entered into.

Under Solvency II, reinsurance is recalculated, and as a result of the elimination of prudence from the technical provisions, the expected reinsurance receivable is replaced with an estimate for the eventual payable.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Reinsurance receivables	129	3,165	(3,036)

Note 5: Insurance and Intermediaries Receivables

Insurance and intermediaries' receivables include amounts receivable from policyholders via intermediaries and related tax relief-at-source and risk equalisation credits for insurance policies incepted.

In the statutory accounts, receivables are valued at face value net of an allowance for potential doubtful debts estimated using historical data and regularly tested against experience.

Under Solvency II, cash flows in respect of unexpired insurance coverage are removed and included in the calculation of the premium provision. The cash flows include an amount for the unexpired risk equalisation as well as policyholder debtors. No other valuation adjustment is made as all receivables are receivable within one year.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Insurance & intermediaries receivables	176,597	610,347	(433,750)

Note 6: Any Other Assets, Not Elsewhere Shown

Other assets consist of deferred expenses under the Risk Equalisation Scheme and prepayments. Deferred risk equalisation expenses are included in the calculation of the premium provision under Solvency II. Prepayments are considered to be valued consistently for Solvency II purposes.

Asset	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Any other assets, not elsewhere shown	3,232	137,655	(134,423)

D.2 Technical Provisions

D.2.1 Technical Provisions Methodology and Bases

The following standard actuarial techniques are applied to estimate the claims for the Provision for Claims Outstanding ("PCO"): Development Factor Method, Estimated Loss Ratio Method and the Bornhuetter-Ferguson Method. The Estimated Loss Ratio Method is also used to calculate the Premium Provision ("PP").

- **Development Factor Method ("DFM")** — A DFM (or otherwise known as basic chain ladder method) assumes that for any particular Accident Period ("AccPeriod"), the proportion of the total ultimate claim costs, which has developed by each period, follows past trends. This method is applied using both paid and incurred claims data.

- **Estimated Loss Ratio ("ELR") Method** — For this method, a projected LR is estimated independently of the claims experience to date for that AccPeriod. The ELR method is used for recent AccPeriods which are relatively less developed as DFM's may not be appropriate given they have relatively less data at these early stages.

- **Bornhuetter-Ferguson ("BF") Method** — This method combines features of the DFM and ELR methods, and assigns weights for the percentage of losses paid and losses incurred. Unlike the Chain Ladder Method, which builds a model based on past experience, the Bornhuetter-Ferguson technique builds a model based on the insurer's exposure to loss. This is most useful for more recent periods, reducing the reliance on less developed claims experience.

In calculating the technical provisions the probability weighted discounted average of all possible future outcomes is considered, this includes an allowance for events not in historic claims data.

The technical provisions consider all cashflows arising from claims and associated expenses that will be incurred servicing policies during their lifetime. Vhi Insurance holds a provision to cover future expense cashflows. This includes expenses associated with the future payment of claims for expired risk and expenses associated with the ongoing maintenance of policies for unexpired periods of risk.

The payoff profile for the cashflows projected within the technical provisions is constructed using the historic claim payment trends. These cashflows are discounted using the year end 2018 risk free term structure of interest rates published by the European Insurance and Occupational Pension Authority ("EIOPA").

+ Further Information Section D.2.7 outlines the calculation of the Risk Margin.

A reinsurance contract was in place until year end 2017 and when calculating the net technical provisions the reinsurer's proportionate share of future cashflows are allowed for in the technical provisions.

Medical Expense Insurance*	**Gross 2018 €'000**	**Net 2018 €'000**
Provision for Claims Outstanding ("PCO")	293,825	290,084
Premium Provision ("PP")	137,868	137,868
Risk Margin	21,372	21,372
Total Technical Provisions	**453,064**	**449,324**

**Please note there may be minor differences to the information included in the Appendix due to rounding.*

D.2.2 Level of uncertainty associated with the value of technical provisions

Vhi Insurance underwrites medical expense insurance which is short tailed in nature and under a normal course of business experiences a relatively low degree of volatility. This is recognised in the volatility assumption applied under the Solvency II standard formula guidelines, which is lower, compared to other non-life business lines.

In recent periods there continues to be a higher level of volatility in public hospital claims developments than was previously the case, so the current level of uncertainty is considered to be higher than that observed historically. In particular the propensity of customers to sign Private in Patient Forms when admitted to public hospitals has continued to give rise to significant volatility in public hospital claims.

D.2.3 Explanation of any material differences between the bases, methods and main assumptions

The technical provisions in the financial statements total €979,427k at 31 December 2018 (2017: €1,057,883k). This compares to Solvency II technical provisions of €453,064k (2017: €472,376k).

The reasons for the difference are due to different valuation bases for the respective calculations.

The Solvency II Technical Provisions are on a discounted, best estimate basis, allowing for all future cashflows associated with claims and expenses associated with business to which Vhi Insurance is obligated as at 31 December 2018.

The Financial Statements Technical Provisions have been prepared in accordance with FRS 102 and FRS 103. These allow for reasonably foreseeable events and need not be on a best estimate basis.

The differences between the two bases are mainly explained by the allowance for future premium receivable in the Solvency II Technical Provisions, as well as the removal of any margins for prudence and the recognition of surplus within unexpired risk and risk equalisation cashflows.

D.2.4 Matching adjustment, volatility adjustment or transitional measures applied to the technical provisions

Vhi Insurance does not apply:

- a matching adjustment;
- a volatility adjustment;
- transitional interest rate risk free structure; or
- transitional measures.

D.2.5 Description of recoverables from reinsurance contracts

Vhi Insurance had a multi-year quota share reinsurance agreement in place. This arrangement expired at the end of 2017 and is currently in run-off.

The reinsurance counterparty is the National Indemnity Company, part of the Berkshire Hathaway group (the "Reinsurer"), who have a strong credit rating, AA+ with Standard & Poor's at 31 December 2018. Under Solvency II this corresponds to a credit quality step of 1. Any reinsurance recoverable is adjusted for expected default of the Reinsurer in line with Article 61 of Delegated Regulation 2015/35/EU.

Vhi Insurance has calculated the reinsurer's share of cashflows underpinning the Gross Technical Provisions. The Net Technical Provisions have been calculated by deducting the reinsurer's share of Gross Technical Provisions, from the Gross Technical Provisions.

Vhi Insurance does not use special purpose vehicles in relation to reinsurance.

D.2.6 Material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period

There have been no material changes to the assumptions underlying the technical provisions throughout the year.

D.2.7 Risk Margin

The Solvency II Risk Margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount an insurance and reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations of the Company.

This component should be calculated using a cost of capital approach. The cost of capital approach requires the Solvency II Risk Margin to be calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the obligations over their lifetime.

In EIOPA's "Guidelines on the Valuation of Technical Provisions" a hierarchy of methods is specified for the estimation of future SCR. Vhi Insurance adopts the top method in this hierarchy, "Method 1".

The cost of capital applied in calculating the Solvency II Risk Margin is 6%. The Solvency II Risk Margin calculated at 31 December 2018 was €21,372k (2017: €22,045k).

D.3 Other Liabilities

This section has been completed in the order of how the liabilities appear on QRT S.02.01.02 Balance Sheet.

Vhi Insurance DAC Solvency II Balance Sheet Extract*	Notes	Solvency II Value 2018 €'000	Statutory Accounts** 2018 €'000
Other Liabilities			
Deposits from reinsurers	4	3,740	34,289
Deferred tax liabilities	7	16,608	268
Derivatives		91	91
Debts owed to credit institutions		18,574	18,574
Insurance & intermediaries payables	8	131,028	218,793
Payables (trade, not insurance)		30,000	30,000
Any other liabilities, not elsewhere shown	9	14,347	140,209
Total Other liabilities		**214,388**	**442,224**

* *Please note there may be minor differences to the information included in the Appendix due to rounding.*
** *The statutory accounts figures shown have been reclassified to match prescribed SOL II Balance Sheet headings.*

Note 7: Deferred Tax Liabilities

Vhi Insurance recognises a deferred tax liability and values this under GAAP at its undiscounted face value.

Under Solvency II, this deferred tax liability is increased for the taxable value of the unrealised gain which results from recalculation of the technical provisions without prudence.

Liability	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Deferred tax liabilities	16,608	268	16,340

Note 8: Insurance and Intermediaries Payables

Insurance and intermediaries payables include amounts due to hospitals and doctors for policyholder claims assessed at the balance sheet date and not yet paid, along with amounts due for the Health Insurance Levy to fund the Risk Equalisation Scheme, and commission payable to intermediaries for policies sold.

Under Solvency II, commission payable and risk equalisation scheme creditors which relate to the unexpired portion of in force contracts are included in the calculation of the premium provision. No further adjustment is made to these values as all amounts are expected to settle within one year.

Liability	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Insurance & intermediaries payables	131,028	218,793	(87,765)

Note 9: Any Other Liabilities, Not Elsewhere Shown

Deferred Risk Equalisation Scheme income is included in the calculation of the premium provision under Solvency II but included in Other Creditors in the statutory accounts. Accruals and other payables are valued at the undiscounted face value under GAAP and are considered to be valued consistently under Solvency II.

Liability	Solvency II Value 2018 €'000	Statutory Accounts 2018 €'000	Difference 2018 €'000
Any other Liabilities, not elsewhere shown	14,347	140,209	(125,862)

D.4 Alternative Methods for Valuation

Vhi Insurance uses alternative valuation methods to value assets and liabilities where markets are not active or quoted prices are not available. Maximum possible use has been made of relevant market inputs where available.

Unlisted equities are valued by reference to observable market prices using a discounted cash flow method. The value of cash inflows are calculated by reference to publically available prices for similar assets. Investments in unlisted equities are kept to prudent levels (less than 1% of assets) such that valuation uncertainty is not material for the Company.

D.5 Any Other Information

There is no additional material information regarding the valuation of assets and liabilities for solvency purposes for Vhi Insurance that has not been disclosed above.

E.
CAPITAL MANAGEMENT

E.1 Own Funds

Vhi Insurance manages its own funds with the main objective of satisfying solvency requirements in line with the Company's Risk Appetite Statement. The Company prepares a Medium Term Capital Plan which is updated annually in line with the Board's Capital Management Policy. This includes the projection of own funds over a four year time horizon and aims to ensure that the Company continues to hold own funds within the preferred risk appetite range throughout this horizon.

E.1.1 The Structure, Amount and Quality of Own Funds

The below table sets out, separately for each tier, information on the structure, amount and quality of own funds at 31 December 2018 including the eligible amount of own funds to cover the SCR, classified by tiers and the eligible amount of basic own funds to cover the MCR, classified by tiers.

Basic Own Funds for SCR	**2018 €'000**	**2017 €'000**
Tier 1	717,406	812,881
Tier 2	-	-
Tier 3	-	-
Total Basic Own Funds	**717,406**	**812,881**
Eligible Own Funds for SCR		
Tier 1	717,406	812,881
Tier 2	-	-
Tier 3	-	-
Total Eligible Own Funds for SCR	**717,406**	**812,881**
Eligible Own Funds for MCR		
Tier 1	717,406	812,881
Tier 2	-	-
Tier 3	-	-
Total Eligible Own Funds for MCR	**717,406**	**812,881**

The reduction in Tier 1 own funds is due to a combination of the declaration of a final dividend of €30,000k and general business performance.

E.1.2 Differences between equity as shown in the financial statements and the excess of assets over liabilities

The financial statements of Vhi Insurance show equity of €5,000k (2017: €5,000k) and retained earnings of €598,027 (2017: €597,265). The breakdown of the movement between the financial statements and Solvency II are outlined in the table below.

Excess of assets over liabilities – Attribution of valuation difference	2018 €'000	2017 €'000
Total of reserves and retained earnings from financial statements	598,027	597,265
Difference in the valuation of assets	(639,818)	(620,116)
Difference in the valuation of technical provisions	526,362	585,507
Difference in the valuation of other liabilities	227,835	245,225
Reserves from financial statements adjusted for Solvency II valuation differences	**712,406**	**807,881**
Excess of assets over liabilities attributable to basic own fund items (excluding the reconciliation reserve)	5,000	5,000
Excess of assets over liabilities	**717,406**	**812,881**

The own funds presented in the above tables are fully available for the absorption of policyholder losses.

E.1.3 Information on Own Fund Items

Tier 1	The Tier 1 own funds of Vhi Insurance comprise retained earnings and €5,000k equity. These funds can be called on demand and are fully available to absorb losses on a going concern basis and in the case of winding up.
Tier 2	Vhi Insurance held no Tier 2 own funds at year end.
Tier 3	Vhi Insurance held no Tier 3 own funds at year end.

Per Section E1.1 above, the Tier 1 movement in Tier 1 own funds over the year is due to a combination of the declaration of a final dividend and general business performance.

The reconciliation reserve represents the net asset value under Solvency II for Vhi Insurance less equity and subordinated debt own fund items. The reconciliation reserve has decreased from €807,881k in 2017 to €712,406k in 2018.

There are no restrictions or adjustments applied to own fund items.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Vhi Insurance calculates the SCR using the standard formula. The table below sets out the SCR and MCR for Vhi Insurance as at year end 31 December 2018.

Capital Requirements	2018 €'000	2017 €'000
Solvency Capital Requirement (SCR)	**309,895**	**300,675**
Minimum Capital Requirement (MCR)	**85,952**	**75,169**

Solvency Capital Requirement (SCR) Requirements by sub-module	2018 €'000	2017 €'000
Market Risk	57,955	30,634
Counterparty Default Risk	18,669	29,127
Health Underwriting Risk	258,020	267,928
Operational Risk	42,412	44,383
Adjustments and Diversification	(67,161)	(71,397)
Solvency Capital Requirement (SCR)	**309,895**	**300,675**

No simplified calculations or undertaking specific parameters are applied in the calculation of the standard formula SCR for Vhi Insurance.

The MCR is bound by a maximum of 45% and a minimum of 25% of the SCR. Its calculation is based on a straight line formula including net technical provisions and premium written for the previous 12 months. The increase in the MCR over the year was due to the increase in the SCR.

The increase in SCR during the year is primarily as a result of the transition to a new investment mandate, as well as a change in the Loss Absorbing Capacity of Deferred Taxes.

E.3 Use of the duration – based equity risk sub-module in the calculation of the Solvency Capital Requirement

This section is not applicable to Vhi Insurance.

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

This section is not applicable to Vhi Insurance.

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

This section is not applicable to Vhi Insurance.

E.6 Any Other Information

There is no additional material information regarding the capital management of Vhi Insurance that has not been disclosed above.

Appendix. Quantitative Reporting Templates

This appendix includes the annual Quantitative Reporting Templates (QRTs) for Vhi Insurance DAC in respect of year end 31 December 2018. All figures are shown in thousands (€'000). Please note there may be minor differences in totals due to rounding.

Reference	Template Name	Audited
S.02.01.02	Balance Sheet	✓
S.05.01.02	Premiums, Claims and Expenses by line of business	n/a
S.17.01.02	Non-Life Technical Provisions	✓
S.19.01.21	Non-Life Insurance Claims Information	✓
S.23.01.01	Own Funds	✓
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula	✓
S.28.01.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity	✓

S.02.01.02 Balance Sheet

		Solvency II Value 2018
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	46
R0060	Property, plant & equipment held for own use	17,702
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,156,650
R0080	*Property (other than for own use)*	34,127
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	5,200
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	5,200
R0130	*Bonds*	962,461
R0140	*Government Bonds*	236,433
R0150	*Corporate Bonds*	726,028
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	139,648
R0190	*Derivatives*	198
R0200	*Deposits other than cash equivalents*	15,017
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	3,740
R0280	*Non-life and health similar to non-life*	3,740
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	3,740
R0310	*Life and health similar to life, excluding health and index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	176,597
R0370	Reinsurance receivables	129
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	26,765
R0420	Any other assets, not elsewhere shown	3,232
R0500	**Total assets**	1,384,860

	Liabilities	Solvency II Value 2018
		C0010
R0510	Technical provisions – non-life	453,064
R0520	*Technical provisions – non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	453,064
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	431,693
R0590	*Risk margin*	21,372
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions – life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions – index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	3,740
R0780	Deferred tax liabilities	16,608
R0790	Derivatives	91
R0800	Debts owed to credit institutions	18,574
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	131,028
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	30,000
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in Basic Own Funds*	0
R0870	*Subordinated liabilities in Basic Own Funds*	0
R0880	Any other liabilities, not elsewhere shown	14,347
R0900	**Total liabilities**	667,453
R1000	**Excess of assets over liabilities**	717,406

S.05.01.02.01 Premiums, Claims and Expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Medical expense insurance	
		C0010	C0200
	Premiums written		
R0110	Gross - Direct Business	1,400,814	1,400,814
R0120	Gross - Proportional reinsurance accepted	0	0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	0	0
R0200	Net	1,400,814	1,400,814
	Premiums earned		
R0210	Gross - Direct Business	1,413,722	1,413,722
R0220	Gross - Proportional reinsurance accepted	0	0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	0	0
R0300	Net	1,413,722	1,413,722
	Claims incurred		
R0310	Gross - Direct Business	1,246,279	1,246,279
R0320	Gross - Proportional reinsurance accepted	0	0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	-53,862	-53,862
R0400	Net	1,300,141	1,300,141
	Changes in other technical provisions		
R0410	Gross - Direct Business	0	0
R0420	Gross - Proportional reinsurance accepted	0	0
R0430	Gross - Non- proportional reinsurance accepted		0
R0440	Reinsurers' share	0	0
R0500	Net	0	0
R0550	**Expenses incurred**	**233,452**	**233,452**
R1200	**Other expenses**		**0**
R1300	**Total expenses**		**233,452**

S.17.01.02 Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance — Medical expense insurance	Total Non-Life obligation
		C0020	C0180
R0010	**Technical provisions calculated as a whole**	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	Gross	137,868	137,868
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0
R0150	Net Best Estimate of Premium Provisions	137,868	137,868
	Claims provisions		
R0160	Gross	293,825	293,825
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,740	3,740
R0250	Net Best Estimate of Claims Provisions	290,084	290,084
R0260	**Total Best estimate - gross**	**431,693**	**431,693**
R0270	**Total Best estimate - net**	**427,952**	**427,952**
R0280	**Risk margin**	**21,372**	**21,372**
	Amount of the transitional on Technical Provisions		
R0290	Technical Provisions calculated as a whole	0	0
R0300	Best estimate	0	0
R0310	Risk margin	0	0
	Technical provisions - total		
R0320	Technical provisions - total	453,064	453,064
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	3,740	3,740
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	449,324	449,324

S.19.01.21 Non-Life Insurance Claims Information

Total Non-Life Business

Z0010	Accident year / Underwriting year	**Z0020**	Accident year [AY]

Gross Claims Paid (non-cumulative)

(absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	**Prior**											-3	-3	-3
R0160	**N-9**	975,058	256,710	18,558	5,538	1,093	-1,071	-413	-566	-790	-1,299		-1,299	**1,252,818**
R0170	**N-8**	985,701	243,633	18,053	3,757	-236	-152	-334	-709	-1,252			-1,252	**1,248,470**
R0180	**N-7**	964,413	286,874	20,899	3,244	1,211	577	-227	-1,238				-1,238	**1,275,753**
R0190	**N-6**	997,791	259,361	17,986	3,036	1,297	-41	-973					-973	**1,278,456**
R0200	**N-5**	942,523	285,755	23,151	6,264	1,289	219						219	**1,259,202**
R0210	**N-4**	936,638	304,728	29,322	5,928	1,820							1,820	**1,278,437**
R0220	**N-3**	983,275	279,748	16,518	2,476								2,476	**1,282,017**
R0230	**N-2**	1,022,873	272,728	18,950									18,950	**1,314,551**
R0240	**N-1**	1,016,955	259,881										259,881	**1,276,835**
R0250	**N**	1,029,960											1,029,960	**1,029,960**
R0260													1,308,541	**12,496,496**

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	Prior											681	683
R0160	N-9	0	0	0	0	0	0	0	218	711	701		703
R0170	N-8	0	0	0	0	0	0	333	669	673			675
R0180	N-7	0	0	0	0	0	671	1,004	913				915
R0190	N-6	0	0	0	0	1,137	1,076	916					918
R0200	N-5	0	0	0	2,565	2,106	1,851						1,854
R0210	N-4	0	0	8,038	6,513	4,326							4,334
R0220	N-3	0	29,580	11,116	5,611								5,621
R0230	N-2	269,346	32,233	12,045									12,067
R0240	N-1	260,558	27,698										27,749
R0250	N	237,860											238,306
R0260												Total	293,825

S.23.01.01 Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	5,000	5,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	712,406	712,406			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	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	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	**717,406**	**717,406**	**0**	**0**	
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0

R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	**0**			**0**	
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	717,406	717,406	0	0	0
R0510	Total available own funds to meet the MCR	717,406	717,406	0	0	
R0540	Total eligible own funds to meet the SCR	717,406	717,406	0	0	0
R0550	Total eligible own funds to meet the MCR	717,406	717,406	0	0	
R0580	**SCR**	**309,895**				
R0600	**MCR**	**85,952**				
R0620	**Ratio of Eligible own funds to SCR**	**2.3150**				
R0640	**Ratio of Eligible own funds to MCR**	**8.3466**				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	717,406				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	0				
R0730	Other basic own fund items	5,000				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	**712,406**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	0				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	-38,455				
R0790	**Total Expected profits included in future premiums (EPIFP)**	**-38,455**				

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

		Gross solvency capital requirement
		C0110
R0010	Market risk	57,955
R0020	Counterparty default risk	18,669
R0030	Life underwriting risk	0
R0040	Health underwriting risk	258,020
R0050	Non-life underwriting risk	0
R0060	Diversification	-50,553
R0070	Intangible asset risk	0
R0100	**Basic Solvency Capital Requirement**	**284,092**

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	42,412
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-16,608
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	**309,895**
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	**309,895**
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	85,952

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expenses insurance and proportional reinsurance	427,952	1,400,814
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	85,952
R0310	SCR	309,895
R0320	MCR cap	139,453
R0330	MCR floor	77,474
R0340	Combined MCR	85,952
R0350	Absolute floor of the MCR	2,500

		C0070
R0400	**Minimum Capital Requirement**	**85,952**

Glossary

Community rating	PMI policyholders are charged the same premium for a particular PMI contract irrespective of age, gender or state of health, subject to certain prescribed exceptions.
Lifetime cover	PMI policyholders are entitled to renew their PMI contracts irrespective of factors such as age, health status or claims history.
Minimum benefits	PMI policyholders must be provided with certain minimum in-patient hospital cover.
Minimum Capital Requirement (MCR)	The level of capital below which an insurer is not permitted to go. It represents the final threshold that triggers supervisory action in the event that it is breached.
Generally Accepted Accounting Principles (GAAP) / Financial Reporting Standard (FRS)	These are accounting standards used for the preparation of financial statements.
Open enrolment	PMI insurers must accept all applicants for cover regardless of current age, sex or state of health, subject to certain waiting periods before claims may be made.
Own Funds	Own Funds are comprised of basic and ancillary own funds. Basic own funds refer to the excess of assets over liabilities, valued in accordance with Solvency II requirements. Ancillary own funds consist of items other than basic own funds which can be called up to absorb losses. They are categorised, i.e. tiered, based on set criteria.
Own Risk and Solvency Assessment (ORSA)	A set of processes used to provide insight, over the business planning time horizon, into the risk profile, capital requirements and strategy of an insurer. The information produced by these processes is used to support decision making.
Private medical insurance (PMI)	Insurance providing cover for costs incurred by private medical treatment or care due to illness, accident, infirmity or disability. Under Solvency II this is classified as Medical Expense Insurance.
Quantitative Reporting Templates (QRTs)	A set of standardised templates detailing financial and monetary information about an insurer.
Reinsurance	Insurance purchased by an insurer, used to transfer risk.
Risk Appetite Statement	The document which sets out the level and type of risk that an insurer is willing to take in order to achieve its business objectives.
Risk Profile	The specific risks to which an insurer is exposed. The risk profile of every insurer is different.
Risk-mitigation techniques	The methods used by an insurer to reduce risk exposure.

Solvency Capital Requirement (SCR)	The amount of capital that an insurer must hold that will enable them to absorb significant losses and gives reasonable assurance to policyholders and stakeholders that claims will be paid as they fall due. This amount is set at the worst 1 year loss that would be expected to occur in 200 years. The SCR can be calculated using the Standard Formula, an internal model or a partial internal model.
Solvency II	A harmonising risk based prudential regulatory regime that applies to all insurance and reinsurance undertakings in the European Union, which came into force on 1 January 2016.
Solvency II Risk Margin	The value above the technical provisions equivalent to a theoretical amount of money needed for a third party to take over and meet all of the insurance obligations.
Solvency II Technical Provisions	A liability on the Solvency II Balance Sheet. Technical provisions are a ‘probability weighted best estimate’ of the future cashflows associated with insurance obligations, which have been recognised at the valuation date.
Standard Formula	A formula set out within the Solvency II regime which details the calculations for generating the Solvency Capital Requirement (SCR). An insurer which chooses not to use the standard formula to calculate the SCR may use an internal model or partial internal model, subject to supervisory approval.
System of Governance	The system through which an insurer is organised and controlled.