

Solvency and Financial Condition Report Aegon Ireland

2017

Contents

Scope of the report	4
Summary	5
Business and Performance	5
System of Governance	5
Risk Profile	6
Valuation for Solvency Purposes	6
Capital Management	7
A. Business and Performance	8
A.1 Business	8
A.1.1 Overview	8
A.1.2 Regulators and auditor	8
A.1.3 Major shareholders	8
A.1.4 List of material related undertakings	9
A.1.5 Related party transactions	9
A.1.6 Material lines of business and material geographical areas	9
A.1.7 Material events over the reporting period	9
A.2 Underwriting performance	10
A.3 Investment performance	12
A.4 Performance of other activities	13
A.5 Any other information	13
B. System of Governance	14
B.1 General Information on the System of Governance	14
B.1.1 Corporate Governance	14
B.1.2 Remuneration policy	16
B.2 Fit and proper requirements	17
B.3 Risk management system including the Own Risk and Solvency Assessment	18
B.3.1 Risk management system	18
B.3.2 Own Risk and Solvency Assessment	21
B.4 Internal Control system	23
B.5 Internal Audit Function	24
B.6 Actuarial Function	25

B.7 Outsourcing.....	26
B.8 Any other information.....	27
C. Risk Profile	28
C.1 Underwriting risk.....	29
C.2 Market risk	31
C.3 Credit risk	33
C.4 Liquidity risk	34
C.5 Operational risk.....	35
C.6 Other material risks.....	36
C.7 Any other information.....	36
D. Valuation for Solvency Purposes.....	37
D.1 Assets	37
D.2 Technical provisions.....	39
D.3 Other liabilities.....	42
D.4 Alternative methods for valuation.....	43
D.5 Any other information	43
E. Capital Management	44
E.1 Own funds	44
E.2 Solvency Capital Requirement and Minimum Capital Requirement.....	47
E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.....	48
E.4 Differences between the standard formula and any internal model used	48
E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement	49
E.6 Any other information.....	49
Appendix – Quantitative Reporting Templates	50
S.02.01.02 - Balance sheet	50
S.05.01.02 - Premiums, claims and expenses by line of business	52
S.05.02.01 - Premiums, claims and expenses by country	53
S.12.01.02 - Life and Health SLT Technical Provisions.....	54
S.23.01.01 - Own funds	55
S.25.01.21 - Solvency Capital Requirement	57
S.28.01.01 - Minimum Capital Requirement.....	58

Scope of the report

Solvency II is a harmonised EU-wide insurance regulatory regime. The Solvency II Directive was transposed into Irish Law and the legislation entered into force on 1 January 2016. The Solvency II framework sets out strengthened requirements around capital, governance and risk management, and also introduces increased regulatory reporting requirements and public disclosure requirements.

Under Solvency II, the Solvency and Financial Condition Report is an annual regulatory public disclosure requirement. This report is Aegon Ireland plc's ("Aegon Ireland", "the Company") Solvency and Financial Condition Report for the year ended 31 December 2017. It informs Aegon Ireland's stakeholders about the Company's:

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

It is prepared in accordance with the 'Guidelines on reporting and public disclosure' (EIOPA-BoS-15/109) and Delegated Acts 2015/35, as issued by the European Insurance and Occupational Pensions Authority (EIOPA).

A subset of the Quantitative Reporting Templates that are included in the appendix of this report and the qualitative information included in Sections D (Valuation for Solvency Purposes) and E (Capital Management) have been subject to external audit.

The following Quantitative Reporting Templates have been subject to external audit:

- S.02.01.02 (Balance Sheet)
- S.12.01.02 (Life & Health Technical Provisions)
- S.23.01.01 (Own funds including basic and ancillary own funds)
- S.25.01.21 (Solvency capital requirement using the standard formula)
- S.28.01.01 (Minimum capital requirement)

Note that within this report all figures are presented as rounded to the nearest GBP thousand, unless it is stated otherwise.

This report and supporting Quantitative Reporting Templates have been approved by the Board of Directors prior to submission to the Central Bank of Ireland and publication on the Aegon Ireland website (www.aegon.ie).

Summary

Aegon Ireland is a public limited company incorporated under Irish law which commenced trading in July 2002. During 2017 the Company was part of the Aegon N.V. Group (“Aegon Group”), an international provider of life insurance, pensions and asset management.

Since inception Aegon Ireland has been helping people prepare for their financial future. Over this period the Company has offered a wide range of innovative investment solutions including the manufacture of guaranteed propositions (unit-linked guarantees (“ULGs”)) for markets in the UK, Germany, and the Netherlands, as well as traditional offshore bond (“OSB”) products in the UK. Aegon Ireland currently manages over £4bn of funds for over 20,000 customers. Distribution for all Aegon Ireland products was through Independent Financial Advisers, bank and platform channels. The Company also engages in reinsurance ULG business originating from France and the UK.

During 2017, Aegon N.V. signed a Share Purchase Agreement which reflected the sale of Aegon Ireland plc to AGER Bermuda Holding Ltd (“AGER”), a subsidiary of Athene Holdings Ltd.

During January 2018, AGER deconsolidated from Athene and formally changed their name to Athora Holding Ltd (“Athora”). Following regulatory approval, the transfer of ownership from Aegon N.V. to Athora was completed on 3 April 2018. Existing policyholders are not affected by the sale and they will continue to enjoy the benefits that the Aegon Ireland products offer.

It is anticipated that during 2018 Aegon Ireland’s business strategy will be reassessed in conjunction with Athora, and this may lead to future changes in the Company’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management.

Business and Performance

During 2017 the company continued to review product features for ULG products and re-design or re-price in order to ensure they remain attractive for customers and are sustainable in a low interest rate environment. Aegon Ireland also continued to reinsure the platform ULG products for Aegon UK. In December 2017, Aegon Ireland announced that they were suspending sales of new OSB policies (excluding top-ups to existing policies) from 1 January 2018 for a period of at least three months.

The Company produces its financial statements in accordance with International Financial Reporting Standards (“IFRS”) and reported a pre-tax profit of £10,655k at 31 December 2017. This profit has been further segregated into underwriting performance of £7,685k and investment performance of £2,970k. The main drivers for this performance in 2017 were improved market conditions and a reduction in expenses and other costs.

2017 saw reduced volatility in the UK and Eurozone compared to 2016, but general market uncertainty persisted. The Company’s dynamic hedging programme and risk reduction initiatives helped to protect its financial strength during this period and ensured efficient use of capital in the business.

System of Governance

The governance structure of the Company has not changed materially over the reporting period. The Board is responsible for the overall governance of Aegon Ireland’s business and strategic objectives. The Company recognises the critical importance of having efficient and effective risk management

systems in place and has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business.

The Own Risk and Solvency Assessment (ORSA) is one of the key elements of the system of governance. It is an ongoing assessment performed by the Board of the risks facing the Company, and the capital required by and available to the Company in order to meet its commitments in light of those risks, both now and into the future.

One of the main changes to the system of governance during the reporting period was that Aegon Ireland decided to outsource their Head of Actuarial Function role to the actuarial consulting firm Milliman.

The Company is satisfied that the system of governance remains fit for purpose and appropriate for the nature, scale and complexity of risks inherent in its business.

Risk Profile

The Company faces a number of risks which are external in nature, primarily financial market risks (e.g. movements in interest rates) and underwriting risks (e.g. unexpected changes in longevity trends). Other risks may arise from internal factors, such as inadequate systems or processes. Both external and internal risks can affect the Company's operations, its earnings, the value of its investments, or the sale of its products.

Risk is managed and controlled with reference to both the Aegon Economic Framework and the regulatory Solvency II principles. The Economic Framework is Aegon's internal approach for measuring value and risk exposure. Both the Economic Framework and Solvency II are used as supporting tools to measure and manage risks, and to help guide the development of Aegon Ireland's desired risk profile. The risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's risk strategy.

There were no material changes in the Company's risk profile over the reporting period. Based on the 2017 sensitivities, the most significant exposure is to interest rate risk, followed by mortality, lapse, credit and equity risks.

Valuation for Solvency Purposes

Aegon Ireland has valued its assets and liabilities on a market consistent basis, i.e. using information which is market observable where possible. The Company's assets are primarily those held to back the policyholder unit-linked liabilities, with the surplus held as cash or similarly liquid investments. During the reporting period, Aegon Ireland did not make any material changes to the recognition, valuation bases or estimation techniques used for its asset valuation.

The technical provisions comprise the Best Estimate Liability and the Risk Margin. A number of assumptions feed into the calculation of the technical provisions.

Over 2017, as part of the annual assumption review and experience investigations, future mortality and lapse assumptions were updated. The Risk Margin is re-calibrated annually and the methodology used to project the future Solvency Capital Requirements was further refined in the 2017 calibration. In calculating the technical provisions, the Company does not apply any matching adjustment, volatility adjustment, or transitional measures.

There were no material changes to the bases, methods or main assumptions used for the valuation of other liabilities over the reporting period.

Capital Management

One of Aegon Ireland’s key objectives is to maintain, at all times, sufficient own funds to cover both the Minimum Capital Requirement and Solvency Capital Requirement under Solvency II. Aegon Ireland use the prescribed Standard Formula approach for calculating the Solvency Capital Requirement. There were no incidences of non-compliance with capital requirements throughout the reporting period.

The key Solvency II figures for Aegon Ireland as at 31 December 2017 and the previous year are presented below:

Solvency Ratio (<i>GBP thousands</i>)	FY2016	FY2017
Own funds	203,645	214,687
Minimum Capital Requirement	40,247	35,941
Solvency Capital Requirement	160,989	143,765
Solvency Ratio	126%	149%

As at 31 December 2017, Aegon Ireland’s available own funds comprises £209,341k Tier 1 capital (97.5%) and £5,347k Tier 3 capital (2.5%). The total own funds are eligible to meet the Solvency Capital Requirement and the Tier 1 own funds are eligible to meet the Minimum Capital Requirement.

A. Business and Performance

A.1 Business

A.1.1 Overview

Aegon Ireland is a public limited company registered in Ireland under company number 346275.

A.1.2 Regulators and auditor

Aegon Ireland is authorised and regulated by the Central Bank of Ireland as a life insurance undertaking. The contact details for the Central Bank of Ireland are as follows:

Address: Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1
 Telephone: +353 1 224 4000

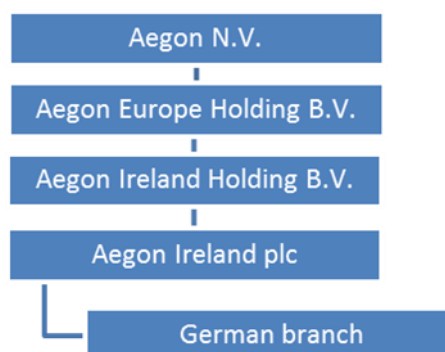
Aegon Ireland is also subject to limited regulation by the Financial Conduct Authority in the UK and the Federal Financial Supervisory Authority (BaFin) in Germany.

Aegon Ireland appointed PricewaterhouseCoopers Ireland as external auditors for the year ending 31 December 2017. The contact details for PricewaterhouseCoopers Ireland are as follows:

Address: One Spencer Dock, North Wall Quay, Dublin 1
 Telephone: +353 1 792 6000

A.1.3 Major shareholders

As at 31 December 2017, Aegon Ireland’s ultimate parent company is Aegon N.V. All of the shares of Aegon Ireland were beneficially owned by Aegon Ireland Holding B.V. which is a subsidiary of Aegon N.V. The issued share capital of Aegon Ireland at this date was €90,152k. A simplified group structure is shown below.



Aegon N.V., Aegon Europe Holding B.V., and Aegon Ireland Holding B.V. are incorporated in the Netherlands.

On 9 August 2017, Aegon Group signed a Share Purchase Agreement with AGER Bermuda Holding Ltd (“AGER”), a subsidiary of Athene Holdings Ltd, to sell the shares of Aegon Ireland. During January 2018, AGER deconsolidated from Athene and formally changed their name to Athora Holding Ltd (“Athora”). Following regulatory approval, the transfer of ownership from Aegon N.V. to Athora Life Re Ltd. was

completed on 3 April 2018. Athora Life Re Ltd. acquired 100% of the share capital of the Company and the ultimate parent is Athora.

A.1.4 List of material related undertakings

Aegon Ireland is based in Dublin and has established a branch office in Frankfurt, Germany.

A.1.5 Related party transactions

During 2017, material transactions between Aegon Ireland and related parties of the Aegon Group included the following:

- Aegon Ireland accepted reinsurance inwards under reinsurance treaties with Aegon UK; and
- Aegon Ireland's counterparty for a number of its derivative positions was Aegon Derivatives N.V., which functioned as a pure pass through vehicle.

Intragroup transactions have taken place on an arm's length basis. Aegon Ireland paid recharges for services which were provided by various entities of the Aegon Group.

As noted above, the material change in shareholder ownership from Aegon N.V. to Athora was agreed during 2017, but the transaction did not complete until 3 April 2018.

A.1.6 Material lines of business and material geographical areas

Lines of Business

Aegon Ireland's material lines of business are (i) Index-linked and unit-linked insurance; and (ii) Life reinsurance. The index-linked and unit-linked insurance line of business is split into two distinct product lines:

- Contracts without options and/or guarantees i.e. Offshore Bond (OSB) products; and
- Contracts with options or guarantees i.e. Unit Linked Guarantee (ULG) products

The life reinsurance business relates to the ULG product line only.

Material geographical areas

Aegon Ireland operates in the UK and the Netherlands on a cross-border basis, in France for reinsurance only and has established a branch office in Germany.

A.1.7 Material events over the reporting period

A summary is provided below of the material events that have occurred over 2017:

Sale of Aegon Ireland

As noted above, during August 2017 Aegon Group signed an agreement with AGER Bermuda Holdings Ltd (now known as Athora Holding Ltd) to sell the shares of Aegon Ireland. The transaction was approved by the Central Bank of Ireland and transfer of ownership formally completed on 3 April 2018.

Market and political uncertainty

2017 saw reduced volatility in the UK and Eurozone compared to 2016, but general market uncertainty persisted. Following the 2016 vote in the UK to leave the European Union, Article 50 was triggered in March 2017 and there remains ambiguity over what 'Brexit' will look like. In the aftermath of the 'Brexit' vote, the Bank of England announced a reduction in interest rates and a monetary easing programme, but that cut was reversed in November 2017 as the UK economy performed stronger than initially expected.

2017 saw UK swap rates increase in the short term, but long-term UK rates remained close to their historical low. During 2017 Euro swap rates increased at all but very short terms; by year-end 2017 rates were between 15 and 25 basis points higher than year-end 2016.

Both UK and Euro equity markets performed well during 2017, however bond market yields remain lower than expected. Sterling exchange rates made gains against the US Dollar but continued the trend of declining against the Euro.

As the value of the guarantees underwritten by Aegon Ireland are strongly influenced by market conditions, the effectiveness of the dynamic hedging programme helped to protect Aegon Ireland's financial strength during this period.

Changes to product offerings

The Company continued to review ULG product features during 2017, and re-designed or re-priced products ensuring they remained sustainable and attractive for customers.

In December 2017, Aegon Ireland announced that they were suspending sales of new OSB policies (excluding top-ups to existing policies) from 1 January 2018 for a period of at least three months. This decision was taken to align with the strategic plans of Athora.

Post year-end, during February 2018, Aegon UK announced the closure of the Secure Retirement Income product from 1 March 2018. Aegon Ireland continues to reinsure the guarantees attaching to this product for in-force policies.

Risk and capital management actions

Given the sale announcement and continued market uncertainty, risk and capital management remained a key focus for Aegon Ireland during 2017. A number of risk reduction initiatives were undertaken to protect the financial strength of the Company and to ensure efficient use of capital in the business. This involved expanding the Company's existing hedging programme to reduce the exposure to market risks.

A.2 Underwriting performance

The Company's underwriting performance for 2016 and 2017 is shown in the table below, combining figures for both ULGs and OSBs which are classified differently under Solvency II and IFRS¹:

Underwriting performance (GBP thousands)	FY2016	FY2017
Premium income	199,498	82,536
Reinsurance income	6,218	7,450
Claims & Withdrawal Payments	(320,058)	(323,236)
Movement in unit-linked funds	117,501	240,711
Fee and other income	56,948	35,855
Expenses and other costs	(68,727)	(35,631)
Total performance	(8,619)	7,685

¹ ULGs and OSBs are classified as Life insurance under Solvency II. Under IFRS, OSBs are classified as investment contracts, with ULGs classified as insurance contracts.

As shown, underwriting performance has increased by £16,304k over the period. This is mainly driven by the substantial reduction in ‘Expenses and other costs’, offset in part by the fall in ‘Fee and other income’, as the other line items largely offset against each other.

Total premium income (including reinsurance income) has fallen from £205,717k in 2016 to £89,986k in 2017. This was largely due to a reduced number of Aegon Ireland products remaining open to new business.

‘Claims and Withdrawal Payments’ consists of regular withdrawals made by policyholders and other benefits which have been paid by the Company (e.g. on death or surrender of the policy).

The ‘Movement in unit-linked funds’ reflects the movement in the policyholder unit-linked funds over the period.

‘Fee and other income’ reduced over the reporting period as there were large foreign exchange gains made in 2016 that did not reoccur in 2017.

‘Expenses and other costs’ comprise operating expenses and the movement in deferred acquisition costs. It has decreased from £68,727k in 2016 to £35,631k in 2017, which was largely driven by the much smaller movement in deferred acquisition costs over this period.

A geographical split of premiums, claims and expenses for 2016 and 2017 are shown below.

Premiums, claims and expenses		FY2016		
<i>(GBP thousands)</i>	United Kingdom	Germany	Other	Total
Premiums	169,153	34,181	2,383	205,717
Claims	319,885	90	84	320,058
Expenses	52,340	16,224	163	68,727

Premiums, claims and expenses		FY2017		
<i>(GBP thousands)</i>	United Kingdom	Germany	Other	Total
Premiums	76,087	11,368	2,531	89,986
Claims	321,767	1,427	43	323,237
Expenses	27,042	8,411	178	35,631

As noted above, premiums and expenses reduced in both the UK and Germany in 2017, whilst claims were largely unchanged in the UK but increased in Germany. The table for FY2017 is consistent with the information presented in the Quantitative Reporting Template included in the Appendix (S.05.02.01).

A.3 Investment performance

The Company holds investments on behalf of policyholders and the shareholder. The Company does not provide investment advice to policyholders and investments selected by policyholders or their appointed advisers are not included in the investment performance below.

The shareholder investment performance for 2016 and 2017 is shown in the tables below:

FY2016 Investment Performance <i>(GBP thousands)</i>	Income	Movements in Fair Value	Total Performance
Embedded Derivative	-	(14,156)	(14,156)
Derivative financial instruments	-	29,278	29,278
Shareholder Investments	1,485	(83)	1,402
Total	1,485	15,040	16,525

FY2017 Investment Performance <i>(GBP thousands)</i>	Income	Movements in Fair Value	Total Performance
Embedded Derivative	-	29,262	29,262
Derivative financial instruments	-	(28,009)	(28,009)
Shareholder Investments	1,446	271	1,717
Total	1,446	1,524	2,970

Under IFRS, a liability is held to reflect the derivatives embedded within the ULG insurance contracts. The movement in the 'Embedded Derivative' reflects the change in fair value of this IFRS ULG reserve, which reflects the value of the guarantees underlying these products. The change in the 'Derivative financial instruments' reflects the realised and unrealised gains and losses on the derivatives in the hedging programme which mitigates the exposure to market risks associated with these guarantees.

'Shareholder investments' were largely unchanged over the period and currently consist of cash accounts and collective investment funds. In 2017 this yielded £1,717k in interest earned on deposit accounts, liquidity funds and gains on assets held.

Investment performance was comparatively larger in 2016 mainly due to the strong performance of the currency forward, which was reflected within the 'Derivative financial instruments'. This forward was removed in late 2016 in conjunction with the change in reporting currency from Euro to Sterling.

Investment performance over 2017 is primarily driven by shareholder income received.

Investment expenses are not managed by asset type, and are collectively shown in Section A.2 under expenses. There were no gains or losses recognised directly in equity, nor any investments in securitisation.

A.4 Performance of other activities

The Company's only activity is life insurance and there are no other material activities to disclose. Currently the Company has two operating leases. Fixed-term period rent is agreed for its office premises in both Dublin and Frankfurt, which is included above in 'Expenses and other costs'.

A.5 Any other information

There is no further material information to note regarding Aegon Ireland's business and performance.

B. System of Governance

B.1 General Information on the System of Governance

Aegon Ireland's system of governance has not changed materially over the reporting period.

It is anticipated that the system of governance will be reassessed, and restructured as appropriate during 2018 following the transfer of ownership from Aegon N.V. to Athora.

B.1.1 Corporate Governance

The governance structure of the Company has not changed materially over the reporting period. The Company is satisfied that the system of governance remains fit for purpose and appropriate for the nature, scale and complexity of risks inherent in its business.

The Board is responsible for the overall governance of Aegon Ireland's business and strategic objectives. The Company recognises the critical importance of having efficient and effective risk management systems in place. To this end, as at 31 December 2017, the Company has a governance framework that includes:

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities;
- a fit and proper policy to ensure those holding key function positions possess the appropriate qualifications, experience and knowledge;
- a Board Risk Committee, with five members (four Non-Executive directors and one Executive director), which oversees risk;
- a Risk Management Function providing a second line of defence, independent from operations and with responsibility for monitoring and reporting risk and ensuring compliance with the Aegon Group Enterprise Risk Management Framework;
- a Compliance Function providing a second line of defence, with responsibility for monitoring and reporting on compliance with regulations;
- a Board Audit Committee, the members of which are three Non-Executive directors, which oversees internal control and financial reporting matters; and
- a third line of defence, whereby the Company is subject to periodic internal and external audits.

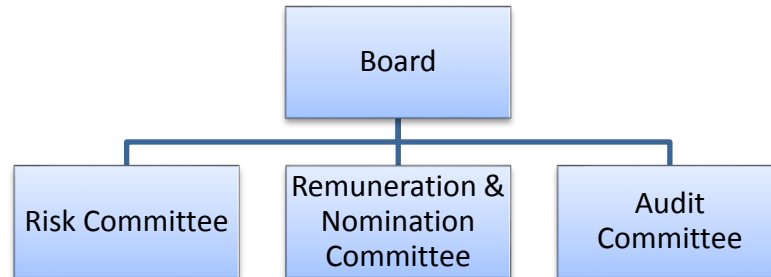
Board of Directors

The Board is responsible for the overall governance of Aegon Ireland's business and strategic objectives. As at 31 December 2017, the Board comprised two Executive Directors, and five Non-Executive Directors, three of whom were independent Non-Executive Directors. During 2017 the Board was responsible for:

- The business strategy of Aegon Ireland;
- The amounts, types and distribution of both internal capital and own funds adequate to cover the risks of Aegon Ireland;
- The strategy for the on-going management of material risks;
- A robust and transparent organisational structure with effective communications and reporting channels;
- A remuneration framework that is in line with the risk strategies of Aegon Ireland; and

- An adequate and effective internal control framework that includes well-functioning Risk Management, Compliance, Actuarial and Internal Audit Functions as well as an appropriate financial reporting and accounting framework.

The Board has established three Board Committees to which they have delegated certain functions, although the Board remains responsible for the oversight of each Committee.



Risk Committee

The Risk Committee is responsible for providing oversight and advice to the Board on Aegon Ireland’s risk appetite, risk exposures and risk tolerances based on the current and future strategy. The Risk Committee also oversees Aegon Ireland’s Risk Management Function.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for reviewing and providing recommendations to the Board in relation to all appointments and contract renewals of Executive and Non-Executive Directors and key members of senior management. This committee also provides recommendations to the Board in relation to Aegon Ireland’s remuneration policies and practices and while evaluating these, ensures consistency with and promotion of sound and effective risk management.

Audit Committee

The Audit Committee is responsible for assisting the Board in fulfilling its oversight role in relation to financial reporting and internal control. This includes reviewing the integrity of the financial statements and the financial reporting process, the systems of internal accounting and financial controls, the Internal Audit Function and the annual independent audit of financial statements. The Audit Committee regularly meets with the external auditor and internal auditor in the absence of the Executive Directors.

Senior Management Team

The Board has delegated the day-to-day running of the business to the Executive Directors and key members of senior management, together referred to as the “Senior Management Team”. The Senior Management Team is mandated and responsible for managing Aegon Ireland in accordance with the strategies, risk appetites, objectives and policies set by the Board.

The Senior Management Team is supported by a number of sub-committees, including the Product & Pricing, Asset & Liability, Risk & Compliance and Model Governance Committees.

Lines of defence and key functions

Aegon Ireland’s risk management structure is organised along three 'lines of defence', as summarised in the diagram below:

Three Lines of Defence		
First Line of Defence	Second Line of Defence	Third Line of Defence
<i>Business Functions</i>	<i>Risk Management Function Compliance Function</i>	<i>Internal Audit Function</i>

The Company's first line of defence is the business and support functions which has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerances and risk policies.

In line with the guidelines on the Solvency II Systems of Governance, the Company also has four key functions embedded in the organisation:

- *Actuarial Function* - The Actuarial Function spans the first and second lines of defence and is responsible for informing the Board of the reliability and adequacy of the calculation of technical provisions.
- *Risk Management Function* - This function forms part of the second line of defence and performs an oversight role in the major processes which allows for robust challenge of decisions and processes across the business.
- *Compliance Function* - This function also forms part of the second line of defence and is responsible for monitoring and reporting on compliance with laws and regulations.
- *Internal Audit Function* - This function forms part of the third line of defence and provides independent assurance opinions on the effectiveness of the systems of internal control, risk management and governance.

B.1.2 Remuneration policy

Remuneration Principles

Aegon Group has created a Global Remuneration Framework which has been adopted by Aegon Ireland. This framework contains the Global Remuneration Principles which provides the foundation for remuneration policies and practices throughout the Aegon Group. The key principles are that remuneration should be employee-oriented, performance-related, fairness-driven and risk-prudent.

Specific terms and conditions are defined for the employment of different groups of staff. ‘Identified Staff’ are one of the specific groups of employees who are covered by a separate remuneration policy within the framework. Identified staff are considered to be material risk takers. They are identified separately in order to recognise the fact that these employees' roles and responsibilities require specific risk mitigating measures and governance processes.

Aegon Ireland’s remuneration practices and processes have not materially changed compared to the previous reporting period.

General compensation practices

Aegon Group has a pay philosophy that is based on total compensation. This means that the aim is for total remuneration for experienced and competent employees to be consistent with those in the markets in which Aegon Group operates and competes for employees. Total compensation typically consists of base salaries and, where in line with local market practices, variable compensation.

The Global Remuneration Framework recognises that variable compensation strengthens the commitment of staff in general and in particular Identified Staff members to the Company's objectives, business strategy, risk tolerance and long-term performance. Variable compensation is based on a number of individual and company performance indicators that are linked to these items. The indicators are regularly evaluated by experts in the Company's Finance, Risk Management, Audit and Human Resources departments to ensure the alignment remains strong.

All variable compensation is capped at an appropriate level, as a percentage of base pay. Variable compensation is usually paid out in cash and/or shares of Aegon Group N.V. over multiple years, and is subject to further conditions being fulfilled. Variable compensation already paid out may also be retrieved under certain circumstances.

Each year, the Remuneration Committee reviews total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to identified members of Aegon Ireland's staff.

Board Remuneration

The Remuneration Policy for members of Aegon Ireland's Board is aimed at ensuring fair compensation, and protecting the independence of the Board members. The remuneration of Independent Non-Executive Directors is fee-based, with each of the applicable fees being a fixed amount. The fees are reviewed, benchmarked and contractually agreed every three years, with the exception of the Chairman of the Board whose contract is renegotiated annually.

Non-Executive Directors are employees of other Aegon Group entities and are remunerated in line with the Global Remuneration Framework and any country unit specific terms and conditions. The Executive Directors are Identified Staff within Aegon Ireland and remunerated as outlined above.

Supplementary Pension/Early Retirement Schemes

The only pension scheme currently in operation within the Company is the Aegon Ireland Defined Contribution Pension Scheme. There are no Supplementary or Early Retirement Schemes currently in operation for employees or members of the Board.

B.2 Fit and proper requirements

Aegon Ireland is obliged to ensure that all persons who run the business or who hold key functions within the business, fulfil the following requirements:

- a) Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management; and
- b) They're of good repute and integrity.

These requirements are known as the 'Fitness and Probity Standards' (the Standards).

The Standards apply to Irish regulated undertakings on the appointment of individuals to certain senior positions known as Pre-Approval Controlled Functions and to certain specific functions, known as Controlled Functions. The Standards require those appointed as Pre-Approval Controlled Functions and Controlled Functions to be competent and capable, honest, ethical, to act with integrity and to be financially sound.

The Company has established a Fitness and Probity policy and procedure with the aim of providing guidance on the Standards to ensure that each Pre-Approval Controlled Functions and Controlled Functions appointed within the business:

- Possesses the necessary professional qualifications, knowledge, experience, competence and capacity appropriate to their function;
- Has obtained the skills appropriate to the relevant function, through training or employment;
- Demonstrates the competence and proficiency required to undertake the relevant function through the performance of previous similar roles;
- Has a sound knowledge of the business as a whole, and the specific responsibilities that are to be undertaken;
- Has a clear and comprehensive understanding of the appropriate regulatory and legal environment;
- Manages responsibilities so as to not impair their ability to discharge their duties;
- Complies with the Central Bank of Ireland's Minimum Competency Code (if applicable).

A specific job profile is prepared for each role or function and the fitness of the relevant individual is assessed against that profile as part of the recruitment or appointment process. The ongoing compliance of Controlled Functions with their obligations under the Standards is monitored by Aegon Ireland and the Fitness and Probity Policy provides guidance on situations which may give rise to re-assessments being conducted. In the event of any changes to the status or identity of Controlled Functions, Aegon Ireland has established procedures to notify the Central Bank of Ireland.

B.3 Risk management system including the Own Risk and Solvency Assessment

B.3.1 Risk management system

Introduction to Enterprise Risk Management framework

Aegon Group have an Enterprise Risk Management framework which lays the foundation for managing risk throughout Aegon's global operations. The aim of the Enterprise Risk Management framework is to enable management to deal effectively with uncertainty, and the associated risk and opportunity, by enhancing the organisation's capacity to build value which contributes to the fulfilment of its corporate strategy.

The Enterprise Risk Management framework is made up of multiple components, where each of the building blocks (see diagram below) can and do influence each other. These are described below.



Risk Strategy

The aim of the risk strategy is to support the corporate strategy in a manner that's aligned with the stated risk tolerance of the Company, is sustainable and considers the requirements of the Company's stakeholders (e.g. policyholders, shareholder, regulator and employees). An assessment of Aegon Ireland's risk preferences leads to a targeted risk profile that reflects the risks the Company wants to keep on the balance sheet and which risks it would like to avoid by means of hedging, product design or other risk mitigation techniques/management actions.

Risk Tolerance

Risk tolerance aims to establish the Company's tolerance for risk in order to assist management in carrying out the Company strategy within the resources available. In its Risk Tolerance Statement, Aegon Ireland has defined five key areas where risk tolerance plays an important role:

1. Financial strength - defined in terms of the applicable capital requirements.
2. Continuity - continuity of the Company is tested against identified extreme events.
3. Culture - a strong risk culture is promoted by prescribing a low tolerance for operational risk.
4. Risk balance - risk limits are set to manage concentration of risks and encourage diversification.
5. Pricing - pricing tolerances are defined and are consistent with the stated risk tolerances.

Risk Identification

Aegon Group has identified a risk universe that captures all known material risks the Company is exposed to. To identify and monitor potential new and emerging risks, the Company has an Emerging Risk process in place and logs all risk events (risks which have already occurred) and risk deficiencies (risks which could potentially occur), which helps to ensure on-going appropriateness of the risk universe and the risk management framework.

Aegon Risk Universe			
Investment & Counterparty Risk	Mismatch Risk	Operational Risk	Underwriting Risk
Fixed Income Risk	Interest Rates	Business Risk	Mortality Contagion Risk
Equity Risk	Interest Rate Volatility	Legal & Compliance Risk	Mortality Parameter Risk
Alternative Investment Risk	Currency	Tax Risk	Morbidity Risk
Counterparty Risk	Liquidity	Financial Crime Risk	Lapse Contagion Risk
Equity Volatility Risk		Processing Risk	Lapse Parameter Risk
		Systems & Business Disruption Risk	Expense Risk
		People & Facilities Risk	

Risk Assessment

A consistent methodology for measuring risks across Aegon is described in the Aegon Market Consistent Reporting Manual. This sets out the principles that apply to all aspects of calculating and reporting market consistent information, both internally and externally, and covers both Solvency II and Aegon Group’s internal economic model for managing risk, known as the Economic Framework.

The risk tolerance statements capture both Solvency II and Economic Framework tolerance limits to ensure any risk and capital management actions adequately consider both frameworks in the decision-making process.

Risk and Control Self-Assessments are performed on new and existing business processes which aim to highlight operational risks that exist in the process and aid in the development of suitable controls.

Risk Reporting

A comprehensive set of risk reports to measure, monitor and manage the risks in the business are produced, showing the impact of key market and underwriting risk drivers on earnings and regulatory capital with additional reports for credit concentration risk, liquidity risk and operational risk.

The Risk Management Function has a direct line to the Aegon Ireland Board via the right of escalation as determined in committees’ terms of reference.

Risk Monitoring

The most material risk issues are identified and monitored on a regular basis in the Board’s ‘top and emerging’ risks list prepared by the Chief Risk Officer. A risk dashboard is presented to and monitored by the Risk and Compliance Committee quarterly, providing an update on risk exposures against risk limits, containing scores for each risk category based on specified quantitative and qualitative measures.

The financial strength metrics are compared to the different capital zones in the Capital Management Policy.

Continuity related statements are tested as part of the annual Medium Term Plan process and liquidity is tested quarterly. Furthermore, compliance with the culture related statements and pricing risk tolerances are reported on a quarterly basis.

Risk Response

When a risk exposure is within risk tolerance, management can accept the risk. Where limits are breached, management are required to take appropriate action as defined by the relevant risk policy. These actions may include accepting this risk (subject to valid circumstances, e.g. if the breach is very small or temporary), controlling the risk (by improving process and controls or introducing new controls), transferring the risk (by outsourcing to third parties, reinsuring or hedging the risk or insuring against the risk), or avoiding the risk (terminating activities that introduce the risk).

Each response considers the effect on reducing the likelihood and/or impact of the risk and also the costs and benefits of alternative risk responses.

Risk Control

Risk control includes risk governance, risk policies, model validation, risk embedding, risk culture and compliance. An effective risk governance framework is an important element of risk control as clear responsibilities and structured decision making is a necessary requirement.

B.3.2 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (ORSA) is the ongoing assessment by the Board of the risks facing the Company, and the capital required by and available to the Company in order to meet its commitments in light of those risks, both now and into the future.

The Board is responsible for ensuring that the ORSA process is appropriately designed and implemented. An ORSA Policy is maintained in order to ensure the ORSA process is compliant with the Solvency II regulations and integrated within the management of the business. The Board reviews and approves the ORSA Policy on at least an annual basis.

The full ORSA process must be performed annually, or more often when the Board deem necessary. The regular ORSA process usually runs alongside the production of the Budget & Medium Term Plan (MTP) process, concluding before the end of the reporting year.

A graphical overview of the ORSA process is included in the figure below:



A summary of the process is as follows:

- The business strategy is clearly set.
- The financial strategy for the Company is clearly set to support the business strategy.
- The business plan combines the business and financial strategy to calculate key results.
- The risk & capital assessment includes the identification, measurement, management and monitoring of risk. The capital needs of the business are considered taking account of the proposed strategy and the acceptable level of the associated risks in pursuit of that strategy. The assessment takes into account both the present and the future.
- The output from the business strategy, financial strategy, business plan and the risk and capital assessments are used in the decision making process.
- All of the above are evidenced.
- The process is iterative and subject to on-going monitoring to ensure the ORSA responds to changes impacting the business.

The Company manages capital in line with a Capital Management Policy, and risks in line with the Enterprise Risk Management Framework, with both these key ORSA sub-processes delivered through formal governance committees.

The Capital Management Policy ensures the financial strength of Aegon Ireland is protected. The policy defines capital management zones and management are required to maintain capital within specified target zones, and take appropriate actions when outside of these target zones.

The allocation of capital to different risks is guided by the Risk Tolerance Statements which are a fundamental part of the Enterprise Risk Management Framework. Together, the Capital Management Policy and the Risk Tolerance Statements ensure that Aegon Ireland is adequately capitalised and that the capital is allocated to risks in line with the strategy of the business.

Aegon Ireland determines its projected solvency needs by performing capital projections over the business planning period, allowing for the current and expected business strategy, risk profile and capital management activities.

The ORSA is an ongoing process and the Board are engaged in the process throughout the year and when key decisions are being made. Regular updates are provided to the Board on strategic objectives, current and projected solvency positions, risk monitoring and business initiatives to facilitate the ongoing monitoring of the ORSA. These discussions are reflected in the annual ORSA report, or separate reports as required.

The ORSA Policy provides a list of potential triggers for producing a non-regular ORSA report, however it is neither an exhaustive list, nor an automatic process, and the ultimate decision resides with the Board.

B.4 Internal Control system

Aegon Ireland has developed an Internal Control System which aims to ensure compliance with applicable laws, regulation and administrative processes and the effectiveness and efficiency of operations, as well as the availability and reliability of financial and non-financial information.

In particular Aegon Ireland's control activities aim to assure an adequate level of internal control over operational activities and financial reporting. The objective is to provide assurance regarding the reliability, accuracy, completeness, timeliness and quality of internal and external reporting and the safeguarding of assets. The principles of the Enterprise Risk Management framework and Internal Control System have been embedded into underlying policies across the business.

General principles of Aegon's Internal Control Framework

The general principles of Aegon Ireland's Internal Control Framework apply to all functional areas or departments. These principles are:

- All employees must comply with the Code of Conduct. The Code of Conduct states that all employees will conduct their work in an ethical manner;
- If employees become aware of or observe fraud, questionable accounting practices, or other unethical behaviour they should report it to a member of management, Head of Compliance or to the local ethics hotline;
- All departments must develop a system of internal control to ensure that the assets and records of the Company are adequately protected from loss, theft, alteration or unauthorised access;
- All departments establish and maintain adequate segregation of duties. Where adequate segregation cannot be achieved, other compensating controls must be established and documented;
- All departments have business continuity plans in place with a regular update process; and
- Records of the Company must be maintained in compliance with record retention policies and local regulatory requirements.

Operational & Conduct Risk Management Framework

A key element of the Internal Control System is the Operational & Conduct Risk Management framework. This framework facilitates action planning and embeds continuous improvement regarding the internal control environment throughout the organisation. The fundamental building blocks for this framework include process documentation, periodic risk and control self-assessments, scenario analysis, risk monitoring and key risk indicators, risk validation (the analysis of operational loss events and the effectiveness of controls), risk response and action plans, and regular risk reporting.

Compliance Function

Aegon Ireland's Compliance Function is responsible for providing oversight, challenge and assistance to the business in delivering Aegon Ireland's business plan within the requirements of applicable laws and regulations. In order to ensure compliance policies and procedures are being properly implemented by the business, the Compliance Function also regularly conducts compliance monitoring.

Aegon Ireland's Compliance Function is independent from the first line functions within the Company to ensure its effectiveness. This is implemented as follows:

- The Compliance Function has formal status within Aegon Ireland;
- Aegon Ireland's Head of Compliance has overall responsibility for coordinating the management of Aegon Ireland compliance risks;
- The Head of Compliance reports to the Chief Risk Officer, the Board Audit Committee and Head of Aegon Group Regulatory Compliance;
- The Compliance Team and in particular, the Head of Compliance, aren't placed in a position where there is a potential conflict of interest between their compliance responsibilities and other responsibilities they may have; and
- The Compliance Function has full access to information and personnel at all times necessary to carry out their responsibilities.

All Aegon Ireland employees have personal responsibility to ensure their work is performed in compliance with applicable rules, regulations, the Aegon Code of Conduct and internal policies. The head of each business unit within the Company is responsible for implementing the systems, policies and procedures to provide assurance that breaches of relevant obligations are prevented and that business is being conducted in line with local law and regulation.

Where a compliance issue or breach is identified, this must be reported without delay to the Compliance Team. The relevant business area is responsible for implementing any resolution and the Compliance Team monitors this implementation to ensure desired outcomes are achieved.

B.5 Internal Audit Function

As part of the third line of defence, Aegon Ireland's Internal Audit Function assists the Senior Management Team and the Board Audit Committee in protecting Aegon Ireland's assets, reputation and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes.

To ensure the independence of the auditors and effective governance, the Chief Internal Auditor has a reporting line to the respective Board Audit Committee Chairman and Group Chief Audit Executive.

Internal Audit's main tasks and responsibilities are:

- Prepare and execute a risk based audit plan which is approved by the Board Audit Committee.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented within a reasonable period of time.
- Assist in the investigation of any significant suspected fraudulent activities within Aegon Ireland or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the regulator of the results of these activities.
- Issue periodic reports to management and the Board Audit Committee, summarising the progress and results of the annual audit plan, as well as on the sufficiency of Internal Audit resources.
- Assemble and maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications.
- Ensure the Board Audit Committee and Senior Management Team are kept informed of emerging trends and successful practices in internal auditing.
- Consider the scope of work of the external auditors, regulators, and internal compliance and risk management teams, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.
- Coordinate and work together with other control and monitoring functions (e.g. Risk Management, Compliance and external auditors).
- Execute audits on the functioning of the first and second line of defence.

Independence and objectivity of the Internal Audit function

The Internal Audit Function is independent of senior management, which has responsibility for the first and second lines of defence, and is therefore able to provide independent assurance opinions on the effectiveness of the systems of internal control, risk management and governance.

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit, including the Code of Ethics, as well as with Aegon Group policies and procedures. Internal Audit's policies also align with the local professional auditing standards. Internal Audit avoids any conflicts of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions.

B.6 Actuarial Function

The Board are responsible for providing an effective Actuarial Function as part of the overall system of governance. As a result of the Central Bank of Ireland's Domestic Actuarial Regime, the Board must also appoint a Head of Actuarial Function. During 2017 the Company decided to outsource the Head of Actuarial Function role to Milliman, an actuarial consulting firm.

The Actuarial Function is responsible for coordinating the calculation of technical provisions, ensuring appropriateness of the methodologies and underlying models used and assumptions made, assessing the sufficiency and quality of data used in the calculation of the technical provisions and comparing

best estimates against experience. It is also responsible for informing the Board of the reliability and adequacy of the calculation of technical provisions.

The Actuarial Function and in particular the Head of Actuarial Function has additional responsibilities under the Central Bank of Ireland's Domestic Actuarial Regime, including submitting a written report to the Board on at least an annual basis which documents all material tasks undertaken by the Actuarial Function over the reporting period and their results and identifies any deficiencies and includes recommendations as to how they should be remedied.

The Actuarial Function comprises actuarial teams in Marketing, Pricing, Risk, Finance and Actuarial Reporting, each contributing to various elements of the responsibilities of the Actuarial Function under Solvency II.

B.7 Outsourcing

Outsourcing & Supplier Risk Policy

Outsourcing arrangements and material suppliers impact operational risk as a result of potential material changes to and reduced control over the related people, processes and systems. To manage outsourcing and supplier risk, Aegon Ireland has established an 'Outsourcing & Supplier Risk Policy'.

The aim of the Outsourcing & Supplier Risk Policy is to ensure that arrangements entered into by the Company which can result in material risk are subject to appropriate due diligence, approval and on-going monitoring. All material risks arising from these activities must be appropriately managed to ensure that Aegon Ireland is able to meet both its financial and service obligations.

In the case of material intra-group outsourcing arrangements, the Outsourcing & Supplier Risk Policy requirements are the same as an external outsourcing arrangement, except that the examination of the vendor may be less detailed, provided Aegon Ireland has greater familiarity with the vendor and has sufficient control over, or can influence the actions of the vendor.

A written agreement, including a service level agreement (if applicable) stipulating duties and responsibilities of both parties must exist for all outsourcing arrangements, including intra-group arrangements, although these may be less detailed.

Material outsourcing arrangements

The material outsourcing arrangements of Aegon Ireland are:

- An intra-group agreement with Money Services Incorporated, an Aegon Group company based in the United States. The different services provided relate to information and technology services. Functional reporting is completed on a monthly basis and service level reporting on a quarterly basis.
- An intra-group agreement with Aegon UK, an Aegon Group company based in the UK, for the provision of internal audit and other services. Internal Audit is one of the four key functions of governance. The function reports regularly into the Board Audit Committee.
- An external agreement with 'LAB Group', a company based in Luxembourg. LAB provide document scanning and storage services to Aegon Ireland. Service performance is tracked and monitored on an ongoing basis by the Client Services Department.

- An external agreement with Milliman, an actuarial consulting firm based in Ireland, for the provision of services to fulfil the role of the Head of Actuarial Function. This covers all of the services prescribed for the this role, i.e. the responsibilities of the Actuarial Function as prescribed in the Solvency II Directive, supplemented by the additional responsibilities set out in the Central Bank of Ireland's Domestic Actuarial Regime. This includes the Actuarial Opinion on the Technical Provisions and the Actuarial Report on the Technical Provisions, provided to the Aegon Ireland Board.

All four arrangements must meet the requirements of the Outsourcing & Supplier Risk Policy.

Aegon Ireland have a number of other outsourcing and supplier arrangements which have not been listed here, as they are not defined as material under Solvency II. These arrangements include those related to Aegon Ireland's hedging activities. However they are still considered material from an operational risk perspective and therefore must also meet the requirements of the Outsourcing & Supplier Risk Policy.

B.8 Any other information

Aegon Ireland's system of governance complies with the Aegon Global Code of Conduct which consists of the Company's Purpose, Core Values, Business Principles and Rules of Conduct. The Code of Conduct also addresses governance aspects, internal guidelines and policies, the compliance with laws and regulations, information sharing and the identification and management of risks in a prudent way.

Aegon Ireland's overall corporate governance structure and adherence to the Code of Conduct is the responsibility of the Board. The Company is satisfied that the system of governance remains fit for purpose and appropriate for the nature, scale and complexity of risks inherent in its business.

There is no further material information to note regarding Aegon Ireland's system of governance.

C. Risk Profile

General

Aegon Ireland's risk strategy provides direction for the targeted risk profile while supporting the business strategy. Risk tolerances and limits are established as part of the risk strategy to ensure that Aegon Ireland maintains, at all times, a solvency and liquidity position such that no plausible scenario would cause the Company to default on its obligations to policyholders.

Aegon Ireland manages risk for the benefit of its customers and other stakeholders. The Company is exposed to a range of underwriting, operational and financial risks. The risk management and control systems are designed to ensure that these risks are managed effectively and efficiently in a way that is aligned with the Company's strategy.

An important aspect of the Aegon Ireland ORSA process is stress and scenario testing, and some of these sensitivities are reflected throughout Section C.

The sensitivities involve recalculating the solvency position as at 30 September 2017 following adverse stresses. The sensitivity impacts are calculated using the Company's standard reporting process in so far as possible. No additional future management actions are assumed.

The most significant exposure is to interest rate risk, followed by mortality, lapse, credit and equity risks.

Aegon Ireland's risk profile has not changed materially over the reporting period and the commentary within Section C reflects the 2017 operations whilst part of Aegon Group.

Prudent Person Principle

The 'prudent person principle' requires that companies only invests in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs. Aegon Ireland considers these requirements before any investment in new assets or instruments.

Aegon Ireland does not directly invest policyholder assets, and instead uses a range of Investment Management companies. To meet the requirements of the prudent person principle, Aegon Ireland only uses investment managers with which they have investment manager agreements or subscription agreements in place. ULG and OSB policyholder funds are generally invested in equities, bonds and cash or cash equivalents, with some alternative assets invested in by OSB policyholders.

Aegon Ireland holds a range of derivative contracts as part of its hedging programme. These include equity index futures, payer and receiver interest rate swaps, variance swaps and total return swaps. As noted previously, the counterparty to a number of the derivative positions is Aegon Derivatives N.V, who facilitate placing the derivative trades and managing collateral arrangements.

Aegon Ireland also invests in liquidity funds, cash deposits and absolute return funds. These investments take account of applicable internal risk policies including the Credit Name Limit Policy and Investment and Counterparty Risk Policy.

Aegon Ireland identifies and measures the risks associated with its asset investments by receiving regular investment reports, which provide detailed information on the assets underlying the

investment, as well as their performance. In particular, for OSB business, the Company continues to work with custodians to deliver these detailed requirements. Where a policyholder chooses to invest in alternative assets, Aegon Ireland have met the prudent person principle by requiring that these policyholders have received independent financial advice before proceeding with any investments.

Aegon Ireland manages and controls the risks associated with the investments made through its risk policies, documented processes and risk tolerances statements. The Company seeks to ensure an appropriate level of prudence is exercised when considering which investments to hold. This is supported by a number of underlying policies which are reviewed annually and help to prevent risk concentrations or excessive accumulation of risk in the portfolio as a whole. The Investment Strategy also outlines how conflicts of interest are identified and managed to ensure that investments are made in the best interest of policyholders and beneficiaries.

The hedge programme and any use of derivative instruments is extensively documented and subject to robust controls. The Hedging Committee oversee the hedge programme and monitor its effectiveness.

Aegon Ireland monitors the asset investments and performance through various committees which meet regularly. These include the Hedging Committee, the Investment Committee, the Fund Governance Group and the Asset & Liability Committee.

The Aegon Ireland Board is ultimately responsible for Investment Strategy and any risk management activities associated with it. The process is governed by the Risk and Compliance Committee who review compliance against all policies and report at least quarterly to the Board Risk Committee.

Off-balance sheet positions and Special Purpose Vehicles

Aegon Ireland has a single off-balance sheet position which is in relation to the guarantee attached to the Company's operating lease for its Dublin office premises. In the event that the Company were to default on the lease payment, Aegon UK plc has guaranteed the payment of same. The Company do not view this as a material risk.

Aegon Ireland has no exposure special purpose vehicles.

C.1 Underwriting risk

Underwriting risk at 31 December 2017 comprises 44% of the pre-diversified reported Basic Solvency Capital Requirement. The key underwriting risks which Aegon Ireland is exposed to are set out below:

Mortality Risk

The Company is exposed to mortality rates being higher or lower than expected. In particular lower than expected mortality rates (i.e. policyholders living longer) on the ULG book could lead to a higher incidence of guarantee claims, whilst higher than expected mortality on the OSB business would reduce the future income that is expected to emerge.

On its ULG book, the Company's exposure to mortality risk generally increases when the fund values of underlying policies decline, and decreases when fund values rise.

The annual mortality experience investigation resulted in changes to expected future mortality rates which were implemented during 2017.

Policyholder Behaviour Risk

The main policyholder behaviour risk which Aegon Ireland is exposed to is the risk of lapse rates being higher or lower than expected. It is also exposed to mass lapse – an instantaneous one-off shock lapse event. The nature of the lapse risk differs by product type and duration in force:

- For all products there is a risk from higher lapses at early durations before acquisition costs have been recouped.
- For the OSB business, there is also a risk of higher lapses than expected at later durations as expected future profits may not materialise.
- For the ULG business, there is a risk from lower lapses than expected, which could lead to be higher later duration claims costs from the higher number of policies in force.

Lapse risk can arise due to mis-estimation, economic shocks and trends, competitor activity (lapse and re-entry), changes in policyholder behaviour and reputational damage. Other policyholder behaviour risks exist, for example, selective fund switching.

The policyholder behaviour experience investigation resulted in minor changes to expected future lapse rates which were implemented during 2017.

Expense Risk

Aegon Ireland is exposed to the risk that acquisition expenses and future maintenance expenses are higher than expected. Expense risk can arise through mis-estimation, higher than expected inflation, lower volumes of business than expected, expense overruns, regulatory change and changes in the mix of business.

The annual expense analysis resulted in no change to the current expense assumptions.

Assessment & mitigation

The Company assesses, monitors and controls underwriting risk through a number of methods:

- Quarterly reporting highlights the performance of key underwriting risks, including a full attribution which explains any variance to expectations for these risks.
- A quarterly assessment of the risk against stated risk tolerances is performed through the Risk & Compliance Committee.
- Mortality, persistency, and expense experience investigations are conducted annually.
- Product design and pricing seeks to ensure that any accepted risks are charged a premium which reflects the circumstances of that risk, minimise the exposure to new business mix being different to pricing assumptions, and encourage certain behaviours.
- The ORSA aims to assess risks under stressed conditions through a range of stress and scenario testing.

There have been no material changes to how underwriting risk is assessed over 2017.

Risk concentration

The geographical concentration of the Company's life insurance liabilities is predominantly within the UK, e.g. Aegon Ireland is exposed to changes in UK mortality rates due to medical advances or

pandemics. Within the UK business, the level of underwriting risks on the ULG products significantly exceeds those on the OSB products.

Risk sensitivity

As part of the 2017 ORSA, the solvency position at 30 September 2017 was re-calculated following adverse stresses for the material underwriting risks. For each of these sensitivities, the table below shows the estimated impact on the reported solvency ratio:

Sensitivity	Change in Solvency Ratio
Lapse rates +20%	5%
Lapse rates -20%	-14%
Mortality +10%	7%
Mortality -10%	-18%

The results of the analysis demonstrate that changes in lapse risk or longevity risk could have a material impact on the Company’s solvency ratio, both driven by the exposure of the ULG book whereby lower lapses or lower mortality would result in a significant increase in the projected withdrawal income payments made to policyholders. Expense risk could also have a material impact, however, expenses are largely within management control. The analysis indicated that based on the current strategy and business model the Company’s underwriting risk profile could withstand severe shocks and is within the Board’s risk appetite.

As part of the ORSA, Aegon Ireland also considers combined shocks. These showed that the impact of reductions in mortality and lapse is heightened in times of low interest rates.

C.2 Market risk

Market risk at 31 December 2017 comprises 32% of the pre-diversified reported Basic Solvency Capital Requirement. The key market risks to which Aegon Ireland is exposed are set out below:

Equity & Equity Volatility Risk

Aegon Ireland is only exposed to equity risk through the policyholder accounts as it has no equity investments in the shareholder account. In the policyholder accounts, the risks arise from the guarantees written on the underlying investments (ULG business) and from varying fee income based on the value of the policyholder investments (ULG and OSB). If policyholder assets fall in value, there is an increase in the Company’s liabilities due to increased cost of guarantees and reduced fee income.

Equity volatility risk captures the risk of unequal fluctuations in assets and liabilities given a change in equity volatility. Exposure to equity volatility risk exists on the ULG products where an increase in volatility makes the economic value of the guarantee more expensive to Aegon Ireland.

Interest rate & interest rate volatility risk

Aegon Ireland is exposed to interest rate risk as the movement in the value of its fixed interest assets may not offset the movement in the value of its liabilities.

Interest rate volatility risk captures the risk of unequal fluctuations in assets and liabilities given a change in interest rate volatility levels. Exposure to interest rate volatility risk exists on the ULG

products where, similar to equity volatility risk, an increase in volatility makes the economic value of the guarantee more expensive to Aegon Ireland.

Currency Risk

The majority of the Company’s assets and liabilities are in Sterling as the majority of business is sold in the UK. Sterling is the ‘functional’ currency which means that the business is managed in this currency and that exposures to other currencies are mitigated as much as practical. The currency risk arises from a weakening or strengthening of Euro or US Dollar against Sterling. The majority of expenses are in Euro given the Company’s location in Ireland; this is matched with Euro assets. Aegon Ireland also have a limited amount of US Dollar expenses which are matched by US Dollar assets.

There were no material changes in market risks over the reporting period.

Assessment & mitigation

The Company assesses, monitors and controls market risk through a number of methods:

- ‘Rho’ and ‘Delta’ hedging programmes mitigate interest rate and equity risks.
- A ‘Gamma/Vega’ hedge framework aims to mitigate equity volatility risk.
- Quarterly reporting highlights the performance of market risks, including a full attribution which explains any variance to expectations for these risks.
- A quarterly assessment of the risk against stated risk tolerances is performed through the Risk & Compliance Committee.
- The use of Controlled Volatility Funds for all ULG products helps to control the equity volatility risk for these products.
- Use of index tracking funds within the ULG products ensures that basis risk is minimal.
- The ORSA aims to assess risks under stressed conditions through a range of stress and scenario testing.

There have been no material changes to how Aegon Ireland assesses its market risks over the reporting period. Mitigation techniques have been enhanced or expanded over the period, but with no material changes.

Risk concentration

Market risk exposures make up a material element of total Solvency Capital Requirement. The hedge programme materially reduces the risk and associated Solvency Capital Requirement. The exposure to market risks is driven primarily by the ULG products.

The geographical concentration of the Company's life insurance liabilities is predominantly within the UK, e.g. Aegon Ireland is predominately exposed to changes in level and volatility of the FTSE All Share, and to UK interest rates.

Risk sensitivity

As part of the 2017 ORSA, the solvency position at 30 September 2017 was re-calculated following adverse stresses for the material market risks. For each of these sensitivities, the table below shows the estimated impact on the reported solvency ratio:

Sensitivity	Change in Solvency Ratio
Equity markets +20%	13%
Equity markets -20%	-14%

Interest Rates +50bps	20%
Interest Rates -50bps	-24%
Equity Volatility +5%	-12%
Equity Volatility -5%	3%

The results of the analysis demonstrate that the most material risk driver that impacts Aegon Ireland solvency ratio is changes to the level of interest rates. We are also materially exposed to equity market falls and increased equity volatility.

Based on Aegon Ireland’s current strategy and business model, equity and interest rate movements are largely hedged, which is reflected within these sensitivity results. The results are driven by second order impacts on other risk types and on the own funds. The analysis indicated that the Company’s market risk profile could withstand severe shocks and is within the Board’s risk appetite.

The Company is less exposed to currency movements as a result of reporting and managing the business on a Sterling basis. The combined impact on the solvency ratio of a 25% weakening of Euro and US Dollar against Sterling is not material as we manage currency risk so that we are insensitive to currency movements.

C.3 Credit risk

Credit risk at 31 December 2017 comprises 24% of the pre-diversified reported Basic Solvency Capital Requirement.

Credit risk can result from changes in the rating category of the obligor, fluctuation of spreads associated with each credit rating over time, and potentially default, being the lowest possible rating assigned to a fixed income investment.

Aegon Ireland is exposed to fixed income credit risk when holding fixed income assets and when holding liabilities with fees or guarantees dependent on the performance of fixed income assets – in particular with respect to the ULG business. For the OSB portfolio, the policyholder carries the credit risk relating to fixed income assets and Aegon Ireland is only exposed to the subsequent impact of reduced fees.

The Company is also exposed to credit risk on some of its shareholder investments (cash deposits and investment funds) and over-the-counter derivatives. The Company’s portfolio of derivatives are collateralised daily in order to minimise counterparty risk exposure.

Assessment & mitigation

The Company assesses, monitors and controls credit risk through a number of methods:

- The Credit Name Limit Policy ensures concentration risk exposures for shareholder investments are managed within specified limits. This policy sets out the maximum exposure the Company is willing to accept, depending on credit rating.
- The Company maintained a credit risk hedge on the ULG portfolio during 2017. This aims to control and minimise credit risk, by ensuring assets and liabilities have a similar sensitivity to a fall in account values.
- Product design/fund choice – Controlled Volatility Funds were introduced with no exposure to corporate bonds and form the basis for the German and Secure Retirement Income products.

- Fund mandates – the Company retains the power to change fixed interest mix in Core Funds e.g. to reduce exposure to corporate bonds.

There has been no material changes to how credit risk is assessed over the reporting period.

Risk concentration

Credit risk is a material risk to the Company, driven by the guarantees on the ULG products. The geographical concentration of the Company's life insurance liabilities is predominantly within the UK, e.g. Aegon Ireland is predominately exposed to credit default of UK assets.

Risk sensitivity

As part of the 2017 ORSA, the solvency position at 30 September 2017 was re-calculated following adverse stresses for material credit risks. For each of these sensitivities, the table below shows the estimated impact on the reported solvency ratio:

Sensitivity	Change in Solvency Ratio
1-in-10 year credit event	-10%
1-in-40 year credit event	-15%

The credit sensitivities are calculated using information on past credit market history to estimate the likelihood of the event occurring. The analysis indicated that based on the current strategy and business model the Company's credit risk profile could withstand severe shocks and is within the Board's risk appetite.

C.4 Liquidity risk

Liquidity risk may arise due to illiquidity of the assets held to meet the cash flow requirements, but also due to insufficient capacity to raise funds to meet cash flow requirements. Illiquidity of certain investment assets may prevent the Company from selling investments at fair prices in a timely manner.

Liquidity risk is actively managed by Aegon Ireland and does not give rise to a capital requirement given the minimal liquidity risk within the business.

Overall liquidity risk in the Company is low due to the holding of highly liquid assets relative to the size and disparity of regular cash in-flows versus cash out-flows. For OSB products, the policies are unit-linked and therefore the primary call on liquidity is a (small) death benefit payment. The ULG business is currently in the income collection phase, and thus results in positive liquidity flows. However as the age of the book increases we would expect to move into the income pay-out phase and thus there would be a stronger call on the Company's liquidity. The main liquidity calls currently are as a result of collateral calls from the derivatives that back the hedging programme and the payment of Company expenses.

Assessment & mitigation

The Company assesses, monitors and controls liquidity risk through a number of methods:

- The Liquidity Risk Policy is designed to ensure a prudent liquidity profile is maintained. This is characterised by asset liquidity that is sufficient to meet cash demands under not only expected

conditions but also under extreme conditions. This policy defines the methodology to ensure that liquidity is being measured and tested consistently.

- Stressed Liquidity Scenarios are assessed quarterly and Aegon Ireland must maintain enough liquidity in order to meet all cash needs under these extreme scenarios.

There has been no material changes to how liquidity risk is assessed over the reporting period.

Risk concentration

The concentration risk related to liquidity exposure tends to be market driven, based on the risk of large collateral calls on the Company's cash deposits.

Risk sensitivity

Aegon Ireland holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. This is demonstrated by the passing of the liquidity sensitivity tests described above.

Expected profit included in future premiums

The Company calculates the expected profit included in future premiums on a quarterly basis. The majority of Aegon Ireland's business is single premium, and the only future premiums modelled within the technical provisions are in relation to the accepted reinsurance business for ULGs.

As at 31 December 2017, the total amount of expected profit included in future premiums is £268k.

C.5 Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes and controls, people and systems or from external events.

It is a direct consequence of operating a business and cannot be diversified or fully mitigated against. However, the Company actively manages and monitors its operational risk, and the Board has no tolerance for action or lack of action which could lead to material adverse risk events.

The OSB business includes a number of operational risks, particularly in relation to fraud and regulatory and compliance risk. For ULG products, running a complex hedging programme and managing the complicated product structures also brings operational and mis-selling risks.

Assessment & mitigation

Aegon's approach to evaluating operational risks is based on the quantitative and qualitative rating of those risks with regard to their potential impact and likelihood after consideration of the effectiveness of controls. Risk impact is assessed (at a minimum) along the following three impact dimensions: financial loss, customer & reputation, and financial misstatement. The resulting ratings reflect the uncontrolled (residual) risk the business area is running. A forward looking operational risk profile is carried out on a quarterly basis, together with details of action plans that address key risks and, where appropriate, the Chief Risk Officer's opinion on the effectiveness of those plans. Reference is made to Section B.4 for a detailed description of the Operational & Conduct Risk Management Framework.

The Operational Risk Policy defines tolerances for single loss events, cumulative losses over five years and total operational risk Solvency Capital Requirement. Any breaches to these limits require action plans to be put in place.

The Risk Management Function oversees the collation, aggregation, and analysis of operational risk management information prior to consideration at the Risk & Compliance Committee. There has been no material changes to how Aegon Ireland assesses its risk over the reporting period.

Risk concentration

Aegon Ireland has identified seven operational risk event categories which are: Business, Legal & Compliance, Tax, People and Facilities, Financial Crime, Processing and Systems & Business Disruption.

Operational risk is broadly spread and not heavily concentrated within any one of these categories.

Risk sensitivity

As the output of operational risk reporting is largely qualitative, sensitivity testing is not relevant.

However the operational risk capital process calculates the 1-in-200 operational risk capital amount and includes a full spectrum of plausible operational risk scenarios to produce the capital requirement. This acts as sensitivity-type testing, which is assessed and analysed by management and leads to management actions, when relevant. The operational risk capital is relatively stable.

C.6 Other material risks

There are no other material risks to note in relation to Aegon Ireland's risk profile.

C.7 Any other information

There is no other material information to note in relation to Aegon Ireland's risk profile.

D. Valuation for Solvency Purposes

This section describes the accounting policies and valuation techniques used by Aegon Ireland for the Solvency II valuation of the assets and liabilities, including the differences between these Solvency II valuation principles and those applied in the financial statements.

D.1 Assets

The table below shows assets held on the Solvency II balance sheet and the comparative IFRS values as at 31 December 2017:

Assets (GBP thousands)	Solvency II	IFRS	Difference
Assets held for index/unit-linked contracts	4,238,493	4,238,493	-
Deposits other than cash equivalents	181,384	-	181,384
Cash and cash equivalents	49,532	230,452	(180,920)
Deferred acquisition costs	-	35,662	(35,662)
Derivatives	50,983	50,983	-
Collective Investments Undertakings	123,084	123,084	-
Loans and mortgages	18,250	18,250	-
Other	12,550	8,340	4,210
Total	4,674,276	4,705,264	(30,988)

During the reporting period, Aegon Ireland did not make any material changes to the recognition and valuation bases used for assets, or to estimation techniques employed.

Assets held for index-linked and unit-linked contracts

The fair value of financial assets traded in active markets is determined by reference to quoted market bid prices. For financial instruments where there is no active market, the fair value is determined by using other appropriate valuation techniques. Derivative financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The choice of pricing model and related assumptions is a source of uncertainty as it can lead to different estimates for the quantification of fair values. The fair value of floating rate and overnight deposits with credit institutions is their carrying value (which is the cost of the deposit and accrued interest). The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques.

Assets held for index-linked and unit-linked contracts (£4,238,493k) are valued at fair value under both IFRS and Solvency II and are presented differently as:

- 'Financial Assets at fair value through profit or loss' in the Financial Statements; and
- 'Assets held for index-linked and unit-linked funds' on the Solvency II balance sheet.

Investments (other than assets held for index- and unit-linked contracts)

Solvency II requires that assets presented in this category are valued at fair value.

Under IFRS, four categories of financial instruments are defined with financial assets held-to-maturity and loans and receivables measured at amortised cost, while assets categorised as fair value through profit or loss or available-for-sale are measured at fair value.

Deposits

Term deposits of £181,384k are classified as 'Deposits other than cash equivalents' under Solvency II, and 'Cash and Cash Equivalents' in the Financial Statements.

Cash and cash equivalents

Under IFRS, 'Cash and cash equivalents' (£230,452k) are valued at fair value. However for the purposes of Solvency II this is split between 'Deposits' (£181,384k as noted above) and 'Cash and Cash Equivalents' (£49,532k), depending on the term of the deposit. The valuation method is the same under Solvency II, but a difference of £464k arises due to accrued interest being included in the Solvency II figures but accounted for separately under IFRS (where it has been included in the 'Other' category above).

Solvency II does not recognise deferred acquisition costs (£35,662k) that are presented in the Financial Statements under deferred expenses.

Under IFRS, Deferred Acquisition Costs represents the deferral of direct and indirect costs that are associated with the acquisition or renewal of new contracts. The Company defers these costs to the extent that they are expected to be recoverable out of future revenue or premiums to which they relate. All other acquisition costs are recognised as an expense when incurred.

Derivatives

Aegon Ireland's 'Derivatives' comprise interest rate swaps, variance swaps, total return equity swaps and equity futures. These are valued using quoted market prices in active markets to determine the fair value. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data such as corroborated external quotes and present value techniques.

Derivative financial instruments are classified as assets where the valuation on the reporting date is positive. Where the valuation is negative, such instruments are classified as liabilities. The value for Derivative Assets (£50,983k) is evaluated and presented consistently under IFRS and Solvency II.

Collective Investments Undertakings

There is no difference in the valuation of 'Collective Investments Undertakings' (£123,084k) under IFRS and Solvency II, however in the Financial Statements this is presented as 'Shareholder investments at fair value through profit and loss'.

Loans and mortgages

The £18,250k presented as 'Loans and mortgages' under Solvency II, represents collateral that has been deposited with the Company's counterparty for open derivative positions. There are no differences in the valuation of this under IFRS and Solvency II, but it is presented as a 'Collateral Receivable' asset in the Financial Statements.

Other

The main difference between the total Solvency II and IFRS value for this category is driven by the different magnitude of the deferred tax asset under the two bases. A deferred tax asset (£5,347k) is recognised under Solvency II on the basis of temporary differences between the Solvency II value of

assets and tax value of assets according to local tax regulations. Such differences will be realised over time. The method of valuation under IFRS (where there is a deferred tax asset of £618k) does not differ materially. Any differences consist of the differences in valuation of the underlying items for which deferred tax is applicable.

Intangible assets relating to software costs (£580k under IFRS) are also not recognised under Solvency II and are reflected in this category.

D.2 Technical provisions

The technical provisions comprise of the Best Estimate Liability and the Risk Margin. The table below summarises the technical provisions, split by Solvency II lines of business², for all life insurance obligations as at 31 December 2017:

Technical Provisions (<i>GBP thousands</i>)	Index-linked and unit-linked insurance	Life reinsurance	Total
Best Estimate Liability	4,306,598	21,454	4,328,052
Risk Margin	40,778	17,855	58,633
Solvency II Technical provisions	4,347,375	39,309	4,386,685

As at 31 December 2017 the Company does not have any outwards reinsurance or special purpose vehicles in place. No significant simplified methods were used to calculate the technical provisions. The Company has not applied any matching adjustment, volatility adjustment, transitional risk-free interest rate-term structures or the transitional deduction.

Best Estimate Liability

The Best Estimate Liability corresponds to a probability-weighted average of future cash-flows, taking account of the time value of money, using the relevant risk-free interest rate term structure prescribed by the European Insurance and Occupational Pensions Authority. The Best Estimate Liability is calculated on a policy-by-policy basis, allowing for the projection of fund values, charges, claims, expenses and lapses.

A stochastic modelling approach is used for the ULG business, given the guarantees which are dependent on market conditions. A deterministic approach is used for modelling the OSB business. The modelling approaches are proportionate to the nature, scale and complexity of the risks associated with the underlying cashflows.

Risk Margin

The Risk Margin serves to reflect the price that would be charged by another insurance company to take on the uncertainty associated with the insurance risks inherent in a portfolio of insurance liabilities.

The Risk Margin is calculated per the prescribed Solvency II cost-of-capital approach, where a 6% cost of capital is charged on an amount of eligible own funds equal to the Solvency Capital Requirement

² Refer to Section A.1.6 for a description of the Solvency II lines of business

necessary to run off the Company's obligations. The calculations approximate some of the projected Solvency Capital Requirements for certain risks.

The Risk Margin is re-calibrated annually and the methodology used to project the future Solvency Capital Requirements was further refined in the 2017 calibration.

Assumptions

Realistic assumptions are used in the calculation of the technical provisions. Market assumptions have been set to be consistent with economic conditions prevailing at the valuation date. Non-market assumptions are set on a best estimate basis, following analysis of past experience, supplemented with industry data where experience data is not sufficiently detailed. An overview of the main assumptions used in calculating the technical provisions are outlined below:

- *Interest Rates:* The projected cash flows are discounted using the prescribed currency specific risk-free interest rate term structures. Future investment returns on unit-linked funds are also projected using the same risk-free yield curve.
- *Persistency* - Lapse and withdrawal assumptions vary by product type and policy duration. Persistency experience for ULG business is assumed to be dynamic in nature, i.e. policyholder behaviour is assumed to be influenced by the value of the guarantees attaching to their product, which is dependent on market conditions.
- *Mortality:* Assumptions are differentiated by sex and based on standard industry tables. A best estimate assumption is used for expected future mortality improvements.
- *Expenses:* Renewal expense assumptions are determined with respect to the recurring costs incurred by Aegon Ireland in servicing the in-force insurance and reinsurance obligations. This includes administrative expenses, investment management expenses and claims management expenses. Per-policy expense assumptions are derived on a market consistent basis.

During 2017, the mortality assumptions were updated to reflect the most recent mortality experience study performed by Aegon Ireland. There were no changes to the base mortality tables used by the Company. However for both ULG & OSB products, the percentage applied to the mortality tables was updated and for the majority of ULG products there was also a change in the assumed mortality improvement factors.

Following the 2017 persistency analysis, Aegon Ireland implemented some minor changes to their base full and partial lapse assumptions.

Aegon Ireland completed their annual expense analysis during 2017, which resulted in no change to the current expense assumptions.

Uncertainty associated with technical provisions

Uncertainty in the technical provisions primarily relates to how future actual experience will differ from the best estimate assumptions which are used in the calculations, e.g. with respect to future lapse rates or mortality improvements. Similarly there is uncertainty in determining appropriate market consistent expense assumptions, which requires an estimation of the future expense base of the Company, sales levels and inflation rates.

A robust assumption setting process is followed in order to ensure this uncertainty is well understood and variances against assumptions are regularly monitored. There are also a number of stress and

scenario tests performed as part of the ORSA process which helps the Company to understand their sensitivity to various assumptions.

For ULG products, the uncertainty of the timing, frequency and amount of claims is taken account of through the stochastic modelling of the Best Estimate Liability. The use of dynamic functions also allows for dependencies between market movements, policyholder behaviour and associated cashflows.

Controlled Volatility Funds underlie some of the ULG products. These funds are rebalanced on a daily basis to target a specific volatility and therefore there is uncertainty associated with the future asset mix within the funds. During 2017 Aegon Ireland further refined their approach to modelling this future asset split.

The main area of uncertainty in the Risk Margin calculation is the inherent difficulty in projecting the Solvency Capital Requirement over the projected future lifetime of the Company's obligations, noting that this is also dependent on the projection of economics over that time period.

Material differences between Solvency II and the financial statements

The table below highlights the material differences between the technical provisions under Solvency II and the equivalent reserves in the financial statements. The equivalent valuation of "technical provisions" under IFRS at 31 December 2017 is c. £40,203k less than that under Solvency II. The table is presented based on Solvency II lines of business³.

SII Technical Provisions to IFRS contract liabilities (GBP thousands)	Index-linked and unit-linked insurance	Life reinsurance	Total	Note
Solvency II Technical Provisions	4,347,375	39,309	4,386,685	-
<i>Less Risk Margin</i>	-40,778	-17,855	-58,633	1
Solvency II Best Estimate Liability	4,306,598	21,454	4,328,052	-
<i>Methodology & assumption changes</i>	23,251	-4,821	18,430	2
IFRS contract liabilities	4,329,848	16,633	4,346,482	-

Note 1: There is no Risk Margin required under IFRS. The removal of the Risk Margin decreases the index-linked and unit-linked reinsurance business by £40,778k and life reinsurance business by £17,855k respectively.

Note 2: The calculation of the Best Estimate Liability involves a projection of future cashflows on best estimate assumptions (where a negative Best Estimate Liability is permitted). Under IFRS, no equivalent reserve is calculated for OSBs, with the contract liabilities based on the fair value of the unit-linked investments only. For ULGs, under IFRS the future guarantee fees and guaranteed benefits are considered (and presented as an Embedded Derivative), in addition to the fair value of the unit-linked liability. This differs to Solvency II, where non-guaranteed elements are also included in the ULG Best Estimate Liability.

In addition, the yield curve, and other economic assumptions used for the IFRS calculation are not fully aligned to Solvency II and these differences are reflected above.

³ ULGs and OSBs are classified as Life insurance under Solvency II. Under IFRS, OSBs are classified as investment contracts, with ULGs classified as insurance contracts.

D.3 Other liabilities

The table below shows the value of other liabilities for the purposes of Solvency II valuation and the comparative IFRS values:

Other liabilities (<i>GBP thousands</i>)	Solvency II	IFRS	Difference
Financial liabilities other than debts owed to credit institutions	15,261	15,261	-
Derivatives	36,419	65,334	(28,916)
Deferred revenue	-	38,604	(38,604)
Payables	20,761	18,904	1,857
Other provisions	-	1,797	(1,797)
Debts owed to credit institutions	464	-	464
Total Other liabilities	72,904	139,900	(67,997)

For the purposes of Solvency II, other liabilities are valued in conformity with IFRS, i.e. at the market value of the liability, which is the total amount of cash that changes hands if the liability were sold. During the reporting period, the Company did not make any material changes to the recognition and valuation bases used for other liabilities, or to estimation techniques.

Financial liabilities other than debts owed to credit institutions

As at 31 December 2017, Aegon Ireland had a collateral obligation (liability payable) of £15,261k to the Company's counterparty against the open swap positions, which is presented as 'Financial liabilities other than debts owed to credit institutions' on the Solvency II Balance Sheet. However under IFRS, it is presented as 'Collateral Obligations'.

Derivatives

As noted in Section D.1, where the fair value of a derivative is negative, such instruments are classified as liabilities.

The difference of £28,916k between the Solvency II and IFRS 'Derivatives' relates to the IFRS reserve for guaranteed benefits on the ULG products, which is presented as an embedded derivative under IFRS, but included within the Best Estimate Liability under Solvency II (see Section D.2).

Deferred revenue

This deferred revenue reflects initial fees received for rendering future investment management services on investment contracts. Under IFRS, they are capitalised in the statement of financial position at inception and released to the statement of profit or loss over the expected life of the policy. However, this is not separately recognised under Solvency II, as it is recognised when the revenue is received (i.e. no deferral).

Payables

This line item consists of payables and sundry creditors. The difference between the Solvency II and IFRS values (£1,857k) relates to reclassifications of debit balances under IFRS.

Other provisions

In the financial statements, provisions are established under IFRS when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. As at 31

December 2017, the Company has established provisions of £1,797k for potential investment-related liabilities to policyholders. Under Solvency II these provisions have been included within 'Payables'.

Debts owed to credit institutions

This reflects a bank overdraft of £464k which is presented as 'Debts owed to credit institutions' under Solvency II. There is no difference in valuation under IFRS, however in the Financial Statements it is netted against the 'Cash & Cash Equivalents' balance within the Assets.

D.4 Alternative methods for valuation

The Company does not have any material assets or liabilities for which we apply alternative methods for valuation. There is a small proportion of policyholder assets where quoted market bid prices are not available, so these assets are valued using appropriate valuation techniques as described in section D.1.

D.5 Any other information

There is no further material information to note regarding valuation for solvency purposes.

E. Capital Management

E.1 Own funds

The Company's approach to capital management and how it manages available own funds (being the excess of assets over liabilities) is outlined in the Company's Capital Management Policy. Key objectives of the policy are to be compliant with all applicable laws, rules and regulations governing the management of capital and to maintain, at all times, sufficient own funds to cover both the Solvency Capital Requirement and Minimum Capital Requirement. The policy and associated processes help to protect the financial strength of the Company, by identifying various capital levels, and requiring appropriate actions depending on the current level of capital.

There were no material changes to the objectives, policies and processes for managing own funds over the reporting period.

The Asset & Liability Committee and the Board regularly consider capital assessments and projections for the Company to ensure that capital is managed with continuous adherence to Aegon Ireland's principles around capital adequacy, financial flexibility and the efficient use of capital.

The ORSA process includes an assessment of the sufficiency of capital available to meet the commitments in light of the risks faced by the business, both now and into the future. Aegon Ireland determines its solvency needs by performing capital projections over the business planning period, allowing for the current and expected business strategy, risk profile and capital management activities. The current time horizon used for business planning is usually three to five years. This exercise allows the Board to make an assessment of the Company's current and projected solvency needs and helps trigger appropriate and timely capital management actions.

Global Systemically Important Insurer designation

On 3 November 2015, Aegon Group was first designated by the Financial Stability Board as a Global Systemically Important Insurer (G-SII), based on an assessment methodology developed by the International Association of Insurance Supervisors (IAIS). The Financial Stability Board reviews the G-SII designation annually. However, the Financial Stability Board, in consultation with the IAIS and national authorities, has decided not to publish a new list of G-SIIs for 2017 and that the measures will continue to apply to the G-SIIs that were on the 2016 list. Consequently, Aegon Group continues to be designated at the time of publication of this Solvency and Financial Condition Report.

As a result of the G-SII designation, Aegon is subject to an additional layer of direct supervision at group level. Aegon Ireland provides data to support its Global Parent Aegon N.V. and therefore it is subject to enhanced group supervision.

Tiering of own funds

The table below sets out the movement in the Solvency II available own funds over the reporting period:

Own funds (GBP thousands)	FY2016	FY2017	Movement
Ordinary share capital	90,152	90,152	-
Share premium account	15,226	15,226	-
Capital contributions	185,968	185,968	-
Reconciliation reserve	(96,783)	(82,005)	14,779
Amount equal to the value of net deferred tax assets	9,083	5,347	(3,737)
Available own funds	203,645	214,687	11,042
Eligible own funds to meet Solvency Capital Requirement	203,645	214,687	11,042
Eligible own funds to meet Minimum Capital Requirement	194,562	209,341	14,779

As shown below, the majority of Aegon Ireland's available own funds consist of Tier 1 capital. The Deferred Tax Asset remains the only lower tier asset and is classified as Tier 3 representing 2.5% of own funds (£5,347k) at year-end 2017.

Own funds summary by tier (GBP thousands)	FY2016		FY2017	
	Tier 1	Tier 3	Tier 1	Tier 3
Ordinary share capital	90,152	-	90,152	-
Share premium account	15,226	-	15,226	-
Capital contributions	185,968	-	185,968	-
Reconciliation reserve	(96,783)	-	(82,005)	-
Amount equal to the value of net deferred tax assets	-	9,083	-	5,347
Available own funds	194,562	9,083	209,341	5,347

There is no restriction on the availability of the own funds to meet the Minimum Capital Requirement and Solvency Capital Requirement requirements. No ancillary own funds or own funds items that are subject to transitional arrangements exist.

As at 31 December 2017, 'Ordinary share capital' comprises 105,660,001 ordinary shares of €1 each, which equates to a Sterling value of £90,152k. The 'Share premium account' of £15,226k related to share capital issued at a premium and held by Aegon Ireland's then direct parent, Aegon Ireland Holding B.V.

Total 'Capital contributions' amounting to £185,968k have previously been received from Aegon Ireland Holding B.V. Note that these are presented as Capital contributions in the financial statements, however within the own funds Quantitative Reporting Template included in the Appendix (S.23.01.01), they are presented under 'Other own fund items approved by the supervisory authority as basic own funds not specified above'.

The 'Reconciliation reserve' presented above is derived by taking the excess of assets over liabilities from the balance sheet, and reducing it by basic own fund items (other than subordinated liabilities)

and other specified adjustments. This is summarised in the table below and is consistent with the own funds Quantitative Reporting Template included in the Appendix (S.23.01.01).

Reconciliation reserve (<i>GBP thousands</i>)	FY2016	FY2017
Available own funds / Excess of assets over liabilities	203,645	214,687
Other basic own fund items	(300,428)	(296,692)
Reconciliation reserve	(96,783)	(82,005)

Difference between own funds and IFRS Shareholders Equity

The main difference between available own funds (excess of assets over liabilities) and IFRS Shareholder Equity is related to the valuation of technical provisions (as described in Section D.2), the removal of deferred assets and liabilities (as described in Section D.1), and the removal of software costs (an intangible asset).

The table below provides a reconciliation from the IFRS Equity to total own funds for both year-end 2017 and the prior period:

IFRS Equity to own funds (<i>GBP thousands</i>)	FY2016	FY2017
Total IFRS equity	240,391	247,798
Difference in technical provisions	(44,623)	(40,203)
Removal of deferred income & expenses	3,631	2,943
Removal of software	(1,004)	(580)
Deferred tax adjustment	5,249	4,730
Total own funds	203,645	214,687

Description of items deducted from own funds

There are no items deducted from own funds, nor any significant restriction affecting the availability and transferability of own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Solvency Capital Requirement

The own funds, net Solvency Capital Requirement and solvency ratio as at 31 December 2017 and the prior period are presented below:

Solvency II key figures (<i>GBP thousands</i>)	FY2016	FY2017
Own funds	203,645	214,687
Solvency Capital Requirement	160,989	143,765
Solvency Ratio	126%	149%

Aegon Ireland do not use any undertaking-specific parameters in the Solvency Capital Requirement calculations.

Solvency Capital Requirement split by risk module

The table below shows the net Solvency Capital Requirement split by risk module.

Solvency Capital Requirement by risk module (<i>GBP thousands</i>)	FY2016	FY2017
Market risk	82,952	76,294
Counterparty default risk	8,885	9,489
Life underwriting risk	76,947	66,216
Diversification	-21,742	-24,058
Basic Solvency Capital Requirement	147,041	127,940
Operational risk	13,948	15,825
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	-	-
Solvency Capital Requirement	160,989	143,765

The net Solvency Capital Requirement reduced by £17,224k (c. 11%) over 2017. The main drivers of this change were decreases in both the Market and Life Underwriting risk modules, as outlined below:

- *Market risk Solvency Capital Requirement:* There was an increase in the Equity risk Solvency Capital Requirement due to an increase in the shock size and a larger proportion of equities in the Controlled Volatility Funds. However this was offset by decreases in the Solvency Capital Requirements associated with Interest Rate risk and Spread risk, resulting in a net reduction of £6,658k. This was driven by the uplift in UK and Euro swap rates at year-end 2017, credit spreads narrowing over the period and an increase in the credit hedge coverage.
- *Life Underwriting risk Solvency Capital Requirement:* This reduced by £10,732k primarily due to falls in the Solvency Capital Requirements associated with Longevity risk and Lapse risk. This was driven by the uplift in swap rates (which has a second order impact on the underwriting risks) and the impact of updated mortality and lapse assumptions.

Minimum Capital Requirement

The Minimum Capital Requirement figure has reduced by £4,306k, from £40,247k at the previous year-end to £35,941k as at 31 December 2017.

Minimum Capital Requirement Amounts (GBP thousands)	FY2016	FY2017
Linear Minimum Capital Requirement	30,411	30,335
Solvency Capital Requirement	160,989	143,765
Minimum Capital Requirement cap	72,445	64,694
Minimum Capital Requirement floor	40,247	35,941
Combined Minimum Capital Requirement	40,247	35,941
Absolute Floor	3,332	3,251
Minimum Capital Requirement	40,247	35,941

The inputs used to calculate the Minimum Capital Requirement are outlined in the table above:

- The Linear Minimum Capital Requirement is a calculation based on the value of technical provisions and capital at risk.
- The Linear Minimum Capital Requirement is subject to a respective floor of 25% and a cap of 45% of the Solvency Capital Requirement.
- An Absolute Floor of €3,700k is prescribed by the European Insurance and Occupational Pension Authority and is presented in GBP above.

The Minimum Capital Requirement reduced by c. 11% over the reporting period, driven by the same factors that caused the change in the Solvency Capital Requirement.

Simplified calculations

In the calculation of Counterparty Default risk module, a simplified calculation of the risk mitigating effect is used, pursuant to Article 111 of the Delegated Regulation. The simplified calculation is proportionate to the nature, scale and complexity of the risks faced for this risk module.

Article 51(2) of Directive 2009/138/EC

The Central Bank of Ireland have chosen to implement the option provided in Article 51(2) of Directive 2009/138/EC.E.3

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

Aegon Ireland does not make use of the duration-based equity risk sub-module set out in Article 304 of Directive 2009/138/EC for the calculation of the Standard Formula Solvency Capital Requirement.

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

Aegon Ireland does not currently have an approved Internal Model for use in the calculation of the Solvency Capital Requirement.

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

There were no incidences of non-compliance with capital requirements throughout the period covered by this report as Aegon Ireland have maintained sufficient capital to meet both the Minimum Capital Requirement and Solvency Capital Requirement.

E.6 Any other information

There is no further material information to note regarding Aegon Ireland's capital management.

Appendix – Quantitative Reporting Templates

All values are in £000's

S.02.01.02 - Balance sheet

	Solvency II value £000's
Assets	
Goodwill	
Deferred acquisition costs	
Intangible assets	0
Deferred tax assets	5,347
Pension benefit surplus	0
Property, plant & equipment held for own use	284
Investments (other than assets held for index-linked and unit-linked contracts)	355,451
Property (other than for own use)	0
Holdings in related undertakings, including participations	0
Equities	0
Equities - listed	0
Equities - unlisted	0
Bonds	0
Government Bonds	0
Corporate Bonds	0
Structured notes	0
Collateralised securities	0
Collective Investments Undertakings	123,084
Derivatives	50,983
Deposits other than cash equivalents	181,384
Other investments	0
Assets held for index-linked and unit-linked contracts	4,238,493
Loans and mortgages	18,250
Loans on policies	0
Loans and mortgages to individuals	0
Other loans and mortgages	18,250
Reinsurance recoverables from:	0
Non-life and health similar to non-life	0
Non-life excluding health	0
Health similar to non-life	0
Life and health similar to life, excluding health and index-linked and unit-linked	0
Health similar to life	0
Life excluding health and index-linked and unit-linked	0
Life index-linked and unit-linked	0
Deposits to cedants	0
Insurance and intermediaries receivables	5,320
Reinsurance receivables	0
Receivables (trade, not insurance)	1,599
Own shares (held directly)	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	49,532
Any other assets, not elsewhere shown	0
Total assets	4,674,276

Liabilities

Technical provisions – non-life	0
Technical provisions – non-life (excluding health)	0
Technical provisions calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - health (similar to non-life)	0
Technical provisions calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions - life (excluding index-linked and unit-linked)	0
Technical provisions - health (similar to life)	0
Technical provisions calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions – life (excluding health and index-linked and unit-linked)	0
Technical provisions calculated as a whole	0
Best Estimate	0
Risk margin	0
Technical provisions – index-linked and unit-linked	4,386,685
Technical provisions calculated as a whole	0
Best Estimate	4,328,052
Risk margin	58,633
Other technical provisions	
Contingent liabilities	0
Provisions other than technical provisions	0
Pension benefit obligations	0
Deposits from reinsurers	0
Deferred tax liabilities	0
Derivatives	36,419
Debts owed to credit institutions	464
Financial liabilities other than debts owed to credit institutions	15,261
Insurance & intermediaries payables	13,050
Reinsurance payables	0
Payables (trade, not insurance)	4,569
Subordinated liabilities	0
Subordinated liabilities not in Basic Own Funds	0
Subordinated liabilities in Basic Own Funds	0
Any other liabilities, not elsewhere shown	3,142
Total liabilities	4,459,589
Excess of assets over liabilities	214,687

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

Columns containing no data have been excluded

Life	Line of Business for: life insurance obligations	Life reinsurance obligations	Total (£000's)
	Index-linked and unit- linked insurance	Life-reinsurance	
Premiums written			
Gross	82,536	7,450	89,986
Reinsurers' share	0	0	0
Net	82,536	7,450	89,986
Premiums earned			
Gross	82,536	7,450	89,986
Reinsurers' share	0	0	0
Net	82,536	7,450	89,986
Claims incurred			
Gross	323,236	1	323,237
Reinsurers' share	0	0	0
Net	323,236	1	323,237
Changes in other technical provisions			
Gross	0	0	0
Reinsurers' share	0	0	0
Net	0	0	0
Expenses incurred	28,990	6,641	35,631
Other expenses			0
Total expenses			35,631

S.05.02.01 - Premiums, claims and expenses by country

Columns containing no data have been excluded

Life	Home country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country (£000's)
		GB	DE	FR	NL	-	
Premiums written							
Gross	0	76,087	11,367	2,530	2		89,986
Reinsurers' share	0	0	0	0	0		0
Net	0	76,087	11,367	2,530	2		0
Premiums earned							
Gross	0	76,087	11,367	2,530	2		89,986
Reinsurers' share	0	0	0	0	0		0
Net	0	76,087	11,367	2,530	2		89,986
Claims incurred							
Gross	0	321,767	1,427	0	43		323,237
Reinsurers' share	0	0	0	0	0		0
Net	0	321,767	1,427	0	43		323,237
Changes in other technical provisions							
Gross	0	0	0	0	0		0
Reinsurers' share	0	0	0	0	0		0
Net	0	0	0	0	0		0
Expenses incurred	0	27,042	8,411	178	0		35,631
Other expenses							0
Total expenses							35,631

S.12.01.02 - Life and Health SLT Technical Provisions

Columns containing no data have been excluded

	Index-linked and unit-linked insurance		Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked) (£000's)
		Contracts without options and guarantees		
Technical provisions calculated as a whole	0		0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0		0	0
Technical provisions calculated as a sum of BE and RM				
Best Estimate				
Gross Best Estimate		3,122,936	21,454	4,328,052
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		3,122,936	21,454	4,328,052
Risk Margin	40,778		17,855	58,633
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	0		0	0
Best estimate		0	0	0
Risk margin	0		0	0
Technical provisions - total	4,347,375		39,309	4,386,685

S.23.01.01 - Own funds

	Total (£000's)	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
Ordinary share capital (gross of own shares)	90,152	90,152		0	
Share premium account related to ordinary share capital	15,226	15,226		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
Subordinated mutual member accounts	0		0	0	0
Surplus funds	0	0			
Preference shares	0		0	0	0
Share premium account related to preference shares	0		0	0	0
Reconciliation reserve	-82,005	-82,005			
Subordinated liabilities	0		0	0	0
An amount equal to the value of net deferred tax assets	5,347				5,347
Other own fund items approved by the supervisory authority as basic own funds not specified above	185,968	185,968	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					
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					
Deductions for participations in financial and credit institutions	0	0	0	0	0
Total basic own funds after deductions	214,687	209,341	0	0	5,347
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	0			0	
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	
Unpaid and uncalled preference shares callable on demand	0			0	
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	

	Total (£000's)	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
Other ancillary own funds	0			0	0
Total ancillary own funds	0			0	0
Available and eligible own funds					
Total available own funds to meet the SCR	214,687	209,341	0	0	5,347
Total available own funds to meet the MCR	209,341	209,341	0	0	
Total eligible own funds to meet the SCR	214,687	209,341	0	0	5,347
Total eligible own funds to meet the MCR	209,341	209,341	0	0	
SCR	143,765				
MCR	35,941				
Ratio of Eligible own funds to SCR	149%				
Ratio of Eligible own funds to MCR	582%				

	Total (£000's)
Reconciliation reserve	
Excess of assets over liabilities	214,687
Own shares (held directly and indirectly)	0
Foreseeable dividends, distributions and charges	0
Other basic own fund items	296,692
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
Reconciliation reserve	-82,005
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	268
Expected profits included in future premiums (EPIFP) - Non-life business	0
Total Expected profits included in future premiums (EPIFP)	268

S.25.01.21 - Solvency Capital Requirement

Basic Solvency Capital Requirement	Gross solvency capital requirement (£000's)	Simplifications
Market risk	76,294	None
Counterparty default risk	9,489	None
Life underwriting risk	66,216	None
Health underwriting risk	0	None
Non-life underwriting risk	0	None
Diversification	-24,058	None
Intangible asset risk	0	None
Basic Solvency Capital Requirement	127,940	None

Basic Solvency Capital Requirement (USP)	USP
Life underwriting risk	None
Health underwriting risk	None
Non-life underwriting risk	None

Calculation of Solvency Capital Requirement

	(£000's)
Operational risk	15,825
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
Solvency Capital Requirement excluding capital add-on	0
Capital add-on already set	0
Solvency capital requirement	143,765
Other information on SCR	None
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirements for remaining part	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01 - Minimum Capital Requirement

Columns containing no data have been excluded

Linear formula component for life insurance and reinsurance obligations

	Total (£000's)
MCR _L Result	30,335

Total capital at risk for all life (re)insurance obligations

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole (£000's)	Net (of reinsurance/SPV) total capital at risk (£000's)
Obligations with profit participation - guaranteed benefits	0	0
Obligations with profit participation - future discretionary benefits	0	0
Index-linked and unit-linked insurance obligations	4,328,052	4,328,052
Other life (re)insurance and health (re)insurance obligations	0	0
Total capital at risk for all life (re)insurance obligations		55,640

Overall MCR calculation

	Total (£000's)
Linear MCR	30,335
SCR	143,765
MCR cap	64,694
MCR floor	35,941
Combined MCR	35,941
Absolute floor of the MCR	3,251
Minimum Capital Requirement	35,941