Forester Life Limited and

Forester Holdings (Europe) Limited

Solvency and Financial Condition Report

('SFCR')

31 December, 2018

Contents

1. Executive Summary

Forester Holdings (Europe) Limited ('FHE') is a holding company for the UK business of the Independent Order of Foresters ('IOF'). The Group also comprises Forester Life Ltd ('the Company' or 'FLL') and its subsidiaries Forester Investments Ltd ('FIL') and Forester Fund Management Ltd ('FFML') (together referred in this report as 'the Group').

This document sets out the solvency and financial condition of the Group as at 31 December 2018, as required by the Solvency II Regulations. The figures for the Group represent the consolidated position of FHE and its subsidiaries.

This Group Solvency and Financial Condition Report (SFCR) also cover information on the solvency and financial condition of the principle entity within the Group, Foresters Life Limited ('the Company' or 'FLL').

The purpose of the SFCR is to provide information required by the Solvency II regulatory framework, in particular the Foresters UK Group capital position as at 31 December 2018. This report sets out different aspect of the Groups' and the Company's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

Business and performance summary

Following the strong financial results in 2017, 2018 saw volatile investment markets resulting in weakened customer confidence. Despite the markets, the Company continued to focus on its core business with sales being in line with prior year. The majority of the Company's sales continued to be, pursuant to applications, unit-linked products sold via the Company's field force as well as received direct from our customers.

Sales of unit-linked business measured by the accepted method of counting single premiums and contributions as 10% of amount received for the year, were £54.4m, 1% higher than 2017 (£53.8m). Overall contributions and premium income were £340.4m, a 1% decrease from 2017 (£345.4m) as, although new business was in line with the prior year, single contribution business was lower.

Total assets under management fell by 5% to £4,014.0m (2017: £4,210.1m) despite net fund inflows of £70.4m primarily as a result of the negative investment returns experienced in 2018. The invested assets of the insurance business fell by £81.3m driven by net outflows of with profits funds in run-off and the negative investment returns in the year.

Operating expenses of £36.2m rose by 11% (2017: £32.1m). Costs have risen due to changes in the recognition of deferred acquisition costs and inflation.

Total comprehensive income decreased by £18.0m to £9.9m however the 2017 result included significant one-off reserve releases. The underlying business, particularly the unit linked books of business, remains profitable with a positive outlook.

See Section A for further details on the business and performance of the Group and the Company.

System of governance

The Group recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure. An overview of the Board and its committees is set out below.

The Board sets and monitors adherence to the risk strategy, risk appetite and risk framework. The Board has established a risk management model that separates the business's risk management responsibilities into three lines of defence.

The Risk Management Framework is integrated with the Own Risk and Solvency Assessment ('ORSA').

See Section B for further details on the system of governance of the Group.

Risk profile

The Solvency Capital Requirement (SCR) is calculated using the Standard Formula as this is considered to be a reasonable proxy for the risk profile of the business. The principal risks to which the Group is exposed are:

- equity risk;
- currency risk;
- persistency risk; and
- expense risk;

These four risk categories represent c.80% of the pre-diversified regulatory capital requirement. The Group accepts these risks from a strategic perspective as they are integral to the business model. Investment market risk reflects the significance of the investment and savings side of the business to its overall risk profile. The majority of investment market risk is borne by the policyholder but the Group has an indirect exposure as it derives the majority of its income from annual management charges. The level of persistency risk is conversant with savings and investment products which are prone to encashment particularly at times of economic downturn. Increased encashment, transfers out and lapses reduce the overall value of the Group's book of business and therefore reduce income from annual management charges.

The Group's principal risk categories are expected to remain relatively stable over time although expense risk could increase if revenue growth is lower than planned as the large child trust fund book begins running off from 2020. The Group is mitigating this risk by continuing to develop its approach of building affinity with the child trust fund members with a view to retaining those members who want to reinvest.

Significant uncertainty remains regarding the outcome of the UK's decision to leave the European Union. The main impacts for the Group of the ongoing uncertainty around 'Brexit' are the effects on UK growth and the consequent impact on customers' wealth and their ability to save or the need to encash their savings as their real income decreases. Another impact will be the effect on market volatility which will influence the value of assets under management on both unit- linked and insurance business, the valuation of insurance business, new business volumes and persistency levels.

See Section C for further details on the risk profile and Section E.2 for SCR results.

Valuation for solvency purposes summary

There have been no material changes in the valuation methods of the Company and the Group during the year.

Assets, technical provisions and other liabilities are valued in the Group's and the Company's Solvency II balance sheet according to the Solvency II Directive and related guidance. The principle that underlines the valuation methodology for Solvency II purposes is the amount for which assets they could be exchanged and liabilities transferred or settled, by knowledgeable and willing third parties in an arm's length transaction.

As at 31 December 2018, the Group's excess of assets over liabilities was £312.2m (2017: £326.9m) on a Solvency II basis which is £180m higher than the equivalent value under International Financial Reporting Standards (IFRS), primarily due to differences in the valuation of technical provisions.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

Capital management

The objective of the Group's capital management framework is to maintain sufficient Own Funds to cover the SCR and Minimum Capital Requirement (MCR) with an appropriate buffer. The Group carries out regular reviews of the Solvency Ratio as part of the Group's risk monitoring and capital management system.

As at 31 December 2018, the Group's total eligible own funds to meet the SCR was £249.6m (2017: £276.2m), which translates to the regulatory cover ratio of 164% (2017: 139%).

The Group SCR, which is calculated using the standard formula, was £151.8m as at 31 December 2018 (2017: £ 198.1m).

Section E of this report further describes the objective, policies and procedures employed by the Group for managing its own funds. The section also covers information on structure and quality of own funds and calculation of SCR.

A Business and Performance

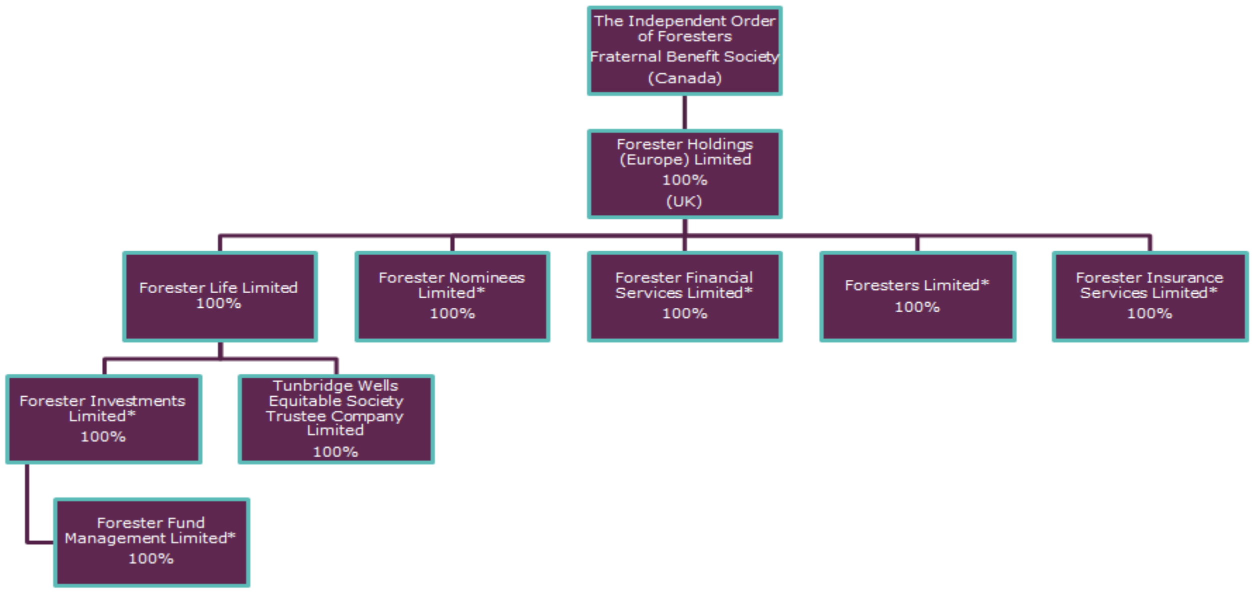
The 'Business and Performance' section of the report sets out the Group's and the Company's business structure, key operations a financial performance over the reporting period.

Section A is unaudited

A.1 Business

A.1.1 Group structure

The full UK corporate structure including the overseas parent is shown below. The Independent Order of Foresters ('IOF', 'the Enterprise') is a Canadian based entity and is the ultimate parent of the worldwide group is a private limited company and is the parent company of the Group.



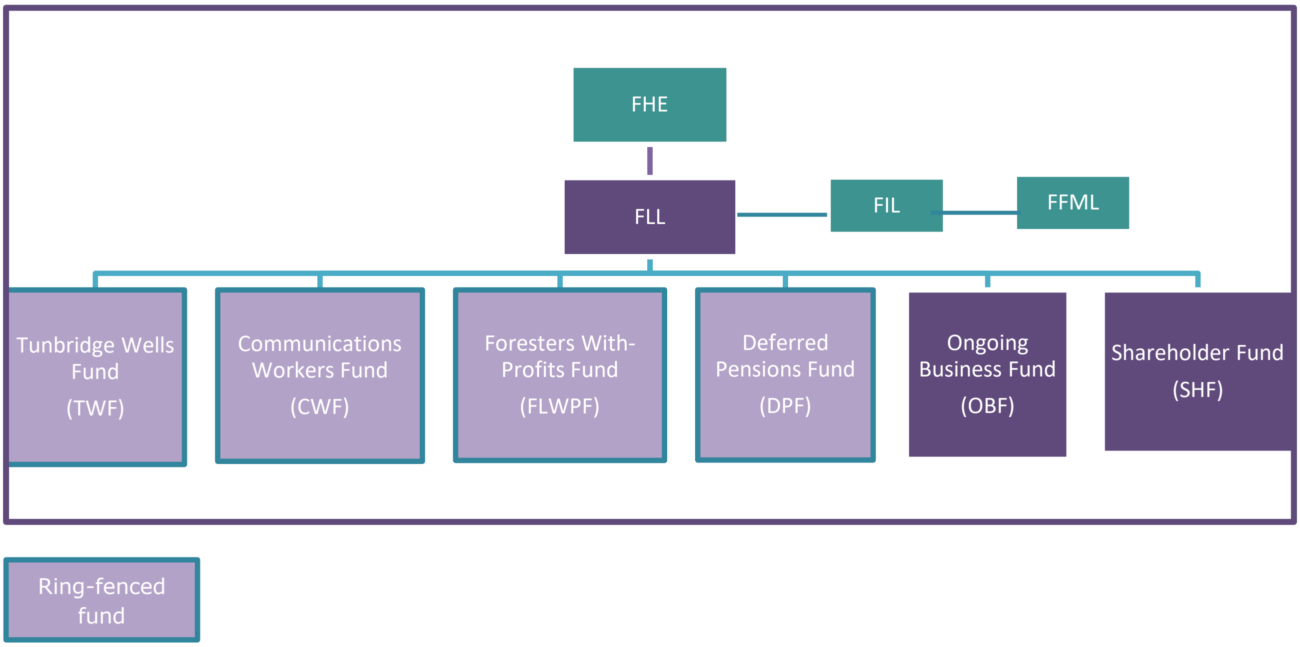
* Dormant

- 'FHE is the UK insurance holding company.
- 'FLL is an insurance company authorised and regulated by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA').
- 'FFML is an asset management business that was authorised and regulated by the Financial Conduct Authority ('FCA'). Following transfer of its business into FLL the entity was de-authorised early in 2018.

All UK subsidiaries are wholly owned. The principal operating subsidiary is FLL. The remaining entities are non-trading or dormant.

A.1.2 Organisational structure

The following chart details the operational subsidiaries of the Group. FLL operates four ring-fenced funds ('RFFs') alongside the Ongoing Business Fund ('OBF') and Shareholder Fund ('SHF') as set out below:



The RFFs consist of:

- Tunbridge Wells Fund ('TWF'):

  The TWF was transferred to the Company in 2013 from Tunbridge Wells Equitable Friendly Society ('TWEFS') and is closed to new business. Existing policyholders hold various investment and insurance based products, including pensions, annuities, traditional life, unit-linked and with-profits.

- Communication Workers' Fund ('CWF')

  The CWF was transferred to the Company in 2011 from the Communication Workers Friendly Society ('CWFS') and is closed to new business. Existing policyholders hold various investment and insurance based products, including with-profits. Existing policyholders are eligible for policyholder loans.

- Forester Life With-Profits Fund ('FLWPF')

  The FLWPF was originally operated by the UK branch of IOF providing protection and savings products. The business of the FLWPF was transferred to the Company in 1995. This fund is closed to new business, although premiums on in-force business continue to be paid into it. Existing policyholders are eligible for policyholder loans.

- Deferred Pensions Fund ('DPF')

  This business was originally part of OBF and was ring-fenced in 2016. It consists of pension products whereby contributions are invested on the policyholder's behalf by the Company. On retirement or transfer out on or after the original selected retirement date, or on death, a terminal bonus may be added to the policyholder's notional fund. The terminal bonus rates allow for one-ninth of the terminal bonuses to be distributed to the Company.

Policyholders of the 'OBF hold various investment and insurance based products including unit-linked, traditional life and annuities. The largest proportion of the fund is in respect of the open book of unit linked business.

A.1.3 Company auditors

All non-dormant entities within the Group are audited by KPMG LLP, contact details as follows:

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Tel: +44 20 7311 1000
Fax: +44 20 7311 3311

A.1.4 Supervisory authority

The supervisory authority of both FLL and FHE is the Prudential Regulation Authority ('PRA'), contact details as follows:

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA
Tel: +44 20 7601 4444

FLL is also regulated by the Financial Conduct Authority ('FCA'), contact details as follows:

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
Tel: +44 20 7066 1000

A.1.5 Material lines of Business

The material Solvency II lines of business of the Group are as follows:

- Index-linked and unit- linked insurance
- Insurance with- profit participation
- Health insurance
- Other life insurance

All of the Group's business is conducted in the UK.

A.1.6 Significant business or other events that have occurred during the period

2018 was a year dominated by challenging market conditions. The Company's funds under management declined by c. £0.2bn, driven by negative investment returns during the latter part of the year. However, despite the market conditions, the business experienced good new business volumes and positive net fund inflows and achieved its profitability targets.

The Company has also successfully implemented a number of significant projects, most notably:

- The EU General Data Protection Regulation ('GDPR') came into force on 25th May 2018. GDPR set higher standards for data privacy, introducing tougher fines for non-compliance and breaches whilst also harmonising data protection rules with the rest of the EU. We updated our procedures and processes to address the new standards introduced by GDPR and trained all employees across the Company on GDPR requirements.
- In July we completed system changes, marketing and training to add the Lifetime ISA to our product range.
- The EU Insurance Distribution Directive ('IDD') came into effect on 1st October 2018. The directive was assessed and implementation of its requirements were successfully delivered; all required changes for the IDD were deployed to the point of sale and back office administration systems together with full regulatory training and testing in order that uninterrupted sales could continue.
- The FCA's Senior Managers and Certification Regime (SMCR) applied to the Company with effect from 10th December 2018. The core of the SMCR is a requirement for firms covered by the regime to identify and set out the responsibilities of their most senior decision-makers, who are then accountable for actions falling in their area of responsibility. The Company has taken all necessary steps to comply with its requirements.

Following the strategic decision to bring the administration of the Child Trust Fund (CTF) business in house at the beginning of 2017, the business continues to benefit from resulting long term pre-tax cost savings of c. £8m annually.

In summary, the Company made significant progress in 2018 in optimising its operating performance despite challenging market conditions.

A.1.7 Related party transactions

Related party transactions within the Group arise as follows:

- FHE incurs substantially all the operating costs for the Company's UK business and recharges the appropriate share to FLL for settlement in cash.
- FLL owns the building housing the UK Head Office and charges rent to FHE.
- FLL employs all of the salesforce employees and FHE employs UK Head Office employees and acts as principal employer for the pension scheme in the UK ('FGEPS').
- FLL has an excess of loss reassurance treaty with its ultimate parent company in respect of large sums assured on individual life contracts. Settlement is made quarterly through FHE.
- FHE previously contracted with FLL to provide permanent health insurance for UK employees. Premiums are no longer paid but claims may be made in respect of coverage previously provided.

Operating costs recharged by FHE to other companies within the Group (including a charge in respect of salaries, pension contributions and other pension costs) were £32.7m (2017: £33.5m). Rent charged to FHE by FLL was £0.4m (2017: £0.3m). Intercompany creditor balances at Year End 2018 between FLL and FHE were £6.2m (2017: £3.4m).

All related party transactions have taken place at terms that would exist in arm's length transactions. The intercompany creditor balances are unsecured and settled on a regular basis.

There are no other loans or guarantees provided by the Company to related parties and no dividends have been paid to the ultimate parent company The Independent Order of Foresters.

A.2 Underwriting performance

Since FLL prepares its financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis. Qualitative and quantitative information on FHE and FLL's performance by line of business as shown in the financial statements with a comparison to the previous reporting period is detailed below.

A.2.1 Written premiums

The following table details written premiums during the year with a comparison to the prior year as per the IFRS financial statements of FLL:

FLL	**2018**		**2017 (restated)**	
Written Premiums	**Gross £'000**	**Net £'000**	**Gross £'000**	**Net £'000**
Life contracts	23,667	23,159	28,468	27,765
Pension contracts	3,641	3,433	3,717	3,717
Total	**27,308**	**26,592**	**32,185**	**31,482**
Participating contracts	23,157	22,655	27,611	27,088
Non - participating contracts	3,673	3,459	4,140	3,960
Unit linked contracts	478	478	434	434
Total	**27,308**	**26,592**	**32,185**	**31,482**
Periodic premiums	26,063	25,347	30,820	30,117
Single premiums	1,245	1,245	1,365	1,365
Total	**27,308**	**26,592**	**32,185**	**31,482**

There was an error in the classification of premiums in the 2017 accounts and therefore the amounts have been restated.

Net written premiums have decreased as the ring-fenced funds are in run-off and therefore premiums are declining year-on-year.

It should be noted that £2.9m of net written premiums was written in the protection fund (a sub fund of OBF) which is open to new business. Total written protection premiums increased by 2% however, as the majority of premiums is generated by the 4 ring fenced funds (all of which are in run off), the overall premiums balance decreased against 2017.

All business is written within the UK.

A.2.2 Claims incurred

The following table details claims incurred during the year with a comparison to the prior year as per the IFRS financial statements of FLL:

FLL **Claims incurred**	**2018** **£'000**	**2017** **£'000**
Gross policyholder benefits and payments	91,686	89,587
Change in gross insurance contracts liablities	(81,344)	(49,933)
Change in ceded insurance contracts liabilities	1,301	(1,811)
Total	**11,643**	**37,843**

Similarly to the net written premiums, the increase in claims is a result of the ring fenced funds being in run off particularly CWF which saw a £2.2m increase in claims.

The gross change in liability increased by £31.4m. The increase in this balance was a result of the negative investment return. In 2017, the £49.9m of reserve arose as a result of the run off in the ring- fenced funds slightly offset by the positive investment return of c. £34m. In 2018, negative investment returns of c. £12m added to the reduction in the overall fund size.

A.3 Investment performance

The following tables provide an analysis of the Group's investment income by assets class:

FLL **Net investment income**	**Bonds & other fixed terms securities** **£'000**	**Equities** **£'000**	**Derivatives** **£'000**	**Loans** **£'000**	**Investment property** **£'000**	**Other** **£'000**	**2018 Total** **£'000**
Interest & dividends	16,720	-	-	254	-	176	17,150
Net realised gains/(losses)	7,954	18,774	(20,733)	-	-	-	5,995
Net unrealised gains/(losses)	(13,846)	(247,765)	(2,275)	-	140	-	(263,746)
Rental income	-	-	-	-	369	-	369
Investment income	**10,828**	**(228,991)**	**(23,008)**	**254**	**509**	**176**	**(240,232)**
Investment expenses							(6,333)
Net investment income after deduction of investment expenses							**(246,565)**

FLL **Net investment income**	**Bonds & other fixed terms securities** **£'000**	**Equities** **£'000**	**Derivatives** **£'000**	**Loans** **£'000**	**Investment property** **£'000**	**Other** **£'000**	**2017 Total** **£'000**
Interest & dividends	18,366	-	-	278	-	6	18,650
Net realised gains/(losses)	11,840	103,029	(5,148)	-	-	-	109,721
Net unrealised gains/(losses)	(2,082)	206,363	947	-	110	-	205,338
Rental income	-	-	-	-	346	-	346
Investment income	**28,124**	**309,392**	**(4,201)**	**278**	**456**	**6**	**334,055**
Investment expenses							(6,366)
Net investment income after deduction of investment expenses							**327,689**

Net investment income is significantly lower in comparison to 2017 primarily due to volatile investment markets in 2018.

A.4 Performance of other activities

A.4.1. Fee Income

Fee income of £49.7m (2017: £46.7m) relates to the annual management charges levied on the investment business. The fee income is based on the value of assets under management ('AUM') over the year, the average AUM in 2018 have been higher than in 2017.

A.4.2. Operating Expenses

FLL incurs the majority of expenses for the Group's operations and FHE earns a margin on expenses recharged to its operating subsidiary, FLL. Operating expenses were £36.2m, an increase of 12.8%(2017 £32.1m). The increase is due to changes in the treatment of deferred acquisition costs, an increase in IT costs and increased pension related costs.

A.5 Any other information

A.5.1 Operating leases commitment

FHE's future aggregate minimum lease payments under non-cancellable operating leases are £4.4m. Among the total committed payments, £3m (2017: £3.4m) is in relation to the office building lease, and the remaining balance is associated with fleet of cars used by the field force and a service contract. The property and car leases are currently treated as operating leases.
At the Group level, the property lease commitment would be cancelled out since FLL was the lessor of such commitment. FLL, the Company had no commitments to make payments as a lessee at the end of 2018 and 2017.

The Group has an obligation to make payments under a service contract of £13m (2017: £17.5m).

B System of governance

The 'System of governance' section of the report sets out information regarding the system of governance in place within the Group.

Details of the structure of the Group's and the Company's administrative, management or supervisory body (AMSB) are provided, in addition to the roles, responsibilities and governance of the Group key control functions. Other components of the Group's system of governance are also outlined, including, but not limited to the risk management system and internal control system implemented by the Group.

Section B is unaudited

B.1 General information on the system of governance

The Group's organisational structure and relationship to its parent is clearly defined, with the roles of Chair of the Board and the Chief Executive Officer ('CEO') clearly differentiated and separate. The Chair is responsible for leading the Board while the CEO is responsible for implementing strategy and managing the Group through an executive team. There have been no material changes in the system of governance over the reporting period.

The structure of the Board and Board Committees of the active companies in the Group is set out below:

<u>FHE Board and FLL</u>

The Board of each company within the Group has the following general responsibilities:

- To develop and maintain the strategy of the Group and ultimately to be responsible for the management and oversight of the Group's business by reference to its agreed risk appetite.

- To ensure that the Group's business is conducted with integrity and in compliance with general statutory and regulatory provisions so as to protect the respective interests of policyholders, creditors and other stakeholders.

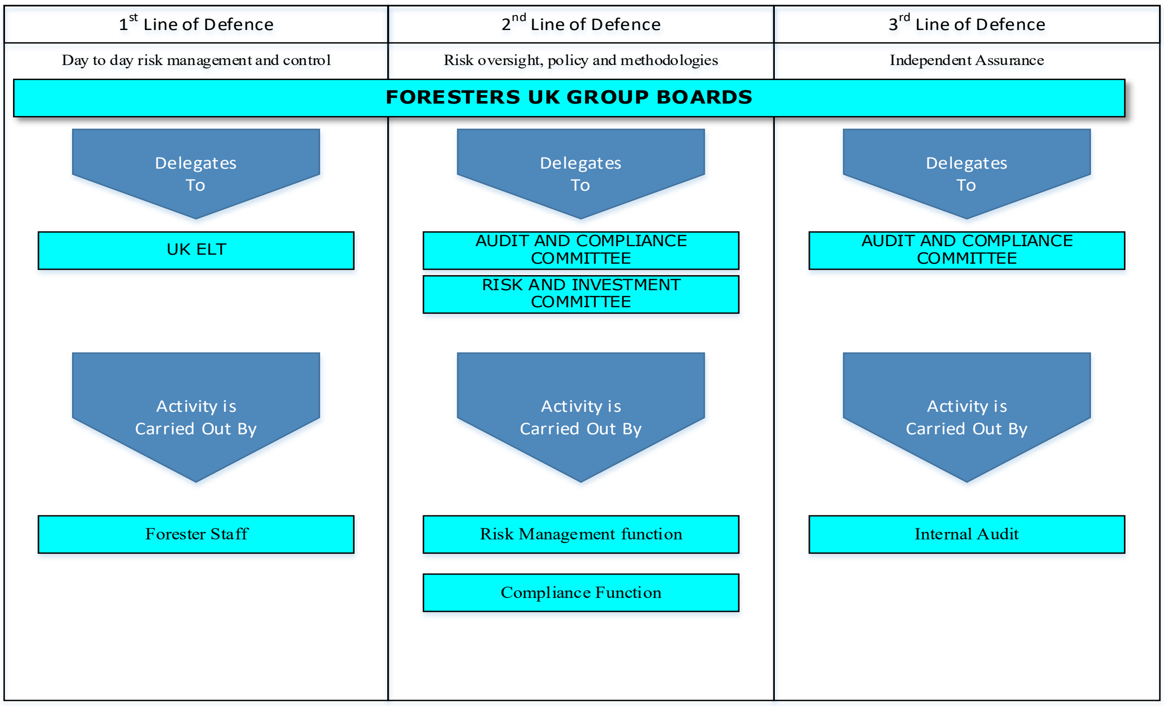
- To comply with the policies of ultimate parent company insofar as they apply to the Group.

- To comply, as appropriate, with the requirements of the primary regulators, being the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and those of the ultimate parent's regulator where applicable.

The '3 lines of defence model' and roles and responsibilities of key functions

The Board sets and monitors adherence to the risk strategy, risk appetite and risk framework. The Board has established a risk management model that separates the business's risk management responsibilities into three lines of defence as shown in the diagram below

Foresters UK Group – Risk Governance – Three Lines of Defence



1st Line of Defence

Under the 1st line of defence, operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks. In particular the first line owns and manages its risks within the agreed risk appetite and in compliance with the risk policy framework.

Risk matters are discussed on a regular basis by the UK Executive Leadership Team ('UK ELT') based on a report produced by the Risk team.

2nd Line of Defence

The 2nd line of defence is responsible for the provision of proportionate oversight of risks, issues and events through the Risk Management and Compliance functions. It determines and develops the risk management framework and tools for agreement by the Board which the 1st line uses to discharge its responsibilities. It advises the Board on its risk appetite and supporting the business in its application and monitors and reports on key risks against risk appetite. The second line provides oversight, challenge and support to the 1st line in the management of their risks. The Chief Risk Officer is independent of the business functions and works closely with the Global Chief Risk Officer to ensure the effective and efficient operation of the risk framework. The Audit & Compliance and Risk & Investment Committees take reports from the Risk Management and Compliance functions on the Board's behalf and provide recommendations to the Board as appropriate.

3rd Line of Defence

This recognises that, aside from the reports received from the Risk Management and Compliance functions, the Board requires independent assurance that the control framework in place exercised through the 1st and 2nd lines of defence is operating in line with expectations and that therefore risk appetite limits are being observed. This assurance is gained through the Internal Audit function performing risk based audits under the guidance of the Audit & Compliance Committee and providing an objective view of the effectiveness of risk management and controls.

Audit & Compliance Committee

The Audit & Compliance Committee acts as an advisory committee to the Boards of the active Group companies (these being FHE and FLL). The Audit & Compliance Committee has been delegated responsibility by the Board for ensuring the integrity of each company's:

- financial reporting, including any regulatory financial reports;
- compliance function;
- systems of internal control; and
- internal and external audit functions.

In doing so, it provides regular reports to the respective Boards on its activities together with accompanying recommendations for action as appropriate.

The Committee is authorised by the Board to investigate any activity within its terms of reference. The Committee is authorised to obtain independent professional advice where necessary, at the Company's expense, and to require the provision of any information from any Director or employee of the Group. All employees are to cooperate as requested by the Committee.

The Committee is drawn from the Independent Non-Executive Directors that sit on the FLL Board of Directors and at least one member has recent and relevant financial experience. Other Board directors will typically be invited to be in attendance at the Committee meetings.

The Committee meets as and when it deems necessary, provided that it shall meet at least four times each year in order to provide input to the quarterly Group Board meetings. Other than in an emergency, at least two days' notice of any additional meeting shall be given to all members of the Committee.

Risk & Investment Committee

The Risk & Investment Committee is an advisory committee to the Boards of the active Group companies. The Risk & Investment Committee is responsible for ensuring the integrity of the Group's investment strategies and performance monitoring, risk management practices and capital management.

In doing so, it provides regular reports to the Board on its activities together with accompanying recommendations for action as appropriate.

The Committee is authorised by the Board to investigate any activity within its terms of reference. The Committee is authorised to obtain independent professional advice where necessary, at the Company's expense, and to require the provision of any information from any Director or employee of the Company. All employees are required to cooperate as requested by the Committee.

The Committee meets as and when it deems necessary, provided that it meets at least four times each year in order to provide input to quarterly Board meetings.

Investment Strategy

In carrying out its mandate for investment strategy, the Committee is responsible for formulating and recommending to the Board appropriate investment policies, strategies and procedures for the Group, including determining performance benchmarks, consistent with the Companies' business plans and appetites for investment risk, having regard to liabilities, relevant regulatory requirements and the reasonable expectations of customers whilst taking account of the recommendations of the Actuarial Function Holder and the With Profits Actuary as relevant.

Risk management

In carrying out its mandate for risk management, the Committee is responsible for reviewing the Group's risk management framework, including its risk appetite, tolerances and policies by reference to current and relevant information and making such recommendations to the Board thereon as considered necessary; considering whether appropriate arrangements are in place to effectively manage and mitigate risks affecting the Group, including whether the risk management function has appropriate resources and authority to ensure compliance with Group policies and procedures; reviewing at least quarterly the risk exposures facing the Group as well as the actions being taken to manage and/or mitigate these risks; considering the completeness of the risk profile presented and evaluating potential emerging or new risk issues facing the Group; considering whether risk exposures are being managed within approved risk appetite and tolerance levels and reviewing the adequacy of management actions and plans where levels of risk are in excess of tolerances; challenging whether additional actions may be necessary to mitigate material risk exposure or respond to emerging risk issues; and providing a report to the next scheduled Board meeting (or sooner if considered necessary) of its conclusions as a result of consideration of the foregoing, together with recommendations for action as considered appropriate;

See section B.3 for description of Risk Management function

Capital management

In carrying out its mandate for capital management, the Committee is responsible for overseeing the updating of the Group's Own Risk and Solvency Assessment ('ORSA') including the Forward Looking Assessment of Own Risk ('FLAOR') in accordance with the Group's ORSA Policy; considering on an ongoing basis whether the Solvency II standard formula remains a proxy for the risk profile of the Group and to make recommendations to the Board of FHE as appropriate; making recommendations to the Board of FHE regarding the Internal Capital Target for the Group; reviewing the adequacy and appropriateness of stress and scenario tests (including reverse stress testing) linked to the capital setting exercise and where appropriate recommending any further stress or scenario tests necessary; and reviewing the effects on capital of specific events occurring and / or instances where assumptions material to the Group's business plans are compromised and making recommendations to the Board as considered appropriate.

With Profit Fund Advisory Panels

As the Company manages three closed with profit funds, it has established With Profit Advisory Panels. Each Panel acts in an advisory capacity to inform decision-making by the Board in relation to the management of that fund. Each Panel acts in accordance with its own terms of reference, regulations affecting the management of with-profits business and in particular the fund's Principles and Practices of Financial Management ('PPFM').

The responsibility of the Advisory Panels is to provide an independent view on the management and operations of the fund and, in particular, adherence to the terms and conditions outlined in the *Transfer Instrument*. Specifically, its responsibilities include the need to assess report on and give advice (and, where relevant, recommendations) to the Board.

B.1.1 Remuneration policy

The Group's policy is to ensure that total remuneration of the executive director is competitive with that of comparable organisations in the financial sector. As far as practicable the policy aims to provide a strong link between pay and performance without encouraging inappropriate risk taking.

The key objectives of the Group's remuneration policy are to consider the following principles in respect of the Group's remuneration arrangements to ensure them:

- promote effective risk management;
- avoid encouraging risk taking that exceeds risk tolerance limits;
- align with business and management strategy;
- avoid conflict of interest; and
- allow for clear, transparent and effective governance.

In addition to the above principles which apply to all employees, certain additional requirements apply to employees who either effectively run the Group or whose activities have a material impact on the Group's risk profile.

The additional requirements are as follows:

- the balance between fixed and variable components is such that the fixed element represents a sufficiently high portion of the total remuneration;
- a substantial portion of variable remuneration requires a deferred component of a period not less than three years;
- performance-related variable remuneration is based on a combination of the performance of the individual, the business unit concerned and the overall result of the Group;
- consideration of performance is based on financial and non-financial criteria;
- a downwards adjustment for measurement of performance as a basis for variable remuneration for exposure to current and future risks;
- any termination payments to relate to performance over the whole period of activity and do not reward failure; and
- any variable remuneration of employees engaged in the control functions of risk, compliance, internal audit and actuarial is independent from operational units submitted to their control.

Independent non–executive directors of the Group received remuneration totalling £0.1m during the year (2017: £0.1m).

B.1.2 Key functions

The Senior Insurance Managers Regime ('SIMR') provided a regulatory framework for similar standards of fitness and propriety, conduct and accountability to be applied to individuals in positions of responsibility at insurers as applied for banks and large investment firms. The On 10th December 2018 the Senior Managers and Certification Regime (SMCR) was extended to insurers and replaced SIMR. Senior Managers are deemed to have the greatest potential to cause harm or impact upon market integrity and require regulatory approval before they can start their role.

Every Senior Manager needs to have a Statement of Responsibilities (SoR), clearly setting out their role and what they are responsible for. This is a requirement under the Financial Services and Markets Act 2000 (FSMA). They need to be submitted with an application for approval of a new Senior Manager and should be kept up to date along with iterations of Management Responsibility Maps.

Every Senior Manager has a Duty of Responsibility as a result of FSMA. This means that if a firm breaches a regulatory requirement, the Senior manager responsible for that area could be held accountable if they did not take 'reasonable steps' to prevent or stop the breach. The burden of proof lies with the regulator to show reasonable steps were not taken to avoid the breach occurring.

The ultimate decision making body of a firm is its governing body, acting collectively, and individual accountability under SMCR doesn't cut across or undermine this.

The Certification Regime covers people whose jobs mean they can have a significant impact on customers, the firm or market integrity. These people do not require regulatory approval but it is a requirement under FSMA that firms check and certify, at least annually, that they are suitable to do their job.

Fit and proper requirements must be met for SMCR jobs and take consideration of honesty, integrity, reputation, competence, capability and financial soundness and firms are expected to carry out criminal record and other background checks for approval of a Senior Manager and adhere to the requirements for regulatory references for all SMCR staff.

Various conduct rules/standards apply to almost all staff depending on their role. Conduct Rule breaches resulting in disciplinary action must be reported, with the timing and method varying depending on the severity of the breach and whether the individual is a Senior Manager or a Certified member of staff.

B.2 Fit and proper requirements

The Group operates a Fitness and Propriety policy. The key objectives of this policy are as follows:

- provide a consistent framework and language for the assessment and maintenance of the fitness and propriety of the senior management of the Group;
- establish minimum standards for fitness and propriety of the senior management of the Group and oversight of these standards to ensure their continued effectiveness; and
- provide guidance to the circumstances when individuals would not be considered fit and proper.

The regular cycle of appraisals and performance reviews provides the baseline for the on-going assessment of fitness and propriety along with the various assessments required under SMCR including annual certification where applicable.

The assessment of Fitness and Propriety falls under three main headings:

Competency and Capability
Senior management are required to have the relevant skills, knowledge and expertise in order to effectively carry out their functions. Prior to commencing a senior management function the Group must satisfy itself that it has verified the knowledge, competency and experience of the senior manager and they are relevant to the role. Senior managers are also expected to be competent in the following:

- Market Knowledge;
- Business Strategy and Models;
- Risk Management and Controls;
- Financial Analysis and Controls;
- Governance, Oversight and Controls, and
- Regulatory Framework and Requirements.

Honesty, Integrity and Reputation
Senior managers are in positions of influence and authority and therefore need to act with honesty, integrity and be of sufficient repute as not to have an adverse impact on the firm. The key risks are the potential for financial crime, susceptibility to bribery and corruption and associated crimes such as money laundering. All senior managers are subject to Disclosure and Barring Service (previously Criminal Records Bureau) checks which provide details of any unspent and spent convictions and such information is compared with any disclosure from the senior manager.

Financial Soundness
An individual cannot act as a senior manager if they are an undischarged bankrupt or currently subject to an Individual Voluntary Arrangement ('IVA').

B.3 Risk management system including the ORSA

The Group's approach to risk management and its interaction with the decision making process is managed through its Risk Management Framework which is explained in detail in the Risk Management Policy and the supporting Risk Appetite Framework document. The practical application of the Policy and the Risk Appetite Framework on a day to day basis is explained in the Risk Management Process document. The key aspects of the risk management framework, which are Risk Governance, Risk Appetite and Risk Processes, are outlined below. This constitutes the context in which the ORSA is performed.

Risk Governance
The Board is responsible for the Risk Management Framework and for risk appetite, which is an expression of the risk the Group is willing to take. Board oversight of risk and risk management is maintained through its Risk & Investment Committee which provides oversight and guidance to the Board on risk strategy and acceptable risk taking, including advising on current and emerging risk exposures, risk strategy, risk appetite, risk activity and resources, the effectiveness of the risk management procedures and the promotion of a risk aware culture. A set of risk policies, by risk type, which set out the risk appetite and minimum requirements for compliance, promote a consistent and rigorous approach to risk management across all business areas. These are updated and approved by the Board at least annually.

Roles and responsibilities are based on a "three lines of defence" model. The executive and senior management are accountable for risk management, including the identification, assessment and control of risks in their areas of responsibility. The risk function is responsible for oversight and challenge to validate compliance with the risk management framework requirements, with the objective of ensuring that risks are identified and appropriately managed. The risk function is also responsible for maintaining and developing the risk management framework.

Internal Audit provides an independent assessment of the risk framework and internal control processes.

The Chief Risk Officer reports to the Chief Executive Officer and has unfettered access to the Board Chairman and the Chair of the Risk & Investment Committee. This gives the risk function sufficient stature, independence and access to the Board.

Risk Appetite

Risk appetite is defined as the amount of risk the Group is willing to take in the pursuit of achieving its strategic objectives. Risk appetite is set by the Board and is used to ensure that business decisions take account of the Group's ability to accept and manage risks and to guide management actions. Through the Risk Management Framework which includes the Risk Appetite Framework, the Group has formally established and communicated its risk appetite.

Risk appetite is used to ensure that the Group does not take on more risk than the capital base allows. One of the key risk appetite statements relates to maintaining an appropriate buffer of capital resources over capital to meet the internal capital target.

To avoid risk appetite being breached, inner and outer limits have been established, expressed as tolerances and limits. These are trigger points indicating when action should be taken to bring the Group back within risk appetite. All risk appetites and limits are well within risk capacity.

The Group's position against risk appetite and tolerances is monitored and reported to the Risk & Investment Committee quarterly.

Risk processes

Risk processes are used to identify, assess, manage, monitor and report risks, including the use of the standard formula to calculate the SCR and stress and scenario testing.

Risk identification

The Executive Risk Register is maintained by the Chief Risk Officer and updated through a regular top down key risk identification and assessment process with the UK ELT. This Register forms part of the Risk Report that is presented to the Senior Leadership Team and to the Risk & Investment Committee.

In addition the risk department meets with risk owners to provide oversight and challenge of risks, which are recorded on business area risk registers. Each risk owner is responsible for the completeness and accuracy of the information contained within their risk register.

Risk assessment

Each risk identified is evaluated and given a score based on the likelihood of the risk materialising and the impact if it was to occur, based on the UK's risk assessment matrix. Inherent risk, an assessment of the likelihood and impact before any controls are taken into consideration, and residual risk, which takes into account mitigating controls, are both recorded.

Risk mitigation

Risk owners provide details of any mitigating factors/controls in place against each risk, and these are recorded on the relevant risk register. Residual scores are then applied to each risk, to show the score once controls/mitigation have been applied.
Actions are added to risks on registers where existing controls are not sufficient to mitigate the risk or are not effective. Progress against the mitigating strategy is regularly reviewed.

Risk events
The business units are responsible for reporting significant risk events and for ensuring that any necessary mitigating action is taken both in terms of the event itself and any control improvements that may be required. The Risk Management Function will record and track risk events engage with each business area to follow the completion of any required actions.

Emerging Risks
The Risk and Compliance functions are responsible for reviewing potential emerging risks. An assessment of these risks is presented to the Executive Leadership Team and the Risk & Investment Committee.

Risk monitoring and reporting

Executive level risks
A risk report, designed to give sufficient oversight of the risk management framework and risk profile is presented periodically to the Senior Leadership Team and quarterly to the Risk & Investment Committee.

Committee updates
Effective risk management requires engagement and communication from the Board level down, as well as from the Executive to the Board. The risk department provides an update on risk matters to the Executive Committee and to the Risk & Investment Committee. The areas covered regularly include an aggregated view of the risk profile, an assessment of key risks arising from the business plan, emerging risks, updates on significant projects, and a summary of events and potential losses. Ad hoc reports are provided as required.

ORSA Process

The ORSA can be defined as the entirety of the processes and procedures employed to consider the risk and capital implications of key decisions, including business planning. This ensures that the short and long term risks that the business faces can be assessed on a current and forward looking basis, and that the Group's solvency requirements are met at all times.

The Board and the Risk & Investment Committee play an integral role in the oversight of the ORSA at all levels. The results of the ORSA, together with the ongoing confirmation that the capital assessment continues to be conversant with the Group's risk profile, stated appetite levels, and are integral to strategic decision making by executive management and the Board.

The ORSA process is outlined in the ORSA policy. The key aspects are outlined below:

An ORSA will be performed at least once a year or more often if there are any material changes in the business' risk profile. As part of the annual business planning process the risks are identified that could have an immediate impact on the plan or could do so on a forward looking basis over the currency of the plan.

These risks are then evaluated and compared to the Group's stated risk appetite. One of the Board's key determinants of risk appetite is by reference to the capital requirement generated by these risks from both a regulatory and internal capital target perspective. The Board has concluded that the standard formula prescribed under the Solvency II legislation for calculating the Solvency Capital Requirement (SCR) accords, in the main, with the risk profile of the Group in calculating its solvency needs at the required 1:200 year level.

The robustness of the capital output from the standard formula and the ORSA / FLAOR is scrutinised utilising scenario testing. A number of plausible scenarios, parameterised at the 1 in 200 level are developed based on events, the features of which respond to the key risks to which the business is exposed.

The results from the scenarios will be compared with the ORSA and the Internal Capital Target (ICT) to ensure that the ICT can withstand the effect of the scenario occurring. In circumstances where it is found that the tolerance levels applicable to the ICT would be breached should the scenario occur then the reasons for this are evaluated and recommendations developed for consideration by the Risk & Investment Committee.

The Internal Audit function provides independent assurance regarding the integrity of the annual ORSA processes.

B.4 Internal control system

The Board has oversight responsibility for the management of risk within the Group. As such the Board provides oversight to ensure that the identified risks to which the business is exposed are being managed to a level commensurate with its stated risk appetite. The Board gains assurance that these responsibilities are met through the development and maintenance by the senior management of an internal control framework. The control framework, and the basis upon which it operates, is articulated in a range of policies and procedures.

The Internal Control Policy establishes the basis of the internal control framework and seeks to provide a framework to oversee that:

- identified risks are managed to a level commensurate with the Board's risk appetite;
- relevant laws and regulations are complied with;
- data and information made available internally or externally is accurate, timely, complete, reliable and consistent;
- the Group's assets and resources, including its people, systems and data / information (including data that is held on behalf of its members and customers) are adequately protected, including instances where functions are outsourced to third parties; and
- control processes have been established that call for management and employees to carry out their duties and responsibilities with integrity and in an efficient and effective manner.

Based on information provided by management and independently by the Risk, Compliance and Internal Audit functions, the Board is able to form a view whether the internal control framework remains appropriate and if not what actions need to be taken as a result.

Control environment

The Board and Senior Management lead by example in communicating the importance of internal control and expected standards of conduct. The Board is assisted in carrying out its duties by various Committees and senior management as set out above.

Information and communication

Satisfactory communication of information is necessary for the Board, management and employees to carry out their internal control responsibilities effectively. The key principles relating to information and communication are therefore: information must be relevant and of a quality to support effectively the development and maintenance of the internal control framework; and information must be communicated effectively and in a timely manner in order to ensure that all staff understand their duties and responsibilities (including instances where matters require escalation) in the context of internal controls and so that the internal control framework remains relevant to the Board's objectives and risk appetite.

Monitoring activities
This includes the process for evaluating adequacy of the internal control framework and reporting any findings or deficiencies. The key principles are as follows: evaluations are carried out by control owners within business areas and oversight functions on an ongoing basis to ensure that the internal control framework is current and functioning as intended and remedial action taken if considered necessary as soon as possible; and independent reviews of the internal control framework must be undertaken by Internal Audit utilising a risk based approach.

B.4.1 Compliance Function

The Compliance function seeks to assess and consider whether the Group adheres to all applicable legal and regulatory requirements and internal rules and policies governing its operations as applicable to conduct risk and FCA requirements.

The key responsibilities of the Compliance function are to:

- assess whether the compliance process is running effectively and to monitor that the statutory, regulatory and supervisory requirements are being met;
- monitor whether effective compliance controls and procedures are followed and whether corrective action is taken when compliance breaches are identified;
- identify, assess, advise on, monitor and report to the Board on compliance risks; provide compliance management education and tools to management and staff;
- monitor compliance with internal policies and standards; and
- promote an appropriate compliance culture.

B.5 Internal audit function

The Internal Audit function is provided by the IOF Internal Audit team. It is implemented through the process outlined below.

An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the control environment across the Group. The audit plan considers those operations most affected by recent or expected changes, in processes or systems, including changes following acquisitions, restructures and new ventures. The proposed plan is flexible so that adjustments can be made during the year as a result of changes in management strategies, external conditions or major risk areas. Any proposed changes or update in the plan are reported to the Audit & Compliance Committee for their review and agreement before they are incorporated into ongoing work. The Audit & Compliance Committee review and approve the plan at least annually.

Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:

- effectiveness of the controls over the operations;
- reliability of financial and management reporting;
- safeguarding of assets; and
- compliance with laws, regulations, and contracts.

The Board requires that the Chief Internal Auditor ("CIA") performs sufficient audit work and gathers other available information during the year so as to form a judgement regarding the adequacy and effectiveness of the control environment. The CIA communicates overall judgement regarding the Company's control environment to the Audit & Compliance Committee.

The internal audit function of Foresters is managed by the IOF CIA, who is an employee of the business, has no responsibility for any other function across the business, and reports administratively to and has free and unrestricted access to the President and Chief Executive Officer, the Chair of the UK and Canadian Audit & Compliance Committees, and reports directly to the Audit & Compliance Committee. This reporting structure ensures independence of the internal audit function.

B.6 Actuarial function

The Group operates an Actuarial Function Policy which outlines the manner and principles under which the Actuarial Function Holder delivers his mandate with the Group.

B.6.1 Actuarial Function Responsibilities

The Actuarial Function Holder's broad responsibilities are ensuring the long term financial stability of the Group and ensuring adequate customer protection through solvency.
The role of Actuarial Function Holder spans the first and second line of defense. It provides inputs for the day-to-day management and control of risks in the first line, and oversees the business operations in the second line.

Calculation of technical provisions

The Actuarial Function Holder provides the calculation of the technical provisions, in accordance with the methodologies and regulations; and the validation of the technical provisions. The Actuarial Function Holder reports on the appropriateness of the methodologies relative to the Solvency II requirements; the appropriateness of the models for the purposes of calculation; the assumptions in the calculation of technical provisions; and the sufficiency and quality of data used.

The Actuarial Function Holder provides a quarterly report on the reliability and adequacy of the technical provisions.

Experience Analysis

The Actuarial Function Holder conducts an experience analysis for each of the risks which are material to each particular fund, an annual experience analysis at a detailed product level, for the purposes of setting assumptions; and a quarterly experience analysis to monitor actual versus experienced persistency for key products, and to provide management information.

B.6.2 Actuarial Function Reporting

The Actuarial Function Holder provides a quarterly report covering methodology and assumptions used for the quarterly valuation; any changes in methodology and assumptions, and the impact; technical provisions, capital requirements and solvency on a Solvency II basis; reserves on Canadian and UK IFRS bases; and analysis of change in reserves – the change in surplus based on actual versus expected cashflows during the analysis period, and change in reserves by risk driver.
The Actuarial Function Holder provides an annual Actuarial Function Report following the completion of the year-end results. The report covers actuarial opinion on the calculation of the technical provisions, assumptions, data, risk and uncertainty associated with the technical provisions, business and risk environment.

B.7 Outsourcing

The Group operates an Outsourcing Policy, which sets out the principles, rules and guidance for any material outsourcing activity entered into by any entities within the Group. The key objectives of the policy are:

- to establish minimum and consistent standards for entering into, managing and exiting the outsourcing of material Group functions;
- to define and allocate responsibilities to ensure that these standards are upheld at all times; and
- to ensure that the risks associated with entering into such outsourcing arrangements are effectively managed both at inception and on an ongoing basis.

Entering into any new material outsourcing arrangements requires the consideration of a range of business, commercial and risk appetite criteria.

The Group assures itself of the expertise and experience of the outsourced service provider (OSP). There should be an initial capability analysis of the proposed provider to ensure that they would be capable, and have demonstrated capability of, meeting their financial, regulatory and service obligations.

Monitoring and reporting against material outsourcing arrangements provide the Group's senior management with assurances that (i) all current outsourcing arrangements remain within risk appetite, and (ii) that they are performing within expected tolerances. It is the responsibility of each outsourced service owning executive to ensure that:

- clear contact, reporting and escalation processes are in place to manage the day-to-day relationship within a 'business-as-usual' environment;
- material outsourced service providers are providing key performance data & breach reporting per their contractual obligations;
- material issues raised are being reviewed by the relevant governance body;
- if specific governance arrangements are in place with the OSP, that a relevant FLL person(s) is/are engaged and can input to that process; and
- the outsourced service provider maintains its 'credit worthiness' and does not pose a material credit risk to the Group.

B.7.1 Material outsourced services

The material outsourcing relationships are as follows:

- Investment management – Schroders, Aberdeen Standard Investments, Invesco, Fidelity, Henderson, Royal London, Aviva and Scottish Widows;
- Underwriting - Morgan Ash; and
- With profit actuary - Milliman.

These outsourced service providers are all based in the UK.

C Risk Profile

The 'Risk profile ' section of this report provides information on the key risks that Foresters is exposed to, as well as corresponding processes for monitoring the risk exposures and the techniques in place for mitigating these risks

See section B.3. on the Risk Management framework of the Group.

Section C is unaudited

Overview of the company risk profile

The Group's underlying risk profile has not changed significantly during the year. Risk identification is carried out on a regular basis by business areas, is part of any key business initiatives and is fundamental to the annual business planning process.

The principal basis used to measure and assess the Group's exposure to risk is the SCR using standard formula methodology and the ORSA along with sensitivity and stress testing of key risks.

The key risk drivers, based on the SCR and the ORSA are market risk, persistency risk and expense risk. The Group's main source of income is derived from annual management charges levied on policyholders for managing their funds. The Group is exposed to market risk as fees are charged on a percentage basis of assets under management and falling markets generally lead to reduced assets under management and therefore lower revenues. Increased encashments, transfers out and lapses also reduce the overall value of the Group's book of business and therefore reduce income from annual management charges. Expense risk is currently within risk appetite but could increase if revenue growth is lower than planned as the large child trust fund book begins running off from 2020. The Group is mitigating this risk by continuing to develop its approach of building affinity with the child trust fund members, with a view to retaining those members who want to reinvest.

The Group's secondary risks are underwriting risks linked with traditional life and health products and the costs of providing guarantees within the with-profit funds.

As part of the ORSA, scenario testing, stress testing and reverse stress testing are conducted to assess the Group's surplus position under various conditions. This testing demonstrated that the Group maintains sufficient capital to withstand severe shocks with respect to its key risks.

Prudent Person Principle - The Company ensures that its assets in respect of non-unitised insurance business are invested in accordance with the prudent person principle as set out on the Solvency II regulatory framework through the collective application of investment policy guidance. While investment management of the open book has been outsourced to Schroders, the Group retains oversight of the investment policies and gives guidance on the overall strategy and asset exposure limits.

C.1 Underwriting risk - Life insurance (including health similar to life)

Underwriting risk can be defined as the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. The Group's key underwriting risks are persistency risk and expense risk. It is exposed to variances in persistency (including mass lapse) and expense experience, relative to the expected experience on which pricing and reserving is based. It is also exposed to future systemic trends and volatility in underwriting risks, which are not allowed for in the pricing or reserving assumptions.

Lower persistency for investment products decreases the charges earned; higher persistency for with profit products increases the potential costs of options and guarantees. The Group accepts these risks, monitors experience quarterly and reviews assumptions annually. Persistency risk is actively monitored for any trends that would cause detriment to the capital position of the company.

By the nature of the business model, the Group is exposed to expense risk from expense inflation and the inability to achieve revenue growth to support its expense base, coupled with external factors such as an increase in regulatory costs. As such, expense risk is accepted as a strategic risk. The general approach taken is to manage expense risk to an acceptable level, through a combination of sound corporate and risk governance and strong systems and controls. Given the materiality of the expense exposure, stresses are applied at the 1-in-200 level to simulate an expense increase of 12.5% aligned with an inflationary increase of 1% per annum under the ORSA.

The Group is exposed to variances in mortality, longevity and morbidity experience and future trends in its portfolio, though overall exposure is low. The morbidity risks arise in long-term health underwriting business in the CWF, TWF and OBF; the longevity arises in the annuity portfolios in the TWF and OBF and the two defined benefit pension schemes; and there is a small mortality risk across the majority of products. The Group monitors the experience of these products annually and manages the mortality, morbidity and longevity risks through external reinsurance and internal reinsurance with the Group's Canadian parent.

There are no material concentrations of underwriting risks at the Group level or in the underlying sub-funds.

Section E.2. provides detail on the amount of risk capital held in respect to the Life Risks discussed here.

There have been no material changes over the reporting period to the underwriting risks to which the Group is exposed.

C.2 Market risk

Market risk can be defined as the risk of loss or of adverse financial impacts resulting directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. The Group's key market risks are equity risk and currency risk and its secondary risks are interest rate movements, credit spread-widening and property risk. Market risk is mainly derived through its investment products.

Falls in the investment portfolios reduce the charges earned, as these are linked to value of the portfolios. The Group is exposed to short term crashes and longer term declines in the value of portfolios, along with uncertainty associated with market volatility.

As well as the potential reduction in charges earned from investment portfolios, the Group has some direct exposure to market risk in the asset portfolios backing protection and annuity policies, surplus assets and the cost of options and guarantees. The Group also has a direct exposure to potential falls in the value of assets underlying the closed defined benefit section of the staff pension scheme. If losses reach a level at which the solvency of the ring fenced funds is impaired, FLL would be required to inject capital to make good the position.

The Group accepts the market risk associated with its investment products and manages these risks through compliance with investment policies and procedures, escalation of any breaches, regular governance meetings with investment managers and an annual review of investment strategies. It manages the market risk associated with assets backing protection and annuity portfolios by maintaining strong credit quality and duration matching.

Day to day fund management activities are outsourced, however the Group retains oversight of all investments.

The Group is exposed to changes in the yield curve, which impacts the present value of future charges, held as an asset on the balance sheet, and the value of the costs of options and guarantees in the with-profit funds. The Group accepts this risk, measures and monitors the exposure to interest rate risk on a quarterly basis, and more frequently as necessary.

The Group holds a diversified portfolio to minimise concentration risk and manages this through investment management agreements and quarterly monitoring.

There are no material concentrations of market risks at the Group level or in the underlying sub-funds.

Section E.2. provides detail on the amount of risk capital held in respect to the market risks discussed here.

There have been no material changes over the reporting period to the market risks to which the Group is exposed.

C.3 Credit risk

Credit risk can be defined as the risk of loss or of adverse change affecting financial assets resulting from fluctuations in the credit standing of issuers of securities including default, rating transiton and credit spread movements. The Group takes credit risk positions in its investment and insurance portfolios through its investments in government bonds and corporate debt. In the unit linked business and the ring fenced funds, credit risk is assumed by the customer. The Group has an indirect exposure through the potential loss of revenue derived from annual management charges on funds under management. There is a direct exposure to potential losses as a result of credit risk in the shareholder funds.

The Group manages its credit risk by investing in investment grade bonds only, with credit ratings of BBB- or higher. It monitors the external fund managers' portfolios for compliance monthly and reviews the investment strategy annually. The child trust funds are primarily invested in equities with low exposure to fixed income and all pursue pre-defined investment strategies.

C.4 Liquidity risk

Liquidity risk is the risk that the Group, although solvent, is unable to make available sufficient resources to meet its financial obligations as they fall due. The Group has no appetite for liquidity risk. As a consequence, the Group maintains sufficient controls in order to mitigate liquidity risk.

The Group manages this risk through monthly monitoring of short term liquidity, analysis of lapse and claims variance, liability duration analysis and stress and scenario testing.

The Expected Profit included in Future Premium (EPIFP) is the change in the Technical Provisions without a Risk Margin under the assumption that the expected future premiums are not received. The amount of Group/Company EPIFP was £147.8m.

A stressed liquidity metric is calculated based on Standard & Poor's liquidity model, which measures an insurer's liquidity under both immediate and ongoing stress scenarios, with a 1 month timeframe for an immediate scenario and a 1 year timeframe for an ongoing scenario. The tolerance is set at 180% which is the requirement for an A rating. The Group was well above tolerance levels on both measures throughout the year

C.5 Operational risk

Operational risk is defined as losses from inadequate or failed internal processes, systems or human performance, or from external events, such as natural disasters or accidents. The Group is exposed to Operational risk (including Conduct risk) simply by being 'open for business'. Operational risk does not diversify with other risks under Solvency II.

Cyber risk, regulatory change and the risks posed by increasingly demanding customer expectations in the context of ease of doing business are the higher rated operational risks on the Executive risk register, and therefore subject to ongoing management attention. To ensure that the operational aspects of the Group's business are efficient and effective, particularly with regard to the Child Trust Fund customers accessing their funds a programme of technology enhancement is ongoing. If this project fails opportunities to connect and interact with customers could be missed, along with opportunities to reduce operating costs and overheads.

Operational risk is managed through the risk management framework. The key aspects are a positive risk management culture, governance through the three lines of defence model, a strong control environment including executing risk response actions to address identified gaps or weaknesses and on-going monitoring of the effectiveness of risk management actions.

C.6 Other Material Risks

C.6.1 Counterparty risk

There is the risk of counterparty default from policyholders, reinsurers, bond issuers and banks, including custodians.

The Group reinsures its health risks with Swiss Re, Hannover Re and the IOF. While the Group is exposed to failure of reinsurers, the overall level of exposure is low. The Group monitors the reinsurance premiums and claims on a quarterly basis.

The Group utilises banking arrangements with banks with ratings, equal to or higher than P-1 (Moody's) or A-1 (S&P).

Derivatives are used in a number of the Group's funds, within Investment Policy guidelines based on the principles of risk reduction, efficient portfolio management, tactical asset allocation, obtaining or hedging market exposures and cash flow management. The Group does not hold derivatives for speculative purposes, and outright short selling is not allowed.

The Group is exposed to risk arising from the failure of derivative counterparties.

Most transactions are contracted and documented under ISDA (International Swaps and Derivatives Association, Inc.) agreements. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure.

The Group has some exposure to default risk through secured loans to policyholders, collateralised against their plan value. The exposure is managed by reviewing the portfolio regularly.

C.7 Any other information

C.7.1 Changes to the risk profile in the reporting period

The Group's business mix has not changed significantly over the year.

In 2018 a Lifetime ISA element was added to the existing ISA offerings. Lifetime ISAs are a savings product for 18 – 39 year olds saving towards a first home or retirement. This element benefits from a 25% annual government bonus of up to £1,000. However, if the savings are not used for either a first home purchase or kept until the age of 60, a government charge of 25% will be applied.

2018 saw some changes to the investment strategy; the protection and annuities fund moved to cash flow matching reducing interest rate risk. The shareholder fund exposure to the money market fund was reduced and investments in Government and corporate bonds increased.

D Valuation for Solvency Purposes

The 'Valuation for Solvency Purposes' section of this report provides a description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class under Solvency II.

Assets and liabilities have been valued according to the requirements of the Solvency II Directive and related guidance. The basis for the Solvency II valuation principle is the amount for which the assets or liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction.

The tables below set out a summarised balance sheet as at 31 December 2018, comparing assets and liabilities as reported in the IFRS financial statements[1] and the Solvency II balance sheet in respect of FHE Group and FLL.

Table 1 - FHE Group – Balance Sheet – IFRS and Solvency II

FHE Group As at 31 December 2018	IFRS £'000	IFRS reclassified £'000	SII Valuation adj £'000	Solvency II £'000	SFCR Note
Intangible assets	24,557	-	(24,557)	-	D.1.1
Deferred acquisition costs	12,377	-	(12,377)	-	D.1.1
Deferred tax asset	9,837	(9,837)	-	-	D.1.2
Property, plant and equipment held for own use	5,928	-	-	5,928	D.1.3
Holdings in related undertakings, including participations	-	-	-	-	D.1.4
Bonds	362,376	-	-	362,376	D.1.5
Collective Investment Undertakings	326,438	-	-	326,438	D.1.5
Assets held for index - linked and unit - linked business	3,314,121	-	-	3,314,121	D.1.5
Loans to policyholders	5,182	-	-	5,182	D.1.6
Reinsurance recoverable	6,666	-	(7)	6,659	D.2.6
Cash & cash equivalent	18,270	-	-	18,270	D.1.5
Receivables (insurance, reinsurance and intermediaries)	4,750	-	-	4,750	D.1.8
Total assets	**4,090,502**	**(9,837)**	**(36,941)**	**4,043,724**	
Technical provisions	3,906,864	-	(247,631)	3,659,233	D.2.1
Pension benefit obligations	9,288	-	-	9,288	D.3.1
Deferred tax liabilities	589	(9,837)	30,744	21,496	D.3.2
Insurance & intermediaries payable	17,504	-	-	17,504	
Payables (trade, non insurance)	24,015	-	-	24,015	
Total liabilities	**3,958,260**	**(9,837)**	**(216,887)**	**3,731,536**	
Excess of assets over liabilities	**132,242**			**312,188**	

[1] FHE only prepares solo financial statements, IFRS consolidated figures have been prepared for the purpose of the above disclosures.

Table 2 - FLL – Balance Sheet – IFRS and Solvency II

FLL As at 31 December 2018	IFRS £'000	IFRS reclassified £'000	SII Valuation adj £'000	Solvency II £'000	SFCR Note
Intangible assets	980	-	(980)	-	D.1.1
Deferred acquisition costs	12,377	-	(12,377)	-	D.1.1
Deferred tax asset	9,546	(9,546)	-	-	D.1.2
Property, plant and equipment held for own use	5,700	-	-	5,700	D.1.3
Holdings in related undertakings, including participations	18,976	-	-	18,976	D.1.4
Equities	3,060,949	(3,060,949)	-	-	D.1.5
Bonds	891,522	(529,146)	-	362,376	D.1.5
Collective Investment Undertakings	-	326,438	-	326,438	D.1.5
Derivatives	13,199	(13,199)	-	-	D.1.5
Assets held for index - linked and unit - linked business	-	3,314,121	-	3,314,121	D.1.5
Loans to policyholders	4,947	235	-	5,182	D.1.6
Reinsurance recoverable	6,666	-	(7)	6,659	D.2.6
Cash & cash equivalent	59,249	(41,320)	-	17,929	D.1.5
Receivables (insurance, reinsurance and intermediaries)	8,125	(2,406)	-	5,719	D.1.8
Total assets	**4,092,236**	**(15,772)**	**(13,364)**	**4,063,100**	
Technical provisions	3,907,494	(630)	(246,234)	3,660,630	D.2.1
Pension benefit obligations	7,575	-	-	7,575	D.3.1
Deferred tax liabilities	589	(9,546)	30,620	21,663	D.3.2
Insurance & intermediaries payable	15,859	3,137	-	18,996	
Payables (trade, non insurance)	9,744	35,339	-	45,083	
Other liabilities	44,072	(44,072)	-	-	
Total liabilities	**3,985,333**	**(15,772)**	**(215,614)**	**3,753,947**	
Excess of assets over liabilities	**106,903**			**309,153**	

Method of consolidation

The Solvency II consolidated balance sheet has been prepared using default accounting consolidation based method ('method 1').

D.1 Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance. The basic principle of valuing assets under Solvency II is to determine the amount at which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

The general principles for measuring asset valuations under Solvency II are as follows:

- Wherever possible, the fair value of assets must be based on a mark to market approach or based on readily available prices in orderly transactions that are sourced independently.
- Where marking to market is not possible, mark to model procedures should be used (marking to model is any valuation which has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input). When marking to model, undertakings will continue to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

There have been no changes made to the asset recognition and valuation bases used or to estimations during the reporting period.

The description of valuation differences between Solvency II and IFRS balance sheet, by material asset class, is provided below:

D.1.1 Intangible assets and deferred acquisition costs

Intangible assets under IFRS relate to management contracts.

Under IFRS, identifiable intangible assets which are recognised as part of business combination are initially valued at fair value and subsequently amortised over their economic useful lives.

Under Solvency II intangible assets can only be recognised if the asset can be sold separately and it is possible to demonstrate that there is a value for the same or similar assets in active market, can be recognised.

Based on the Group's assessment, these intangible assets do not meet this definition and therefore are eliminated in the Solvency II balance sheet.

Deferred acquisition costs (DAC) are recognised as an asset under IFRS reporting. These comprise of the direct and indirect costs of obtaining and processing new investment business. Deferred acquisition costs are fully eliminated in the Solvency II balance sheet.

D.1.2 Deferred tax asset

The IFRS deferred tax asset ('DTA') relates to carried forward losses. There are sufficient future profits available to justify holding the DTA. The forecast future profits relating to the business of FLL are monitored regularly to ensure that we have sufficient future profits available to utilise the DTA and is therefore also recognised under Solvency II. An additional deferred tax liability is created as a result of Solvency II valuation, specifically the recognition of the Present Value of Future Profits on unit-linked businesses within FLL. As the deferred tax asset on the balance sheet also relates to unit-linked business, the deferred tax asset has been offset with the deferred tax liability. See D.3.2 for further details.

D.1.3 Property, plant and equipment held for own use

Property and equipment comprise the Group occupied land and buildings and equipment.

The property asset relates to the Company/ Group's freehold title to its property. The property was initially measured at the purchase price including transactions costs. Property is appraised annually by a qualified and independent third party based on the market value of similar properties.

As the property is held at fair value under IFRS, there is no difference in the valuation under Solvency II.

For all other equipment, IFRS values are assumed to approximate fair value.

D.1.4 Holdings in related undertakings, including participations

The Group has a direct holding in FLL, whilst FLL has a direct holding in FIL and indirect holding in FFML, consolidated using the adjusted equity method in the FHE Group Solvency II balance sheet.

For the Company, the investment in FIL/FFML is valued at cost less any accumulated impairment for IFRS reporting. Under Solvency II rules, this is valued using the 'adjusted equity method', i.e. as a share of that participation's excess of assets over liabilities.

D.1.5 Financial assets

Financial investments and cash are measured at fair value under both IFRS and Solvency II. The methods and assumptions used by the Group in estimating the fair value of financial assets are:

Bonds: Fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using values obtained from quoted market prices of comparable securities or other inputs that are observable in active markets.

Equities: Fair values are based upon quoted market prices. For Solvency II reporting the equity securities are re- classified into the various Solvency II balance sheet categories.

Derivatives: Fair values are generally based upon quoted market prices.

Cash: The carrying value of cash and cash equivalents approximates their fair value.

D.1.6 Loans on policies

Loans on policies are carried at cost less any impairment. Given the nature of these assets (secured against policy holder liabilities and loans cannot be given in excess of the policy holder liability), this is a reasonable approximation of fair value.

D.1.7 Reinsurance recoverable

Please see Section D.2 'Technical Provisions' for a discussion of Reinsurance recoverables.

D.1.8 Receivables (trade, insurance, reinsurance and intermediaries)

Under Solvency II, the value of receivable is based on the discounted cash flows arising from the receivables, adjusted for the risk of default.

Receivables, are carried at cost less any impairment. Given the short term nature of these assets (due within one year), this is a reasonable approximation of fair value.

D.1.9 Significant Estimates

There are no significant assumptions and judgments applied when calculating the Solvency II valuation of assets other than the ones already described above.

D.2 Technical provisions

D.2.1 Technical provisions by material line of business

The Group values the technical provisions as the best estimate reserves plus a risk margin as set out in the Solvency II rules. For the technical provisions where the value can be replaced using financial instruments associated with those future cashflows, the best estimate liability and risk margin can be calculated as a whole using the value of those financial instruments.

The following table sets out Group and the Company technical provisions split by Solvency II line of business, as detailed in Annex I to the Delegated Acts.

The best estimate liabilities and the risk margin are provided separately except in the case where technical provisions have been calculated as a whole.

The methodology and assumptions used in the calculation of technical provisions are covered in section D.2.2.

FLL **Line of business** **31 December 2018**	**Technical Provisions** **£'000**	**Best estimate** **£'000**	**Risk Margin** **£'000**
Health insurance	22,804	22,167	637
Insurance with profit participation	416,661	415,848	813
Index - linked and unit linked	3,126,980	3,076,510	50,470
Other life insurance	94,185	83,889	10,296
Total gross life insurance obligations	**3,660,630**	**3,598,414**	**62,216**
Consolidation adjustment	(1,397)	(1,711)	314
Total FHE Group life insurance obligations	**3,659,233**	**3,596,703**	**62,530**

The FHE Group technical provisions are lower than the FLL technical provisions, due to a consolidation adjustment removing a service charge between FLL and FHE Group.

D.2.2 Valuation Methodology

The best estimate liabilities ('BEL') are calculated by discounting future cash-flows on in-force business, using best estimate demographic assumptions and the prescribed risk-free interest rates for investment assumptions and discounting.

The cash-flows cover future premiums for in-force contracts within the contract boundary, associated guaranteed benefits, and with-profits discretionary benefits, expenses for administration, commission, investment returns and tax (where policyholder tax applies). The contract boundary is defined as the point where there is no discernible benefit for additional premiums under the current contract.

The with-profits value of guaranteed benefits includes the sum assured and declared annual bonuses to date, and the value of future expenses. It excludes the value of future annual bonuses and final bonus. It is net of the value of future premiums.

Discretionary benefits apply only to with-profits business and are equal to total asset share, cost of guarantees, cost of smoothing and cost of financial options less the value of guaranteed benefits.

The best estimate liability is calculated gross of reinsurance, with the reinsurance valued as an asset.

The risk margin is the cost of holding the Solvency II capital requirement for non-hedgeable risks on in-force business in all future years. The cost of capital is 6% per annum, which is set by EIOPA.

The company is not making use of:

- the Matching adjustment, as described in Article 77c of the final version of the Directive 2009/138/EC;
- the Volatility adjustment, as described in Article 77d of the final version of the Directive 2009/138/EC; and
- the Transitional Measures on Risk-free Rate, Equity and Technical Provisions, as described in Articles 308b, 308c and 308d of the final version of the Directive 2009/138/EC.

D.2.3 Assumptions

The key insurance assumptions are lapse and expense assumptions. Lapses are monitored quarterly and the assumptions set annually using internal data, relevant to the particular product group. Administration expenses are reviewed monthly and assumptions set annually based on the Group's budget and future trends in expenses. Investment expenses are reviewed monthly and set annually, though largely reflect contractually agreed expenses. Other insurance assumptions such as mortality or morbidity are reviewed annually, using internal and external data as appropriate.

The key investment assumptions are investment growth, the discount rate and inflation. Investment growth and the discount rate use the Solvency II risk-free rates, specified by EIOPA and are updated quarterly. The Group does not use a volatility adjustment or a matching adjustment for the discount rate on any lines of business. Price inflation is set with reference to the long term differential between nominal and real yields. Expense inflation is set at price inflation plus 1%.

D.2.4 Uncertainty of Cash-flows

The best estimate liability is defined as the probability-weighted average of the present value of future cash flows on a market consistent basis. The Group adopts a deterministic approach to value liabilities, as the risks are largely symmetrical for most lines of business. The with-profits business contains options and guarantees. To value these options and guarantees a stochastic approach is used across a large range of risk neutral economic scenarios. Actuarial judgement is exercised in the assumptions setting and modelling processes.

D.2.5 Solvency II and IFRS valuation differences

The following tables detail the UK IFRS and the Solvency II valuation of FLL technical provisions valued as at 31 December 2018. The material differences between the bases and assumptions used in the Solvency II and IFRS valuation of liabilities relate to the treatment of non-unit reserves for unit-linked investment products (including risk margin) and the treatment of the surplus in the with-profit funds. Best estimate assumptions are aligned between IFRS and Solvency II.

FLL Line of business 31 December 2018	IFRS Technical Provisions £'000	SII Technical Provisions £'000	Difference in Technical Provisions £'000
Health insurance	22,697	22,804	(107)
Insurance with profit participation	477,149	416,661	60,488
Index - linked and unit linked	3,314,098	3,126,980	187,118
Other life insurance	93,550	94,185	(635)
Total gross life insurance obligations	**3,907,494**	**3,660,630**	**246,864**

Insurance with profit participation -
Under IFRS, the Unallocated Divisible Surplus (UDS) represents the amount of assets held over realistic liabilities, effectively the Estate. The Estate is included in the IFRS reserves, but excluded from the Solvency II technical provisions, and treated as own funds, albeit restricted.

Index-linked and unit-linked -
Under Solvency II the recognition of negative reserves is permitted. In comparison, under IFRS, the recognition of future profits on this line of business is prohibited. Hence the IFRS non-unit reserves are zero while under Solvency II the 'best estimate' of liabilities means that negative non-unit reserves are allowed and reserves can be less than surrender amounts.

At year end, for Insurance and Annuities business, the risk margin in the IFRS calculation is replaced by the Solvency II risk margin.

The movements for FHE are materially the same as for FLL as shown above.

D.2.6 Reinsurance recoverable

The Company has four reinsurance arrangements in place:

- Protection business written in the OBF before 2000;
- Protection business written in the OBF since 2000 (the only treaty open to new business);
- Business in the OBF acquired in 2008; and
- Various treaties in the TWF (mainly sickness policies).

As discussed in section C, mortality and morbidity risks are not significant for the Company. Moreover, a high proportion of reinsured business in the OBF is reinsured on a risk-premium basis, so any reinsurer default will have a minimal impact on the business.

The value of the reinsurance asset is modelled as the best estimate of expected reinsurance recoveries less reinsurance premiums due. On the grounds of materiality, this is modelled for TWF only. Both the recoveries and premiums due should be adjusted for expected counterparty default. However, the company assumes this to be constant over time and to equal zero because reinsurance arrangements have been placed only with large, multinational reinsurers with a good credit rating. The approach is deemed reasonable given the volume of business being reinsured.

The Group has no special purpose vehicles as defined in the Directive 2009/138/EC.

D.2.7 Changes since previous reporting period

The Solvency II methodology and assumptions have been refined over 2018. The assumptions have been reviewed as part of the annual basis, and updated as necessary.

No material changes to Technical Provisions methodology have been applied.

D.3 Other liabilities

Liabilities have been valued according to the requirements of the Solvency II Directive and related guidance. The basic principle of valuing other liabilities under Solvency II is to determine the amount at which a liability could be transferred or settled between knowledgeable willing parties in an arm's length transaction.

There have been no changes made to the other liability recognition and valuation bases used or to estimations during the reporting period.

D.3.1 Pension benefit obligations

FLL acquired a closed defined benefit staff pension scheme as part of the TW acquisition. Up to 1 October 2016, all expenses of this scheme and the cost of eliminating the scheme deficit were charged to the TWF. On that date, management put a stop-loss arrangement in place whereby the TWF paid a reinsurance premium to the OBF and in return any expenses and costs in excess of the stop loss trigger are borne by the OBF.

There is also a pension scheme, for which FHE is the principal employer. The scheme has multiole sections, mainly defined contribution, but has a small defined benefit section too.

Please see pages 36 - 39 in the FLL Financial Statements and pages 21 – 23 in the FHE Financial Statements for further information on the valuation, valuation assumptions and scheme assets of the pension schemes detailed above.

IFRS measurement principles for pension benefit obligations are consistent with Solvency II, and therefore there is no difference in the valuation measurement. The pension scheme liabilities are valued on an annual basis in accordance with IAS 19.

D.3.2 Deferred tax assets and liabilities

Deferred tax liabilities are accounted for using the liability method, whereby tax expected to be payable or recoverable is calculated on temporary differences arising between the carrying amounts of assets and liabilities under IFRS and the tax assets and liabilities calculated under the regulations of HMRC.

Solvency II valuation differences are also considered for their tax effect and a deferred tax asset/liability is created accordingly. As Solvency II guidance requires the recognition of the Present Value of Future Profits on unit-linked businesses, a corresponding deferred tax liability has been set up to record the temporary timing difference between the carrying value of Solvency II asset and liabilities and the tax regime under which the Group operates.

The net deferred tax liability generated for Solvency II purposes is as follows:

As at 31 December 2018	FHE Group £'000	FLL £'000
Movement in technical provisions	247,631	246,864
Intangible assets	(36,933)	(12,377)
	210,698	234,487
Less non - taxable items	23,870	980
SII taxable adjustment	234,568	235,467
Percentage of business that is taxable	77%	76%
SII Net Deferred Tax Adjustment (17%)	**30,744**	**30,620**

As noted in D.1.2, the deferred tax liability has been offset by the deferred tax asset held on the IFRS balance sheet as they both relate to the unit linked businesses.

D.3.3 Payables

Payables, both trade and insurance, are carried at cost less any impairment. Given the short term nature of these assets (due within one year), this is a reasonable approximation of fair value.

D.4 Alternative valuation methods

The majority of the Group's and the Company's assets are measured at fair value basis on quoted market information or observable active market data.

Although, the Solvency II valuation hierarchy differs from IFRS, the methodology for valuing assets and liabilities measured at fair value remains unchanged. The only asset valued using alternative valuation method is a property held for own use. The property is valued annually by a qualified and independent third party based on the market value of similar properties.

D.5 Any other information

D.5.1 Group and subsidiary valuation differences

There are no material differences in the bases, methods and main assumptions used at the Group level for the valuation of assets and liabilities from those used by any of its subsidiaries.

D.5. 2 Operating and finance leases

See Section A.5.1 for information on leases. No adjustments have been made to the IFRS valuation of leases liabilities.

E Capital Management

The ‘Capital Management’ section of the report describes the objectives, policies and procedures employed by the Group for managing its own funds. The section also covers information on structure and quality of own funds and calculation of Solvency Capital Requirements (SCR).

E.1 Own Funds

E.1.1 Management of Own Funds

Insurers regulated under Solvency II are required to hold a solvency margin or buffer to cover the risk of their assets not being sufficient to cover their liabilities. Own Funds represent the net assets available to cover the SCR.

Capital is a strategic resource, which provides a basis for confidence in the company by stakeholders, including customers and regulators. The objective of capital management is to maintain a consistently strong capital position in the context of overall risk appetite and an optimal capital structure.

The Group’s manages own funds in conjunction with solvency capital requirements, and seeks to:

- to match the profile of its assets and liabilities closely, taking account of the risks inherent in the business;
- to maintain financial strength sufficient to support new business growth in line with the Company’s business plan;
- to satisfy the contractual entitlements of its policyholders and the requirements of its regulators;
- to ensure financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposure to changes in interest rates, inflation and exchange rates

A Capital Management Policy sets out the approach to capital management within the Group, including allocation of responsibilities for the management of capital, capital monitoring, reporting, forecasting, planning and overall governance.
The Group uses 5 year time horizon for business planning.

Capital management for the Group is the responsibility of the Chief Financial Officer (CFO), the Risk & Investment Committee is responsible for the oversight.

There have been no material changes in the objectives, policies and processes employed for managing own funds over the reporting period.

E.1.2 Own Funds by tier

Own funds are divided into 3 'tiers' based on both 'permanence' and 'loss absorbency'. Tier 1 is the highest quality and Tier 3 the lowest. Tier 1 is further divided into 'restricted' and 'unrestricted'. The regulations impose limits on the amount of each tier that can be held to cover the SCR with the aim of ensuring that the items will be available to absorb any losses that might arise.

The following tables sets out a summary of the Group's and the Company's own funds by Tier for Year End 2018 and 2017:

FHE Group As at 31 December 2018	Total £'000	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000	2017 Total £'000
Ordinary share capital	56,020	56,020	-	-	-	56,020
Surplus funds	55,828	55,828	-	-	-	53,729
Reconciliation reserve	137,763	137,763	-	-	-	166,477
An amount equal to value of net deferred tax asset	-	-	-	-	-	-
Deductions for own funds from other financial sectors (OFS)	-	-	-	-	-	(19,062)
Total basic own funds after deductions	249,611	249,611	-	-	-	257,164
Total eligible own funds to meet consolidated group SCR (excluding OFS)	249,611	249,611	-	-	-	257,164
Total own funds of other financial sectors	-	-	-	-	-	19,062
Total eligible own funds to meet consolidated group SCR (including OFS)	249,611	249,611	-	-	-	276,226
Total eligible own funds to meet minimum consolidated group SCR	249,611	249,611	-	-	-	276,226

FLL As at 31 December 2018	Total £'000	Tier 1 unrestricted £'000	Tier 1 restricted £'000	Tier 2 £'000	Tier 3 £'000	2017 Total £'000
Ordinary share capital	68,500	68,500	-	-	-	68,500
Surplus funds	54,836	54,836	-	-	-	52,543
Reconciliation reserve	123,236	123,236	-	-	-	154,257
An amount equal to value of net deferred tax asset	-	-	-	-	-	-
Total basic own funds	246,572	246,572	-	-	-	275,300
Total eligible own funds to meet SCR	246,572	246,572	-	-	-	275,300
Total eligible own funds to meet MCR	246,572	246,572	-	-	-	275,300

Unrestricted Tier 1 capital of £249.6m represents 100% of eligible own funds for the Group and the Company (2017: 100% Tier 1 unrestricted). This consist of ordinary share capital, surplus fund and reconciliation reserve (refer to Section E1.3). Tier 1 unrestricted capital includes high quality instruments with features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances.

Further information on own funds by Tier is presented in QRT. 23.01.22 (FHE Group) and QRT 23.01.01 (FLL solo) within Section F.

Group Eligible Own Funds to meet the SCR decreased from £276.2m to £249.6m during the reporting period. This decrease is driven by a reduction in present value of future profits as a result of lower vale of unit-linked assets under management.

A reconciliation of Eligible Own Funds to meet the SCR between FLL and FHE Group for 2018 and 2017 is set out below:

As at 31 December 2018	2018 £'000	2017 £'000
FLL Own Funds at end of year	**246,572**	**275,300**
Additional Deferred Tax Assets	166	621
FHE Arms length charge	1,401	847
Pension benefit obligations	(1,712)	(1,910)
Other FHE Assets	3,184	1,368
FHE Group Own Funds at end of year	**249,611**	**276,226**

The excess of assets over liabilities for FLL include the capital contribution of FLL. The capital contribution represents the surplus contained within the long term business fund at the date of transfer of long-term business from the Independent Order of Foresters (30 September 1995), which is not attributable to with-profits business. It is not distributable; however, given that this amount relates entirely to FLL and FLL contributes almost 100% of the Group SCR, there is insignificant risk that we will need to transfer capital between FLL and other entities within the FHE Group. Therefore, there are no further restrictions for transferability/fungibility for this amount in Own Funds.

E.1.3 Details of Own Funds items

Ordinary share capital

This represents ordinary shares of £1 each. The ordinary shares carry full voting rights and qualify for dividends. There are no restrictions on the repayment of ordinary capital other than imposed by the Companies Act 2006. Any repayments of share capital would be a subject of regulatory approval.

There have been no changes to share capital during the year.

Surplus funds

Surplus funds represent with – profit funds' accumulated profits that have not yet been made available for policyholders and beneficiaries. Any restrictions by virtue of them being with – profit funds is presented as an adjustment for restricted items in respect of ring fenced funds.

Reconciliation reserve

The reconciliation reserves for FHE Group and FLL in 2018 and 2017 have been derived as follows:

FHE Group As at 31 December 2018	2018 £'000	2017 £'000
Solvency II excess of assets over liability	312,188	326,839
Other basic own funds items	(111,848)	(109,748)
Foreseeable dividends , distributions and charges	(10,000)	-
Restricted own funds items in respect of ring fenced funds	(52,577)	(50,613)
Reconciliation reserve	**137,763**	**166,478**

FLL As at 31 December 2018	2018 £'000	2017 £'000
Solvency II excess of assets over liability	309,153	325,232
Other basic own funds items	(123,336)	(121,043)
Foreseeable dividends , distributions and charges	(10,000)	-
Restricted own funds items in respect of ring fenced funds	(52,581)	(49,931)
Reconciliation reserve	**123,236**	**154,258**

The reconciliation reserve equals the total of excess assets over liabilities on the Solvency II balance sheet reduced by the following:

- Other basic own funds include ordinary share capital and surplus fund;
- Foreseeable dividend, distribution and charges. A dividend of £10m will be tabled for the Group Board approval on 30 April 2019 and paid afterwards. This was deemed foreseeable at 31 December 2018 and deducted from own funds;
- The Surplus own funds over notional SCR held within ring fenced funds is restricted

E.1.4 Deductions for participations in financial and credit institutions

In January 2017 all business of FFML was transferred into FLL. FFML was de-authorised as a regulatory entity during early 2018 following the transfer.

As such, FLL does not hold participation in financial and credit institution anymore, no deductions are relevant to 2018 year end.

For 2017 year end, the calculation of this restriction resulted in £Nil deduction as 10 % of eligible funds in FLL amounted to £27m and Solvency II excess of assets over liabilities of FIL was £19m.

E.1.5 Differences between IFRS equity and excess of assets over liabilities as calculated for Solvency

The following tables detail the key movements in equity between IFRS and Solvency II Eligible Own Funds for 2018 and 2017:

FLL As at 31 December 2018	2018 £'000	2017 £'000
Total FLL (the Company) equity on IFRS basis	106,903	96,029
Elimination of DAC and intangible assets	(13,357)	(15,190)
Valuation difference on technical provisions	246,234	280,802
Net deferred tax	(30,620)	(36,410)
Other valuation differences	(7)	-
Solvency II net assets	**309,153**	**325,231**
Difference between IFRS and Solvency II net assets	(202,250)	(229,202)
Group deferred tax asset adjustment	166	621
Group other adjustments	2,869	987
FHE group Solvency II net assets	**312,188**	**326,839**

Deferred acquisition costs and Intangibles

This movement represents the elimination of DAC and intangible assets from the Solvency II balance sheet. Please see Section D.1 'Assets' for further detail.

Change in Technical Provisions

This movement represents the change in net technical provisions from an IFRS valuation to a Solvency II valuation. Please see Section D.2 'Technical Provisions' for further detail.

Deferred tax

This movement represents the change in the valuation of the deferred tax liability of FLL / FHE based upon the asset and liability valuation changes mentioned in this section of the report. Please see Section D.3 'Other Liabilities' for further detail.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Group and the Company uses a standard formula approach to calculate the capital requirements for the business, in accordance with Solvency II regulations. The standard formula has been assessed as suitable for the business. The SCR is the amount of Own Funds that the Group/or the Company is required to hold under Solvency II regulations, such that the Group/Company can meet its obligations to policy holders and beneficiaries over the following 12 months with a 99.5% probability. The 'MCR is the minimum level of security below which the amount of financial resources should not fall.

E.2.1 Solvency Capital Requirement

The total FHE Group gross undiversified capital requirement at 31 December 2018 was £319.4m (2017:£395.8m), and diversified was £151.8m (2017:£198.1m), with 22% (2017:36%) diversification of risk across the portfolio.

This section contains a breakdown of the Group and the Company gross SCR by risk modules. The final amount of the Group and the Company SCR is still subject to supervisory assessment.

Gross SCR by risk module	**FHE Group Total £'000**	**FLL Total £'000**
Market risk	167,763	167,436
Counterparty default risk	8,971	8,972
Life underwriting risk	128,798	128,153
Health underwriting risk	7,898	7,898
Operational risk	5,978	6,051
Total undiversified SCR	**319,408**	**318,510**
Diversification	(72,148)	(71,922)
Loss - absorbing capacity of technical provisions	(80,588)	(80,588)
Loss - absorbing capacity of deferred taxes	(14,898)	(14,898)
Solvency capital requirements, excluding capital add - on	**151,774**	**151,102**
Capital add - ons already set	-	-
SCR for non - insurance entities	-	-
Solvency capital requirement	**151,774**	**151,102**

The key valuation differences for the SCR between FHE Group and FLL are as follows:

Pension liability – The defined benefit section of the staff pension scheme (FGEPS - as described in section A.1.6) is held at the Group level and not reflected in the FLL Solo level. The pension scheme deficit for FGEPS is stressed with market stresses and included in the Group SCR.

FHE expense margin – The FLL Solo Entity capital requirements reflect an expense margin charged by FHE. This margin is removed in the calculation of the FHE SCR as it is an intra-group transaction.

There is no material difference between FLL and FHE risk profile.

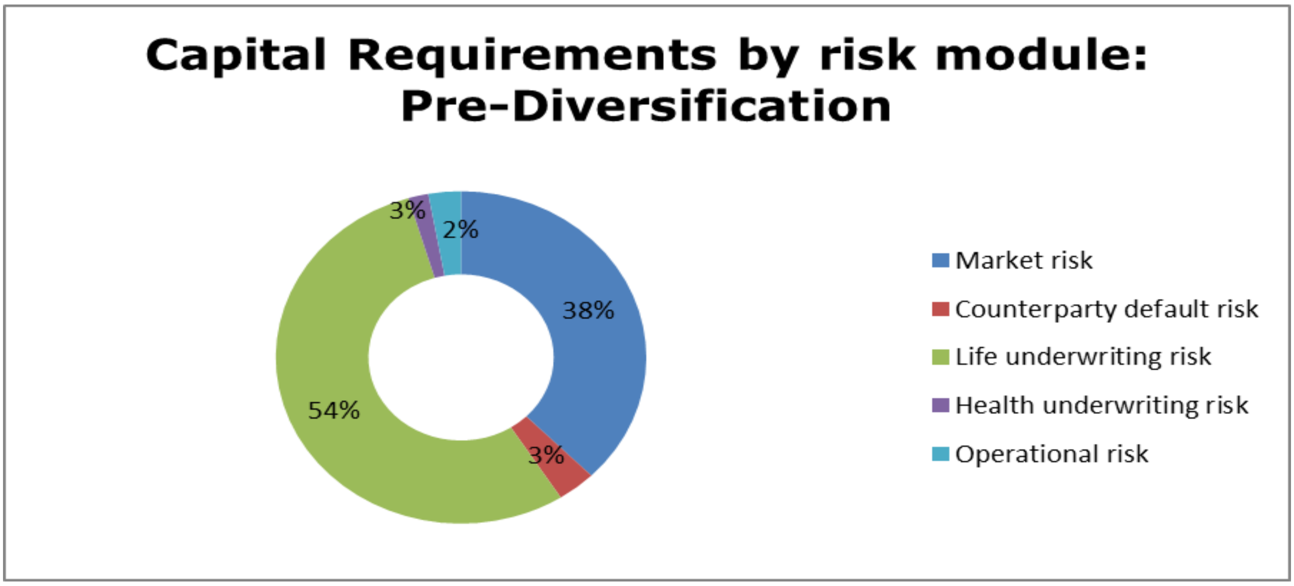
The key risk modules for the Company are the Market and Life Underwriting Risk modules. The most significant exposures are Persistency Risk, Equity risk and Currency Risk, as set out in section C of this report.

FLL benefits primarily from the correlation between market and life risk modules.

FLL has one non-profit fund and four ring-fenced funds. Under Solvency II, ring-fenced funds and non-insurance entities do not diversify with the rest of the Group. This means that no diversification benefits arise between the funds.

The Group uses management actions within the ring fenced funds to reduce the impact of stressed events and hence reduce the need to hold capital.

The following diagram presents the distribution of the undiversified net Group SCR by risk module:



The life underwriting risk capital requirements make up more than half of the total capital requirements.

The distribution of the undiversified net Group SCR by key risks is as follows:

Currency risk capital requirements have increased over the year and currency risk is now the third largest single risk in capital terms.

The Group SCR is calculated using method 1 – Accounting Consolidation based method. This method considers the Group as a single entity.

E.2.2 Minimum consolidated Group SCR and Minimum Capital Requirement

The MCR is not defined at the Group level under Solvency II, instead there is the Minimum Consolidated Group SCR (MCGS) is to be used. The MCGSis calculated as the sum of MCRs for fully owned insurance undertakings and proportional share of MCRs for partially owned insurance undertakings within a Group.

FLL is fully owned and the only insurance undertaking within the FHE Group.

The MCR for FLL is calculated using a linear formula that applies prescribed factors to technical provisions, written premiums, capital at risk, deferred tax and administrative expenses (all net of reinsurance), subject to a cap (45% of the solo SCR) and a floor (25% of the solo SCR).

The detailed information with regard to inputs used to calculate FLL's MCR is presented in the template S.28.01 in the Section F.

The Minimum Consolidated Group MCR for the FHE Group at Year End 2018 is £37.9m (2017: £49.5m), and own funds can cover this by 6.59 times. The SCR for FHE Group is £151.8m (2017:£198.1m) and own funds can cover this by 1.64 times.

The MCR for FLL at Year End is 2018 £37.7m (2017: £48.8m), and own funds can cover this by 6.54 times. The SCR for FLL is £151.1 (2017: £195.2m) and own funds can cover this by 1.63 times.

E.2.3 Material changes over the reporting period[2]

The Group SCR decreased from £198.1m to £151.8m during the reporting period.

The primary drivers of the decrease in SCR are as follows:

- Lower exposure to market risks from unit linked business due to falls in capital markets throughout 2018, e.g. FTSE100 fell by 12.5% during the year;
- lower equity risk due to decrease in 'Symmetric Adjustment', a prescribed parameter from EIOPA that governs the magnitude of equity risk stress in Solvency II Standard Formula;
- use of loss absorbency capacity for deferred taxes in unit – linked SCR;

offset by:

- new business written during the year;
- updated investment strategy in shareholder fund to invest cash into high quality bonds

E.3 Use of the duration – based equity risk sub – module in the calculation of SCR

Insurance firms that have particular types of retirement provision business managed on a ring fenced basis, for which the SCR is calculated using the standard formula, are entitled to calculate the equity risk capital requirement using a specified duration-based approach. The FHE Group does not use the duration-based equity risk sub-module in the calculation of the SCR.

[2] This subsection is unaudited.

E.4 Non – compliance with the Minimum Consolidated Group SCR and the Group SCR

The FHE Group complied with the Minimum Consolidated Group SCR and Group SCR at all times during 2018.
The Company, FLL complied with the Minimum Capital Requirement and Solvency Capital Requirement at all times during 2018.

E.5 Any other material information

E.5.1 Standard Formula Simplifications

Where the SCR is calculated using the Standard Formula, the Solvency II regulations specify simplified calculations that may be used across all of the Standard Formula risk modules except operational risk. FHE Group has not used any of these simplified calculations to calculate the year-end 2018 SCR.

E.5.2 Standard Formula Undertaking Specific Parameters (USPs)

Where the SCR is calculated using the standard formula, Solvency II regulations specify certain USPs that may be used in place of the standard parameters, subject to regulatory approval. These are available for life and health revision risks, and non-life (including some health) premium and reserve risks. FHE Group has not used any USPs to calculate the year-end 2018 SCR.

E.5.3 Transitional measures, disclosure of capital add-ons and USPs

Regulators have the power to impose capital add-ons to the SCR or to require the use of certain USPs in the standard formula where a firm's risk profile deviates significantly from the assumptions underlying the standard formula.
FHE Group is not required to hold any capital add-ons or use any USPs.

F Templates

The following Quantitative Reporting Templates (‘QRTs’) are required for the SFCR:

QRT reference	QRT name	Entity
S.02.01	Balance Sheet	Group and Company
S.05.01	Premiums, claims and expenses	Group and Company
S.05.02	Premiums, claims and expenses by country	Group and Company
S.12.01.02	Life and Health SLT Technical Provisions	Company
S.23.01.01/S.23.01.22	Own Funds	Group and Company
S.25.01.21/S.25.01.22/	Solvency Capital Requirement – for undertakings on Standard Formula	Group and Company
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity	Company
S.32.01.22	Undertakings in the scope of the group	Group

These templates are included at the end of this report.

G Directors' Certificate

Forester Holdings (Europe) Limited ('FHE')

Approval of the Solvency and Financial Condition Report

Financial period ended 31 December, 2018

We certify that:

1. the Solvency and Financial Condition Report ('SFCR') has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

2. we are satisfied that:

(a) throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Group; and

(b) it is reasonable to believe that, at the data of the publication of the SFCR, the Group has continued to comply, and will continue comply in future

Approval by the Administrative, Management or Supervisory Body 'AMSB' of the SFCR and reporting templates

Director

Date: 16TH APRIL 2019

H Audit Opinion

Report of the external independent auditor to the Directors of Forester Holdings (Europe) Limited ('the Group') and Forester Life Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Group and the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Group and the Company as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and

- Group templates S02.01.02, S22.01.22, S23.01.22, S25.01.22 and Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21, S28.02.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Group Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the Relevant Elements of the Group Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Group Solvency and Financial Condition Report;

- Group templates S05.01.02, S05.02.01;

- Company templates S05.01.02, S05.02.01, S19.01.21;

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**');

- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations. (‘**the sectoral information’**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Group Solvency and Financial Condition Report of the Group and the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors’ use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Group Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Group Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Group Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Group Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities

Report on Other Legal and Regulatory Requirements.

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook for Solvency II firms, the **sectoral information** has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Group and Company statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Ben Priestley *for and on behalf of KPMG LLP*

KPMG LLP

15 Canada Square

London,

E14 5GL

16 April 2019

- The maintenance and integrity of Forester Holding (Europe) Limited’s website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

Group and Solo standard formula

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.23.01.22
  - Rows R0410 to R0440 – Own funds of other financial sectors

- The following elements of Group template S.25.01.22
  - Rows R0500 to R0530 – Capital requirement for other financial sectors (Non-insurance capital requirements)

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.