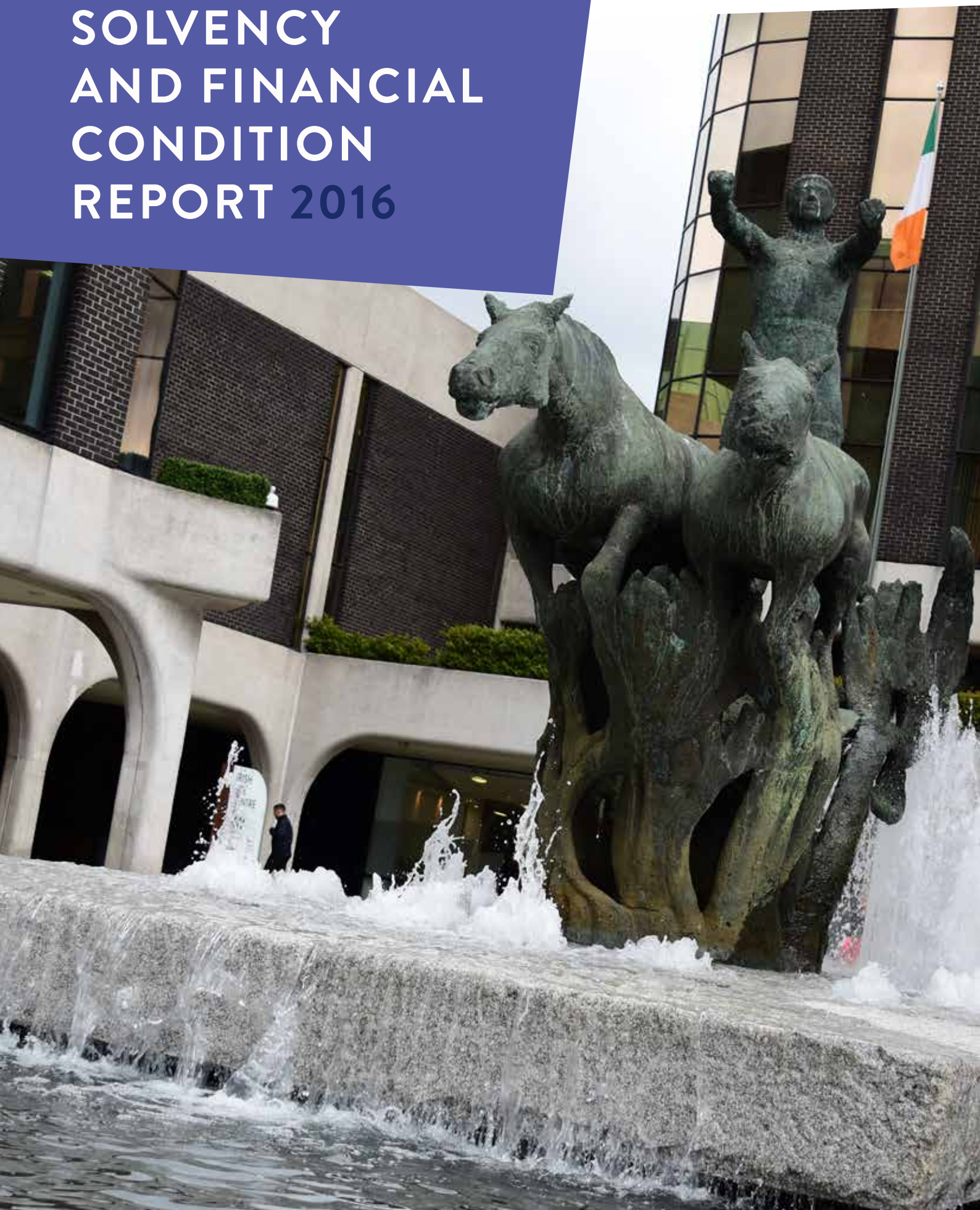
Irish Life

SOLVENCY AND FINANCIAL CONDITION REPORT 2016



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SUMMARY

OUR PARENT GROUP

Irish Life Assurance plc is part of the Irish Life Group. The Irish Life Group has been helping people in Ireland look after their life insurance, pension and investment needs for over 75 years. As one of Ireland's leading financial services companies, with more than one million customers, the Group empowers people to look to the future with greater certainty and confidence.

In July 2013, Irish Life Group became part of the Great-West Lifeco group of companies, one of the world's leading and most secure life assurance organisations. Great-West Lifeco and its subsidiaries – including the Great-West Life Assurance Company which was founded in Winnipeg, Canada more than a century ago – have around $1.2 trillion in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

In 2016 the Irish Life Group also started offering a range of health insurance products and services through Irish Life Health, a sister company of Irish Life Assurance plc. In addition, it harnesses the strength of its sister companies – Irish Life Investment Managers Limited, Canada Life Asset Management Limited and Setanta Asset Management Limited – to provide Irish Life Assurance plc with investment management services and expertise.

OUR STRUCTURE AND ACHIEVEMENTS

We operate through two main divisions: Irish Life Retail (Retail Life) and Irish Life Corporate Business (Corporate Life). Each division has a strategic plan for the next three to five years that includes a significant cash investment during 2015 to 2019. This investment will help us continually develop our businesses to meet the demands of an ever-changing market. We constantly review and enhance our strategic plans, always making sure they're in line with evolving customer expectations.

We are passionate about helping people build better futures. Every day, all over the country, our Financial Advisers and Distribution partners give sound financial advice to individuals, SMEs and corporates. And we are there for people when they need us most. We pay out more claims for serious illness or death, and pay more pensions, than any other company in Ireland.

We have spent many years supporting our policyholders and listening to their feedback. So we know and understand our customers, their interests and concerns, and their ambitions for themselves and their families. Our customers depend on us. That's why looking after these relationships is our number one priority.

Our passion for innovation and customer service strengthens our ability to anticipate challenges and find fresh ways to overcome them. Our goal is to give our customers greater security and certainty. So we develop pioneering products and support them with the highest standards of customer service. As part of Great-West Lifeco, we have access to experience and expertise on a global scale, boosting our ability to continuously enhance our offer.

We are a leader in our industry, our community and wider society. And we are working hard to build on that. Our strategy centres on three pillars: customers, staff and financials. Maintaining and further developing a collaborative, innovative culture that equips us to meet our customers' changing needs throughout their lives remains a key driver within our business.

We use an external company to help us measure our customer satisfaction every month. At the end of 2016 we achieved our highest ever score of 85%. This put us in the top 25% of companies measured on The Leadership Factor's Customer Satisfaction Index. In our annual Broker Survey, conducted by an external company, Corporate Life has been voted number one provider for 13 years in a row.

Delivering top-class service to our customers and partners is one of our key business goals. Testimony to our success is the fact that Retail Life has been the Overall Winner at the annual Irish Broker Association (IBA) awards for seven years in a row.

We are always working hard not only to attract and retain the most talented people, but to support and develop them. We look for creative, original thinkers who will challenge us to be the best we can be. As a result, we have built a skilled and enthusiastic workforce with exceptional knowledge and expertise.

OUR VISION AND VALUES

In early 2016, following 18 months of collaboration and consultation with employees across the Group, we launched our new Vision and Values below.

These are our core principles, and they will guide the organisation and all of us working in it for years to come. By living our values, each of our employees delivers great products and great service daily.

We believe institutions that operate responsibly, take care of their customers and successfully manage risk, stand out in the long-term and build a reputation that clients, customers and decision-makers can trust. Our approach is founded on operating ethically, influencing better outcomes and shaping the wider industry. It is an approach that improves results for our customers and society.

PURPOSE OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

This report will help you better understand our regulatory capital and financial position following the new European-wide Solvency II regulations introduced on 1 January 2016. To facilitate your understanding, the Appendix to this report also details specific quantitative reporting templates (QRTs) for the company in the predefined format required under the regulations. The detail in these templates are discussed in more detail across various sections of this report including Sections A2 (Underwriting Performance), A3 (Investment Performance), D (Valuation for Solvency Purposes) and E (Capital Management).

This report also covers how we are run, as well as our business performance, governance systems, risk profile and Solvency II balance sheet valuation.

SUMMARY HIGHLIGHTS

Like the European-wide insurance industry, we have been planning how to put Solvency II's capital, control and reporting regime into practice for several years. We have already applied the protocols of the Corporate Governance Code which helped ease the transition. But we also used several new structures and routines to support the changeover to the new regime. We've outlined these in section B, the System of Governance.

We have detailed our financial performance – which was influenced by market conditions, premium inflow and claims outflows – in section A, Business Performance.

At the end of 2016, as a result of the new regime, we reported solvency capital that was €620m above the €1,152m Solvency Capital Requirement (SCR). This excess subtracts our €200m temporary increase in solvency capital at the 2016 year end. We eliminated this temporary increase on 8 February 2017 when we redeemed our outstanding subordinated debt.

After tax, our financial performance generated a profit for the financial year (excluding profits from the participating funds) of €157m (2015: restated*: €129m).

*During 2016, we changed the way we value the liabilities on our insurance contracts. Details of this change are included in Section A.2. As a result, we classify certain 2015 comparisons in this document as 'restated'.

Certain one-off items influenced the results. For example:

- the impact of changes in the assumptions we use to calculate our insurance and investment contract liabilities was +€55m (2015: restated +€20m)
- interest rate changes had an impact of -€17m in 2016 (2015: restated +€5m)
- integration costs were €0m in 2016 (2015: restated -€11m).

The impacts above are shown net of tax.

We calculate our SCR using the standard formula set by the European Insurance and Occupational Pension Authority (EIOPA). We control and report solvency capital in line with the capital management and metrics detailed in section E. The table below summarises our position at the end of 2016.

	€m
Tier 1 - unrestricted	
Issued share capital	1
Share premium account	340
Surplus funds	0
Reconciliation reserve	1,485
Tier 1 - restricted	
Subordinated liabilities	201
Available Own Funds (before foreseeable dividends and adjustments)	**2,027**
Foreseeable dividends, distributions and charges	-55
Adjustments for matching portfolios/ring fenced funds	
Ring fenced funds adjustment (Participating Funds)	0
Total available Own Funds to meet the SCR	**1,972**
Less subordinated debt repaid February 2017	-200
Total after allowing for February 2017 subordinated debt repayment	**1,772**

	€m
Tier 1 - unrestricted	1,771
Tier 1 – restricted	201
Tier 1 – restricted (impact of subordinated debt repaid February 2017)	-200
Eligible Own Funds to meet SCR (after allowing for February 2017 subordinated debt repayment)	**1,772**
Solvency Capital Requirement	1,152
Solvency ratio	**154%**
Minimum Capital Requirement (MCR)	460
Eligible Own Funds as a percentage of MCR	**385%**

Note: all tables in this document use units of millions and thousands. Because we have rounded the figures, the totals in the tables may not equal the sum of the components exactly.

GOVERNANCE PROCESS

We created a specific Solvency II governance process to help the Board verify the accuracy of our quantitative and qualitative returns to the Central Bank. The process drew on:

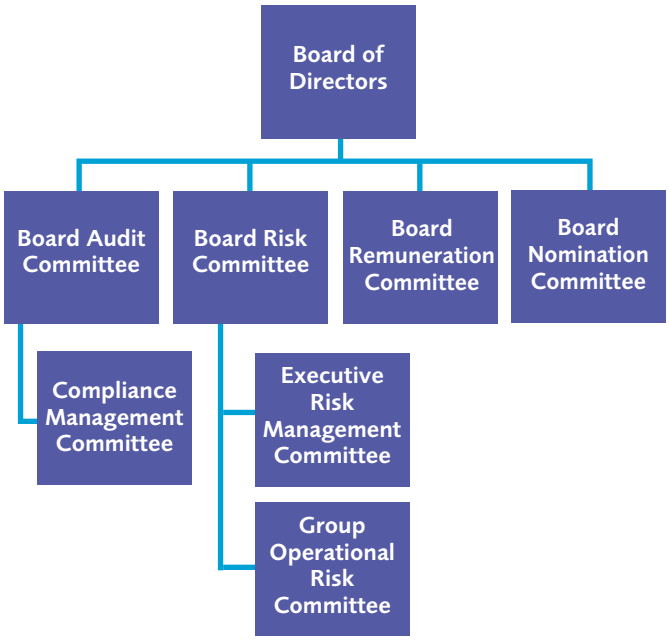
- our own subject matter experts
- our wider group (particularly group companies that fall under these regulations, including the regulated group company in the UK, Canada Life Group (UK) Limited)
- external companies.

The now established process was also:

- overseen by our senior executive and management teams
- reviewed and challenged by both internal audit and external accounting firms during its initial development and while we were putting it into action.

GOVERNANCE STRUCTURE

You can find out more about our governance process in section B. We have summarised the structure of our Board below. There are more details in section B.1.1.



RISK MANAGEMENT MODEL

We manage risk using a three lines of defence model.

- **The first line of defence**
  This is the business divisions and they are the ultimate owners of the risk. Primarily responsible for day-to-day ERM operations within the established ERM Framework, they identify, measure, manage, monitor and report risk.
- **The second line of defence**
  This is the oversight functions – including the Risk, Compliance, Actuarial and Finance Functions. The Risk Function oversees the ERM framework, using it to challenge the compliance of the first line of defence.
- **The third line of defence**
  This is Internal Audit. This team carries out independent risk assessments of the internal risk control framework and the oversight provided by the second line of defence.

You can find out more in section B.3.2.

RISK PROFILE

Section C outlines our risk profile. It also explains how we operate within a Board-approved risk appetite.

The SCR is split by risk category in the following table.

€m	End 2016	
Market risk	733	
Life Underwriting risk	665	
Health Underwriting risk	207	
Counterparty risk	40	
Requirement before diversification		1,644
Post diversification		**1,259**
Operational risk		57
Deferred tax adjustment		(164)
Total SCR		**1,152**

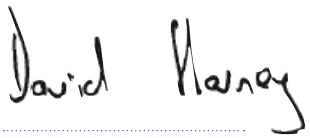
Note: In the table above, we have shown the SCR for each risk category after allowing for the impact of the loss absorbing capacity of technical provisions. This mainly impacts the market risk category. In Appendix 6, the SCR for each risk category is shown before allowing for the loss absorbing capacity of technical provisions, and the loss absorbing capacity of technical provisions is shown separately.

VALUATION

In section D, we analyse how we have valued our assets and liabilities using the Solvency II balance sheet. We prepare our annual audited financial statements under International Financial Reporting Standards (IFRS). In sections D.1 and D.3 we set out the reasons for any significant differences in valuation between IFRS and Solvency II assets and liabilities.

Section D.2 outlines the way we have calculated the amount we need so we can meet our contractual obligations under the policies we have written, using the Solvency II regulations. This amount has had an external peer review which the Board has assessed and approved.

The Board reviewed and approved this report on 16 May 2017.



David Harney,
Chief Executive Officer,
Irish Life Assurance plc

A. BUSINESS AND PERFORMANCE

This section describes our organisational structure and financial performance over the last financial year.

A.1 BUSINESS

COMPANY NAME:

Irish Life Assurance plc

Name and contact details of the supervisory authority who is responsible for financial supervision of the company:

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1.

We are a wholly owned subsidiary of The Canada Life (U.K.) Limited, via our immediate parent Irish Life Group Limited. The supervisory authority of The Canada Life (U.K.) Limited is the Prudential Regulation Authority (PRA).

The contact details for the PRA are: 20 Moorgate, London EC2R 6DA.

The name and contact details of the external auditor of the company is:

Deloitte
Chartered Accountants and Statutory Audit Firm
Hardwicke House
Hatch Street
Dublin 2.

Irish Life Assurance plc (ILA) is a member of the Great-West Lifeco Inc group of companies (Lifeco), one of the world's leading life assurance organisations.

Great-West Lifeco Inc. and its subsidiaries, including The Great-West Life Assurance Company (GWL), have approximately $1.2 trillion Canadian Dollars in consolidated assets under administration and are members of the Power Financial Corporation Group of companies. GWL is a wholly owned subsidiary of Lifeco which is incorporated in Canada and listed on the Toronto Stock Exchange.

Lifeco is the indirect parent company of The Canada Life Group (U.K.) Limited (CLG). CLG was established as the EU insurance holding company for GWL's European regulated insurance, reinsurance and asset management companies. CLG is the parent company of Canada Life Limited (CLL) which is a UK based insurance company.

CLL acquired the Irish Life Group in 2013. Irish Life Group has a number of subsidiaries, and ILA is the most significant of these subsidiaries.

Irish Life Investment Managers Limited, Canada Life Asset Management Limited, and Setanta Asset Management are sister companies within CLG. They provide ILA with asset management services and expertise.

Below is a simplified diagram of how our parent company is organised.

Figure 1: Simplified organisational structure

We are the largest life and pensions group in Ireland, serving around one million customers. The Irish Life brand is one of the most established and recognised financial brands in Ireland. Our strong brand is thanks to our large distribution network, product innovation, flexibility, and strong investment performance.

We operate through two main divisions, Irish Life Retail (Retail Life) and Irish Life Corporate Business (Corporate Life). We increased our market share in 2016 to around 41%, compared to 36% in 2015.

Retail Life provides pensions, life and investment products to personal and small business customers in Ireland. It leads the market with a comprehensive product range spanning protection, pensions, investment and regular savings products. It has the largest and most diverse distribution network of any life assurance company in Ireland, and has the largest direct sales force.

Retail Life has a multi-channel distribution strategy. This means that sales are split between:

(i) independent brokers and independently regulated tied agents

(ii) tied agents in bank branches

(iii) its employed and self-employed sales force.

Retail Life has well established bancassurance arrangements with five of Ireland's leading bank networks (AIB, Ulster Bank, EBS, Permanent TSB and KBC). This gives Retail Life access to over 400 bank branches.

Retail Life's total sales in 2016 of €1,401m were marginally behind the same period in 2015 (€1,408m). In 2016, pension sales grew across all distribution channels, but sales of recurring and single premium investment products were down.

Retail Life measures customer service using a customer service satisfaction index based on a survey of a sample of customers. The customer service index score for the last financial year was 85.0%. This is 0.9% ahead of the same period in the previous financial year (84.1%).

Corporate Life sells pensions and risk products to employers and affinity groups in Ireland, mainly through pension consultants and brokers.

The key drivers of sales growth for Corporate Life are:

- employment and salary growth in the Irish economy
- the move towards defined-contribution pensions, away from defined-benefit pensions.

Corporate Life sales increased by 3% to €950m, compared to €923m in 2015. This is mostly due to a number of new large defined-contribution schemes, and transfer values. However, Corporate Life sales were partly reduced by bulk annuity sales being considerably lower than the previous financial year.

A.2 UNDERWRITING PERFORMANCE

We prepare our financial statements under International Financial Reporting Standards (IFRS), as adopted by the European Union. The information in this section about underwriting performance is provided on an IFRS basis.

UNDERWRITING PERFORMANCE

The table below shows the premiums, claims, expenses, and change in technical provisions, combined with the investment return for each of the Solvency II lines of business. We refer to the total of these items as the "underwriting result" in this report.

	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Premiums earned (net of reinsurance)	87	3	4,524	327	**4,941**
Claims (net of reinsurance)	-47	-21	-3,937	-131	**-4,137**
Change in technical provisions (net of reinsurance)	-20	8	-2,849	-167	**-3,029**
Expenses	-26	-1	-269	-164	**-460**
Investment return	12	15	2,576	246	**2,850**
Underwriting result	**5**	**4**	**45**	**111**	**165**

The different lines of business shown in the table, and the factors which influence their underwriting performance, are explained as follows:

(1) Health insurance: this line of business includes group and individual income protection business and group stand-alone serious illness business The underwriting performance is influenced by:

- changes in our morbidity experience
- new business being written in the period

(2) Insurance with profit participation: this line of business includes products that offer policyholders bonuses which reflect the fund's experience on investment returns, mortality rates and expenses. The underwriting performance is influenced by:

- changes in investment markets
- mortality rates
- lapse experience
- payouts to policyholders

Almost all the profits for this line of business are paid out to policyholders, so the profits are offset by an increase in the value of the non-controlling interest in the financial statements.

(3) Index-linked and unit-linked insurance: this line of business includes unit-linked products, where the unit-linked policyholders bear all the financial risks associated with the related assets. Examples of these products are defined-contribution pensions and savings and investment plans. For a small proportion of these unit-linked products, we offer guarantees that protect policyholders from market falls in the underlying investments. The underwriting performance is mainly influenced by:

- management charges
- other fee income from the unit-linked business
- mortality, morbidity and lapse experience for unit-linked protection contracts.

(4) Other life insurance: this line of business includes our life assurance products such as term assurance products and annuities. The underwriting performance is influenced by:

- changes in mortality, morbidity and lapse experience
- new business being written in the period

RECONCILIATION TO IFRS PROFITS

The table below shows the reconciliation between the underwriting result and IFRS profits.

€m	Total
Underwriting result	165
Other income[1]	16
Tax	(21)
Profit as per IFRS financial statements	160
Attributable to the non-controlling interest[2]	3
Attributable to the Shareholder	157

[1] Other income includes deferred front-end fees, return on shareholder assets, and other items.

[2] Profit attributable to the non-controlling interest includes the underwriting result of €4m and a tax impact of -€1m.

We made a profit of €157m after tax for the financial year (2015 Restated: €129m). This excludes profits of €3m (2015 Restated*: €6m), which is attributed to the participating funds.

Some one-off items (net of tax) affected the profit:

- the impact of changes in the assumptions we use to calculate our insurance and investment contract liabilities was +€55m (2015: restated +€20m)
- interest rate changes had an impact of -€17m in 2016 (2015: restated +€5m)
- integration costs were €0m in 2016 (2015: restated -€11m).

The impacts above are shown net of tax.

** Restatement: During 2016, we changed our accounting policy relating to how we value insurance contract liabilities. In previous periods, we calculated our insurance contract liabilities on a modified statutory basis, where the statutory basis was as defined in the life assurance regulations. We adjusted this so it excluded certain reserves such as resilience and other contingency reserves. The 2016 financial statements measure insurance contract liabilities based on best estimate assumptions, with margins for prudence and the liability for any policy which is allowed to surrender is subject to a floor of zero. We expense acquisition costs for insurance contracts as incurred and we value material investment guarantees based on a market consistent methodology with margins for prudence.*

A.3 INVESTMENT PERFORMANCE

A.3.1 Non Linked Investments

Net investment income was €95m in 2016. 98% of this came from bonds. The makeup of the asset classes in the portfolio hardly changed throughout the year. The amount of income each class generated is shown in the table below:

INCOME SPLIT BY ASSET CLASS

Asset Class €'m	2016	%
Bond	93	98%
Equity	2	2%
Property	4	5%
Mortgage	1	1%
Investment Expenses	(4)	(5%)
Other	(1)	(1%)
Total	**95**	**100%**

In 2016:

- our income from bond products was €93m, which generated 98% of total investment income (overall, bonds achieved a rate of return of 5%)
- dividend income, rental returns and mortgage income generated €7m
- investment expenses and other items generated a €5m charge, which was netted off against the total net investment income for the period.

This table shows investment expenses split by asset class:

Asset Class €'m	2016	%
Bond	(3.7)	92%
Equity	(0.3)	6%
Property	(0.1)	2%
Mortgage	(0.0)	1%
Other	0.0	(1%)
Total	**(4.1)**	**100%**

A.3.2
Unit Linked Investments

The makeup of the asset classes in the portfolio remained largely unchanged throughout the year. The table below shows our investment income and investment performance during the year for each class:

Asset Class €m	Dividends	Interest	Rent	Total Income	Gains and Losses
Equity and unit Trusts	361.4	0.0	-	361.4	1358.4
Fixed Income	-	193.3	-	193.3	343.6
Derivatives	-	0.0	-	0.0	64.8
Property	-	-	125.9	125.9	132.9
Cash and Deposits	-	6.5	-	6.5	(0.7)
Grand Total	**361.4**	**199.8**	**125.9**	**687.1**	**1899.0**

INVESTMENT INCOME

Our net investment income from unit-linked funds was €687m in 2016. This was divided as follows:

- income from bond products (€193m) generated more than 28% of our overall investment income
- rental returns from properties (€126m) generated more than 18% of our overall investment income. This was achieved with a portfolio of properties held both in Ireland and the United Kingdom.
- dividend income (€362m) generated 52% of our overall investment income
- cash and other assets (€6m) makes up 1% of our overall investment income.

During the year, the unit-linked funds paid us a management fee income of €215m.

INVESTMENT EXPENSES

Our unit-linked investment managers are Irish Life Investment Managers Limited and Setanta Asset Managers Limited. It charges an arm's length fee based on assets under management.

INVESTMENT PERFORMANCE

The table above also shows the net unrealised and realised gains and losses during the year.

Both equities and bonds generated positive returns over 2016. Sovereign bonds showed more consistent and steady gains over the period, whereas returns in equities were more volatile.

Global and Eurozone bond yields declined year on year. This is because:

- inflation and inflation expectations continued to be low
- central banks (notably the European Central Bank (ECB) and Bank of Japan), continued to buy sovereign bonds
- ECB made more monthly asset purchases.

The Irish commercial property investment market continued to gain solid investor interest during 2016 (approx. €1bn in transactions), on the back of a very strong 2015.

A.3.3
Other information

At the end of 2016 we did not hold investments in off balance sheet securitisation vehicles. We recognised a €3m pre-tax gain when we revalued owner occupied property in the Statement of Comprehensive Income in 2016. We also recognised a €7m pre-tax actuarial gain on our defined-benefit pension scheme. This was primarily due to investment markets.

A.4 PERFORMANCE OF OTHER ACTIVITIES

There are no items to note.

A.5 ANY OTHER INFORMATION

A.5.1 ILA Ownership Restructure

During 2016, ILGL acquired a 100% shareholding in Canada Life Ireland Limited (CLI). CLI distributed its 11.29% shareholding in ILA to ILGL. This means that ILGL now retain 100% of the equity of ILA.

A.5.2 ILA Recapitalisation

On 8 December 2016, we issued €200m of equity to our parent, ILGL to facilitate our elected subordinated debt redemption on 8 February 2017.

A.5.3 ILA Subordinated Debt Repayment

On 9 January 2017, we notified the noteholders of the €200m 5.25% step-up perpetual capital notes (these perpetual capital notes are discussed in the financial statements, Note 19, Subordinated Liabilities) that we elected to redeem all of the notes at their principal amount (€200m) on 8 February 2017, the first reset date. The terms and conditions of the subordinated debt allow us to redeem all (not some) of the notes on the first reset date.

On 31 December 2016, we held €200m of additional Tier 1 regulatory capital. This is because, as explained in A.5.2, we had issued €200m of equity to our parent, ILGL, on 8 December 2016. This was settled on the same date. We used these funds to redeem the debt on 8 February 2017.

Our solvency capital was temporarily higher at the end of 2016. This was because the equity issue occurred in 2016, before we redeemed the debt in February 2017. Adjusting for this temporary increase, our solvency ratio outlined in our annual report and financial statements would have been 154% (see Section E).

A.5.4 Reinsurance Arrangements

We ceased a number of reinsurance arrangements in early 2016, after the Solvency II regulatory capital regime was introduced. The reinsurance arrangements had helped us optimise our capital position under the previous regulatory capital regime.

B. SYSTEMS OF GOVERNANCE

This section describes the structures, systems and processes we have put in place to direct and control our operations and risks so we can balance the interests of our many stakeholders.

B.1.1 Governance structure

The Board of Directors of ILA is responsible for the governance and oversight of all of ILA's operations and risks.

As described in section A.1, the company has two operating divisions: Retail Life and Corporate Life. Retail Life serves individual customers and some small group business. Corporate Life serves larger group business, including corporate customers and affinity groups with a large number of members. You can find more detail in section A.

Each division has an executive management team, led by a managing director, in charge of day-to-day activities. Each division develops business plans, strategies and annual budgets, which consolidate into a total position for ILA. The divisional managing directors and their executive management teams are responsible for meeting the targets set for each division.

Control functions work at an ILA level. They oversee the primary operating divisions and all other business activities. IT and HR services are also provided at an ILA level.

Business and risk issues can be reported and escalated from the bottom up. Communication and guidance on policy and decisions happens from the top down.

The committees[1] critical to the governance structure are set out below. A number of the committees are Board level committees, and their members are Directors of ILA. The other committees are executive level, and are made up of senior managers. The executive committees help the Board committees meet their objectives. Control functions support the executive committees and the Board Risk and Audit Committees. These are discussed in section B.1.5.

[1] *The Board Committees sit at the Irish Life Group level, ILA's parent company. As allowed by the Corporate Governance Code, the Board of ILA relies on these committees. The Board is satisfied that this is appropriate to the company's circumstances.*

The executive committees shown in the chart are responsible for ILA and other companies within the Irish Life Group.

	Main function	Main responsibilities
Board of Directors	Lead and control ILA	• Makes all material strategic decisions. • Establishes an organisational structure with clearly defined authority levels and reporting responsibilities. • Agrees the rules on management authority levels and what the Board should be notified of.
Board Risk Committee	Responsible for our risk governance, current risk exposures and risk strategy.	• Reviews compliance within the Enterprise Risk Management (ERM) framework and advises the Board on risk oversight. • Reviews the company's Risk Appetite Framework and Risk Strategy. • Approves the operation of the Irish Life Risk Function, making sure it has the resources, authority and independence to meet its responsibilities. • Recommends changes to the risk framework. • Develops a company culture that supports risk management. • Develops and approves responses when a risk exposure exceeds appetite.
Board Audit Committee	Act as an independent link between the Board and ILA's external auditors.	• Recommends and monitors the choice of external auditors. • Reviews the scope of the external audit. • Reviews the company's annual report and financial statements, other public reports and reports we send to the regulatory authorities. • Reviews the effectiveness of internal control systems. • Manages the risks of financial reporting by reviewing significant financial reports. • Reviews financial statements for ILA and Solvency II Pillar I and Pillar III requirements. • Reports to the Board on financial statements it needs to approve. • Monitors the Actuarial, Compliance, Internal Audit and Finance Functions.
Board Remuneration Committee	Develop ILA's remuneration policy.	• Decides, implements and operates our remuneration policies.
Board Nomination Committee	Recommend Board and Board Committee appointments to ILA's Board.	• Succession plans for the Board. • Makes sure the Board and sub-committees have the right skills and resources. • Arranges training for new directors and ongoing training for all directors.
Executive Risk Management Committee (ERC)	Manage all ILA's material risks, apart from operational and legal/regulatory compliance risks.	• Oversees risk exposures and recommends suitable risk policy (including insurance risks, market risk, credit risks and liquidity risk). • Monitors capital and how assets and liabilities are matched. • Reviews new product developments. • Approves significant transactions. • Monitors and reviews risk experience.
Group Operational Risk Committee (GORC)	Oversee and monitor ILA's operational risk including conduct risk.	• Acts as a forum for prioritising and reviewing existing and emerging material operational risks. • Designs and monitors key risk indicators attached to these risks. • Is supported by two Operational Risk Committees – one for each of ILA's operating divisions.
Compliance Management Committee (CMC)	Monitor compliance within the company.	• Recommends appropriate regulatory and compliance standards. • Monitors compliance across the company.

The following table shows the members of our Board Committees:

Members	Position	Board	Board Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
Mr Arshil Jamal	Chairman of the Board, chairman of the nomination committee and non-executive director	Y	N	N	N	Y
Ms Mary Finan	Non-executive director	Y	Y	Y	N	N
Mr Brian Forrester	Independent non-executive director and chairman of the risk committee	Y	Y	Y	Y	Y
Mr Derek Netherton	Independent non-executive director	Y	Y*	Y	Y	Y
Mr Bill Kyle	Non-executive director	Y	N	Y	N	N
Mr Allen Loney	Non-executive director	Y	N	Y	N	N
Mr Cecil Hayes	Independent non-executive director and chairman of the audit committee	Y	Y	Y	Y	Y
Mr Tim Ryan	Non-executive director	Y	N	Y	N	N
Ms Rose McHugh	Independent non-executive director	Y	Y	Y	Y	Y
Mr Brendan Murphy	Independent non-executive director and chairman of the remuneration committee	Y	Y	Y	Y	Y
Mr David Harney	Chief Executive Officer and Executive Director	Y	N	N	N	N

*Resigned from the Board Audit Committee on 1 January 2017

B.1.2
Key function holders

The organisational chart below sets out ILA's key management and key function holders. It shows our operational and day-to-day management reporting lines. However, in line with the control function mandates, the heads of the control functions have a direct reporting line and responsibility to the Board Committees for oversight matters.

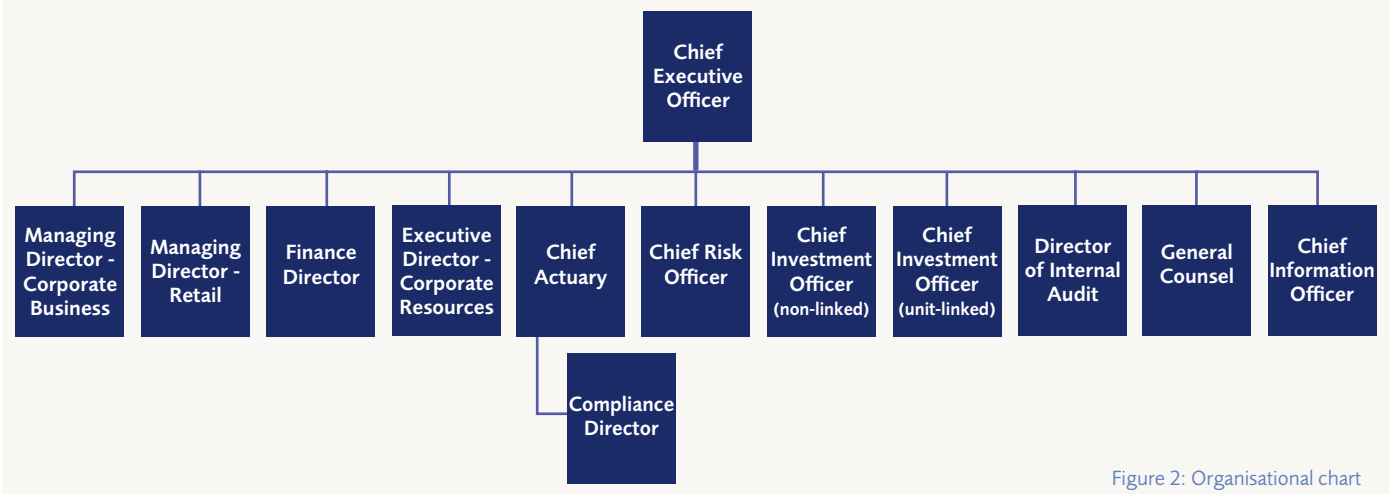


Figure 2: Organisational chart

B.1.3
Adequacy of and review of systems of governance

We are committed to best practice corporate governance. We're a high-impact rated entity under the Central Bank of Ireland's risk-based framework for the supervision of regulated firms. This is known as PRISM or Probability Risk and Impact SysteM.

We must comply with the Central Bank's Corporate Governance Requirements for Insurance Undertakings, 2015 (the Requirements). These include requirements in relation to the composition of the Board and its Committees. We also submit a compliance statement to the Central Bank each year.

We review our systems of governance each year. We also annually review the performance of the governance committees listed in section B.1.1. This includes assessing their responsibilities and updating charters if appropriate. We commission independent reviews of governance periodically, and there is an independent evaluation of the overall performance of the Board and individual directors every three years.

In line with best practice, we have a strong governance process as shown by the structure outlined above. We support this process by following the Corporate Governance Code and by introducing these changes during 2016:

- separating our Board meetings from those of our parent company, ILGL, to increase focus, clarity and depth of discussion on ILA matters
- reducing the number of members on the BRC committee (the BRC previously consisted of the full Board; best practice suggests a smaller committee is more appropriate)
- establishing Board Remuneration and Nomination Committees to help the Board meet its governance and oversight responsibilities.

At its February 2017 meeting, the Board approved the recommendation that the role of the Nomination Committee be extended to include that of a Governance Committee. This allows the Board to focus more keenly on making sure ILA's compliance with corporate governance regulations matches Central Bank expectations.

B.1.4
Remuneration practices

Our remuneration policy is designed to attract, retain and reward qualified and experienced employees who will contribute to our success. We use our remuneration policy to:

- help generate long-term value for shareholders and customers
- motivate employees to meet annual corporate, divisional and individual performance goals
- encourage employees to achieve goals in line with our Code of Business Conduct and Ethics, and
- align with sound risk management practices and regulatory requirements.

We support the remuneration policy with our performance management process. This helps to develop a risk-aware performance culture that reflects our vision and values. The process is based on three core principles:

- quality feedback and open conversations
- shared responsibility for the process
- treating staff fairly and recognising their positive contribution.

The umbrella policy for operational risk and the Great-West Life 'Code of Business Conduct and Ethics' sets out the principles behind our approach to managing the risks associated with our remuneration policy.

The principles state that remuneration programmes should:

- promote sound and effective risk management and align with the risk strategy and preferences approved by the Board
- be consistent with business and risk strategy and shareholders' long-term interests
- be communicated to all staff
- be competitive and fair
- attract, reward and motivate staff to deliver on objectives and achieve success
- be underpinned by clear, effective and transparent remuneration governance.

The remuneration policy is also designed to meet our regulatory requirements. We identified and assessed the applicable Solvency II principles around remuneration. Then we set up and documented the following compliance arrangements:

- establishing a Board Remuneration Committee to help the Board carry out its remuneration-related roles and responsibilities; the Remuneration Committee, based on data provided, makes sure we comply with the Remuneration Policy each year

- making sure there are specific remuneration arrangements (programmes) for the Board, senior leaders and the key control functions
- benchmarking base salaries against market rate for the role as defined in independent salary surveys
- assessing all bonus schemes against both personal and financial targets (the financial targets for senior oversight roles are not significantly linked to company performance)
- auditing and risk assessing the remuneration policy
- publishing our remuneration policy on our employee intranet site.

B.1.4.1
Share options, shares or variable components of remuneration

All remuneration packages consist of:

- a base salary
- annual incentive bonus
- retirement benefits
- benefits during employment.

Senior positions may also include a long-term incentive.

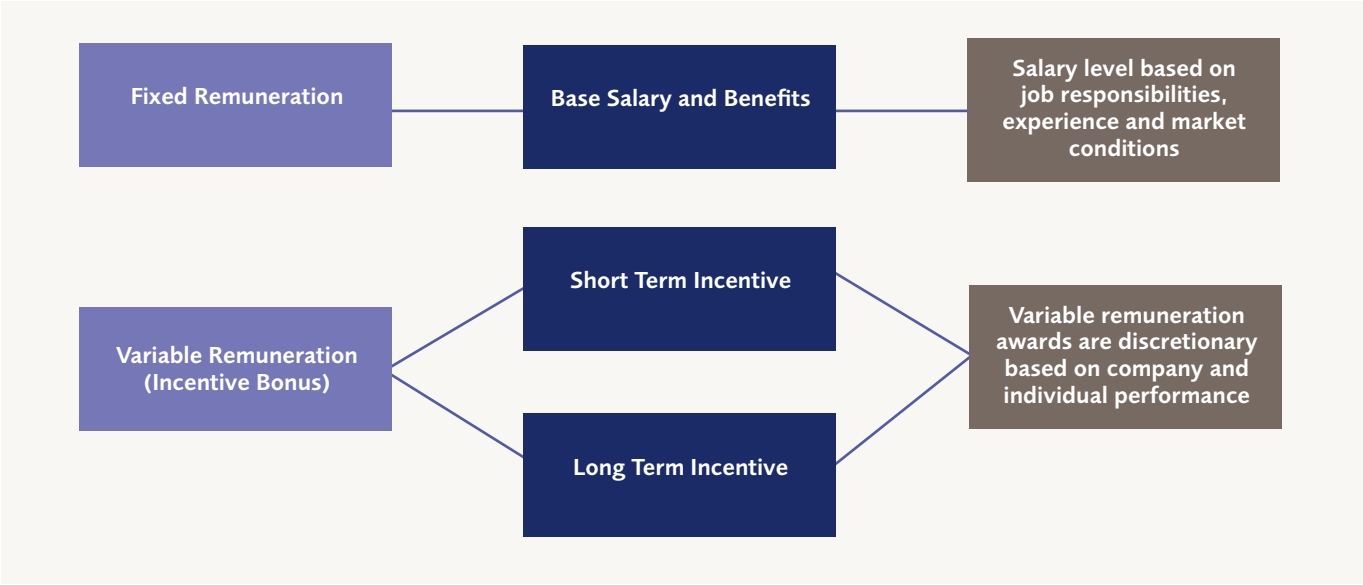
The proportion of each element in the overall package will vary based on the role.

The base salary reflects the skills, competencies, experience and performance level of the individual. Base salaries are based on market rate for the role as defined by independent salary surveys.

We also have an annual incentive bonus scheme that links an individual's overall remuneration to the performance of the company and the performance of the individual. The bonus depends on key business units meeting objectives that are high impact and closely aligned to our critical priorities. However, this does not apply to those in senior oversight roles. Their bonuses are not significantly linked to company performance.

In addition, we have a number of incentive schemes linked to the level of the role (each level attracts different payments for hitting specific targets, and has its own maximum bonus) and, where appropriate, the type of role (for example sales and investment roles). Each staff member has a number of operational and bonus objectives for the year, including an accountability heading of Risk and Management Control. We make our base salaries high enough to prevent employees being overly dependent on their bonuses.

Long-Term Incentives are made up of stock options, issued by our parent company, and performance share units.



B.1.4.2
Supplementary pension or early retirement schemes for the members of the management body and other key functions

Our remuneration policy does not include any supplementary pension or early retirement schemes for Board members or other key function holders. We offer enhanced early retirement pensions to all members of our Irish Life Group Defined Benefit scheme who are aged over 60 and have completed 40 years' service.

B.1.4.3
Material transactions during the reporting period

There were no material transactions with senior ILA managers in the period, apart from transactions linked to their remuneration and transactions relating to insurance policies conducted on normal commercial terms. You can find out more about dividends paid to ILA's shareholder in section E.1.2.

B.1.5
Key functions

In line with the European Regulator's Guidelines on System of Governance, (EIOPA-BoS-14/253), we consider key functions to be Risk Management, Compliance, Actuarial and Internal Audit. We also view Finance as a key function. Collectively, we refer to these five functions as 'control functions'.

Control functions help the Board to manage ILA effectively. Each one reports to either the Board Audit or Risk Committee.

The Board Committee approves the mandate, resources and plans for the control functions annually.

The control functions report to each meeting of the Board Committees. The head of each control function has a direct line of communication with the relevant committee Chair.

Each control function is staffed by professionals with appropriate skills and experience, plus a deep knowledge of our business.

RISK FUNCTION

Overview
This independent second-line function is separate from business operations and looks at them objectively. It has authority across all operating divisions, and access to all ILA records, information and personnel needed to carry out its responsibilities and follow up on issues. In addition, the CRO has the right to access, and to attend meetings of, the Board Risk Committee.

The CRO reports to the Board Risk Committee and the Canada Life Group CRO on oversight matters and to the CEO on operational matters and day-to-day management.

The Risk Function/CRO update each meeting of the Board Risk Committee, including producing a quarterly CRO Report.

Main responsibilities
These are outlined in the Risk Function Mandate, which is set by the Board Risk Committee. Encompassing independent oversight of all forms of risk across all our business divisions, the responsibilities include:

- the Risk Appetite Framework
- Risk culture
- Risk principles
- Risk policies
- Risk governance
- Risk processes
  - risk identification, assessment and prioritisation
  - risk measurement and limit setting
  - risk management, responses and mitigation strategies
  - risk monitoring
  - risk reporting
- Risk infrastructure
- Own Risk and Solvency Assessment (ORSA)
- taking part in management committees.

Governance
The Board Risk Committee reviews the Risk Function Mandate annually, and makes sure the Risk Function complies with it. The Committee also assesses the Risk Function's performance each year.

ACTUARIAL

Overview
This independent second-line function is led by the Chief Actuary, who reports directly to the Audit Committee of the Board and to the Great West Lifeco Chief Actuary for oversight matters. The Chief Actuary is responsible to the Chief Executive Officer for operational and day-to-day management.

The Actuarial Function is made up of:

- the actuarial reporting teams in each of our two business divisions; these teams carry out most of the actuarial calculations
- the Group Valuation & Reporting team which reviews, oversees and consolidates the results
- the Actuarial Development team which develops the actuarial models, processes and mechanisms behind the actuarial calculations.

Main responsibilities
These are outlined in the Chief Actuary Mandate, which is set by the Board Audit Committee. They include:

- calculating the value of our liabilities in relation to our insurance policies and reporting on this to the Board in line with regulatory requirements
- contributing to the effective implementation of our risk management system

- providing oversight of product development, pricing and reinsurance activities
- reviewing Policyholders' Reasonable Expectations (PRE) on an ongoing basis and reporting to the Board on the Head of Actuarial Function's interpretation of PRE
- calculating the value of our liabilities in relation to our life insurance business for inclusion in our financial statements
- providing an opinion to the Board on our underwriting and reinsurance arrangements.

Governance
The Board Audit Committee reviews the Chief Actuary Mandate annually, and makes sure the Actuarial Function complies with it. The Committee also assesses the Actuarial Function's performance each year.

COMPLIANCE

Overview
This independent second-line function is separate from business operations and looks at them objectively. It makes sure we comply with regulations by assessing, monitoring and testing the effectiveness of our regulatory compliance management controls across the company. It is made up of compliance units embedded in Retail Life and Corporate Life plus a group compliance unit.

It is led by the Chief Compliance Officer (CCO), Ireland, who is the statutory compliance officer for the company. The CCO, Ireland reports directly to the Board Audit Committee and to the Great West Lifeco Chief Compliance Officer on the oversight of compliance; and to the Chief Actuary on operational and day-to-day management.

Main responsibilities
These are outlined in the Compliance Function Mandate which is approved by the Board Audit Committee. They include:

- creating and maintaining a sound compliance framework for the independent oversight and management of our regulatory compliance risks
- giving independent advice and guidance to the business units on regulatory developments and other compliance matters, including advice and oversight on new and changing regulatory requirements
- carrying out risk-based monitoring to assess our compliance requirements and procedures and how well we follow them
- making sure all directors, officers and employees acknowledge our Code of Conduct each year
- preparing the compliance budget and compliance plan and putting them into action
- co-ordinating our relationships with prudential and conduct regulators
- reporting each quarter to the Board Audit Committee and each month to senior management on key regulatory matters
- training our staff and directors on relevant compliance matters.

The Board Audit Committee reviews the Compliance Function Mandate annually, and makes sure the Compliance Function complies with it. The Committee also assesses the Compliance Function's performance each year.

FINANCE

Overview
This function is led by the Chief Financial Officer (CFO) who reports directly to the Board Audit Committee and the Great West Lifeco European CFO on oversight matters. The CFO is responsible to the Chief Executive Officer for operational and day-to-day management.

It is made up of a central Group Financial Control (GF) team and finance teams in each of our two business divisions.

The divisional finance teams are our first line of defence in the Finance Function. They manage the financial control and reporting needs of their business lines, giving the GF team defined data through a centrally controlled general ledger and reporting platform.

The GF team are our second line of defence in the Finance Function. They review and oversee this data before adopting it for financial and regulatory reporting and performance management. The GF team, through the CFO, give the Board and Board Audit Committee periodic financial and performance updates along with detail that helps the Board assess and approve the annual statutory financial statements and regulatory returns.

Main responsibilities
These include:

- financial control and governance
- reporting statutory and regulatory financial information, including preparing the financial statements
- budgetary, cost and financial management.

INTERNAL AUDIT

Overview
This function is independent of our business management activities. That makes businesses fully accountable for their work. It's not involved directly in revenue generation, nor in the management and financial performance of any business line. Internal auditors have neither direct responsibility for, nor authority over, any of the activities they review. Nor does their review and appraisal relieve others of their responsibilities. In addition, internal auditors do not contribute to the annual performance appraisal of individuals who work in the areas being audited.

The Head of Internal Audit (HIA) reports directly to the Chief Internal Auditor for Europe within the GWL group, and to the Board Audit Committee for oversight matters. The HIA is responsible to the Chief Executive Officer, Irish Life, for operational and day-to-day management.

Main responsibilities
These include:

- execution of a risk-based audit plan approved annually by the Board Audit Committee

- distributing audit reports to those in the company who are required to take corrective action
- working independently and objectively to assess whether our risk management, governance and internal control processes are appropriately designed and operate effectively
- preparing quarterly reports for the Audit Committee summarising audit activity, in the quarter, identifying material weaknesses in the internal controls environments, recommendations to remedy material weaknesses and updates on previous recommendations

GOVERNANCE

Overview
Each year the Audit Committee:

- reviews and approves the mandate of the HIA
- reviews and recommends the appointment/removal of the HIA to the Boards
- assesses the performance of the HIA and the effectiveness of the Internal Audit function
- reviews and approves the organisational and reporting structure, the Irish Life Internal Audit department budget and resources

The HIA maintains direct and unrestricted access to the Audit Committee, and meets regularly with the Chair of the Audit Committee, without other managers present.

The Audit Committee has the authority to promote independence, and make sure audit coverage is broad and audit reports are properly considered.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Policies and processes in place to meet fit and proper requirements

We are committed to meeting all our fit and proper requirements. So, we make sure that everyone involved in this has the necessary qualifications, knowledge, skills and experience to carry out their role (fitness assessment); and is honest, ethical, financially sound and acts with integrity (probity assessment).

There is a job profile for all such roles. Typically, the job profile sets out the accountabilities for the job, the level of knowledge skills and experience needed to do it, and the essential behavioural competencies.

We have documented HR processes for recruiting into roles that must meet Fitness and Probity requirements.

We also have a Fit and Proper Policy which the ILA Board reviews and approves annually.

The Fit and Proper Policy sets out the process for the fit and proper assessments that determine a person's fitness, probity and financial soundness.

Before we appoint anyone who effectively runs ILA or has another key function, we carry out due diligence to make sure that person is fit and proper for the role. The due diligence checks for assessing whether a person is fit and proper and is financially sound are set out in the Policy. These checks align to the Central Bank of Ireland's Guidance on Fitness and Probity Standards 2015 as follows:

- evidence of compliance with Minimum Competency Code (where relevant)
- evidence of professional qualifications where relevant
- evidence of Continued Professional Development (CPD) where relevant
- record of interview and application
- reference checks
- record of previous experience
- record of experience gained outside of Ireland
- confirmation of directorships held, and
- record of other employments.

The due diligence around probity and financial soundness checks takes the form of self-certification. We ask potential employees to complete a questionnaire on their probity and financial soundness. We then carry out independent directorship and judgements searches.

Most of the applicable roles are pre-approval controlled functions (PCFs) as defined in the Central Bank Reform Act 2010 (sections 20 and 22) Regulations. In addition to our internal due diligence before making appointments into these functions, they are pre-approved by the Central Bank.

All those in a fit and proper role must reconfirm their adherence to the Fit and Proper standards and requirements every year. If we become aware of any concerns about the fitness and probity of someone in a role subject to the Fit and Proper Policy, we will investigate and take swift, appropriate action. We will also notify the Central Bank of any negative results of the actions we take.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

The ILA Board manages all risks across the organisation, and has put in place a comprehensive risk management framework.

The framework includes a documented Enterprise Risk Management Policy. This establishes responsibilities for all key components of the risk management system, including the Board and executive risk committees (see section B.1.1). It also details the three lines of defence model we use, and establishes responsibilities and requirements for the first, second and third lines of defence.

The Board has also generated a Risk Appetite Statement and Risk Strategy document, which outline our appetite for each type of risk and our strategy for accepting, managing and mitigating risks. A further suite of risk policies details the management strategies, objectives, processes, and reporting procedures and requirements for all of the risks we accept.

The Chief Risk Officer (CRO) has primary responsibility for implementing the risk management system. The Risk Function, under the leadership of the CRO, has created processes to make sure we comply with risk policies. It confirms this compliance each year to the Board Risk Committee as part of the annual review of all risk policies. The Risk Function also monitors and reports all risks. This includes reporting risk exposures and compliance with risk limits to the Board and executive risk committees every quarter.

There are more details of the key components of the risk management framework below. You can find greater detail on our risk profile and risk management strategies, objectives, processes and reporting procedures in section C.

B.3.1 Enterprise Risk Management framework

Our Enterprise Risk Management (ERM) framework makes sure we can identify and manage all our material risks, and that we can implement business strategy across the company while fully understanding the risks involved.

There are three broad ways in which each risk type can be treated: capitalisation (hold capital in respect of the risk), management and mitigation. We review the characteristics of each risk so we can identify the appropriate treatment. These reviews weigh up the:

- current and prospective size and complexity of each risk
- potential impact of the risk
- transferability of the risk
- market standard treatment of the risk.

The Irish Life Risk Appetite Framework and Risk Strategy documents set out our overall strategy for each type and level of risk we will assume. Our risk appetite may change as our resources and strategic objectives evolve.

We embed the risk appetite and tolerance for specific risks in the business through risk policies. These set out operational procedures, controls and limit structures that establish a risk management framework for each risk type. Together, our risk policies comprise our Risk Policy Framework.

B.3.2 Risk management model – three lines of defence

Risk taking is fundamental to a financial institution's business profile. Prudent risk management, limitation and mitigation are therefore integral to our governance structure.

We operate the 'three lines of defence' risk model shown in the diagram below.

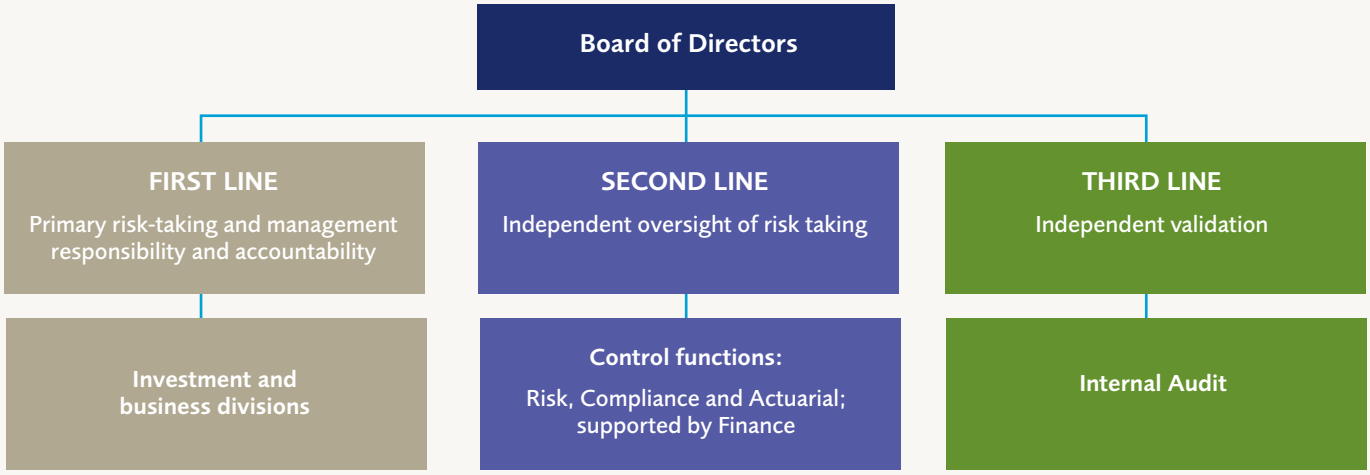


Figure 3: Three Lines of Defence Model

THE FIRST LINE OF DEFENCE

This is the business divisions and our investment managers. The ultimate owners of the risk, they are primarily responsible for day-to-day ERM operations within the established ERM Framework. They identify, measure, manage, monitor and report risk.

Business divisions are accountable for the risks they assume in their operations from inception throughout the risk lifecycle. They must make sure their business strategies align with the ERM Policy including the Risk Appetite Framework.

First-line responsibilities include:

- diversifying products and services, customers and distribution channels
- developing prudent investment underwriting processes and diversifying by asset type, issuer, sector and geography
- following a disciplined application of pricing standards and underwriting, and conducting extensive testing of the risks involved in new products and offerings
- thoroughly managing the business by regularly reviewing, assessing and implementing relevant changes.

THE SECOND LINE OF DEFENCE

This is the oversight functions – including the Risk, Compliance, Actuarial and Finance Functions.

The Risk Function oversees the ERM framework, using it to challenge the compliance of the first line of defence. The Function's specific responsibilities and accountabilities include independently reviewing risk identification, measurement, management, monitoring and reporting.

The Risk Function looks at the work of the Actuarial, Compliance and Finance Functions when assessing compliance with the ERM Framework. It makes sure there are no conflicts of interest and reinforces independence and objectivity. For example, the Risk Function may consider introducing internal peer reviews by another oversight function.

THE THIRD LINE OF DEFENCE

This is Internal Audit. It carries out independent risk-based assessments of the internal risk control framework and the oversight provided by the second line of defence.

Internal Audit independently assures and validates the operational effectiveness and design of the ERM Framework. This includes periodic audits of first- and second-line control processes to help promote effective and efficient operations, integrity of financial reporting, appropriate information technology processes and compliance with law, regulations and internal policies.

B.3.3
Risk appetite and strategy

The Board approved Risk Appetite Statement and Risk Strategy documents set out our appetite for each type of risk, our rationale for accepting risks, and our strategy for the type and level of risk we will assume. Our risk appetite will change as our resources and strategic objectives evolve.

The key objectives in the Risk Appetite Statement are below.

- **Customers:** meeting customer needs and expectations is core to the way we design, distribute and administer our insurance products.
- **Strong capital position:** we maintain a strong balance sheet and do not take risks that would jeopardise our solvency.
- **Strong liquidity:** we maintain a high quality, diversified investment portfolio with enough liquidity to meet our policyholder and financing obligations under normal and stressed conditions.
- **Mitigated earnings volatility:** we aim to avoid substantial earnings volatility. We manage risk concentration, limit exposure to more volatile lines of business and diversify our exposure to risk.
- **Maintaining reputation:** we consider the potential impact on our reputation in all our business activities.

These objectives support both shareholder and policyholder interests since both are best served if we continue to be financially strong and profitable. Equally, we can only remain profitable if customers, financial advisors and other interested parties are satisfied that we are a secure company.

Risk appetite statements establish core risk strategy across the business. We develop these statements through an iterative reviewing, monitoring and updating process that involves our key functions. The Board then approves these statements. Our strategic and business plans are aligned with the risk parameters within the risk appetite statement.

We achieve our Risk Strategy goals by embedding a risk awareness culture across all our business activities, and being prudent when taking and managing risks. We focus on:

- diversifying products and services, customers and distribution channels
- prudent investment management and diversifying by asset type, issuer, sector and geography
- disciplined application of pricing standards and underwriting, and extensively testing the risks involved in new products and offerings
- thoroughly managing the business through regular reviews
- safeguarding our reputation by operating a highly ethical business, based on the employee Code of Business Conduct and Ethics, and sound sales and marketing practices

- increasing returns to shareholders through profitable and growing operations while maintaining a strong balance sheet.

The Irish Life Risk Appetite Framework sets out limits and thresholds for risks. The Risk Function then monitors these risks and reports on them each quarter to the executive and Board Risk Committee.

The Board sets or adopts risk policies that stipulate the type and level of risk the company is allowed to take on, along with the related risk management and reporting procedures. We then cascade this risk appetite and strategy into the business processes and controls. We establish risk processes and controls for each business division to enforce the specific risk policies approved by the Board.

B.3.4
Risk management processes: identification, assessment and treatment

The Risk Function oversees the identification of both existing and emerging risks within the company. Risks are identified from the bottom up as well as the top down. Our business divisions, senior managers, risk specialists and specific risk committees all have significant input. We also use our stress-testing framework, which draws on scenario analysis to spot emerging and previously unidentified risks.

We use individual risk assessment frameworks at the divisional level, overlaid with our risk materiality framework, to assess identified risks. Senior managers across the company ratify any risks considered material and the Board Risk Committee then monitors these regularly.

Our risk materiality framework follows the iterative approach in the chart below.

We have three different treatments for the risks we identify, and combine these treatments as appropriate. These treatments are the basis of our risk policies.

1. We may hold capital so we remain solvent if the risk becomes severe.
2. We may manage the risk through controls.
3. We may mitigate the risk by choosing not to take it on or transferring it to a third party.

Every year we evaluate the way we categorise risk as part of our Risk Appetite Framework review.

We also run an emerging-risk identification process. This involves the risk teams in the operating divisions, divisional Operational Risk Steering Committees, central risk teams and the Senior Leadership Team

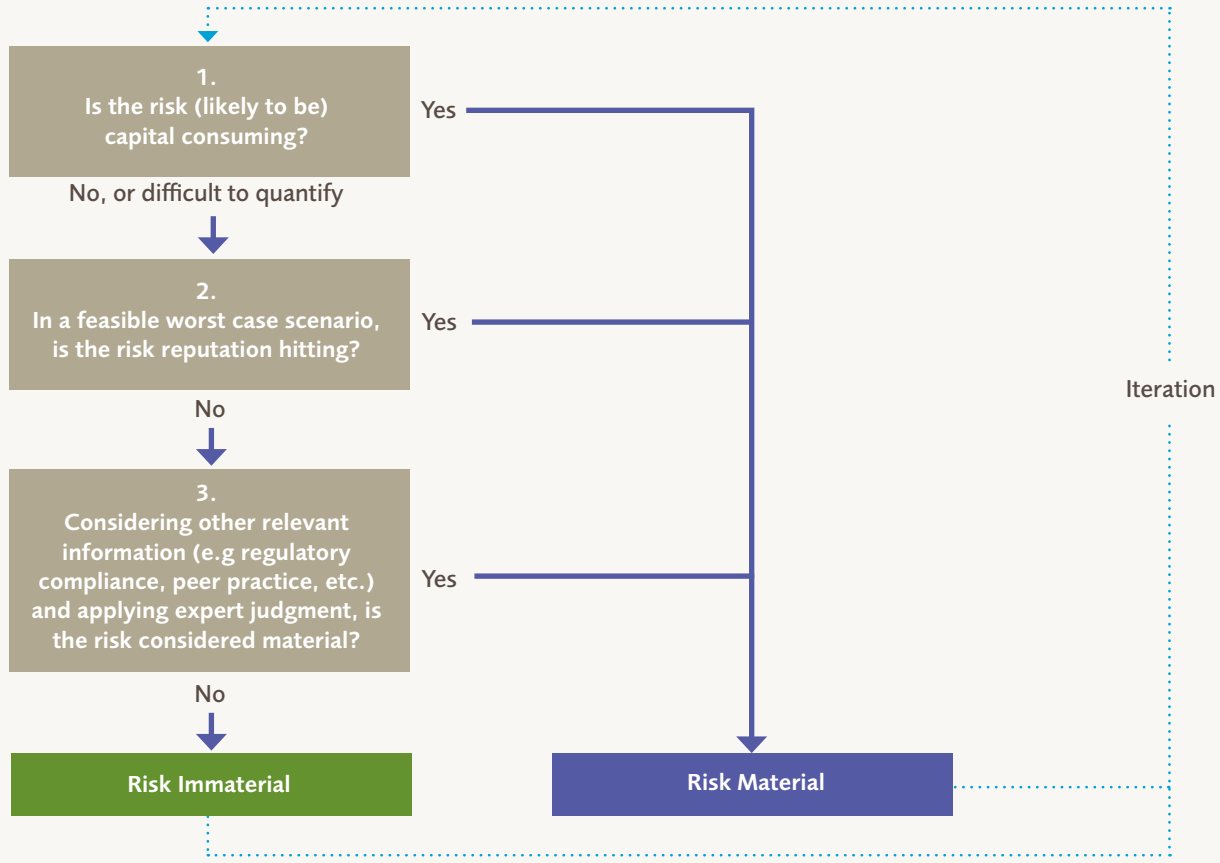


Figure 4: Risk Materiality Framework

B.3.5
Risk management processes: monitoring, measurement and reporting

We monitor risk appetite limits and risk policy limits against selected measures of risk. We measure our exposure to risk in a variety of different ways, including monitoring sums assured, nominal or market value of exposures, the level of actual deviation from expected outcomes and the range of potential deviations from expected outcomes.

Our risk limits framework is multi-layered to make monitoring, evaluating and limiting risk-taking more effective. We monitor and review exposures regularly, and report to Board and executive risk committees each quarter or more often if required.

The risk limits framework includes:

- limits linked to individual risks
- aggregate risk exposures for different risk categories, measured by how much they contribute to the capital we need.

The table below summarises how we measure different risks. In addition, we use our annual ORSA process to analyse the impact of different risks on company solvency under stress scenarios.

Risk category	The main ways we measure risk
Mortality risk	We measure mortality risk using the sum assured, both gross and net of reinsurance.
Longevity risk	We measure longevity risk by assessing the value of those liabilities that are exposed to it. We consider our exposure both gross and net of reinsurance.
Morbidity risk	We measure morbidity risk using the sum assured, both gross and net of reinsurance.
Expense risk	We measure expense risk using actual, budgeted and projected expense levels.
Lapse risk	We measure and monitor lapse risk by referring to the number of policyholders who surrender their policies early compared to the number we expected to do so.
Credit risk – fixed interest/cash assets	We measure credit risk by referring to the value of the assets we have invested with different counterparties. Our risk policy limits depend on the financial strength of counterparties.
Credit risk – reinsurance counterparties	We measure our exposure to reinsurance counterparties both gross and net of mitigations such as any collateral we hold. We set a minimum rating for the financial strength of counterparties, depending on the type of reinsurance we're looking for.
Equity/property risk	We measure market risks, such as equity/property risk, by referring to the most recent market/fund value of investments, and the value of the management charges we collect from unit-linked funds that invest in equity and property assets.
Interest rate risk	We measure interest rate risk by analysing how the value of our assets and liabilities change when interest rates move.
Liquidity risk	We measure liquidity risk by comparing the quantity of assets we can readily convert into cash to the potential demand we might face for cash.
Currency risk	We measure currency risk by analysing how the value of our assets and liabilities change when exchange rates move.
Operational risk	We measure operational risk retrospectively by analysing operational risk losses and near misses. We measure potential risk by monitoring relevant Key Risk Indicators.
Strategic risk	We do not measure strategic risk directly. Instead, we evaluate the existing and proposed key strategic initiatives that have been approved by the Board.
Legal and regulatory risk	We analyse legal and regulatory risks as part of our compliance framework, and mainly measure them qualitatively through risk reporting.
Customer advice risk	Customer advice is a core process that contributes to operational risk. We monitor and measure it in the same way we do for all other aspects of operational risk. We also report on consumer protection and conduct risk using our compliance framework.

B.3.6
Prudent Person Principle

Our Board approved Investment Policy sets out the criteria we use when we invest our assets.

The Policy makes sure that our approach to investment management follows the Prudent Person Principle defined in Solvency II regulations. The Policy covers the investment of all our assets including unit-linked assets.

The controls and processes set out in the policy make sure we invest in assets and instruments only when we can properly identify, measure, monitor, manage, control and report on their associated risks; and only when we can take these risks into account when we assess our solvency needs. The investment restrictions and requirements in the policy ensure the security, quality, liquidity and profitability of the investment portfolio, and that the assets are available when we need them.

The values of our liabilities change due to changing market conditions – for example when interest rates change or equity prices move. We invest in assets whose values move in a similar way to the liabilities.

Our Investment Policy also establishes principles and controls to manage potential conflicts of interest.

Other controls in the Policy include:

- using derivative instruments only if they help reduce risks or improve portfolio management
- limiting the amount of assets we can hold which are not publicly traded – apart from property assets, we have minimal exposure to these
- diversifying our assets through strategic asset allocation limits, specified by asset type and individual counterparty exposure limits
- placing strict rules around who we can lend assets to, and what security we need them to provide, whenever we lend assets to other investors in order to increase returns
- how we report and monitor investment positions, and our oversight responsibilities
- the approval process for investment operations.

B.3.7
Credit assessments

We do not rely solely on external credit assessments when we assess the credit quality of counterparties.

We decide on the credit ratings for all fixed interest we take on – including bonds, cash and commercial mortgages, and investments – through an internal credit review by the appointed investment manager. We supplement this with any ratings available from external credit rating agencies. We make sure the internal rating is not higher than the highest published rating from a major external credit rating agency. We refer to the regulatory guidelines for performing credit assessments and our Risk Function oversees the whole process.

The processes reflect the significance of the counterparty. We complete the rating process in advance of any investment with a new counterparty, and review it at least once each year.

Our Risk Function monitors the credit quality of the investment portfolio, along with our compliance with our investment limits, and reports these to the Executive Risk Management Committee and the Board Risk Committee each quarter.

The Risk Function also monitors and reports the credit quality of reinsurance counterparties to these committees each quarter.

B.3.8
ORSA

We see the Own Risk and Solvency Assessment (ORSA) process as key to our risk management system.

The ILA Board has put in place an ORSA Policy that sets out the roles and responsibilities for completing the ORSA. The Board, with significant support from the Board Risk Committee, owns and directs the ORSA, and reviews and approves the Policy annually. The CRO conducts the ORSA process, producing the ORSA report and maintaining the ORSA record. The Board reviews and approves the ORSA report.

The Actuarial Function helps the Risk Function to produce various aspects of the ORSA – capital projections and stress testing in particular. The Head of Actuarial Function also gives an Opinion on the ORSA to the Board.

The ORSA evaluates our risk profile and solvency position in relation to business operations, strategy and plan:

Own: Reflects our business model and corporate structure; is integrated with business plan and strategy.

Risk: Evaluates risks, including emerging risks, relative to appetite and outlines our risk management techniques and risk governance structures.

Solvency: Reviews potential solvency needs under normal and stress conditions; evaluates capital available compared to requirements.

Assessment: Assesses current and projected risk position and solvency needs.

The ORSA is a year-round collection of processes, integrating our Enterprise Risk Management (ERM) Framework with capital management and business planning.

The ORSA is the main link between our risk management system and capital management activities. We have listed the key steps in the ORSA process below. They include an assessment of our solvency capital requirements in light of our risk exposures. We carry out this assessment using the Standard Formula to evaluate our capital requirements, and by developing our own view of the appropriate level of capital. As part of this exercise we consider all the risks we're exposed to over the life-time of the insurance obligations, whether or not these risks are included in the Standard Formula calculation of capital requirements. A key output from the ORSA is an assessment of the level of capital we need to hold, which stems from our current and prospective risk profile.

We evaluate planned business strategies and proposed capital management activities as part of the ORSA process, capturing and reporting on their impact on the ORSA. The annual ORSA report projects our solvency resources for the following five years, under a base case and range of stress scenarios. The base case scenario reflects the approved business strategy and plans, but with certain adjustments where appropriate for the purpose of the ORSA.

We also look at how material developments to the strategy or to the capital position outside of the annual cycle would affect the ORSA.

KEY STEPS IN THE ORSA PROCESS

- **Consider the business strategy**
  The first-line business divisions present the business strategy to the Board to be challenged and approved. This presentation includes a review of the key assumptions underlying the plan, including projected sales, expenses and new business margins. The Board considers the risks associated with the business strategy.

- **Assess the appropriateness of the Standard Formula**
  We use the Standard Formula to calculate how much capital we must hold under the regulations. As part of the annual ORSA process the Board evaluates the risk profile of the business based on the assumptions underlying the Standard Formula. This tests whether the use of the Standard Formula is appropriate for our business.

- **Complete an Own Solvency Needs Assessment (OSNA):**
  - Calculate an Own View of the Capital for the business: the ORSA will include our assessment of our Own View of the Capital required for the business, as distinct from the capital which the regulations say we must hold.
  - Buffer against volatility: the ORSA will include the assessment of an appropriate additional layer of capital to hold to make sure we will still meet the capital requirements under the regulations even after adverse events.

- **Select stress tests**
  The Board, supported by the Risk Function, sets the stress and scenario tests we consider as part of the ORSA. The stress tests will be forward looking while also taking experience into account. We weigh up the impact of the stress tests on our business strategy.

- **Produce the ORSA report**
  The Risk Function produces an ORSA report and the CRO presents it to the Board. The report includes a solvency projection under the base assumptions as well as the result of the stress tests and an analysis of the results. The Board reviews and challenges the report. We submit the final report approved by the Board to the Central Bank of Ireland.

- **Review the level of capital held**
  After considering the insights on our risk profile gained from each of the key steps above, along with other relevant matters, the Board reviews what level of capital we should hold.

- **Addressing the ORSA findings**
  The ORSA may generate recommendations such as risk mitigation initiatives or adjustments to business plans. We assign these actions as appropriate, and the Risk Function reports to the Board regularly on our progress in addressing them.

- **Communicating the ORSA results**
  The Risk Function communicates the results from the ORSA to the business divisions as appropriate.

- **Embedding the ORSA within decision making**
  Throughout the year we bring significant new initiatives, such as product development and acquisitions, to the Board for approval. Managers must analyse the impact of these on the ORSA and present their findings to the Board for consideration.

- **Reviewing risk policies**
  The Board reviews and approves all risk policies each year. We update our risk policies to reflect the outcome from the ORSA process.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

We maintain an internal control framework – a set of processes created by the company's board of directors, management and other personnel which gives reasonable assurance that the following objectives will be achieved:

- effective and efficient operations
- reliable financial reporting
- compliance with applicable laws and regulations.

Our internal controls are key to managing significant risks to fulfilling our business objectives.

The Board determines our internal controls policy, and each year approves the policy following recommendation from the Board Audit Committee (BAC).

Five components of internal control underpin our internal control system.

1. **Control environment**
   This set of standards, processes and structures is the foundation for all other components of internal control, providing discipline and structure.
2. **Risk assessment**
   This is the process for identifying and assessing relevant risks to achieving our objectives, and the basis for deciding how to manage those risks.
3. **Control activities**
   We establish these actions through policies and procedures that help make sure we all carry out management's objectives.
4. **Information and communications**
   This helps us identify, capture and exchange internal and external information in a form and timeframe that enables us all to fulfil our responsibilities.
5. **Monitoring activities**
   Ongoing evaluation enables us to find out whether all components of the internal control system are present and functioning.

Our internal control system demands we have a combination of preventive, detective, directive and corrective control processes in place.

The Canadian Securities Administrators (CSA) requires the CEO and CFO of a company whose securities are publicly traded to verify that they evaluate the design of their Internal Controls Over Financial Reporting (ICOFR) every quarter and that they review the effectiveness of their ICOFR every year. We must comply with this regulation because we are a subsidiary of a Canadian company.

Internal Audit, on behalf of management, tests the design and effectiveness of the key ICOFR controls to make sure we meet the requirements. Each year we review the relevance of these key controls and edit them accordingly so they continue to reflect the existing control environment.

The CFO must review and approve the internal controls policy before it goes forward for Board approval. Each year our Board assesses whether any new internal controls are required and validates the effectiveness of these new (if any) and all existing controls.

B.4.2 Compliance Function

You can find out more about the Compliance Function in section B.1.5 above.

B.5 INTERNAL AUDIT FUNCTION

You can find out more about the Internal Audit Function in section B.1.5 above.

B.6 ACTUARIAL FUNCTION

You can find out more about the Actuarial Function in section B.1.5 above.

B.7 OUTSOURCING

DESCRIPTION OF OUR OUTSOURCING POLICY

When appropriate, we can outsource specific business functions to reduce or control costs, to free internal resources and capital, and to harness skills, expertise and resources not otherwise available to us. However, outsourcing specific business functions may also expose the company to additional risks – risks that we must identify and manage. Our Outsourcing Policy is a Board-approved policy that sets out the principles and requirements for managing outsourcing arrangements.

The Board and its senior management retain ultimate responsibility for any functions and activities we outsource. They have the necessary expertise to manage outsourcing risks and oversee outsourcing arrangements.

Our Outsourcing Policy sets out the following general principles for identifying and managing outsourcing risks:

- outsourcing arrangements must be identified and assessed based on their materiality
- outsourcing arrangements must be appropriately approved
- the capability of proposed service providers for material outsourcing must be thoroughly evaluated
- outsourcing contracts for material outsourcing must contain certain mandatory terms and conditions
- material outsourcing arrangements must be effectively monitored and controlled by senior management and the executive Group Operational Risk Committee, with oversight from the Board Risk Committee.

We take a prudent and conservative approach to outsourcing.

DETAILS OF OUTSOURCED CRITICAL OR IMPORTANT OPERATIONAL FUNCTIONS AND ACTIVITIES

Internal Provider	Services provided	Jurisdiction
Irish Life Financial Services (ILFS)	Administration and distribution services for Retail Life within ILA.	Ireland
Irish Progressive Services International (IPSI)	Administration of Self Invested Funds for policy holders.	Ireland
Irish Life Investment Managers Ltd (ILIM)	Investment Management Services	Ireland
Setanta Asset Managers Ltd	Investment Management Services	Ireland
Canada Life Asset Managers Ltd (CLAM)	Investment Management Services	UK
External Provider	**Services provided**	**Jurisdiction**
Investment manager (2 firms)	Investment management services for a small portfolio of assets	Ireland
External consultancy firm	Certain Actuarial services	Ireland
External firm	Administration of a small portfolio of policies	UK
External printing firm	Certain printing and document management services	Ireland

OUTSOURCED KEY FUNCTIONS

We have not outsourced any of the key functions discussed in section B.1.5.

B.8 ANY OTHER INFORMATION

No other items to note.

C. RISK PROFILE

This section categorises our risk exposures under major risk headings, and explains them in sections C.1 to C.7.

Our risk profile reflects our main business activities – particularly those activities that are to do with creating and selling life insurance products, and unit-linked investment and saving products.

We control the way we accept risks, using our expertise to manage them and create shareholder value from them. The ILA Board approves our risk appetite at least once a year.

We outline the main points about our risk profile and management strategy below

RISK APPETITE

The ILA Board sets our risk appetite, defining a risk preference level for all significant risks. The risk preferences range from 'no appetite' to 'readily accepts'. We have the highest appetite for risks related to core business activities, particularly those related to insurance products and unit-linked investment management services.

RISK STRATEGY: SOLVENCY AND CAPITAL

The main objective of our risk strategy is to keep our commitments while growing shareholder value. This risk strategy involves generating returns to sustainably grow shareholder value through profitable and growing operations, while maintaining a strong balance sheet and taking a conservative approach to risk management.

RISK STRATEGY: CAPITAL USAGE AND GROWTH

We aim to maximise how efficiently we use capital and how well we control the risk to this capital. We achieve this through product design and setting target returns on the capital we invest.

We believe that controlled organic growth is essential to our continued profitability.

RISK STRATEGY: FUNDING

We will self-finance our sales plan and the payment of equity dividends. We do not currently plan to raise any new sources of capital.

In section A.5.3 you can find details about subordinate debt capital which we repaid in February 2017.

RISK EXPOSURES

In sections C.1 to C.7 we describe our main risk exposures and how we assess and mitigate them.

The table below shows our Solvency Capital Requirement (SCR) at year-end 2016, split by risk type. This is the capital needed to cover the '1 in 200 year' adverse outcome, as set out in the Solvency II regulations. This capital can therefore be viewed as a measure of the total risk exposure to each risk type, net of risk mitigations.

€m	End 2016	
Market risk	733	
Life underwriting risk	665	
Health underwriting risk	207	
Counterparty risk	40	
Requirement before diversification		1,644
Post diversification		**1,259**
Operational risk		57
Deferred tax adjustment		(164)
Total SCR		**1,152**

Note: In the table above, we have shown the SCR for each risk category after allowing for the impact of the loss absorbing capacity of technical provisions. This mainly impacts the market risk category. In Appendix 6, the SCR for each risk category is shown before allowing for the loss absorbing capacity of technical provisions, and the loss absorbing capacity of technical provisions is shown separately.

The market risk SCR mainly relates to interest, equity, currency and property risks (see section C.2 for more details) and credit risk (see section C.3 for more details). The life and health underwriting risk SCR relates to lapse, expense, mortality, morbidity and longevity risks (see section C.1 for more details).

C.1 UNDERWRITING RISK

Insurance (underwriting) risk is linked to contractual promises and obligations made under insurance contracts. Exposure to this risk results from adverse events that occur under specified perils and conditions covered by the terms of an insurance policy.

Insurance risk includes uncertainties around:

- the ultimate amount of net cash-flows (premiums, commissions, claims, pay-outs and related settlement expenses)
- when these cash-flows are paid in and paid out
- how the policyholder will behave (e.g. if and when policyholders decide to stop paying into their policies).

RISK DESCRIPTION

Insurance risks comprise mortality, longevity, morbidity, expenses, lapse and concentration risks. They include the risk that they could be made worse by the changing level, trend or volatility of claims as well as by a single catastrophic event.

Mortality risk

This relates to the risk of loss from higher than expected mortality rates. We are exposed to mortality risks through individual and group insurance policies which pay benefits to insured policyholders upon death.

Longevity risk

This relates to the risk of loss from lower than expected mortality rates. We are exposed to longevity risk through annuity contracts, where regular payments are made to policyholders while the policyholder is alive.

Morbidity risk

This relates to the risk of loss from higher than expected levels of illness or injury, or lower than expected rates of recovery from illness or injury. We are exposed to morbidity risk when we sell income-replacement contracts (which pay a replacement income to policyholders who are unable to work due to illness or injury) and through specified-illness cover policies (which pay a lump sum on diagnosis of one of a number of specified illnesses).

Lapse risk

This is the risk of losses due to policy-holders ending their contracts early.

Expense risk

This is the risk of losses due to higher than expected expenses that we incur when administering our business. This includes the impact of inflation rates.

Catastrophe risk

This relates to losses caused by catastrophic events, for example a pandemic affecting the population or an industrial accident at a single location. We are exposed to catastrophe risk on our insured business, particularly where we provide group insurance coverage for the lives of many people who routinely work at the same location.

Throughout 2016 we were exposed to each of these insurance risks.

RISK ASSESSMENT AND MITIGATION

We use a series of techniques to assess, manage and mitigate underwriting risks.

Own Risk and Solvency Assessment (ORSA)

We assesse all material risks, both qualitatively and quantitatively, as part of the annual ORSA process.

Risk limits

We have a series of risk limits that measure risk exposure from different sources. Our Risk Function monitors these limits and reports on them each quarter to the Executive Risk Management Committee and the Board Risk Committee. By monitoring exposures we can see trends in the risk profile over time and identify material deviations from business plans or from our appetite for each risk. During 2016 we expanded the range of risk limits we use.

Stress testing

We use stress testing as part of the ORSA process to assess risk exposures. Stress testing can also be useful in helping us to decide how to mitigate our exposure to risk.

Reinsurance

We set retention limits to restrict the insurance risks we retain that relate to an individual policy or a group of exposures. We reinsure amounts that are more than the limits.

Assumption/experience monitoring

When writing an insurance policy, we make a series of assumptions around the insurance risks that will define the way the policy will perform over the term of the contract. If the actual experience is worse than we assumed, the result will be lower profits or even losses.

Our Actuarial Function investigates insurance risk experience for our main exposures every year. This allows the Chief Actuary and the Board to assess the suitability of the assumptions made when pricing business, setting reserves and calculating the value of our liabilities for inclusion in our financial statements. Each year, after considering recommendations from the Chief Actuary, the Board approves the assumptions used to determine the value of our liabilities in relation to our insurance policies. The Executive Risk Management Committee and the Board Risk Committee also review the insurance risk experience and the results of experience investigations each year.

We monitor risk experience against assumed/expected experience regularly through monthly business division management information, budget tracking and quarterly profit reporting. If this regular monitoring identifies a potential deviation in experience, the Actuarial Function investigates and feeds back into the pricing and reserving processes, as appropriate.

Underwriting

Our underwriting process includes an assessment of insurance risks before we issue policies. This assessment includes a medical underwriting assessment and a financial assessment for certain product lines. We also carry out underwriting assessments when a claim is made.

Risk pricing

We control the development of new products and the pricing of new and existing products to minimise the risk of underwriting risks at a loss. The profitability of new and existing products depends on the applicable experience assumptions used to price the product (e.g. expense, claim and investment experience assumptions).

We monitor the profitability of new business against targets set through our annual budget process. Our operating divisions regularly monitor and report on sales volumes and profitability levels. We report results to the Executive Risk Management Committee and the Board Risk Committee each quarter.

RISK CONCENTRATION

Our insurance concentration risks take a number of forms:

- We operate mainly within Ireland, and a significant portion of the Irish population lives in the greater Dublin area. So our insurance risk exposure is relatively concentrated to a specific place. This is an on-strategy risk for us and we do not seek to reduce it.
- Individual policyholders with large sums assured can lead to some concentration risk. We actively manage this risk by using reinsurance. We reinsure large policies so that the retained sum assured is limited to the maximum specified in our Reinsurance & Risk Mitigation Policy.
- We also actively write group business and so can face site concentration risk for certain corporate schemes. We use reinsurance to manage this risk.
- The sale of bulk annuities can lead to longevity risk exposures concentrated in certain industries. Our portfolio is large relative to the size of individual bulk annuity arrangements, which reduces this concentration risk. We further reduce this risk with tailored pricing for each bulk arrangement and by using reinsurance.

STRESS TESTING

You can find out more about the stress testing we carry out in section C.7.

C.2 MARKET RISK

RISK DESCRIPTION

Market risks comprise equity/property risk, interest rate risk, inflation risk, liquidity risk (see section C.4) and currency risk. We are willing to accept market risk in certain circumstances as a consequence of our business model and seek to mitigate the risk wherever practical by matching our assets and liabilities.

Equity risk

This relates to losses due to falls in equity prices. We have no significant direct investments in equity markets. We do give policyholders access to equity markets via unit-linked products. Any gains or losses from those investments are incurred by policyholders. However, we are indirectly exposed to market levels as our charges depend on the value of the unit-linked funds. So if fund values fall due to falls in equity markets, our charges will fall as well.

Property risk

This relates to losses due to falls in property prices. It is similar to equity risk in that we also have indirect exposure to property market levels through charges collected from unit-linked funds. In addition, we have some direct property holdings, mainly owner-occupied premises.

Currency risk

This relates to losses due to changes in currency exchange rates. We have no significant direct exposure to currency market levels, as we hedge exposures that arise. It is similar to our equity risk exposure, in that we have indirect exposure to currency markets: if a change in currency exchange rates affects the value of unit-linked funds, it will also affect the value of the charges we collect.

Interest rate risk

This relates to losses due to changes in interest rates. The values of our liabilities linked to insurance policies are sensitive to prevailing long-term interest rates. However, we largely mitigate this exposure by holding assets whose values also move when interest rates change, so offsetting the change in the values of our liabilities.

Inflation risk

This relates to losses due to changes in inflation rates. Some of our policies pay benefits to policyholders that increase in line with prevailing inflation rates, so higher than expected inflation rates may lead to losses. We partly mitigate this risk by holding assets that have a higher return when inflation rates are higher.

Defined benefit pension schemes

An indirect source of our market risks relates to the risk of economic loss caused by uncertainty around required contributions to our defined benefit pension schemes.

We consider this risk to be a part of expense risk. This is because a deterioration in the pension scheme position could lead to the need for greater contributions from the employer, which would increase expenses. Deterioration in the pension scheme position would stem from adverse market movements affecting the value of the pension scheme's assets or liabilities.

RISK ASSESSMENT AND MITIGATION

We use a series of techniques to assess, manage and mitigate market risks.

ORSA

We assess all material risks, both qualitatively and quantitatively, as part of our annual ORSA process.

Risk limits

We have a series of risk limits that measure risk exposure from different sources. Our Risk Function monitors these limits and reports on them each quarter to the Executive Risk Management Committee and the Board Risk Committee. By monitoring exposures we can see trends in the risk profile over time and identify material deviations from business plans or from our appetite for each risk. During 2016 we expanded the range of risk limits we use.

Stress testing

We use stress testing as part of the ORSA process to assess risk exposures. Stress testing can also be useful in helping us to decide how to mitigate our exposure to risk.

Asset Liability Matching (ALM)

We invest assets to mitigate the market risks linked to policy liabilities.

- We invest unit-linked assets to match the surrender value of unit-linked policies.
- We mitigate the interest rate and inflation rate exposure of non-linked products by matching liabilities with appropriate assets. That means the value of the liabilities and assets move by similar levels when interest rates change. The residual exposure of the insurance business to interest rate movements is low.
- We mitigate currency risk by holding assets of the same currency as liabilities or by hedging currency risks that arise.

Equity hedge

We operate an equity hedge to partially mitigate residual exposure to equity risk.

Reinsurance

We reinsure some market risks linked to certain legacy unit-linked products that gave investment guarantees to policyholders.

Prudent investment strategy

We invest our assets prudently, including assets that back policy liabilities and other shareholder assets. This is in line with the Prudent Person Principle, as required by Solvency II regulations (you can find out more about how we apply the Prudent Person Principle in section B.3.6). Our investment principles include:

- establishing strategic asset limits to make sure our investments are appropriately diversified
- maintaining a high level of liquidity, above the level we foresee we will need
- restricting the use of derivatives to make sure we hold these instruments only to manage investment efficiently or reduce investment risk
- keeping shareholder investments in equity/property assets low.

RISK CONCENTRATION

Our shareholder assets include owner-occupied properties in a single campus in central Dublin. Other than these assets, we do not have any significant concentrated holdings of individual equity or property assets.

You can find out more about concentration risks linked to our fixed interest assets holdings in section C.3.

STRESS TESTING

You can find out more about the stress testing we carry out in section C.7.

C.3 CREDIT RISK

RISK DESCRIPTION

Credit risk relates to risks from a counterparty's potential inability or unwillingness to meet its obligations. Our counterparties include sovereign governments and corporate entities who issue fixed interest assets, reinsurers, insurance intermediaries, policyholders and derivative counterparties.

Our main source of credit risk is investments in fixed interest assets issued by borrowers, including sovereign governments and corporate entities. These assets are highly liquid and traded on various market exchanges. Credit risk also stems from deposits and other assets we place with banks.

We cede insurance risk to mitigate insurance risk, and are therefore willing to accept reinsurance counterparty risk. Similarly, we are willing to accept derivative counterparty risk because we use derivatives to mitigate other risks.

We are also willing to accept credit risk that results from our business model, e.g. through our dealings with group clients, brokers, intermediaries, policyholders, suppliers, service providers etc.

RISK ASSESSMENT AND MITIGATION

We use a series of techniques to assess, manage and mitigate market risks.

ORSA

We assess all material risks, both qualitatively and quantitatively, as part of the annual ORSA process.

Risk limits

We have a series of risk limits that measure credit risk exposure from different sources. Our Risk Function monitors these limits and reports on them each quarter to the Executive Risk Management Committee and the Board Risk Committee. By monitoring exposures we can see trends in the risk profile over time and identify material deviations from business plans or from our appetite for each risk. During 2016 we expanded the range of risk limits we use.

Stress testing

We use stress testing as part of the ORSA process to assess risk exposures. Stress testing can also be useful in helping us to decide how to mitigate our exposure to risk.

Prudent investment strategy

Our overarching investment strategy involves targeting a diversified portfolio of assets from counterparties that are in the upper tier for credit quality. We establish limits in the ILA Investment Policy by referring to aggregate portfolio and individual counterparty limits, as applicable. We then link these to credit ratings that assess the financial strength/creditworthiness of counterparties.

Reinsurance

In relation to our reinsurers, we deal only with counterparties that meet the specific creditworthiness requirements outlined in our Reinsurance & Risk Mitigation Policy. We actively monitor the financial strength of our reinsurers.

RISK CONCENTRATION

We have set fixed interest and cash counterparty credit risk limits within our Investment Policy to manage credit concentration risk. Our largest counterparties are the German sovereign and French sovereign.

Our operations also lead to some concentration risk exposure linked to reinsurance counterparties. We diversify across reinsurers to reduce this risk, although only a few reinsurers are active in Ireland. We also look for collateral, where appropriate, to reduce the risk.

STRESS TESTING

You can find out more about the stress testing we carry out in section C.7.

C.4 LIQUIDITY RISK

RISK DESCRIPTION

Liquidity risk stems from a company's inability to generate the necessary funds to meet its obligations as they fall due.

Our business model does not lead to significant liquidity risk as we hold assets that are greater than the value of our liabilities. Our business model is also cash-generating.

RISK ASSESSMENT AND MITIGATION

We monitor and assess potential liquidity risk regularly.

Day-to-day/expected liquidity strains

For day-to-day liquidity needs, we maintain adequate funds in instant-access bank accounts. Our Finance Function monitors and maintains balances daily.

The need to pay policyholders is the main generator of ongoing liquidity needs. For unit-linked policies, we fund claims by selling the unit-linked assets. For non-linked policies, we make sure liquid resources are available when we need them by investing in assets that generate cash when we need it to pay benefits to our policyholders.

Unexpected liquidity strains

Unexpected liquidity strains can stem from a number of sources. These include higher-than-expected insurance claims or policyholder encashment requests, as well as collateral calls linked to derivatives or reinsurance arrangements.

We invest our assets to make sure we have ample liquidity to meet unexpected liquidity needs. Our Investment Policy establishes minimum and maximum strategic investment limits for different liquid and illiquid asset categories.

We hold significant assets to provide solvency capital cover for the company. These act as a buffer for unexpected liquidity strains.

STRESS TESTING

The Risk Function carries out regular stress testing to make sure we have sufficient liquidity to meet conceivable need, even during times of severe strain. We report the results of the stress testing each quarter to the Executive Risk Management Committee and the Board Risk Committee.

The stress testing considers the potential liquidity strains we face. We compare these liquidity strains to the available liquid assets to make sure the available assets exceed our requirements.

RISK CONCENTRATION

As noted earlier, most of our insurance risks are located in Ireland. The associated concentration risk could lead to material liquidity strains from higher-than-expected insurance claims, as described above. Our stress testing of liquidity risk captures this.

C.4.1 Expected profit included in future premiums

The regulations require us to state in this report the amount of expected profit included in future premiums.

This is relevant for contracts where we allow for expected future premiums when we calculate the value of our liabilities, in line with the regulations. For ILA, this includes non-linked protection contracts, unit-linked protection contracts and group risk contracts. For these contracts, the expected profit in future premiums is the amount by which allowing for the receipt of future premiums reduces the values of our liabilities, net of reinsurance .

At year-end 2016, expected profit included in future premiums was €207m gross of tax. As this figure contributes to the Own Funds of ILA, it increases the assets we have available to cover our required capital. The amount of capital we have to hold also increases as a result of recognising these future premiums, and so this amount is not available as free capital to ILA.

When we assess whether our liquid resources are adequate, as described above, we do not count the expected profit included in future premiums as it is not a liquid asset.

C.5 OPERATIONAL RISK

RISK DESCRIPTION

Operational risk is the risk linked to inadequate or failed internal processes, people and systems or from external events. Operational risks relate to all business processes.

We accept limited operational and other risks as part of our business model. However, we have controls in place to mitigate them through integrated and complementary policies, procedures, processes and practices, keeping in mind the cost/benefit trade-off.

We advise customers, and this brings its own operational risks. We use best management practices to mitigate and manage this risk.

Operational risks also include the risk of failing to identify and comply with new or emerging legal and regulatory requirements. To mitigate such risks and factor them in to new business decisions, we monitor regulatory developments closely, keep in regular contact with relevant regulators and capitalise on our internal communication processes.

Strategic risk stems from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources or anticipate business change. We instigate strategic risk management at the individual business division level and consolidate it upwards. Our senior leadership team makes decisions at the ILA level for subsequent review and approval by the Board.

RISK ASSESSMENT AND MITIGATION

The Group Operational Risk Team, which sits within the Risk Function, co-ordinates operational risk management activities. In addition, the Internal Audit Function is key to auditing the processes and associated controls that manage operational risks.

We record operational risks, their associated controls and associated loss events for each of our business divisions. We identify our top operational risks and assess them for specific monitoring. We maintain Key Risk Indicators (KRIs) for each top operational risk, and report on these each quarter as part of a risk dashboard to the Group Operational Risk Committee (GORC). This committee escalates operational risk issues as appropriate to the Board Risk Committee. The GORC also receives quarterly reports on actual loss events and additional reporting on significant losses. We also monitor a series of risk limits and report on them each quarter to the GORC. In addition, the Risk Function reports risk limits and operational KRIs each quarter, with additional commentary, to the Board Risk Committee.

As part of the annual ORSA process, we assess our operational risks both qualitatively and quantitatively.

Business Continuity Planning (BCP) is key to mitigating operational risks. It helps ensure continuity of business in a crisis situation. The BCP framework requirements that apply across our business are set out in a Board-level policy for Business Continuity Management.

Stress testing is a key tool in assessing operational risks. We carry out a range of operational risk stress tests each year. These help us develop our approaches to mitigation and management.

We will not take on opportunities if we think they pose a risk to our reputation. When we design products and advice processes for customers, we consider any potential impact on our reputation.

As part of a large insurance group, we have a number of relationships with other group companies and rely on them for certain services.

We have formal outsourcing agreements in place to manage external and inter-group outsourcing arrangements. These agreements set out the responsibilities of both parties and we monitor and review them regularly. This level of formality ensures we manage the associated risks with appropriate rigour.

RISK CONCENTRATION

Our business operations and policy administration are based mainly in a single campus in Dublin, so we have centred most of the servicing of policies here too. We have partially mitigated the associated concentration risks through business continuity planning. In case of an incident at the Dublin campus, we use off-site centres for data backup and restoration.

We have noted other concentration risks, such as providing insurance products within Ireland, in sections C.1 to C.4 above.

C.6 OTHER MATERIAL RISKS

No other items to note.

C.7 ANY OTHER INFORMATION

C.7.1 Risk sensitivities

We use a number of sensitivity tests to understand the volatility of our capital position. We regularly produce sensitivity tests on our key risk exposures to help inform our decision-making and planning processes, and as part of the framework we use to identify and quantify our risks.

Like every long-term business, we make a number of assumptions when we compile our financial results. These assumptions relate to future expense, mortality and other insurance experience rates, and lapse rates. Our assumptions are informed by an analysis of historic and expected experience.

We have set out the results of key risk sensitivity tests below. We produce these results from our financial reporting models. For each sensitivity test, we have shown the impact of a change in a single factor, and left other assumptions unchanged. You can see the change in our Solvency Capital Requirements (SCR) coverage ratio at 31 December 2016 that would result from the sensitivities shown.

INTEREST RATES

The impact of a 0.5% increase or decrease in market interest rates. The test considers the impact on the value of our liabilities, net of reinsurance, offset by changes to the value of the assets we hold.

CREDIT SPREADS

The impact of a 0.5% increase in credit spreads on corporate bonds and our other non-sovereign assets. The test considers the impact on the value of our liabilities, net of reinsurance, offset by changes to the value of the assets we hold.

EQUITY/PROPERTY MARKET VALUES

The impact of a 10% fall in the market value of our equity and property assets.

EXPENSES

The impact of a permanent 10% increase in maintenance expenses.

LAPSES

The impact of a permanent 10% increase or decrease in policyholder lapse rates.

MORTALITY

The impact of a permanent 5% increase in mortality rates, excluding the mortality rate of the people we pay annuities to.

MORBIDITY

The impact of a permanent 5% deterioration in morbidity. We assume a 5% increase in incidence rates and a 5% reduction in recovery rates for those products where these assumptions are relevant.

ANNUITANT MORTALITY

The impact of a permanent 5% decrease in the mortality rate of the people we pay annuities to.

TABLE: SENSITIVITY TEST RESULTS – SCR COVERAGE RATIO

Sensitivity Test	Impact on SCR Coverage Ratio
0.5% increase in interest rates	+10%
0.5% fall in interest rates	-8%
0.5% increase in credit spreads	+20%
10% fall in equity and property values	-4%
10% increase in maintenance expenses	-4%
10% increase in policy lapse rates	+3%
10% reduction in policy lapse rates	-3%
5% increase in mortality rates (assured lives)	-1%
5% deterioration in morbidity rates	-3%
5% decrease in annuity mortality rates	-2%

C.7.2 Use of Special Purpose Vehicles

The regulations require us to include in this report details of any Special Purpose Vehicles (SPVs) we use to transfer risks off our balance sheet.

We do not use SPVs in this way. We do hold some SPVs as part of our investment activity, but we recognise the associated risks appropriately on our balance sheet.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

This section is about our valuation of each kind of asset for Solvency II purposes. This includes explanations of:

1. how the value of each asset for Solvency II is different from valuing it for statutory financial reporting that meets the EU's International Financial Reporting Standards (IFRS).
2. the valuation bases, methods and main assumptions used for Solvency II and those used for statutory IFRS financial statements for the financial year ended 31 December 2016.

The Solvency II Balance Sheet is in Appendix 1.

1. VALUATION DIFFERENCES – SOLVENCY II V IFRS

Balance Sheet Extract – Assets

Note: The IFRS values in the following table are as recorded in our annual report and financial statements. The Asset Type categorisation here is per the Solvency II balance sheet and not directly comparable to categorisation applied in the IFRS statement of financial position.

Asset Type	Note	IFRS (€m)	Reclassification Adjustments (€m)	Valuation Adjustments (€m)	Solvency II (€m)
Deferred Acquisition costs	1	233	0	(233)	0
Intangible assets	2	13	0	(13)	0
Property, plant & equipment held for own use	3	79	0	0	79
Property (other than for own use)	4	22	0	0	22
Equities	5	74	(13)	0	61
Government Bonds	6	2,828	(1)	0	2,827
Corporate Bonds	6	1,872	0	0	1,872
Collateralised securities	6	65	0	0	65
Investment funds	7	172	0	0	172
Derivatives	8	14	0	0	14
Deposits other than cash equivalents	9	89	0	0	89

Asset Type	Note	IFRS (€m)	Reclassification Adjustments (€m)	Valuation Adjustments (€m)	Solvency II (€m)
Unit linked assets	10	36,838	13	0	36,851
Loans and Mortgages	11	20	0	0	20
Reinsurance recoverables	Section D.2	2,376	0	(419)	1,957
Insurance & intermediaries receivables	12	46	0	0	46
Reinsurance receivables	13	102	0	0	102
Cash and cash equivalents	9	50	0	0	50
Any other assets, not elsewhere shown	14	128	1	0	129

2. VALUATION BASES, METHODS AND MAIN ASSUMPTIONS – SOLVENCY II V IFRS

Solvency II sometimes uses a different set of valuation bases, methods and main assumptions than companies use for IFRS statutory financial statements. So in this section we show where there are differences and what those differences are, across the various kinds of asset. These apply for the financial year ended 31 December 2016.

Note 1: Deferred Acquisition Costs

Solvency II purposes:	IFRS reporting purposes:
As per Article 12 of the Delegated Act, deferred acquisition costs are valued at nil for Solvency II purposes.	Acquisition costs for investment contracts represent those costs directly associated with acquiring new investment management service contracts. The company defers these costs to the extent that they are expected to be recoverable out of future revenues to which they relate.

Note 2: Intangible Assets

Solvency II purposes:	IFRS reporting purposes:
As per Article 12 of the Delegated Act, intangible assets are valued at nil for Solvency II purposes.	**Computer Software** Computer software is carried at cost, less amortisation (over a period of three to fifteen years) and provision for impairment, if any. The external costs and identifiable internal costs of acquiring and developing software are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. **Purchased shareholders' value of in force (VIF) business** We have two business portfolios of long-term insurance and investment contracts that we acquired from other companies. The fair value of the portfolios is based on the net present value of the shareholders' interest in the expected cash flows of the in-force business. On acquisition of these contracts the fair value was capitalised in the statement of financial position as an intangible asset. That part of the shareholders' interest which will be recognised as profit over the lifetime of the in-force policies is amortised and the discount is unwound on a systematic basis over the anticipated life of the related contracts (up to 20 years). All intangible assets are subject to an impairment review at least once a year. Events or changes in circumstances might mean that the carrying amount is not recoverable. If that's the case, it is written down through the income statement by the amount of any impairment loss identified in the year.

Note 3: Property, plant & equipment held for own use

Solvency II purposes:	IFRS reporting purposes:
Property Owner occupied properties (OOP) are carried at fair value with changes in fair value included in the income statement within investment return. External chartered surveyors value OOP at least once a year at open market value. This is in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) in UK and Ireland and follows the guidelines on the most appropriate way to value OOP. The company revalues OOP at least once a quarter, using a commercial property price index as a guide. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives (50 years), which the directors assess once a year. **Plant & Equipment** Plant and equipment are stated at cost, less accumulated depreciation and impairment losses. This valuation is assumed to materially approximate the fair value of these assets. The company calculates depreciation to write off the costs of such assets to their residual value over their estimated useful lives, which the directors assess once a year. The estimated useful lives are as follows: Office equipment 5 - 15 years Fixtures and fittings 5 - 15 years Computer hardware 3 - 10 years Motor vehicles 5 years	**Property** External chartered surveyors value owner occupied properties (OOP) at least once a year at open market value. This is in line with IAS 40 Investment Property and IFRS 13 Fair Value Measurement and with guidance set down by their relevant professional bodies (RICS). Changes in the fair value are included with the statements of other comprehensive income, as opposed to the income statement under Solvency II. **Plant & Equipment** There is no valuation difference between Solvency II and IFRS basis.

Note 4: Property (other than for own use)

'Property (other than for own use)' means property we are holding for long-term rental yields and capital growth. It can be land or buildings.

Solvency II purposes:	IFRS reporting purposes:
Investment properties are carried at fair value with changes in fair value included in the income statement within investment return. External chartered surveyors value property at least once a year at open market value. This is in line with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) in UK and Ireland and follows the guidelines on the most appropriate way to value property. Fair values take into account the highest and best use of the property and are based on yields which are applied to arrive at the property valuation. Investment properties are revalued at least once a quarter using a commercial property price index as a guide.	External chartered surveyors value property at least once a year at open market value. This is in line with IAS 40 Investment Property and IFRS 13 Fair Value Measurement and with guidance set down by their relevant professional bodies (RICS). There is no valuation difference between Solvency II and IFRS basis.

Note 5: Equities

Equities include common shares, preferred shares and exchange traded funds.

Solvency II purposes:	IFRS reporting purposes:
The company values quoted equities based on the fair value determined by the closing bid price from the exchange where they are principally traded. Management value unquoted equities in line with principles set down by the European Venture Capital Association. They present an unquoted report to the board at least once a year for review and approval.	There is no valuation difference between Solvency II and IFRS basis.

Note 6: Government Bonds, Corporate Bonds and Collateralised Securities

Solvency II purposes:	IFRS reporting purposes:
The company values bonds based on the fair value determined by referring to quoted market bid prices. These are primarily from third-party independent pricing sources. If there are price movements above specified tolerances, the company makes sure those movements are correct by checking a second pricing source. Where prices are not quoted in an active market, the company determines fair values by valuation models. The company maximises the use of observable inputs and minimizes the use of unobservable inputs when measuring the fair value. The company uses a 'mark to model' valuation basis to determine a value appropriate to the industry sector. The model uses public bond spread data as a proxy for current spreads on fixed-interest assets. The company then uses this to develop a yield curve to discount the cash flows underlying the private placement to obtain its value. For a limited number of small exposures or short duration bonds, the company uses amortised cost as a proxy for the mark to model valuation basis.	There is no valuation difference between Solvency II and IFRS basis.

Note 7: Investment Funds

Investment funds principally include money market funds (MMFs).

Solvency II purposes:	IFRS reporting purposes:
The company values MMFs at fair value based on a quoted market price where the asset is traded.	There is no valuation difference between Solvency II and IFRS basis.

Note 8: Derivatives

Derivatives include:

- currency forward rate contracts
- currency and interest rate swaps
- futures contracts
- forward rate agreements and options.

Solvency II purposes:	IFRS reporting purposes:
The company values derivatives based on a counterparty valuation which is verified by an independent third-party valuation service. The company obtains fair values from quoted prices prevailing in active markets, where available. Otherwise, the company values the instruments using valuation techniques including discounted cash-flow analysis and option pricing models.	There is no valuation difference between Solvency II and IFRS basis.

Note 9: Deposits other than cash equivalents, cash and cash equivalents

'Deposits other than cash equivalents' means deposits we hold for investment purposes. 'Cash and cash equivalents' means cash we have in a bank or deposit account we hold ready to use for business operations.

Solvency II purposes:	IFRS reporting purposes:
The company values cash and deposits at their face value.	There is no valuation difference between Solvency II and IFRS basis.

Note 10: Unit-Linked Assets

We hold unit-linked assets for the benefit of policyholders. They are made up of several kinds of investment assets, primarily

1. property
2. equities
3. bonds
4. derivatives
5. deposits.

Both the Solvency II balance sheet and the IFRS statutory balance sheet present unit-linked assets as one line.

Note 10.1: Property (other than for own use)

This means property we are holding for long-term rental yields and capital growth. It can be land or buildings.

Solvency II purposes:	IFRS reporting purposes:
The company carries investment properties at fair value, with changes in fair value included in the income statement within investment return. External chartered surveyors value property at least once a year at open-market value. This is in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) in UK and Ireland and follows the guidelines on the most appropriate way to value property. Fair values take into account the highest and best use of the property and are based on yields which are applied to arrive at the property valuation. The company revalues investment properties at least once a quarter, using a commercial property price index as a guide.	External chartered surveyors value property at least once a year at open-market value. This is in line with IAS 40 Investment Property and IFRS 13 Fair Value Measurement and with guidance set down by their relevant professional bodies. This does not give rise to any valuation difference between Solvency II and IFRS basis.

Note 10.2: Equities

Equities include common shares, preferred shares and exchange traded funds.

Solvency II purposes:	IFRS reporting purposes:
The company values quoted equities based on the fair value determined by the closing bid price from the exchange where they are principally traded. Management value unquoted equities in accordance with principles set down by the European Venture Capital Association. An unquoted valuation report is presented to the board at least once a year for review and approval. The external manager values unlisted unit trusts using the latest published Net Asset Value (NAV). For funds providing daily liquidity, the most recent NAV for underlying listed unit trusts is rolled forward using the latest performance statistics that the relevant external manager has provided.	There is no valuation difference between Solvency II and IFRS basis.

Note 10.3: Bonds

Bonds include government bonds, corporate bonds and collateralised securities

Solvency II purposes:	IFRS reporting purposes:
The company values bonds based on the fair value determined by referring to quoted market bid prices. These are primarily from third-party independent pricing sources. If there are price movements above specified tolerances, the company makes sure those movements are correct by checking a second pricing source. Where prices are not quoted in an active market, the company determines fair values by valuation models. The company maximises the use of observable inputs and minimises the use of unobservable inputs when measuring the fair value. The company uses a 'mark to model' valuation basis to determine a value appropriate to the industry sector. The model uses public bond spread data as a proxy for current spreads on fixed-interest assets. The company then uses this to develop a yield curve to discount the cash flows underlying the private placement to obtain its value.	There is no valuation difference between Solvency II and IFRS basis.

Note 10.4: Derivatives

Derivatives include over the counter derivatives (OTC), exchange traded derivatives, foreign exchange traded derivatives, currency forward rate contracts, futures contracts, forward rate agreements and options.

Solvency II purposes:	IFRS reporting purposes:
The company uses the bid value supplied by the counterparty to value Over-the-counter (OTC) Derivatives. Where possible, the company uses independent third-party software to confirm the counterparty value is reasonable. The company values Exchange Traded Derivatives by using the closing price from the exchange in which they are traded. The company values Foreign Exchange Traded Derivatives using a market feed of forward points and corresponding interest rate.	There is no valuation difference between Solvency II and IFRS basis.

Note 10.5: Deposits

Solvency II purposes:	IFRS reporting purposes:
The company values deposits at their face value.	There is no valuation difference between Solvency II and IFRS basis.

Note 11: Loans and Mortgages

Solvency II purposes:	IFRS reporting purposes:
The company records loans and mortgages at fair value, determined by discounting expected future cash-flows using current market rates. Valuation inputs typically include benchmark yields and risk-adjusted spreads based on current lending activities and market activities.	There is no valuation difference between Solvency II and IFRS basis.

Note 12: Insurance & intermediaries receivables

'Insurance & intermediaries receivables' includes outstanding premiums that policyholders are due to pay us.

Solvency II purposes:	IFRS reporting purposes:
The company records receivables at their fair value, net of any amounts deemed as doubtful debts.	There is no valuation difference between Solvency II and IFRS basis.

Note 13: Reinsurance receivables

Reinsurance receivables include:

- the money that reinsurers are still due to pay us
- the money we're due to receive from multinational pooling (MNP) arrangements.

Solvency II purposes:	IFRS reporting purposes:
The company estimates amounts receivable from reinsurers in a manner consistent with the claim liability associated with the reinsured policy. The company records MNP receivables on an accruals basis to account for premiums and claims activity that has not yet been agreed with the MNP.	There is no valuation difference between Solvency II and IFRS basis.

Note 14: Any other assets, not elsewhere shown

'Any other assets, not elsewhere shown' includes other unit-linked assets not shown anywhere else on the balance sheet, for example, broker outstanding balances. This section also includes other non-linked assets not shown anywhere else on the balance sheet, for example, intercompany debtors, accrued external fees and management charges due.

Solvency II purposes:	IFRS reporting purposes:
The company records receivables at their fair value, net of any amounts deemed as doubtful debts.	There is no valuation difference between Solvency II and IFRS basis.

Note 14 Continued

There have been no changes to the recognition and valuation basis during the year for the assets noted above. During 2016, there was a change to the financial statement accounting policy for insurance contracts – as noted in the summary section above.

There are no classes of assets subject to operating or lease finance arrangements.

For estimation uncertainty, please refer to section D.4.

D.2 TECHNICAL PROVISIONS

Technical provisions represent the value of our liabilities under policies we have written.

Solvency II technical provisions include:

- account values (unit liabilities)
- best estimate technical provisions (BETPs)
- risk margin.

D.2.1 Solvency II Technical Provisions and Reinsurance Recoverables: Overview

This table shows the value of technical provisions and reinsurance recoverables split by line of business:

€m	Technical Provisions			Reinsurance Recoverables	
Line of business	Calculated as a whole	Best estimate technical provisions	Risk Margin	Calculated as a whole	Other
Contracts with profit participation	0	150	0	0	0
Other Life Insurance	0	4,252	138	0	1,857
Health	0	529	79	0	58
Unit-linked	36,704	-430	140	30	12
Total	**36,704**	**4,501**	**358**	**30**	**1,928**

D.2.1.1 Technical provisions calculated as a whole

Under Solvency II rules, certain technical provisions can be calculated "as a whole" which means that separate calculation of the best estimate and risk margin is not required. For ILA, unit liabilities representing the current account value of unit-linked contracts are classified as technical provisions as a whole. The value is based on the value of the underlying assets to which the contracts are linked. Other technical provisions are calculated as a best estimate plus a risk margin, as discussed in the sections below.

D.2.1.2
Best estimate technical provisions

Best estimate technical provisions (BETPs) represent the best estimate of the value of our obligations under the policies we have written.

The BETPs represent the probability-weighted average of future cash-flows, taking into account the time value of money. To allow for the time value of money we use the relevant risk-free interest rate term structure.

D.2.1.3
Reinsurance recoverables

We have a number of reinsurance arrangements in place which reduce our exposure to risks such as mortality risk, morbidity risk and longevity risk.

We work out the value of reinsurance recoverables like this:

The present value of the payments we expect to receive from reinsurers (under existing reinsurance arrangements) minus
The present value of the payments we expect to make to reinsurers (under existing reinsurance arrangements).

In general, the way we work out the value of reinsurance recoverables is the same as the way we work out the BETPs. And, in general, we use the same assumptions.

We do not have any reinsurance arrangements with special purpose vehicles.

D.2.1.4
Risk margin

The risk margin is meant to represent the extra premium that another insurer would require for taking on our insurance portfolio. It reflects the cost of holding the policy-related capital – the Solvency Capital Requirement (SCR) – for all our policies.

We work out the risk margin like this:

The present value of the projected capital on our existing business
multiplied by a cost-of-capital rate,
where the future capital in any given year is equal to the projected SCR arising on our existing business in that year.
EIOPA has prescribed a cost-of-capital rate of 6%.

We work out our aggregate risk margin and then split it between the lines of business, as in the table above.

D.2.2
Solvency II Technical Provisions and Reinsurance Recoverables: bases, methodology and assumptions

We work out the value of our BETPs and our reinsurance recoverables in line with Solvency II regulations. For most of our business, we use a projection of future cash-flows based on central assumptions. We make an adjustment to reflect a best estimate of catastrophe costs. In some cases we use different methods, which we discuss in the sections below covering the individual lines of business.

These are the three main categories of assumptions we use to work out the BETPs and reinsurance recoverables:

- demographic assumptions
- expense assumptions
- economic assumptions

Demographic assumptions include assumptions about how long policyholders will live, the rate at which they will die or get ill, and how many of them will let their policies lapse. We discuss these assumptions in the sections below that cover the demographic assumptions on each of the individual lines of business.

Expense assumptions include assumptions about maintenance and investment expenses. We have set the expense assumptions based on the most recent expense investigation. We have taken into account the level of expenses we expect from different types of products and the amount of business in force.

The main **economic assumptions** are:

- the discount rate
- the rate of investment return on unit-linked funds
- the rate of increase of future benefits which are linked to inflation
- expense inflation

We project future investment returns on unit-linked funds using the risk free yield curve specified by the EIOPA. We use the same risk free yields to discount the value of future cash-flows. We use the yield curve with the volatility adjustment for calculating BETPs. (We discuss the volatility adjustment further in section D.2.5). In line with the Solvency II requirements, we do not use the volatility adjustment when we work out the risk margin.

Our assumption about the inflation of future benefits is set considering the results of stochastic modelling. This considers a large number of possible future inflation scenarios. Our assumption about the inflation of expenses is based on long term assumptions about how we expect prices to go up, plus how we expect salaries to go up in excess of prices.

Our approach for working out expense and economic assumptions is similar across all lines of business.

Other than the difference in the yield curve noted above, the projected capital requirements we use to calculate the risk margin are based on the same assumptions we use to calculate the BETPs.

D.2.2.1 *Demographic assumptions:* Contracts with profit participation

This line of business includes participating endowment and whole life policies, as well as a small number of participating deferred annuity contracts.

The main demographic assumptions for this line of business are assumptions about the rate at which policyholders die or let their policies lapse. We generally make these assumptions based on our experience investigations. We apply expert judgment to make sure there is enough allowance for relevant trends or factors we expect to change.

D.2.2.2 *Demographic assumptions:* Other Life Insurance

This line of business includes annuity business, individual and group non-linked protection business.

The main demographic assumptions for this line of business are assumptions about the rate at which policyholders will die or get ill, and how many of them will let their policies lapse. We generally make these assumptions based on our experience investigations. We apply expert judgment to make sure there is enough allowance for relevant trends or factors we expect to change.

D.2.2.3 *Demographic assumptions:* Health

This line of business includes group and individual income protection business, and group serious illness business.

The main demographic assumptions for this line of business are assumptions about when policyholders will get ill, and when policyholders who are receiving income protection benefits will recover or die. We generally make these assumptions based on our experience investigations. We apply expert judgment to make sure there is enough allowance for relevant trends or factors we expect to change.

D.2.2.4 *Demographic assumptions:* Unit-Linked

This line of business includes unit-linked investment policies.

For most unit-linked business we use a projection of future cash-flows based on central assumptions to work out the BETPs and reinsurance recoverables. This is based on our best estimate assumptions. For material investment guarantees, we work out the BETPs using stochastic models. This means we use a large number of possible economic scenarios to work out the cost of the guarantees. The BETP is the average cost under all those scenarios.

The main demographic assumptions for this line of business are assumptions about the rate at which policyholders will die or get ill, and how many of them will surrender their policies early or let them lapse. We generally make these assumptions based on our experience investigations. We apply expert judgment to make sure there is enough allowance for relevant trends or factors we expect to change.

D.2.2.5 Significant simplifications used in the calculation of technical provisions

We use some simplifications when we work out the risk margin.

The actuarial valuation system produces an accurate projection of most of the SCR components used to work out the risk margin. Where this is not possible due to system constraints, we use a simplified method, which Solvency II regulations allow. Where we have adopted a simplified approach for projecting a component of the SCR, we use the risks that drive that component to project that component.

We do not use any other significant simplifications in the way we work out our technical provisions.

D.2.3 Level of uncertainty associated with the value of technical provisions

The value of the BETPs is based on expected future cash-flows. We work these out based on a number of assumptions. We explain the main assumptions in Section D.2.1, above.

There is inherent uncertainty. Actual experience may differ from our assumptions over time, and this may result in us changing our assumptions in the future.

Some of the key sources of uncertainty within the BETPs are the rate at which policyholders will die or get ill, how long they live, how many of them will let their policies lapse, and expenses.

- If the rate at which life insurance policyholders die – the mortality rate – or the rate at which they get ill – the morbidity rate – goes up, so will our BETPs. We partly mitigate against this uncertainty with our reinsurance arrangements.
- If people with annuities from us live longer, our BETPs go up. Again we partly mitigate against this uncertainty with reinsurance arrangements on some annuity blocks.

- Generally, if more policyholders let their policies lapse – a higher lapse rate – our BETPs go up. This is because the BETPs allow for the expected value of future profits, which will go down if more policyholders let their policies lapse.
- If expenses go up, so will our BETPs.

Our BETPs also vary depending on market movements, in particular movements in interest rates and the equity and property markets.

When interest rates change, the impact on our BETPs is usually offset, to a broad extent, by changes in the value of the assets backing our BETPs.

Equity and property values have an impact on future profits on unit-linked business. So they have an impact on our BETPs. If equity or property values fall, this will reduce our future profits on unit-linked business and increase our BETPs.

This table shows how our main assumptions affect our BETPs, net of reinsurance (excluding participating business):

Sensitivity Test	Impact on BETPs (€m)
10% fall in equity and property values	+65
10% increase in maintenance expenses	+69
10% increase in policy lapse rates	+22
10% reduction in policy lapse rates	-23
5% increase in mortality rates (life insurance business, excluding annuities)	+22
5% deterioration in morbidity experience	+34
5% decrease in annuity mortality rates	+19

The impact on movements in bonds, equity and property values on technical provisions calculated as a whole is offset by a movement in the value of the assets matching the technical provisions.

D.2.4
Differences between Solvency II technical provisions and insurance contract liabilities and investment contract liabilities included in the financial statements

We prepare financial statements under International Financial Reporting Standards (IFRS). The basis of how we value our liabilities for IFRS is different from the basis Solvency II requires. The main differences are:

INVESTMENT CONTRACTS

IFRS allow for some recognition of future profits, through the recognition of Deferred Acquisition Costs (DAC) asset, net of the Deferred Front End Fees (DFEF). Solvency II gives a greater allowance for the present value of future profits on investment contracts within the BETPs, subject to some restrictions.

INSURANCE CONTRACTS

There are three main differences in the approach to valuing insurance contracts:

1. Under IFRS, we value insurance contracts using best estimate assumptions, but we allow for margins for adverse deviation. These margins allow for the possibility of mis-estimation and for our best estimate assumptions deteriorating in the future. The margins also provide reasonable assurance that insurance contract liabilities cover a range of possible outcomes.

   Under Solvency II, we value all contracts (both investment and insurance contracts) using best estimate assumptions and a prescribed yield curve. We also allow for the risk associated with the business (quantified as the cost of capital) through the risk margin.

2. Under IFRS, the liability on any policy which is allowed to surrender is subject to a floor of zero.

   Under Solvency II, there is no similar restriction on liability valuations.

3. Under IFRS, for participating business, the value of liabilities in the financial statements does not allow for future terminal dividends. The excess of assets over liabilities is reflected in the non-controlling interest line of the financial statements.

   Under Solvency II, the technical provisions reflect the best estimate of future terminal dividends.

For each line of business, this table shows the differences between the Solvency II technical provisions and the technical provisions included in the financial statements (including insurance contract liabilities, investment contract liabilities and unit-linked liabilities) as at year-end 2016:

€m	Participating contracts	Other Life	Health	Unit-Linked	Total
Solvency II technical provisions (net of reinsurance recoverables)	**150**	**2,533**	**549**	**36,372**	**39,604**
Valuation methodology differences for investment contracts	0	0	0	+667	**+667**
Valuation methodology differences for insurance contracts (margins for adverse deviation, and zeroisation of negative liabilities) and allowance for terminal dividends for participating business	-80	+712	+48	+73	**+753**
Risk margin not held under IFRS	-0	-138	-79	-140	**-358**
Value of insurance contract liabilities, investment contract liabilities and unit-linked liabilities per IFRS financial statements (net of reinsurance asset)	**70**	**3,106**	**518**	**36,972**	**40,667**

In summary, our liabilities under Solvency II are €1,062m lower than under our local financial statements.

However, under Solvency II, future profits recognised within the calculation of liabilities must be stressed within the calculation of the Solvency Capital Requirement (SCR). This is to allow for market shocks and severe adverse changes in rates of mortality, morbidity, longevity, and lapses.

So, the SCR allows for the impact of severe adverse stresses on the future profits. The SCR was €1,152m at 31 December 2016. In Section E.2 we outline the calculation of the SCR in more detail.

D.2.5 Long Term Guarantee Measures

Long Term Guarantee measures are optional measures available to companies under the Solvency II regime. Long Term Guarantee measures can help to reduce the impact of credit spread changes on a company's solvency position.

The Long Term Guarantee measures available to us include the matching adjustment and the volatility adjustment:

- The matching adjustment allows a company to adjust the Solvency II yield curve when they value policy liabilities. The company can adjust it by an amount that is linked to the yield on the backing assets it holds.
- The volatility adjustment allows a company to adjust the Solvency II yield curve by an amount which varies based on credit spreads on a specified asset portfolio.

We do not apply the matching adjustment.

We use the volatility adjustment for calculating technical provisions. At the end of 2016, the volatility adjustment represented an increase in the Solvency II forward rate yield curve of 13 basis points for the first 20 years.

This table shows the impact of reducing the volatility adjustment to zero on technical provisions (net of reinsurance recoverables), the SCR, the MCR and eligible Own Funds:

€m	With volatility adjustment	Without volatility adjustment	Impact of volatility adjustment reducing to zero
Technical Provisions (net of reinsurance recoverables)	39,604	39,649	+44[1]
Basic Own Funds	1,772	1,733	-39
Eligible Own Funds	1,772	1,733	-39
Solvency Capital Requirement	1,152	1,158	7
Minimum Capital Requirement	460	461	1
Solvency Margin Ratio	**154%**	**150%**	**-4%**

[1] The impact on technical provisions net of reinsurance recoverables is comprised of an increase in gross of reinsurance technical provisions of €73m and an increase in reinsurance recoverables of €29m.

D.2.6
Transitional Measures

We do not apply the transitional risk-free interest rate-term structure. Nor do we apply the transitional deduction to technical provisions.

D.2.7
Changes to assumptions compared to previous reporting period

The main changes to our assumptions since the Day 1 Solvency II calculations are:

- we updated our assumptions about mortality, morbidity and lapse rates, based on the results of our most recent experience investigations
- we updated assumptions about expenses, based on the results of our most recent expense investigations
- we updated the discount rate and the assumed rate of future investment returns on unit-linked funds based on changes in the risk free yield curve specified by EIOPA
- we refined some of our methods and updated the stochastic model we use to value investment guarantees

D.3 OTHER LIABILITIES

This section is about our valuation of each kind of 'other liability' for Solvency II purposes. This includes explanations of:

1. how the value of each other liability for Solvency II is different from valuing it for statutory financial reporting that meets the EU's International Financial Reporting Standards (IFRS)
2. the valuation bases, methods and main assumptions used for Solvency II and those used for statutory IFRS financial statements for the financial year ended 31 December 2016.

The Solvency II Balance Sheet is in Appendix 1.

1. VALUATION DIFFERENCES – SOLVENCY II V IFRS

Balance Sheet Extract – Other Liabilities

Note: The IFRS values in the following table are as recorded in the company's annual report and financial statements. The Liability Type categorisation here is per the Solvency II balance sheet and not directly comparable to categorisation applied in the IFRS statement of financial position.

Liability Type	Note	IFRS (€m)	Reclassification Adjustments (€m)	Valuation Adjustments (€m)	Solvency II (€m)
Other Provisions	1	(19)	0	8	(11)
Pension benefit obligations	2	(3)	0	0	(3)
Deposits from reinsurers	3	(41)	0	0	(41)
Deferred tax liabilities	4	(56)	0	(114)	(170)
Derivative Liabilities	See Section D.1.2	(3)	0	0	(3)
Insurance & intermediaries payables	5	(314)	0	0	(314)
Reinsurance payables	6	(39)	0	0	(39)
Payables (trade, not insurance)	7	(6)	0	0	(6)
Subordinated Liabilities	8	(210)	0	0	(210)
Other Liabilities	9	(163)	0	0	(163)

2. VALUATION BASES, METHODS AND MAIN ASSUMPTIONS – SOLVENCY II V IFRS

In this section you'll find the valuation basis for Solvency II purposes for each class of liability in the table above. We also explain the differences between Solvency II and the IFRS statutory financial statements when it comes to valuation bases, methods and main assumptions used for the financial year ended 31 December 2016.

Note 1: Other provisions

'Other provisions' include onerous contract provisions, severance provisions, customer complaints provisions and legal provisions.

We expect to settle onerous contract provisions by 2021. We expect to settle severance provisions in the next financial year. Customer complaints and legal provisions are ongoing.

The valuation adjustment to other provisions is in relation to Deferred Front End Fees (DFEF).

Solvency II purposes:	IFRS reporting purposes:
The company derives the value of each provision by management reviewing and evaluating the expected outflow required to settle the liability to which the provision applies. These reviews are presented to the Board Audit Committee for approval and inclusion in the Annual Financial Statements. Similar to DAC, as per Article 12 of the Delegated Act, DFEF are valued at nil for Solvency II purposes.	Initial fees earned and incremental costs (mainly commission) paid on sale of an investment contract are deferred and recognised over the expected life of the contract. The company estimates the expected life of the contracts based on current experience and the term of the contracts. The company reviews this at least once a year. The maximum amortisation period for DFEF is 20 years. There is no valuation difference between Solvency II and IFRS basis for the other provisions listed above

Note 2: Pension benefit obligations

We operate a defined benefit pension scheme which is now closed to new members and a hybrid scheme with a defined benefit element. Some staff participate in a defined benefit pension scheme – an Irish scheme sponsored by Canada Life Irish Holding Company Limited (CLIH), a member of the Canada Life Group. That scheme is also closed to new members.

These schemes are funded by contributions into separately administered trust funds. The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable pay for each year of credited service. Under the rules of each of the Irish Life schemes, pension increases are wholly at the discretion of the schemes' principal employer.

Solvency II purposes:	IFRS reporting purposes:
The net obligation of the company's defined benefit schemes represent the present value of the obligation to employees in respect of past service, less the fair value of the plan assets. It is based on the IAS19 accounting standard. The external scheme actuary calculates the present value of the obligation once a year. The present value of the obligation is determined by discounting the estimated future cash flows. The discount rate is based on the market yield of high quality corporate bonds that have maturity dates approximating to the terms of the pension liability. The estimated future cash-flows are based on the accrued past service benefits and future salary inflation, inflation and assumptions about mortality.	There is no valuation difference between Solvency II and IFRS basis.

This table shows the nature and composition of our liabilities:

Benefit obligation	€m
Benefit obligation as at 1 January	(1,085)
Current service cost	(26)
Past service cost	-
Net interest cost	(30)
Actuarial gain/(loss) (experience adjustments & financial assumption changes)	(78)
Contributions by plan participants	(4)
Curtailment gain	1
Benefits paid	20
Benefit obligation as at 31 December	**(1,202)**

This table shows the nature and composition of our plan assets:

Asset Type	Fair Value (€m)	Plan assets (%)
Equities	636	53
Bonds	449	38
Property	109	9
Cash and cash equivalents	5	-
Fair value of plan assets at 31 December 2016	**1,199**	**100**

Note 3: Deposits from reinsurers

Deposits from reinsurers are funds held by the company under reinsurance contracts. Premiums and claims due in the period are paid to or withdrawn from the funds withheld account.

Solvency II purposes:	IFRS reporting purposes:
The company estimates amounts payable to reinsurers in a manner consistent with the claim liability associated with the reinsured policy.	There are no valuation differences between Solvency II and IFRS basis.

Note 4: Deferred tax liabilities

Deferred tax is recognised in respect of all timing differences that have originated, but not yet reversed, at the balance sheet date. This means where transactions or events have occurred at that date that will result in an obligation to pay more tax or a right to pay less tax.

When calculating a net deferred tax liability, deferred tax assets are offset only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The tax rate used to calculate the deferred tax balance is the rate that's expected to be in-force at the time the tax becomes payable. There is no expiry date of taxable temporary differences.

Solvency II purposes:	IFRS reporting purposes:
Article 15 of the Delegated Act dictates how the company accounts for deferred tax. It says that the company should: • Recognise and value deferred taxes in relation to all assets and liabilities, including technical provisions. • Value deferred taxes on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Article 82 of SI 485 of the European Union (Insurance and Reinsurance) Regulations 2015 and in the case of technical provisions in accordance with Articles 83 to 98 and the values ascribed to assets and liabilities as recognised and valued for tax purposes. • Only ascribe a positive value to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be used, taking into account any legal or regulatory requirements on the time limits relating to the carry forward of unused tax losses or the carry forward of unused tax credits.	There are no valuation differences between Solvency II and IFRS basis. However there is a deferred tax effect, resulting from the various accounting differences between Solvency II and Financial Statements as discussed throughout this document.

Note 5: Insurance and intermediaries payables

'Insurance and intermediaries payables' refers to the balance of outstanding claims payable to policyholders, commissions payable and premiums on deposit.

Solvency II purposes:	IFRS reporting purposes:
The company records payables on an accruals basis.	There are no valuation differences between Solvency II and IFRS basis.

Note 6: Reinsurance payables

Reinsurance payables represent the balance due to reinsurers for outstanding reinsurance premiums and experience rating refunds for monies due to multinational pooling (MNP) arrangements.

Solvency II purposes:	IFRS reporting purposes:
The company records payables on an accruals basis. The company records MNP payables on an accruals basis to account for premiums and claims activity that has not yet been agreed with the MNP.	There are no valuation differences between Solvency II and IFRS basis.

Note 7: Payables (trade, not reinsurance)

Payables (trade, not reinsurance) represent the current tax liability of the company.

Solvency II purposes:	IFRS reporting purposes:
The company provides corporation tax payable on taxable profits at current tax rates.	There are no valuation differences between Solvency II and IFRS basis.

Note 8: Subordinated liabilities

Subordinated liabilities represent our €200m step-up perpetual capital notes. The interest rate is fixed at 5.25% for 10 years until February 8th 2017 ('the first reset date'). We have an interest rate swap in place to hedge our exposure to fluctuations in the interest rate. The note is callable in whole but not in part, at par, on the first reset date and each subsequent coupon payment date after that. On February 8th we repaid the debt.

Solvency II purposes:	IFRS reporting purposes:
The company initially recognised the subordinated debt at fair value plus directly attributable transaction costs. This liability, which is part of a hedging relationship, is carried at amortised cost, calculated on an effective interest basis, adjusted for changes in the fair value of the hedged risk. The change in the fair value of the hedged risk is recognised together with the movement in the fair value of the derivative positions hedging the liability in the income statement. The company records interest expense on an effective interest basis in the income statement as interest payable.	There are no valuation differences between Solvency II and IFRS basis.

Note 9: Other liabilities

'Other liabilities' includes other unit-linked liabilities not shown anywhere else on the balance sheet, for example outstanding balances with brokers. This section also includes other non-linked liabilities not shown anywhere else on the balance sheet, for example intercompany liabilities, other taxation balances (PAYE, Exit Tax) and accruals.

Solvency II purposes:	IFRS reporting purposes:
The company records payables on an accruals basis.	There are no valuation differences between Solvency II and IFRS basis.

During the year there have been no changes to the recognition and valuation basis of the liabilities noted above.

We lease various offices under non-cancellable operating leases. These leases typically run for 25 years, with an option to renew the lease after that date.

For estimation uncertainty, please refer to section D.4.

D.4 ALTERNATIVE METHODS FOR VALUATION

OVERVIEW OF METHODOLOGY FOR VALUING INVESTED ASSETS

The Technical Specification (EIOPA 14/209) outlines the Solvency II rules on how to value assets and liabilities, other than technical provisions. It says that, unless otherwise stated, the default reference framework should be the international accounting standards, as adopted by the European Commission in line with Regulation (EC) No 1606/2002.

In most cases those international accounting standards (IFRS) and Solvency II give consistent valuations.

For our annual statutory financial statements we recognise assets and liabilities in line with IFRS. For our regulatory reporting we follow Central Bank guidelines.

As required under IFRS 13 (Fair Value Measurement), our annual audited statutory financial statements disclose how we value assets and liabilities across level 1, 2 and 3. This is the fair value hierarchy.

- **Level 1:** fair value measurements based on quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- **Level 2:** fair value measurements based on inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** fair value measurements based on valuation techniques that include inputs for the asset and liability that are based on unobservable market data.

Level 1 and 2 show what's known as a 'mark to market' approach. This means values are based on readily available prices in orderly transactions that are sourced externally.

Level 3 shows a 'marked to model' approach. This means values are based on assumptions or financial models.

Where assets are 'marked to model' the relevant primary investment manager must maintain supporting documentation addressing:

- a description of the process followed (model design) and the data/assumptions used by the approach (including assessment of data quality)
- the reason why a 'mark to market' approach is not possible
- the sign-off process applied in reviewing the valuation and other applicable controls (such as any applicable benchmarking of valuation output to other comparable methods)
- the level of uncertainty inherent in the valuation approach and an assessment of the model's performance in this case. This should include any particular circumstances where the approach would be expected to be ineffective
- the results of any independent check performed in relation to model outputs
- possible alternative valuation models where primary models are complex.

At least once a year, the relevant primary investment manager presents a report to our Board Audit Committee for review and approval. The report outlines how the manager priced the asset, what management considered appropriate and the resulting valuation of unquoted securities we hold. These unquoted securities primarily consist of bonds, venture capital and unit trusts.

The Financial Reporting Committee (FRC) is made up of the Chief Financial Officer (Chairman), Chief Actuary, Head of Group Valuation and Reporting and Head of Group Finance. The FRC is responsible for monitoring and reviewing the Financial Reporting Policy, including making recommendations to the Board Audit Committee and assessing the application of the policy.

Among other responsibilities, the FRC is required to assess the relevance and adequacy of the policies associated with the valuation of assets and liabilities at least once a year. This has to include taking into consideration changes in accounting rules and policies as governed by the international accounting standards. The FRC then presents these policies to the Board Audit Committee for verification and to the Board for approval.

For invested assets, we expect that our primary investment managers maintain:

- sufficient independence in valuing assets
- sufficient documentation of applicable standards and guidelines
- sufficient control over valuation models
- sufficient management information
- consistent governance between internally and externally managed funds.

This is set out in our investment management agreements.

Where the unit linked and non-linked investment managers hold units in the same fund, both investment managers will ensure they use the same fund price at the end of each quarter. Where this is not practical, the investment managers will contact the group financial control team to assess options. If the investment managers propose to use different prices for the same assets at the end of the financial year, this will be brought to the attention of the Board Audit Committee and set out the reasoning behind their proposal. The Board Audit Committee will review and, if appropriate, ratify the proposal.

We base estimates and associated assumptions on experience and various other factors that we believe to be reasonable under the circumstances. These factors are reflected in our judgements about the carrying amounts of assets and liabilities that are not objectively verifiable. We review estimates and underlying assumptions on an on-going basis. Where necessary, we revise them to reflect current conditions. This applies to uncertainties that arise on estimations we use when we value assets and liabilities.

ILA-invested assets are managed by three separate entities, all of which are part of the GWL group. ILA's unit-linked invested assets are primarily managed by ILIM. A small percentage of ILA's unit-linked invested assets comprise the third-party Self Directed Funds (SDFs). These are managed by Irish Progressive Services International (IPSI), Irish Life Group's third-party administration company. ILA's non-linked invested assets are managed by Canada Life Asset Management Limited (CLAM).

D.5 ANY OTHER INFORMATION

There is no other important information to report.

E. CAPITAL MANAGEMENT

This section describes the components of our Own Funds as at 31 December 2016, as well as the policies and processes we use to make sure we meet all regulatory capital requirements when we manage Own Funds.

E.1 OWN FUNDS

'Own Funds' refers to the excess of the value of our assets over the value of our liabilities, where the value of our liabilities includes technical provisions and other liabilities.

Own Funds are divided into three tiers based on their permanence, and how well they can absorb losses. Tier 1 are of the highest quality.

E.1.1 Management of Own Funds

Our policy is to manage the capital base so that we meet all regulatory requirements. We also aim to maintain investor, creditor and market confidence, and to make sure there is enough capital to support our future growth. Our business planning process, which considers projections over a five year time frame, informs our capital management.

We manage our Own Funds so that we maintain high quality capital, mainly equity. The assets backing our Own Funds are mainly made up of:

- relatively secure assets such as fixed interest assets, as well as some owner occupied property holdings
- the expected value of future profits from our existing business, which we include when we calculate technical provisions (as discussed in section D.2). A large part of this value is offset by capital requirements in the Solvency Capital Requirement (SCR).

E.1.2
Components of Own Funds

This table sets out and assesses the way we value and calculate our Own Funds:

Solvency II Own Fund Item	How we value Own Funds (according to SII rules)	Assessment
Ordinary share capital	Valued in accordance with Article 75 of the Delegated Act.	This is the share capital and share premium, based on the company's statutory accounts.
Share premium account related to ordinary share capital		All of the company's share capital and share premium is classed as Tier 1 unrestricted.
Surplus funds	Article 91 of Directive 2009/138 (Article 106 of SI 485) defines surplus funds: "1. Surplus funds shall be deemed to be accumulated profits which have not been made available for distribution to policy holders and beneficiaries" Tiering is in line with Article 69 of the Delegated Act.	The definition is understood to mean surplus available to With Profit fund holders.
Reconciliation reserve	Valued in accordance with Article 70 of the Delegated Act.	The reconciliation reserve equals the excess of assets over liabilities from the company Solvency II balance sheet. It is reduced by the following amounts: i) Own shares – n/a ii) Foreseeable dividends iii) The basic own fund items listed above – ordinary share capital, share premium and surplus fund iv) Restrictions relating to the company's ring-fenced funds – see below In line with Article 69, all reconciliation reserve is classed as Tier 1 unrestricted.
Restrictions in respect of the company's ring-fenced funds	Valued in accordance with Article 81 of the Delegated Act.	Restrictions apply in respect of the assets in the company's ring-fenced funds. The amount which must be deducted from Own Funds is calculated separately for each ring-fenced fund as: the value of assets held within the ring-fenced fund minus the value of the liabilities of the ring-fenced fund minus the SCR for the ring-fenced fund. The deduction in respect of each ring-fenced fund is subject to a minimum of zero.

Solvency II Own Fund Item	How we value Own Funds (according to SII rules)	Assessment
Subordinated liabilities	Valued in accordance with Articles 69, 72, 73 and 331 of the Delegated Act	The company's subordinated debt was issued on 8th February 2007. This debt was eligible under Solvency I. In line with the transitional clauses, this debt is eligible to be counted as Tier 1 capital for Solvency II.
	Classified as Tier 1 in accordance with the transitional clause of Article 308b(9) of the Directive.	
Expected profits included in the future premiums	Valued in accordance with Article 70 of the Delegated Act.	Expected profit in future premiums contributes to the company's Own Funds, as discussed in Section C.4.1. This is classed as Tier 1 unrestricted and is already included in the reconciliation reserve amount.

We do not hold any hybrid instruments.

This table shows the breakdown of our Own Funds as at 31 December 2016 and 1 January 2016:

€m	1 January 2016	31 December 2016
Tier 1 - unrestricted		
Issued share capital	1	1
Share premium account	140	340
Surplus funds	0	0
Reconciliation reserve	1,458	1,485
Tier 1 - restricted		
Subordinated liabilities	210	201
Available Own Funds (before foreseeable dividends and adjustments)	**1,809**	**2,027**
Foreseeable dividends, distributions and charges	-138	-55
Adjustments for matching portfolios/ring fenced funds		
Ring-fenced funds adjustment (Participating Funds)	-0.3	-0.2
Total available Own Funds to meet the SCR	**1,671**	**1,972**
Less subordinated liabilities repaid February 2017	N/A	-200
Total after allowing for February 2017 subordinated debt repayment	**1,671**	**1,772**

SUBORDINATED LIABILITIES

The Tier 1 restricted Own Funds reflects €200m of step-up perpetual capital notes. The interest rate is fixed at 5.25% until 8 February 2017 (the 'first reset date').

The note can be called in whole (not in part) on the first reset date, and each coupon payment date after that.

As discussed in Section A.5.3, on 9 January 2017, we served notice to the noteholders of the €200m 5.25% step-up perpetual capital notes that we elected to redeem all of the notes at their principal amount (€200m) on 8 February 2017 (the first reset date). The table above shows our Own Funds at the end of 2016, after allowing for this repayment.

On 31 December 2016, we held €200m of additional Tier 1 regulatory capital. As explained in A.5.2, we received €200m of cash from our parent, ILGL, on 8 December 2016. We used these funds to redeem the debt on 8 February 2017.

CHANGES IN OWN FUNDS IN 2016

Overall, Own Funds have increased by €101m in 2016. This takes into account the planned dividend payment. It also takes into account the impact of the equity we raised and the repayment of the subordinated debt, discussed above.

The €101m increase is mostly due to:

- profits which emerged from our existing business
- changes in our experience and assumptions

It was partly offset by the planned dividend payment.

RING-FENCED FUNDS

We have three ring-fenced funds relating to our pension schemes, and two ring-fenced funds relating to our Participating Business.

In the table above, there is a €0.2m deduction for ring-fenced funds on 31 December 2016. This relates to the excess of the surplus over the SCR in our ring-fenced Participating Funds.

For one of our pension schemes, the excess of liabilities over assets is close to zero. For the other two schemes, it is €4m. We show the €4m net deficit on the balance sheet as a liability, and so it does not result in any additional available assets. As a result, we do not need to make any deductions to Own Funds relating to these pension schemes.

DEDUCTIONS TO OWN FUNDS AND RESTRICTIONS ON TRANSFERABILITY

There are no other deductions to Own Funds. There are also no significant restrictions on how we can transfer our Own Funds.

LIMITS ON ELIGIBILITY OF CAPITAL

The limits on eligible Tier 2 capital, Tier 3 capital and restricted Tier 1 capital have no impact on our eligible Own Funds to cover the SCR.

ILA's restricted Tier 1 capital is fully eligible to cover the SCR and MCR. ILA has no Tier 2 or Tier 3 capital.

E.1.3
Eligible Own Funds to cover Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

This table sets out our eligible Own Funds to cover the SCR and MCR, as at 31 December 2016:

	€m
Tier 1 – unrestricted	1,771
Tier 1 – restricted	201
Tier 1 – restricted (impact of subordinated debt repaid February 2017)	-200
Eligible Own Funds to meet SCR (after allowing for February 2017 subordinated debt repayment)	**1,772**
Solvency Capital Requirement	1,152
Solvency ratio	**154%[1]**
Minimum Capital Requirement	460
Eligible Own Funds as a percentage of MCR	**385%[1]**

[1] *The reported solvency ratio in the Quantitative Reporting Templates (QRTs) is based on our actual position on 31 December 2016, so it does not take into account our repayment of the subordinated debt (discussed above). As a result, the Own Funds reported in the QRT (of €1,972m) are €200m higher than shown in the table above, the solvency ratio (of 171%) is 17% higher than shown in the table above, and the ratio of eligible Own Funds to the MCR (of 429%) is 44% higher than shown in the table above.*

E.1.4
Equity in financial statements compared to Solvency II Own Funds

We prepare our financial statements under International Financial Reporting Standards (IFRS) rules.

There are some differences between the equity in our financial statements and the Solvency II Own Funds:

- The way we value insurance contract liabilities (including reinsurance assets) and investment contract liabilities in the financial statements differs from how technical provisions are valued under Solvency II (as discussed in Section D.2 above).
- The financial statements allow us to defer incremental acquisition costs and upfront fees through a Deferred Acquisition Costs (DAC) asset and Deferred Front End Fees (DFEF) liability. These are not allowed under Solvency II valuation rules (as discussed in Section D.1 and D.3 above).
- Our intangible assets are valued as nil under Solvency II (as discussed in Section D.1 above).
- We adjust deferred tax liabilities to reflect the impact on tax when assets and liabilities are valued differently (as discussed above).

This table shows the difference between the equity in the financial statements and the Solvency II Own Funds as at 31 December 2016:

	€m
Solvency II Own Funds	**1,772**
Differences in technical provisions	-1,062
Investment contracts DAC and DFEF	+225
Differences in valuation of intangible assets	+13
Deferred tax	+114
Proposed Dividends	+55
Other	-1
Financial statements: shareholder equity plus non-controlling interest	**1,116**

E.1.5 Transitional arrangements

We do not use any Solvency II transitional arrangements.

E.1.6 Ancillary Own Funds

We do not have any ancillary own fund items.

E.2 SOLVENCY CAPITAL REQUIREMENT SPLIT BY RISK MODULE

We calculate the SCR using the standard formula. The SCR includes:

- the Basic Solvency Capital Requirement ("BSCR")
- the SCR for operational risk
- any adjustments for the loss-absorbing capacity of deferred taxes and technical provisions.

We calculate the BSCR using these six risk modules:

- market
- counterparty (default)
- life underwriting
- non-life underwriting
- health underwriting
- intangible assets.

We combine the results from each of these risk modules using correlation factors.

The table below shows the split of the SCR on 31 December 2016. The non-life underwriting and intangible assets risk modules do not apply to us, so are not included in the table.

€m	1 January 2016	31 December 2016
Market risk	653	733
Counterparty risk	58	40
Life underwriting risk	644	665
Health underwriting risk	227	207
Operational risk	59	57
Diversification impacts	-407	-385
Loss absorbing capacity of deferred tax	-154	-164
SCR	**1,081**	**1,152**

Note: In the table above, we have shown the SCR for each risk category after allowing for the impact of the loss absorbing capacity of technical provisions. This mainly impacts the market risk category. In Appendix 6, the SCR for each risk category is shown before allowing for the loss absorbing capacity of technical provisions, and the loss absorbing capacity of technical provisions is shown separately.

E.2.1
Use of simplified methods

Every stress or shock impact we used to calculate our overall SCR was produced separately on a full calculation basis. This means that we do not use any of the simplifications allowed in the Delegated Acts when we calculate the SCR except for the ones mentioned below.

We did use some simplifications when we worked out the counterparty SCR:

- We used a simple 85% factor to reduce the value of the collateral assets for reinsurance, which allowed for market risk.
- For Retail Life, we split the overall risk mitigating effect from reinsurance by counterparty. We assumed that the risk mitigating effect was split between counterparties in the same proportion as the best estimate reinsurance asset is split between counterparties.

E.2.2
Undertaking specific parameters and capital add-ons

We do not use undertaking specific parameters. No capital add-ons apply to us.

E.2.3
Calculation of the Minimum Capital Requirement

The table below shows the inputs to the MCR on 31 December 2016:

€m	Amount	Factor	Contribution to MCR
Obligations with profit participation: guaranteed benefits	91	3.7%	3
Obligations with profit participation: future discretionary benefits	59	-5.2%	-3
Unit-linked insurance obligations	36,232	0.7%	254
Other life and health obligations	2,865	2.1%	60
Capital at risk	208,597	0.07%	146
Total MCR			**460**

The MCR was €424m on 1 January 2016.

E.2.4
Changes since the previous reporting period

The SCR increased by €71m over 2016. This is mostly due to changes in interest rates and equity markets.

The MCR increased by €36m over 2016. This is mostly due to changes in interest rates and equity markets which increased technical provisions, as well as increases in the capital at risk.

E.3 USE OF DURATION BASED SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

We do not use the duration based equity risk sub-module.

E.4 DIFFERENCES BETWEEN STANDARD FORMULA AND ANY INTERNAL MODEL USED

We use the standard formula to calculate the SCR, so there are no differences between the standard formula and our internal model.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

During 2016, we were in compliance with the SCR and MCR requirements.

E.6 ANY OTHER INFORMATION

Not applicable.

GLOSSARY

Ancillary own funds

Investment or capital that's been promised to a company but not paid. For Solvency II, this counts as capital towards an insurer's Solvency Capital Requirement. However, it only counts as Ancillary Own Funds – and therefore towards Solvency II requirements – if:

- the insurer could call in the capital at any point
- there are no conditions attached to transferring the capital
- the regulator has approved the commitment to transfer the capital.

Assets under administration

Assets managed by a financial institution on behalf of a client.

Bancassurance

Partnership between a bank and an insurance company to allow a bank to sell insurance products.

Bulk annuity

A group of policies written by an insurer that pays retirement income to policyholders. We typically sell bulk annuities when a defined-benefit pension scheme wants to insure its liabilities. This usually happens when a pension scheme is being wound up.

Capital add-on

An additional amount of capital which the supervisory authority may, in exceptional circumstances, require a company to hold over and above the Solvency Capital Requirement.

Capital at risk

The loss that an insurance company would make if someone with a policy dies. The capital at risk for any policy cannot be less than zero.

It is calculated like this:

- the amount that the company would pay if the person died, minus
- the amount that the company would receive from reinsurers if the person died, under its reinsurance arrangements, minus
- the technical provisions minus reinsurance recoverables that the company holds for that policy.

The total capital at risk is the sum of the capital at risk for all the policies the company has written.

Correlation factors

Factors which reflect the relationships between the risks included in the calculation of the Solvency Capital Requirement.

Delegated act

One of the tools the EU uses to put a law in place. Generally, they use an 'implementing act' for ruling on procedure and on how to follow legislation that already exists in other acts. They use a 'delegated act' for ruling on the content of legislation. A delegated act might, for example, add or change elements of a piece of legislation that are not fundamental to that legislation's essence.

The Solvency II regime involves both implementing acts and delegated acts.

Derivatives

Financial products made up of assets packaged together. The value of the product depends on – or 'derives' from – the value of the underlying assets. The asset could be, for example, a currency or a commodity. Futures and options are examples of derivatives.

Duration based equity risk sub-module

This allows a company to hold a lower SCR in respect of some equity holdings, as long as it meets certain conditions and gets approval from the supervisory authority.

Forward rate agreements

An agreement to buy a particular amount of currency at a fixed price on a fixed date in the future.

Future discretionary benefits

Benefits which ILA may pay in addition to the minimum benefits payable under a policyholders' contract.

For example, for participating business (see definition), bonuses may be paid to policyholders based on the profits of the participating fund.

Hybrid instruments

An investment product that combines two or more different financial instruments, usually an equity and a debt security.

Lapse rate

A measure of how often customers cancel their policies early or stop paying premiums. It is usually calculated as the number of policies which lapsed in a given year out of the total number of policies that were in place in that year.

Loss absorbing capacity of technical provisions

The reduction in the SCR which arises due to reductions in future discretionary benefits (see definition) expected in adverse scenarios.

Netted off

When income and expenditure, or assets and liabilities, are related to each other, they can cancel each other out – in part or in full. Companies are allowed to offset these related items against each other if the legal right exists. This is called 'netting off'.

Off balance sheet

Not on a company's balance sheet. Items that are considered off balance sheet are generally ones the company does not have legal claim to or responsibility for.

Onerous contract provisions

A contract where the unavoidable costs of meeting the obligations under the contract exceed its expected economic benefits.

Own Risk and Solvency Assessment (ORSA)

A set of processes which assess a company's risk profile and the capital it needs to hold in light of these risks. It assesses both the current risk profile, and what it is likely to be in the future. It helps us make decisions, and analyse strategy and risk. In line with standard insurance regulations, we carry out an ORSA each year.

Participating business

Policies where the benefits paid to policyholders include bonuses which vary depending on the profits earned by a fund (the 'participating fund') which the company maintains.

Ring-fenced fund

A fund where a company cannot use the assets within the fund to meet liabilities outside the fund.

Securitisation

Different types of contractual debt being pooled, and then sold to various investors.

Special purpose vehicle

An entity formed by a company for a particular project or task, usually to hold assets.

Step-up perpetual capital notes

A bond with a coupon – or interest rate – that increases – 'steps up' – at regular intervals, and has no maturity date.

Subordinated liabilities/debt

A loan that ranks below other loans in terms of claims on a company's assets or earnings. If borrowers do not meet the conditions of a loan, then creditors who own subordinated liabilities/debt will not be paid until higher ranking debtholders and policyholder are paid in full.

Transitional arrangements

Arrangements which allow companies to gradually switch from the Solvency I to Solvency II capital calculation basis.

With profit fund holders

Policyholders whose benefits include bonuses which vary depending on the profits earned by a 'participating fund' (see 'participating business').

APPENDIX

Amounts in the tables that follow are in €'000s.

APPENDIX 1

S.02.01.02

BALANCE SHEET

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	78,640
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,121,671
R0080	*Property (other than for own use)*	21,553
R0090	*Holdings in related undertakings, including participations*	63
R0100	*Equities*	60,532
R0110	*Equities - listed*	60,532
R0120	*Equities - unlisted*	0
R0130	*Bonds*	4,764,027
R0140	*Government Bonds*	2,827,314
R0150	*Corporate Bonds*	1,871,523
R0160	*Structured notes*	0
R0170	*Collateralised securities*	65,189
R0180	*Collective Investments Undertakings*	172,319
R0190	*Derivatives*	14,526
R0200	*Deposits other than cash equivalents*	88,651
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	36,851,797
R0230	Loans and mortgages	20,496
R0240	*Loans on policies*	2,070
R0250	*Loans and mortgages to individuals*	109
R0260	*Other loans and mortgages*	18,317
R0270	Reinsurance recoverables from:	1,957,490
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	1,915,905
R0320	*Health similar to life*	58,488
R0330	*Life excluding health and index-linked and unit-linked*	1,857,417
R0340	*Life index-linked and unit-linked*	41,585
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	46,575
R0370	Reinsurance receivables	102,324
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	49,869
R0420	Any other assets, not elsewhere shown	129,411
R0500	**Total assets**	44,358,273

S.02.01.02

APPENDIX 1 BALANCE SHEET continued

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	5,148,235
R0610	*Technical provisions - health (similar to life)*	607,741
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	528,700
R0640	*Risk margin*	79,041
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	4,540,494
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	4,401,769
R0680	*Risk margin*	138,725
R0690	Technical provisions - index-linked and unit-linked	36,413,507
R0700	*TP calculated as a whole*	36,703,638
R0710	*Best Estimate*	-429,945
R0720	*Risk margin*	139,814
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	10,697
R0760	Pension benefit obligations	3,238
R0770	Deposits from reinsurers	40,847
R0780	Deferred tax liabilities	170,387
R0790	Derivatives	3,317
R0800	Debts owed to credit institutions	8,705
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	313,948
R0830	Reinsurance payables	39,002
R0840	Payables (trade, not insurance)	6,427
R0850	Subordinated liabilities	210,338
R0860	*Subordinated liabilities not in BOF*	9,381
R0870	*Subordinated liabilities in BOF*	200,957
R0880	Any other liabilities, not elsewhere shown	163,289
R0900	**Total liabilities**	42,531,938
R1000	**Excess of assets over liabilities**	1,826,335

APPENDIX 2

S.05.01.02

PREMIUMS, CLAIMS AND EXPENSES BY LINE OF BUSINESS (LIFE)

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	97,892	2,718	4,541,722	556,557					5,198,889
R1420	Reinsurers' share	12,486	0	17,611	230,106					260,203
R1500	Net	85,407	2,718	4,524,111	326,451					4,938,687
	Premiums earned									
R1510	Gross	99,338	2,718	4,541,722	557,215					5,200,993
R1520	Reinsurers' share	12,486	0	17,611	230,106					260,203
R1600	Net	86,852	2,718	4,524,111	327,109					4,940,791
	Claims incurred									
R1610	Gross	64,121	20,863	3,955,447	405,486					4,445,916
R1620	Reinsurers' share	16,732	0	17,961	274,235					308,929
R1700	Net	47,388	20,863	3,937,485	131,251					4,136,987
	Changes in other technical provisions									
R1710	Gross	46,861	-7,693	2,899,394	358,666					3,297,228
R1720	Reinsurers' share	26,888	0	50,229	191,240					268,357
R1800	Net	19,973	-7,693	2,849,166	167,426					3,028,872
R1900	**Expenses incurred**	25,998	531	269,294	163,841					459,664
R2500	**Other expenses**									
R2600	**Total expenses**									459,664

APPENDIX 3

S.12.01.02

LIFE AND HEALTH SLT TECHNICAL PROVISIONS

		Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	36,703,638			0					36,703,638	0					0
R0020	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	29,574			0					29,574	0					0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	149,771		-482,306	52,361		3,994,634	257,364			3,971,823		528,909	-210			528,700
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		-1,091	13,102		1,662,117	195,299			1,869,427		58,488	0			58,488
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	149,771		-481,215	39,259		2,332,516	62,065			2,102,396		470,422	-210			470,212
R0100	**Risk margin**	433	139,814			138,292					278,539	79,041					79,041
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0					0	0					0
R0120	Best estimate	0		0	0		0	0			0		0	0			0
R0130	Risk margin	0	0			0					0	0					0
R0200	**Technical provisions - total**	150,204	36,413,507			4,390,290					40,954,001	607,741					607,741

APPENDIX 4

S.22.01.21

IMPACT OF LONG TERM GUARANTEES MEASURES AND TRANSITIONALS

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	41,561,742	0	0	73,271	0
R0020	Basic own funds	1,972,071	0	0	-38,899	0
R0050	Eligible own funds to meet Solvency Capital Requirement	1,972,071	0	0	-38,899	0
R0090	Solvency Capital Requirement	1,151,606	0	0	6,567	0
R0100	Eligible own funds to meet Minimum Capital Requirement	1,972,071	0	0	-38,899	0
R0110	Minimum Capital Requirement	460,119	0	0	911	0

APPENDIX 5

S.23.01.01

OWN FUNDS

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	1,127	1,127		0	
R0030	Share premium account related to ordinary share capital	339,873	339,873		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	157	157			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	1,429,957	1,429,957			
R0140	Subordinated liabilities	200,957		200,957	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	1,972,071	1,771,114	200,957	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,972,071	1,771,114	200,957	0	0
R0510	Total available own funds to meet the MCR	1,972,071	1,771,114	200,957	0	
R0540	Total eligible own funds to meet the SCR	1,972,071	1,771,114	200,957	0	0
R0550	Total eligible own funds to meet the MCR	1,972,071	1,771,114	200,957	0	
R0580	**SCR**	1,151,606				
R0600	**MCR**	460,119				
R0620	**Ratio of Eligible own funds to SCR**	171.25%				
R0640	**Ratio of Eligible own funds to MCR**	428.60%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	1,826,335				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	55,000				
R0730	Other basic own fund items	341,157				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	221				
R0760	**Reconciliation reserve**	1,429,957				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	207,242				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0				
R0790	**Total Expected profits included in future premiums (EPIFP)**	207,242				

APPENDIX 6
S.25.01.21
SOLVENCY CAPITAL REQUIREMENT - FOR UNDERTAKINGS ON STANDARD FORMULA

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	758,218		
R0020	Counterparty default risk	39,816		
R0030	Life underwriting risk	665,694		
R0040	Health underwriting risk	207,246		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-386,144		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,284,830		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	56,598
R0140	Loss-absorbing capacity of technical provisions	-25,788
R0150	Loss-absorbing capacity of deferred taxes	-164,035
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,151,605
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,151,605
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	942,315
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	209,290
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

APPENDIX 7
S.28.01.01
MINIMUM CAPITAL REQUIREMENT - ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

Linear formula component for non-life insurance and reinsurance obligations

R0010	MCR_{NL} Result	0

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	460,119

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	91,056	
R0220	Obligations with profit participation - future discretionary benefits	58,715	
R0230	Index-linked and unit-linked insurance obligations	36,232,108	
R0240	Other life (re)insurance and health (re)insurance obligations	2,864,793	
R0250	Total capital at risk for all life (re)insurance obligations		208,597,145

	Overall MCR calculation	C0070
R0300	Linear MCR	460,119
R0310	SCR	1,151,606
R0320	MCR cap	518,223
R0330	MCR floor	287,901
R0340	Combined MCR	460,119
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	460,119

Notes:

Notes:

SOLVENCY AND FINANCIAL CONDITION 2016

Irish Life

Irish Life Assurance plc is regulated by the Central Bank of Ireland.

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