# R&Q Insurance (Malta) Limited

# Solvency and Financial Condition Report

# Year ended 31 December 2016

## Contents

## Summary

This Solvency and Financial Condition Report has been prepared for R&Q Insurance (Malta) Limited ("the Company" or "RQIM)) in order to satisfy the requirements of Article 290 of the Commission Delegated Regulation 2015/35 ("Commission DR"). It refers to the financial year ended on 31 December 2016 ("the reference date"). The Company forms part of the Randall & Quilter Investment Holdings Limited Group ("the Group").

The Company operates in the niche 'run-off' business and purchases portfolios/companies whose business has been placed in to run-off. The Company has also recently entered into a fronting arrangement with a UK motor managing general agent whereby the business is fully reinsured by an A- rated reinsurer. The Company is considering entering into further similar arrangements as a new business line subject to appropriate regulatory approval.

The Company maintains a robust system of governance which, in light of the nature, scale and complexity of the Company' activities and its risk profile, is deemed to be adequate in ensuring the sound and prudent management of the Company. The system of governance revolves around the Board and its three Committees – the Audit Committee, the Underwriting and Claims Committee and the Investment Committee, in addition to the key functions, which are outsourced to the Group and two external service providers in line with the Company's Outsourcing Policy. One of the mainstays of the system of governance is the risk management system which is designed to ensure that all the material risks are identified and that policies and procedures are in place to manage or mitigate these risks, to assess their potential impact and to ensure that they are adequately reported. No significant changes in the system of governance, including the risk management system, occurred during the year under review.

The Board's current appetite is focussed on the underwriting risk, and given the long term nature of its underlying technical provision, also on its market risk. No significant changes in the Company's risk profile occurred in 2016.

The Company registered a profit before tax of £2.5m (2015: £4.6m) for the year under consideration. During 2016, the Company further increased its' Incurred but Not Reported' (IBNR) Reserve on portfolios taken over in prior years by £2m. This has contributed towards the reduction in profits for the year. During the financial year under review, in addition to managing the portfolios transferred during previous periods, the Company absorbed a further four portfolios, bringing the total portfolios under management to ten by the end of the year. The Company has also commenced the transfer of a further portfolio and expects to conclude this transfer in 2017.

The Company maintains a strong capital position. At the reference date, the Solvency Capital Requirement amounted to £18.2m (2015: £17.2m) and the eligible own funds available to cover this requirement amounted to £33.2m (2015: €35.2m). Hence, the ratio of eligible own funds to SCR at the reference date amounted to 183% (2015: 250%). The available own funds to cover the SCR remains at a healthy 224%. In addition, a further capital injection of £3.0m was effected in March 2017 via a capital contribution from shareholders.

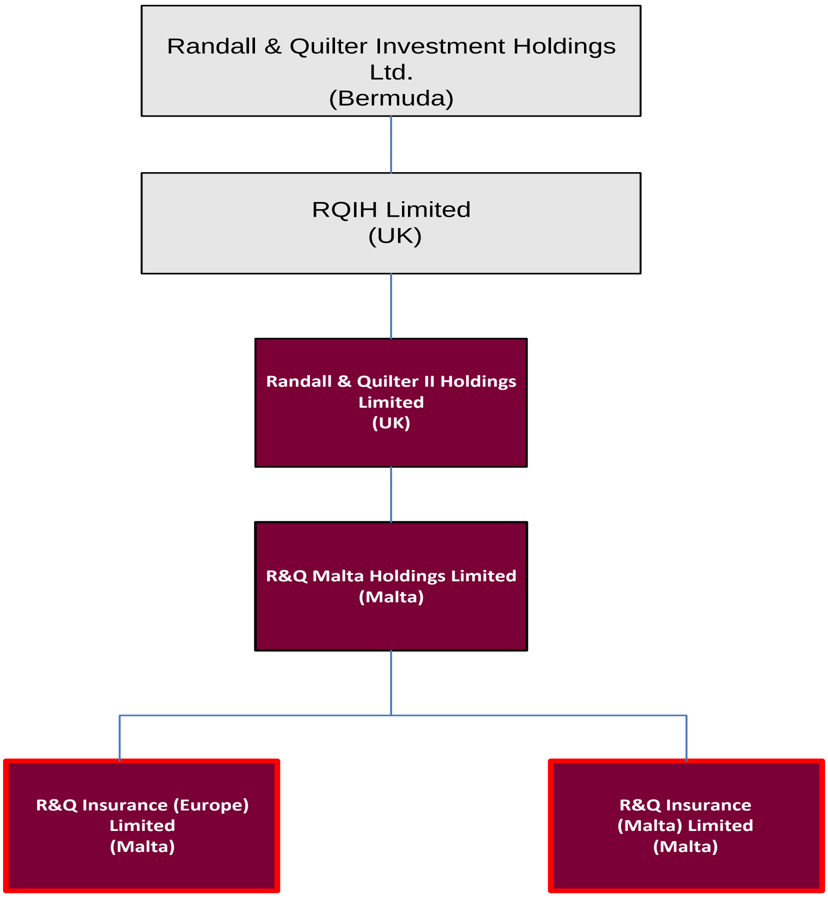
In 2016, the assumptions and methodology underlying the calculation of the eligible own funds and the SCR did not change significantly.

# A. Business and Performance

## A1. Business

| | |
|---|---|
| Name and Legal Form | R&Q Insurance (Malta) Limited |
| National Supervisory Authority | Malta Financial Services Authority<br>Dr. Marisa Attard<br>Director – Insurance and Pensions Unit<br>Notabile Road, Attart, Malta |
| Group National Supervisory Authority | Bermuda Monetary Authority<br>Athea Jackson<br>BMA House, 43 Victoria Street, Hamilton, Bermuda |
| Auditors | KPMG<br>Hilary Galea Lauri<br>Portico Building, Marina Street, Pieta, Malta |
| Qualifying holdings of the undertaking | 99.99% - R&Q Holdings (Malta) Ltd |
| Ultimate Parent Undertaking | Randall & Quilter Investment Holdings Ltd - Bermuda |
| Qualifying Shareholders – both based in the United Kingdom | Name / No. of Ordinary Shares / %<br>Kenneth Edward Randall / 16,142,477 / 18.47<br>Phoenix Asset Management / 16,122,477 / 18.45 |
| Authorised Classes of Business | The Company is licenced to write the following classes of business on a direct and reinsurance basis<br><br>Class 1 – Accident<br>Class 2 – Sickness<br>Class 3 – Land vehicles<br>Class 4 – Railway rolling stock<br>Class 5 – Aircraft<br>Class 6 – Ships<br>Class 7 – Goods in transit<br>Class 8 – Fire & natural forces<br>Class 9 – other damage to Property<br>Class 10 – Motor vehicle liability<br>Class 11 – Aircraft Liability<br>Class 12 – Liability for ships<br>Class 13 – General Liability<br>Class 14 – Credit<br>Class 15 – Suretyship<br>Class 16 – Miscellaneous financial loss<br>Class 17 – Legal expenses<br>Class 18 - Assistance |

The abridged Group structure showing the position of R&Q Insurance (Malta) Ltd within the Randall & Quilter Group is shown in the following table.




**Significant events during the year**

Whilst the strategy of acquiring and consolidating run-off portfolios has been very successful the Company has been considering its future plans especially with the prospect of Brexit (the UK leaving the EU) in the next few years. R&Q Insurance (Malta) Limited (RQIM) is fully licenced for all classes 1 to 18 and has freedom of services access across much of the EU.

There is interest amongst reinsurance companies to diversify their business and benefit from profitable lines of direct business that they would otherwise be unable to access. Traditional reinsurance is under pressure from a continuing soft market, challenging rates and intense competition from capital markets through Insurance-linked securities (ILS) and other instruments. Reinsurers are not licenced to write direct EU business but can do so utilising a licenced insurer’s paper on a fronting basis.

Moreover, the market has recently seen some insurers cease underwriting activity of which a small number have gone into administration. This appears to be a combination of poor underwriting and increased capital requirements under Solvency II. This creates a capacity shortage for the Managing General Agents that had been previously produced this business and that now need a new insurer.

The combination of reduced capacity and reinsurer desire to access the direct risk market has led to a number of opportunities being presented to RQIM as fronting arrangements. This would provide a steady renewable stream of income with low risk exposure. Whilst a number of the opportunities arise from UK sourced risk, and would therefore be exposed in a hard Brexit, there are other opportunities of EU/non-UK risk being presented.

Whilst an initial arrangement was executed in December 2016 whereby the risk was fully reinsured, the Company's intention on fronting business is to retain at least 10% of all business written in order to have alignment with the reinsurers.

The Directors have considered this new niche area of business and have submitted a change in business plan to the Malta Financial Services Authority. During the last quarter of 2016, the company established one such fronting facility.

## A2. Underwriting Performance

The strategy of RQIM has historically been limited to acquiring insurance companies or portfolios that have been placed in run-off and to subsequently manage them until extinction or until they are sold on, primarily via commutations. In certain cases, given the extended regulatory process of acquiring portfolios, the Company will enter into a reinsurance agreement with the target seller to reinsure the portfolios prior to the transfer. Once the transfer receives regulatory approval and the liabilities are taken over by the Company, the reinsurance agreement is terminated.

During the financial year under review, in addition to managing the portfolios transferred during previous periods, the Company absorbed a further four portfolios, bringing the total portfolios under management to ten by the end of the year. The Company has also commenced the transfer of a further portfolio and expects to conclude this transfer in 2017.

A technical loss of £1.1m was reported for the 12 months to 31 December 2016 and is summarised below by material line of business with a comparative analysis for 2015 included.

| **Year ended 31 December 2016:** | **WC** | **GL** | **Other** | **Total** |
|---|---|---|---|---|
| | £'000s | £'000s | £'000s | **£'000s** |
| Earned premiums, net of reinsurance | - | 11,538 | 387 | **11,925** |
| Claims incurred, net of reinsurance | 2,626 | 8,677 | 1,326 | **12,629** |
| Net Underwriting Result | (2,626) | 2,861 | (939) | **(704)** |
| Other Income | - | 1,247 | 59 | **1,305** |
| Claims Handling Cost | (282) | (810) | (322) | **(1,413)** |
| Other Expenses | (78) | (221) | (22) | **(322)** |
| | (360) | (1,031) | (344) | **(1,735)** |
| **Net Technical Result** | **(2,986)** | **3,076** | **(1,224)** | **(1,134)** |

| **Year ended 31 December 2015:** | **WC** | **GL** | **Other** | **Total** |
|---|---|---|---|---|
| | £'000s | £'000s | £'000s | **£'000s** |
| Earned premiums, net of reinsurance | 12,632 | 259 | 3,237 | **16,128** |
| Claims incurred, net of reinsurance | 13,587 | (6,673) | 4,126 | **11,040** |
| Net Underwriting Result | (955) | 6,932 | (888) | **5,089** |
| Other Income | - | 435 | 2,790 | **3,225** |
| Claims Handling Cost | (61) | (874) | (293) | **(1,228)** |
| Other Expenses | (7) | 245 | (1,439) | **(1,201)** |
| | (68) | (629) | (1,732) | **(2,429)** |
| **Net Technical Result** | **(1,023)** | **6,739** | **169** | **5,885** |

Further detail is included within form AS.05.01.01 (attached within Appendix 2)

The primary drivers for the 2016 net technical results are the following:

- Reserves for claims which are IBNR are established based on an actuarial valuation that takes into consideration a number of factors including industry trends, current legal environment and geographical considerations. During 2016, the Company further increased its technical reserve on portfolios taken over in prior years by £2.0m. This was driven by the following:

    - Incurred deterioration on certain Norwegian Workers' Compensation losses.
    - The strengthening due to the development of Noise Induced Hearing losses and greater than expected levels of UK Asbestosis and Mesothelioma claim notifications in recent years.
    - An incurred deterioration on the Aviation book relating to fees associated with progressing the subrogation on a claim and an overall incurred increase on the treaty book where previously a redundancy was anticipated.

- The Company's functional and reporting currency is the Pound Sterling, however given the global nature of the underlying business, particularly the reinsurance business, the Company carries technical reserves in the following major currencies: Euro, US Dollar, Australian Dollar, Canadian Dollar and Norwegian Kroner. In accordance with the accounting policy of the Company, all currency movements on technical provisions are recorded within the underwriting results. The weakening of the GBP arising from Brexit has had a negative impact on the reserves of the company, increasing them by £2.7m during 2016. On a global basis the Company's currency exposure was substantially matched (see Note A5 below). A compensating gain on exchange was recorded on the asset side.

- Against these negative movements, the Company generated profits of £4.1m from new business written in 2016.

- The 31 December 2016 result includes the Fronted UK motor business written by Eridge with £3m of Gross written premium in the period after inception of the agreement and a further £2.1m in total for January and February 2017. The Company continues to develop Fronting opportunities, albeit subject to approval of a revised business plan, in respect of live direct insurance business for General (re)insurance companies that do not have the relevant licenses to directly underwrite this business within the European Economic Area (EEA).

- At 31 December 2016 RQIM reported £1.3m of other technical income which predominantly arose through applying IFRS 3 and IFRS 13 in respect of business combinations. This generates intangible assets equal to the difference between the fair value of insurance liabilities acquired and the amount booked by RQIM according to its accounting policies. These intangible assets are recognised in profit or loss in the period in which the business combination occurs and are amortised over the expected payment pattern of the insurance liabilities.

The primary drivers for the 2015 net technical results were the following:

- Profits of £3.4m on the take on of new portfolios.
- A negative run-off of £710k on business taken on in previous years.
- The other income arising out of the application of IFRS3 and IFRS 13 in respect of business combinations was £3.2m.

The material classes of business and geographical segmentation as defined by Gross technical provisions ('TPs') held by the Company are included within the below tables.. The Company has assessed TPs as being the most appropriate reflection of the exposure.

| Gross TPs | |
|---|---|
| | £'000s |
| Casualty | 5,230 |
| Generel Liability | 27,707 |
| Marine, Avation, Transport | 4,259 |
| Workers Compensation | 15,986 |
| Other | 1,982 |
| **Total** | **55,164** |

| Gross TPs | |
|---|---|
| | % |
| Australia | 15.21% |
| Europe | 5.18% |
| United Kingdom | 46.99% |
| United States | 31.05% |
| Other | 1.56% |
| **Total** | **100%** |

## A3. Investment Performance

The Company's Investment Strategy covers the following:

- Invest primarily in marketable, investment grade-rated, short- and intermediate-term securities. Minimal investment will be made in fixed-rate long-term maturities. The Company will also consider loans to and investments in R&Q Group undertakings. Each prospective company investment will be considered as part of the overall Group investment strategy subject to appropriate controls, and on its own merits in terms of magnitude, available liquidity, and forecast risk/return.

- Invest in commercial property, which will give a return to the Company both in terms of rental income and in terms of fair value movements.

- Adjust asset allocation mix and fixed-income sector weightings consistent with the outlook for markets, business conditions and corporate profitability.

- Limit over-concentration of assets in individual issuers.

- Exclude investments in, commodities, futures contracts, options or venture capital, except as specifically approved in writing by the Company or in the form of a structured note.

The Company's investment portfolio can be analysed as follows:

| | **2016** | 2015 |
|---|---|---|
| | **£000s** | £000s |
| Units in Bond Funds | **29,785** | 13,014 |
| Equities | **4,091** | 9,290 |
| Loans to Group | **37,353** | 30,940 |
| Deposits with Banks | **4,761** | 589 |
| Investment Property | **2,487** | - |
| Cash at Bank | **2,107** | 19,428 |
| **Total** | **80,584** | 73,261 |

The Company enjoyed an investment return of £6.4m for the period under review a significant increase over the previous year. The breakdown is as follows:

| **Investment income** | **2016** | 2015 |
|---|---|---|
| | **£000s** | £000s |
| **Interest received from loans and receivables** | | |
| Interest on Group Loans | **1,639** | 1,051 |
| Interest on Insurance receivables | **56** | 103 |
| Dividend income on equities | **311** | 230 |
| Net fair value gains/(losses) on equities and bond funds (incl exchange movements) | **3,957** | (45) |
| Net exchange differences | **443** | (1,009) |
| Rental Income | **16** | - |
| Other investment income | **11** | 2 |
| Investment management fees | **(16)** | (33) |
| **Total** | **6,417** | 299 |

Over the year, the bond funds gained modestly on a gross and net basis, underperforming the broad high yield market. The results reflect better capital preservation than the market's few stressed periods, such as November's stressed and volatile market, with broader underperformance of the market's extended risk-on posture and commodity-led bounce. Results demonstrate that most gains in the year came from core long positions, with more modest contributions from the short maturity and arbitrage books. Outright core credit shorts, as well as macro-level portfolio hedges cost the portfolio modestly—particularly in the 4th Quarter—as even in negative return months, spreads against Treasuries and investment grade credit tightened as interest rate fears increased yield expectations and decreased prices in those markets. Net fair value gains on the bond funds totalled £2.9m.

The Company enjoys a steady interest income flow on funds invested within the Group resulting in interest income of £1.6m. In addition towards the end of 2016, the Company invested in commercial property on which it earns rental income. The Company also generated £310k in dividends on its equity portfolio, in addition to a further £10k in fair value gains on the same equity portfolio.

During 2016 the Company entered into an agreement to purchase the portfolio of a Liechtenstein based captive. In accordance with the Company strategy, this transfer was effected via the purchase of the Company which generated a fair value gain of £765k.

All investment returns are recognised in the profit and loss account. The Company had no investments in any securitisations.

## A4. Performance of other activities

**Leases**

The Company entered into a 10 year rental lease on a Commercial Investment property commencing on the 18 November 2016. Rental income is £163k per annum and will be up for review on the 18 November 2021. The Tenant has the right to terminate the lease after 5 years by giving six month termination notice. There were no leases in 2015.

## A5. Any other information

**Currency exposures**

As indicated within Section A2, given the global nature of the underlying business, particularly the reinsurance business, the Company carries technical reserves in the following major currencies: Euro, US Dollar, Australian Dollar, Canadian Dollar and Norwegian Kroner. The Company tries as far as possible to match this currency exposure and as at 31 December 2016 was matched as follows:

| **31 December** | **£'000** | | | | | |
|---|---|---|---|---|---|---|
| | **Assets in Foreign Currency** | | **Liabilities in Foreign Currency** | | **Net Exposure** | |
| | **2016 £000s** | **2015 £000s** | **2016 £000s** | **2015 £000s** | **2016 £000s** | **2015 £000s** |
| Currency of exposure: | | | | | | |
| USD | 18,968 | 11,785 | (19,229) | (12,940) | (261) | (1,152) |
| EUR | 19,423 | 13,649 | (19,502) | (16,541) | (78) | (2,892) |
| AUD | 9,470 | 6,961 | (9,166) | (8,436) | 304 | (1,475) |
| CAD | 17 | 12 | (266) | (72) | 282 | (59) |
| DKK | 46 | 43 | (15) | (49) | 31 | (6) |
| NOK | 974 | 1,011 | (1,075) | (711) | (101) | 300 |

# B. System of Governance

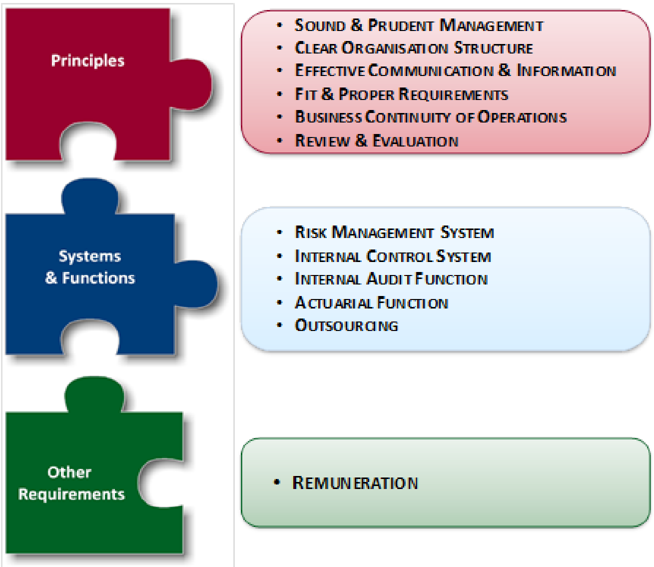
## B1. General information on the System of Governance

### Structure of Administrative Management

The Board of Directors undertakes all functions that might otherwise be delegated to Committees or apportioned to individuals. This is attributable to the relatively small size and simplicity of the underlying business.

The Company has adopted a number of underlying Principles, put into place Systems and Control Functions, under the auspices of the R&Q Group, and taken account of other matters which may be required to be dealt with such as remuneration structures as follows:

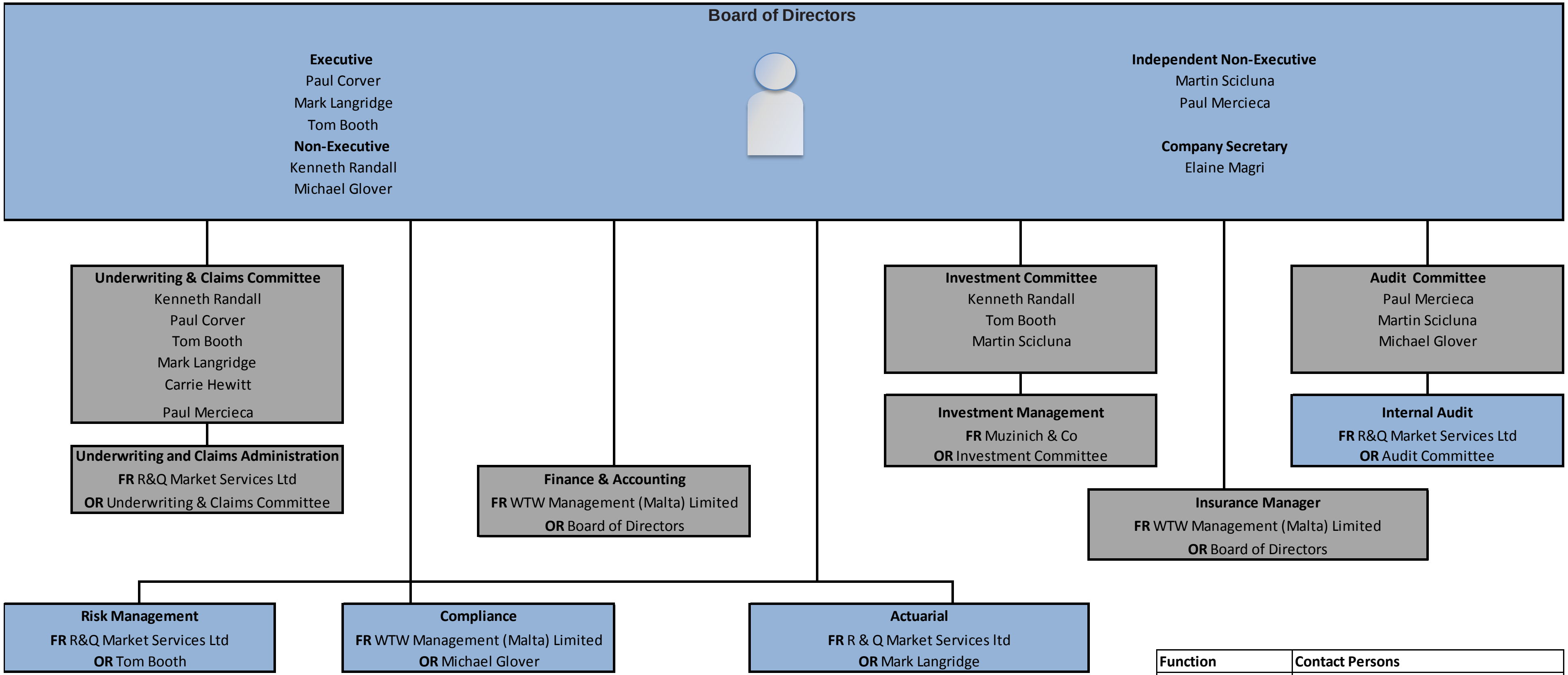
The framework is shown diagrammatically below:




The Board of Directors recognises that it needs to be able to demonstrate to the MFSA that it has a System of Governance meeting regulatory expectations, is proportionate to the nature of the business, complies with existing requirements and is flexible enough to be able to adapt to changes in the regulatory and statutory environment. The current and proposed position in relation to each piece of the framework is outlined in the following sections.

The Organisation Structure of the Company is depicted in the following table:

## R&Q Insurance (Malta) limited - Organisational Structure




**FR Function Responsible**
**OR Oversight Responsible**

**Key Function**
**Other Function**

| Function | Contact Persons |
|---|---|
| Risk Management | Susan Young |
| Internal Audit | Ash Malik |
| Actuarial | Carrie Hewitt |
| Compliance | Nigel Goodlad |

**The Board of Directors shall:**

- Provide entrepreneurial leadership of RQIM within a framework of prudent and effective controls which enable risk to be assessed and managed.
- Set RQIM's strategic aims, ensure that the necessary financial resources are in place for the Company to meet its objectives, and review the insurance manager's performance.
- Set RQIM's values and standards and ensure that its obligations to its shareholders and others are understood and met.
- Comply with all statutory and common law duties of a company registered in the European Union.
- Comply with the Memorandum and Articles of Association of the Company.
- Comply with requirements set out in the Maltese Companies Act and Maltese Insurance Business Act (Cap 403) and comply with the General Good Requirements for all classes of business in each country within which RQIM is operating.
- Assume responsibility for the day to day conduct of RQIM's business. Clearly and appropriately apportion significant responsibilities to the Insurance Manager and other third party providers.
- Oversee the establishment and maintenance of robust and clearly documented systems and controls in accordance with applicable regulations.
- Review and approve business submitted by the Underwriting and Claims Committee.
- Oversee the process of outsourcing, and monitor the discharge of the Compliance, Risk Management, Internal Audit and Risk Management functions.

In order to discharge its' duties, the Board meets at least quarterly and on an ad-hoc basis as required. Discussions of the quarterly meetings centre around the following:

- Financial results including actuarial matters.
- Compliance and legal matters.
- Risk management.
- Litigation management.
- Reports from the various Committees.
- Outsourcing matters.
- New business and strategic decisions.

**The Investment Committee shall:**

- Assist the Board of Directors in formulating and keeping under review investment policies of the Company.
- Direct the management of the investments in accordance with investment policies and any specific directives from the Board.
- Monitor investments and their compliance with the investment policies.
- Receive regular reports from officers and investment managers and keep investment performance under review.
- Report regularly to the Board of Directors.

In order to discharge its' duties, the Committee meets at least quarterly and on an ad-hoc basis as required. Discussions of the quarterly meetings centre around the investment strategy and results for the quarter.

**The Underwriting and Claims Committee shall:**

Determine and implement on behalf of the Company suitable premium and contract terms in respect of the proposed Risks underwritten by the Company.

- Review the retained risk, capital adequacy and solvency of the Company.
- Review contract wordings.
- Identify and assess potential new underwriting opportunities.
- Determine and Review on an annual basis the Reinsurance Strategy of the Company.
- Review Security Ratings of Reinsurers.
- Review of agreements with Brokers, Reinsurers and other Insurance Advisers.
- Provision of advice to the Board.
- Review the Underwriting results of each portfolio on a quarterly basis.
- Determine and annually review the claims reserving policy of the Company.
- Determine and annually review the Company's claims protocol/commutation strategy.
- Review major claims incurred and appropriateness of reserves held.
- Receiving reports from the Actuaries on the take on of new portfolio transfers and new fronting business.

In order to discharge its' duties, the Committee meets at least quarterly and on an ad-hoc basis as required. Discussions of the quarterly meetings centre around the underwriting performance for the period and new business proposals.

**The Audit Committee shall:**

- Make recommendations to the Board to appoint, dismiss, agree compensation of and oversee the work of the independent auditor in connection with conduct of the audit, issuing an audit report and related work (including liaising between management and the auditor regarding financial reporting).
- Receive, and take any appropriate action in relation to, all reports and other communications which the independent auditor is required to make to the Audit Committee.
- Review and discuss with Management and the Independent Auditor the annual audited financial statements (and where practicable any other material public or regulatory financial statements), including disclosures made in Management's discussion and analysis and the audit representation letters, and recommend to the Board whether the audited financial statements should be approved.
- Discuss with Management and the Independent Auditor significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements.
- Discuss with Management and the Independent Auditor the effect of regulatory and accounting initiatives.
- Meet with Management, the internal accountants / auditors and the Independent Auditor separately quarterly or at such other interval as the Committee deems reasonable.

- Monitor the independence of the Independent Auditor
- Monitor the integrity of the Company's financial and other internal controls.
- Receive from management reports on the effectiveness of the internal control and risk management systems, and the conclusions of any testing carried out by internal and external auditors.
- Monitor and review the effectiveness of the Internal Audit function, and to approve the appointment or termination of the Internal Auditor.

In order to discharge its' duties, the Committee meets at least twice a year and on an ad-hoc basis as required. Discussions of the meetings centre around the reporting from the internal and external auditors.

**Compliance Function**

The Compliance Function is outsourced to the Insurance Manager as part of the overall Insurance Management Agreement. The Compliance Function reports directly to the Board and is responsible for:

- The approval of the Board for a policy statement on compliance with all applicable regulations, legislation and guidelines.
- Developing an annual compliance plan to undertake a compliance monitoring program on the key internal controls, as identified by the Board, to ensure that they are operating effectively and to document the tests undertaken and the results obtained. The compliance plan should ensure that all relevant areas of the Company are appropriately covered, taking into account their susceptibility to compliance risk.
- Assisting the Board with ensuring ongoing compliance with legislation and applicable requirements and documenting any breaches identified and how they were addressed.
- Providing, through opinions, supervision and independent controls, reasonable assurance of the effectiveness and consistency of the internal processes used to control the compliance of the Company's operations and protect its reputation.
- Keeping the Board informed of any amendment to the applicable regulations, legislation and guidelines or the addition of any new requirements.
- Reporting to the Board at each Board meeting outlining the control tests undertaken since the last report and to comment on the Company's compliance with reinsurance legislation and guidelines.
- Promptly reporting to the Board any major compliance problems identified.

**Risk Management Function**

The Risk Management Function is outsourced to the R&Q Group Risk Management Function and reports directly to the Board. It is responsible for:

- Assisting the Board in setting risk management strategy, in developing a risk management framework of the Company's risk appetite, limits and tolerances, in establishing internal risk management structures, and in ensuring that the necessary resources are available and dedicated to achieving the risk management objectives.

- Working with the Board and other functions in assessing and defining the risks existing in specific risk areas and from those assessments developing written risk management policies and procedures to manage those risks.
- Assisting the Board in assessing the Company's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks, including looking at risks from different perspectives, such as by territory or by line of business.
- Identifying and assessing emerging risks and advising the Board thereon.
- Working with the Board and other functions to determine acceptable risk limits for each risk type and facilitating control mechanisms to ensure that limits and procedures are adhered to, and that the Company is operating within the risk appetite parameters set by the Board.
- Assisting the Board in implementing the risk strategy agreed upon by ensuring the effective operation of the risk management system, in particular by facilitation of other functions and by performing specialist analysis and quality reviews.
- Maintaining an organisation-wide, aggregated view of the Company's risk profile.
- Preparing reports, either separately or in conjunction with other functions as needed, for formal discussion at Board meetings and for presentation to other stakeholders on the material risks faced by the Company and on the effectiveness of the risk management system.
- Developing documented processes to respond to imminent and post loss risk events, including contingency and business continuity programmes.
- Evaluating on a regular basis the design and operational effectiveness of the risk management system to identify, measure, monitor, manage and report risks the company is exposed to.
- Advising the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, amounts, types and distribution of capital adequate to cover the risks of the institution.
- Working with the Board and other functions to develop, when applicable, and to regularly carry out, a suitable Own Risk and Solvency Assessment ("ORSA") process.
- When applicable, maintain the ORSA record and prepare both the ORSA internal & supervisory reports, in conjunction with other functions as appropriate.

**Internal Audit Function**

The Internal Audit Function is outsourced to the R&Q Group Internal Audit Function and, following constitution of the Audit Committee it reports directly to the Audit Committee. Prior to that, the Internal Audit Function reported directly to the Board. Its responsibilities are:

- To review, on a sample basis, the risk management arrangements, including the key controls to manage risk.
- To assess the correct implementation of strategies, management capabilities and the qualitative aspects of activities.
- To carry out investigations in all areas, either included in the internal audit plan or following a request by the Board.
- To evaluate the adequacy and effectiveness of the internal control system and other elements of the system of governance.
- To evaluate the compliance of activities with internal strategies, policies, processes and reporting procedures.

- To produce written reports following audit of different functions and report at least annually to board on efficiency, suitability of the internal control system as well as major shortcomings with regard to the compliance with internal policies, procedures and processes.
- To make recommendations in the reports on how to remedy inadequacies and also specifically address how past points of criticism and past recommendations have been followed up.
- To generally make any recommendation that will improve the Company's operation.

**Actuarial Function**

The Actuarial Function, which is outsourced to the Actuarial Function of the R&Q Group, plays a vital role in the management of some of the Company's key risk areas such as assessing the adequacy of claim & premium reserves, sufficiency of risk premiums charged to cover claims, determining the Company's SCR in accordance with the Standard Model methodologies, and providing valuable data for future risk premium determinations. The Actuarial Function reports directly to the Board.

Carrying out its responsibilities involves:

- Having access to all necessary resources and information systems.
- Co-ordinating the calculation of the Technical Provisions ("TPs"), applying appropriate recognised methodologies and procedures to assess their sufficiency.
- Assessing the uncertainty associated with the estimates.
- Judging the quality of underlying data and the specific lines of business and assessing the best methodology to use in the calculation of the TPs, using judgement where necessary to establish assumptions and to safeguard the accuracy of the results.
- Taking into account relevant market information and integrating it into the TP assessment.
- Comparing and justifying any material differences between the estimates for different years.
- Assessing suitability of IT systems to support the data, processes and methodologies needed to in the calculation of TPs.
- Back-testing actual results against estimates to improve quality of current reserves and the methodology used.
- In expressing an opinion on adequacy of TPs to Management, also setting out how it arrived at its opinion and clearly stating and explaining any concerns it may have on the sufficiency of the TPs.
- Expressing an opinion on the overall underwriting policy, taking into consideration the following issues: i) sufficiency of the premiums and risk premiums to cover future losses and the impact of expenses directly associated with future claims and of unallocated loss adjustment expenses; ii) inflation, legal risk, change of mix, anti-selection iii) the adequacy of the significant reinsurance arrangements as well as expected cover under stress scenarios.
- Being sufficiently independent, objective and free from influence of other functions including Management and the Board.
- Reporting at least annually to the Board on the tasks undertaken, any identified shortcomings, and recommendations on how to remedy deficiencies.
- Assisting on acquisition and fronting activity to provide reserving and capital modelling requirements.

**Material change in the System of Governance**

There has been no material change to the underlying System of Governance with the exception of the establishment of the Audit Committee in the 1st Quarter of 2017.

**Remuneration Policy**

The Company does not have full time staff, but outsources the functions to the R&Q Group and to other third party providers, including the Insurance Manager. Further detail of outsourced arrangements are included in Section B7. The non-Independent non-Executive Directors are not remunerated by the Company as their responsibilities are part of their overall employment responsibilities and are governed by their employment contract with R & Q Insurance Group.

The Company's remuneration policy, as applicable to the Independent Non-Executive Directors sits under the oversight of the Group Remuneration Committee. The Company is committed to ensuring that its practices promote the achievement of the overall aims and objectives of the Company, its financial stability and its risk management framework. The Company's Remuneration Policy for the Board is formulated to attract and retain high-calibre directors and to motivate them to develop and implement the Company's business strategy in order to optimise long-term shareholder value creation.

Independent Non-Executive Directors are remunerated on a fixed fee basis only, which is based on experience, responsibilities and level of time commitment.

No key management personnel, or key function holders are entitled to share options or to any form of variable remuneration and neither are they eligible to any supplementary pension or early retirement schemes

**Transactions with Shareholders**

As disclosed within section A3 above, the Company had loaned back £37.4m to Shareholders. The loans are unsecured and repayable within one year and attract an interest rate of 2.75% over LIBOR.

There are no other material transactions with Shareholders, members of the management body or those exerting a significant influence over the Company.

**B2. Fit and proper requirements**

**The Board of Directors and Officers**

The Company ensures that it is directed and managed by a sufficient number of persons who are fit and proper persons to hold their respective positions and that those Directors and Officers are:

- Professionally competent and capable to carry out their responsibilities and have demonstrated this through their experience and training.
- Honest, have integrity and are reputable.

The assessment of the management and technical competence of an individual is based on their previous experience, knowledge and professional standing, which demonstrates due skill, care, diligence, and compliance with the relevant standards of the area/sector they have worked in. In relation to Director Appointments, the assessment also considers how the proposed appointment would augment the collective fitness and proprietary of the Board as a whole.

The assessment of reputation includes checks as to whether there are any reasons to believe from past conduct that an individual may not discharge their duties in line with applicable rules, regulations and guidelines. Assessment is initially made prior to appointment to their role, but will be reassessed on a regular basis as part of an annual performance review process.

## B3. Risk management system including the Own Risk and Solvency Assessment

### Risk Control Self-Assessment & Reporting Process

### Risk Management Process

The following diagram shows the Risk Management cycle, demonstrating the iterative nature of the Risk Management Process, and is followed by a high level explanation of the key steps and processes involved.


The identification, assessment, control/mitigation and monitoring of risk are continuous processes.

### Risk Identification

The process begins with the identification of risks and an analysis of the nature of each risk. Managers within the outsourced providers are involved at this stage of risk management, whether for new or existing risks. The aim is for all involved to be aware of the risks to the business objectives and to be able to highlight any new risks that may be developing over time or changes in existing risk levels such that they are reported and responded to appropriately.

### Risk Assessment

Following on is the assessment of the likely frequency and severity of risks, by means of qualitative or quantitative measurement. This stage of the cycle involves the participation of the risk owners.

**Risk Control/Mitigation**

The level of each risk must then be managed or controlled down to a satisfactory level. This stage will not only involve both risk and control owners but also many other Group functions that are involved in undertaking control activities.

**Risk Register**

All identified risks are recorded on the risk register and allocated to the risk owner. The controls and mitigations are also recorded on the Risk Register once they are identified. The risk register is a 'live' document and is updated each time a risk/mitigant/control is identified or changed.

**Reporting**

It is critical that the relevant information for each key risk is seen by the "right people at the right time" across the Group. This information is most likely to be provided by risk and control owners as they are closest to the issues and is reported on a regular, timely and consistent basis. Reporting is consolidated and/or reviewed by the Group's Risk Management Function and then escalated up to senior management. In addition the Risk Management Functions reports to the Malta Board at least twice a year.

**Review**

Once the key business risks have been identified, assessed and are subject to controls throughout various parts of the business, it is important to review that these control/mitigation activities are operating effectively and that the risk and control scoring is valid. Assurance is provided over risks and controls by resources which are independent of line management, e.g. Group's Risk Management or Internal Audit Functions.

**Risk and Control Self-Assessment Process**

**Risk Owners**

Each Risk within the Risk Register is assigned a Risk Owner.

Risk Owners have the following responsibilities:

- To identify, regularly maintain and communicate up to date information to the Risk Management Function.
- Ongoing monitoring of owned risks for changes in their impact and likelihood (part of the Risk Workshop process) – see below.
- Communication and liaison with Control Owners to put in place sufficient control activities appropriate to the nature of the risk.
- Identifying and assessing the appropriateness and effectiveness of controls and systems being relied on to manage risk.
- Sourcing, collating and analysing relevant data indicating movements in impact or likelihood of the risk.
- Reporting information in a regular and timely manner to the appropriate individuals/forums/committees/Risk Management Function as appropriate.

- Creating and implementing appropriate action.
- Escalating/immediate reporting of any changes in existing, or new risks as well as any significant control failings/weaknesses or events that may arise.
- Ensuring effective implementation of Risk Management action plans.
- Accountability for the effective management of owned risks.

**Control Owners**

Each mitigating control is assigned a Control Owner. Control Owners have the following responsibilities in respect of the controls they own:

- Ensuring effective and efficient control design to manage the impact and likelihood of the risk.
- Effective performance of control activities as designed.
- Provision of information/reporting related to the performance of controls.
- Sourcing and collating relevant data concerning the performance of controls.
- Analysis of this data and conversion into indicative information.
- Reporting information on a regular and timely manner to the Risk Owner and other individuals or committees.
- Creating and implementing appropriate action.
- Escalating/immediate reporting to the Risk Owner and other individuals or committees of any control weaknesses or breakdowns.

**Periodical Risk Workshop Process**

The Group Risk Management Framework requires Risk Owners to review and confirm that the risks for which they are responsible are appropriately graded in terms of inherent, residual probability and severity. Furthermore, they are also required to review and confirm that the mitigating controls identified for each risk for which they are responsible are in place and working.

This process is carried out quarterly and takes the form of a face-to-face meeting with a member of the Risk Management Function. Following the meeting the Risk and Control Owners are required to sign off the status of the risk and controls that they are responsible for.

The Risk Owner retains overall responsibility for managing the risks for which they are the designated owner, including those risks where some, or all, of the controls in place are in the charge of another manager.

Whilst the Risk Owner is ultimately responsible for each control appearing in their risk(s), there are some controls that the Risk Owner does not manage directly. Under these circumstances, the control will be signed-off by the individual who manages that control.

**Risk Identification**

Risk identification seeks to identify the sources and root causes of key risks that may affect the business achieving its stated objectives. Examples may include but not be restricted to the following:

- A change in existing products, processes, or outsourced providers.
- Development of new products or processes (eg. Fronting).

- New projects or initiatives.
- Terrorist Activity.
- Political changes (Brexit).

There are a number of potential ways in which risks can be identified, including self-assessment questionnaires and discussions, process and risk mapping, facilitated Risk Management Workshops, and Board and Committee discussions. The range of methods available comprises both top down and bottom up approaches. In practice, a variety and combination of different approaches will be used.

A combination of top down and bottom up approaches to risk identification ensures that there is input from both Senior Management (Board and Committee level), and throughout the other management/employees of the Group.

When identifying risks, the following is noted:

- **Risk Description and Key Impacts** – high level articulation of the risk and the main consequences of that risk materialising.
- **Impacted Business Objectives** – the business objectives as outlined in the Business Plan which would be impacted by the risk materialising.
- **The Root Cause of the Risk** - The root cause seeks to identify the factors that generate the risk. The root cause is considered in the absence of controls; therefore the root cause does not indicate control weakness, rather it indicates the factors that need to be controlled in order to mitigate the risk to an acceptable level.

**Risk Assessment Criteria**

Once risks have been identified, they are assessed in terms of their impact and probability:

- **The Impact** is defined as the level of extent to which the risk would affect the ability of the business to deliver its strategy and objectives were it to occur.
- **The Probability** is defined as the likelihood that the risk will materialise within the next twelve months. This assessment is based on previous history, management experience, intuition and any current factors or circumstances which may be of relevance.
- Probability and Impact is assessed both on an **Inherent** Risk basis and a **Residual** Risk basis.
- **Inherent Risk** is the risk in a business or process before the effect of any risk mitigation, control or transfer activity.
- **Residual Risk** is the potential impact and likelihood of an identified risk exposure, considering the effect of the existing (but excluding planned) controls.

The table below explains the ratings used by the Company for the assessment of the impact and probability of each risk. These are subject to periodic review for continued appropriateness.

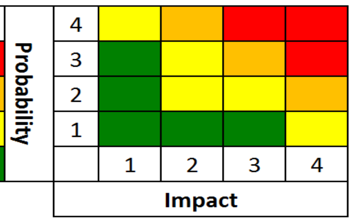
| EXPLANATION OF RATINGS AND RISK MATRIX | | |
|---|---|---|
| **IMPACT** | | |
| **Rating** | **Definition** | **Monetary Impact*** |
| 1 | Insignificant | 0-10% of appropriate criteria |
| 2 | Minor | 10-25% of appropriate criteria |
| 3 | Moderate | 25-50% of appropriate criteria |
| 4 | High | >50% of appropriate criteria |
| **PROBABILITY** | | |
| 1 | Unlikely | Once in every 6+ years |
| 2 | Possible | Once in every 1 – 5 years |
| 3 | Likely | Once a year |
| 4 | Frequent | More than once per year |

*The monetary impacts are measured against the appropriate criteria, including: net assets, reserves, turnover. For risks that are difficult to quantify, qualitative measures may more appropriate, to include one or more of the following:

- **Legal/Regulatory**
- **People**
- **Business Disruption**
- **Regulatory**

The ratings range from 1 (Low) to 4 (High) and the ratings are multiplied to generate a final score. Risks with a residual score of 9 or above, according to the scale below, are subject to prompt additional work. Risks rated between 4 and 8 require consideration of the need for additional work. Risks rated 1 - 3 require no further action at present, but will be kept under review.

| Risk Profile | Score | Management Action |
|---|---|---|
| Critical | 12 – 16 (Red Zone) | Prompt additional action required |
| High | 8 - 9 (Amber Zone) | Additional action required |
| Medium | 4 - 6 (Yellow Zone) | Additional action may be required |
| Low | 1 – 3 (Green Zone) | No further action required |




Identification and assessment of controls is necessary to form an overall assessment of Residual Risk. These aspects are covered in the next section.

**Control Identification**

Controls are defined as either a preventive and/or detective and/or monitoring activity intended to manage inherent risks identified within the business. These will normally relate to the management of the potential probability and/or risk exposure but may also involve other methods of risk treatment such as transfer (e.g. by insurance or other contractual means), or by avoidance (elimination of the risk creating activity completely).

Controls are identified by similar means to identification of risks, but particularly by discussion with the Risk Owners, to gain an understanding of the measures in place to mitigate an identified risk.

It is not only existing controls that are identified as part of this process, but also potential controls which may serve to reduce the inherent risk grading to a target (desired) level, if the existing residual assessment is higher than management would ideally like.

**Control Assessment Criteria**

Controls can be evaluated to understand the residual risk of a particular item in the Risk Register by using a variety of methods.

When assessing a control, consideration is given to whether it is a **preventative** or **detective** control, as well as the balance between the two types of control:

- **Preventative controls** are high-level controls aimed at preventing risks from materialising at a very early stage. Examples may include the business planning process, internal policies and procedures.
- **Detective controls** would typically be carried out on a periodic basis, for example weekly, monthly, quarterly. Under these circumstances, any issues identified and related remedial action prompted by such controls can be potentially serious due to the time lag since the risk event. Examples of such controls include quarterly reviews, monthly reconciliations, underwriting peer reviews etc.

RQIM uses the following criteria to assess controls:

- **Control Design** considers how well the control should work in theory if it is always applied in the way it is intended to work. Many controls of themselves will not be designed to reduce the risk completely. This can arise for a number of reasons, for example additional controls may address the risk entirely, the organisation may be prepared to accept the level of risk and/or it may be uneconomical to mitigate the risk entirely, or the control in question may be inappropriately designed for the particular risk in question. The control design assessment parameters are as follows:

| | |
|---|---|
| Green | Control is designed to eliminate the risk entirely |
| Amber | Control is designed to reduce some or most aspects of the risk |
| Red | Control is very limited or is badly designed. |

- **Control Performance** considers the way in which the control is operated in practice; it is applied when it is and in the way intended by the control designer. If the control is not operating effectively as a result of the assessment of that control, a decision is taken as to whether the residual risk of that control is within acceptable limits, or whether the control is reengineered to improve its performance. The control performance assessment parameters are as follows:

| | |
|---|---|
| Effective | Control is always applied as intended |
| Partially effective | Control is sometimes applied as intended |
| Ineffective | Control is not always applied as intended |

**Risk Treatment and Assurance**

Risk Management is a continuous process which applies to the identification, assessment, monitoring, control and reporting of risk. Control and mitigation of identified and assessed risks will follow with a programme of Risk Treatment and Assurance.

Once the key business risks have been identified and assessed, the level of risk is transferred or controlled down to a level considered satisfactory by management. This will inevitably entail the Risk and Control owners and also other members of staff involved in undertaking relevant control activities.

The main forms of Risk Treatment are as follows:

- **Risk Avoidance** – where the risk taking activity is deemed to be outside the tolerances of the business and the activity is discontinued
- **Risk Retention** – where the risk taking activity is deemed to be within tolerable limits (for example where the probability is very low but the potential impact high, or the probability high but the impact very low), that the risk can be retained with no further mitigating action
- **Risk Mitigation** – where the impact and/or likelihood are mitigated by additional internal controls or other treatment
- **Risk Transfer** – where the risk bearing activity is transferred to a third party, usually for a consideration/premium.

RQIM deploys a combination of Risk Treatment measures as it sees fit (in common with most other organisations).

Following this, it is important to obtain confirmation that these activities are being performed as expected and that the risk and control scoring is valid. With RQIH, this assurance is provided by the First Line of Defence (Risk and Control Owners) by way of the quarterly Risk Workshop process, the Second Line of Defence (Risk Management Function) by way of constructive review and challenge and by the Third line of defence (Internal Audit) by way of independent review and reporting.

The top residual risks in the Malta Risk Register are detailed in the table below:

| Risk | Inherent Rating | Residual Rating |
|---|---|---|
| **R0572 –** Non-Compliance with Legal and/or Statutory and/or Regulatory Obligations and/or Fiscal Reporting | **Critical** | **Medium** |
| **R0566 -** Reliance on Key Person/Skills Dependency | **High** | **Medium** |
| **R0554 -** Inaccurate/Inadequate Share Purchase Agreement (SPA) | **High** | **Medium** |
| **R0560 -** Ineffective Investment Management | **High** | **Medium** |
| **R0561 -** Ineffective ALM | **Medium** | **Medium** |
| **R0562 -** Ineffective Cash Flow Management and Insufficiency of Liquid Assets | **High** | **Medium** |
| **R0571 -** Failure to Clearly Articulate or Align Strategic Objectives | **High** | **Medium** |

**Emerging Risks**

- In light of the EU referendum result to leave the EU, the Brexit risk on the Emerging Risk Register has now crystalized. The situation is currently very uncertain and will depend on the trading deals the UK enters. The main risks currently stemming from the decision relates to the potential for increased volatility of exchange rates; and the potential inability for UK run-off portfolios to be transferred into RQIM – this risk has been factored into the latest RQIM ORSA report through 'Soft Brexit' and 'Hard Brexit' scenarios. As mentioned in Section2, this risk has led to the review of the RQIM strategy to consider the fronting of live insurance policies.
- EU General Data Protection Regulation rules (GDPR) which come into force in May 2018. This regulation requires firms to report own failings. The IT department at RQMS is currently undertaking an exercise to determine the sensitivity of the data that is held across the RQIH Group as well as undertaking a benchmarking exercise against the UK Governments recommended cyber security standard.

**How the Risk Management function is integrated into structure & decision making**

The R&Q Group operate a "Three Lines of Defence" model for Corporate Governance. This model forms the standard for risk governance within the insurance industry as follows:

- Business units form the first line of defence in managing risk through the operation of effective systems and controls over the day to day activities of the business.
- Risk Management systems, Actuarial and Compliance functions provide the second line of defence through the oversight of the operation of the Company's systems and controls, the provision of advice and challenge on Risk and Compliance matters to business units, and the monitoring of the Company's risk profile compared to its risk appetite.
- Internal and External audit functions form the third line of defence through the independent assessment of the Company's systems and controls.

The integration of Risk Management into the organisational structure and decision making is depicted as being pervasive throughout the whole organisation.

**Description of ORSA process**

Although the principal output from an assessment of capital under the ORSA is an ORSA report, the ORSA is fundamentally a continuous, embedded, forward-looking process, requiring the assessment of the entity's needs over a longer time planning horizon than the SCR (which looks one year forward). The ORSA planning horizon is required to be three to five years. Furthermore, the ORSA is required to look at a range of outcomes in addition to the 1-in-200 return period.

The ORSA process takes place continually as part of the business and capital planning cycle and the process stages are outlined below.

The stages of the ORSA process are outlined below:

- **Identification of ORSA Trigger**
  The ORSA will normally be triggered by the annual business planning cycle. However, changes to Strategy or Plan mid-year (requiring reforecasting) and/or changes to the Risk Profile of the Business may also constitute triggers if deemed sufficiently material.
- **Board Approval to Commence the ORSA Process**
- **Identification of Relevant Components –** relevant cross functional involvement and relevant process inputs
- **Assessment of Potential Capital Impacts** - This stage comprises the main part of the ORSA process and involves the assessment of capital needs based on the triggers identified.
- The assessment should explicitly consider the inter-relationship between the following:

  - The proposed business strategy.
  - The solvency capital requirement.
  - The material risks that the Company faces over the ORSA planning horizon.
  - The planned and stressed return on capital in relation to the Board's Risk Appetite.
  - The actions that could be taken to address identified risks or breaches of Risk Appetite.

- **Production of the ORSA Report** - The ORSA report is based on a standard pro-forma that follows the annual ORSA process. Where a periodic ORSA report is produced, some of the categories may not be applicable in that particular instance, e.g. if there has been no material impact in that area. If that is the case this is explained.

The production of the ORSA report is coordinated by the Risk Management Function.

The report provides an assessment and recommendation of capital needs given a range of outcomes over the 3 year planning horizon.

- **Board Review and Approval** - The Board reviews and approves the report and in particular the confirmation statement on the risk profile, assessed capital needs and the adequacy of the processes underpinning this. The Board is also responsible for providing constructive challenge as it deems necessary on both the process and the output from it.
- **ORSA Finalisation** - Once the Board has conducted its review and provided whatever challenge deemed necessary, the report and the process are finalised.
- **Feedback Loop** -Although each ORSA process is separate and distinct, one of the principal outputs from it is a series of actions and decisions. Documented actions, decisions, owners and timescales from the ORSA process forms one of the principal inputs to the subsequent ORSA. In particular, these include decisions relating to strategy, risk and capital and changes thereto.

**How the ORSA is reviewed and approved**

The Company's ORSA process is owned, steered and challenged by the Board through the review and approval of those individual processes and outputs that underpin it.

The primary elements of the Capital & Solvency Assessment are core to the consideration of new portfolio transfers and are required by both the Board and the Regulator prior to approval of same.

The process is supported by RQIM's outsourced Actuarial, Risk and Compliance services.

## B4. Internal control system

**Internal Control systems in place**

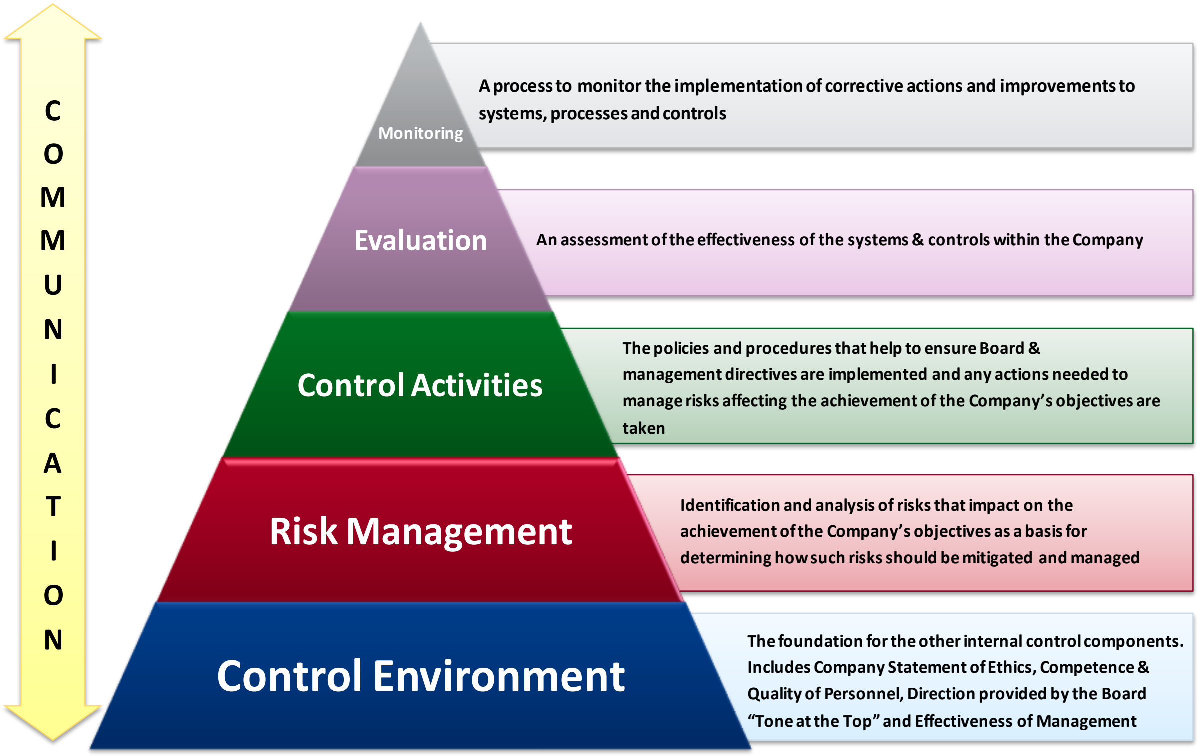
Internal Control is defined as a process effected by the Company in relation to its organisational structure, work & authority flows, personnel & management information systems that is designed to help the Company meet its specific goals or objectives.

RQIM is committed to operating an effective internal control system with the following objectives:

- Effective and efficient operations in view of its risks & objectives.
- Available & reliable financial and non-financial reporting.
- Compliance with relevant legislation and regulation.

An effective internal control system is fundamental to the successful operation and day-to-day running of the Company's business and particularly as its activities expand.

The Internal Control System at RQIM is built upon five key components as illustrated below;




The Internal Control system is outlined by the Group's Internal Control policy, (forming part of the Group Risk Strategy and Policy document) that is approved by the Group Board. The policy sets out the responsibilities, objectives, processes & reporting procedures to be implemented in order to achieve the objectives stated above together with the specific responsibilities of the Compliance function.

The effectiveness of RQIM's Internal Control system is monitored on a continuous basis, so that any deficiencies of the system can be identified and rectified in a timely manner.

The purpose of an internal control system is have in place a coherent, comprehensive and continuous set of mechanisms which are designed to secure the following:

- Effectiveness and efficiency of the undertaking's operations, leading to improved performance and error reduction.
- Alignment of the Company's activities with its business objectives by ensuring resources are correctly and prudently allocated.
- Safeguarding of the Company's physical and monetary assets against error, fraud, theft and unauthorised use, acquisition or disposal, by quick identification and systemic prevention of, and formal responses to, these activities.
- Availability, reliability and accuracy of financial and non-financial information, ensuring proper financial reporting, by maintaining accurate and complete records required by legislation, regulation, the Board and the Group.
- Provision of timely and accurate management information critical to sound management practices and decision making.

- Compliance with applicable laws, regulations and administrative provisions.
- Reduction of exposure to risks by minimising the chance of unexpected events/

The guiding internal control principles are the following:

- The Board of Directors ultimately retains responsibility and accountability for governance of the Company, even where the Board has delegated some decision making authority to sub-committees, management or other persons.
- The Company views the system of effective internal control as a critical component of managing the Company and a foundation for its the safe and sound operation.
- Within the Company, the internal control system is a set of continually operating processes, involving the Board and management and all levels of personnel including all Third Party Service Providers ('TPSPs') involved in the company's key functions.
- In designing the internal control system the Company has ensured that its systems, both manual and electronic, are appropriate to its business strategies and data needs and are consistent with the nature, scale and complexity of its activities as an insurer.
- The Company recognises that internal control must be exhaustive and must apply to all types of risk without exception, including risks associated with outsourced functions, that all must be managed to the same standard, albeit recognising that every risk may not need the same level of control. Some risks may need heavier controls or a number or layers of controls, either cumulative or successive, the scale and number of which will be in proportion to the severity of the risk.
- The Company's systems take account of applicable data protection requirements, provide for appropriate security controls and have in place mechanisms to control access to hardware, software systems and data, so as to maintain the integrity of records and information and thereby protect the interests of policyholders.
- The Company is confident that its internal control system comprises robust and efficient control activities at all levels of the Company and that it is appropriately and correctly implemented by management in line with the company's goals, business plans and strategies.
- To ensure their continued effectiveness the control activities are reviewed and documented, in a set of written policies and procedures and appropriate audit trails, on an on-going basis as an integrated part of daily business.
- The Company's internal control system is built around a strong control culture of which a high level of integrity is an essential part.

Each internal control procedure is designed to fulfil at least these eight criteria:

- Completeness – to check that all records and transactions are included in the reports of business.
- Accuracy – to check that the right amounts are recorded in the correct accounts.
- Authorisation – to check that the correct levels of authorisation are in place to cover such things as approval, payments, data entry and computer access.
- Validity – to check that the amount booked is for cover provided, claim paid or services received and that the business has incurred the liability properly.

- Existence – of assets and liabilities. To check that goods or services have actually been received when a purchase is recorded; to check that all assets on the books actually exist; to check that correct documentation exists to support the item.
- Handling errors – to check that errors in the system have been identified and processed.
- Segregation of duties – to check that certain functions are kept separate, for example the person setting up amounts for payment does not also authorise those amounts.
- Presentation and disclosure – to check that there is timely preparation of financial reports in conformity with generally accepted accounting principles.

The on-going monitoring occurs both in the course of normal operations of the Company, and in accordance with the Groups policies and procedures, as well as the review of systems and controls by the Compliance function, on behalf of and via internal and external audits.

Day-to-day responsibility for compliance matters rest with the Group Head of Governance reporting to the Group CEO.

A Compliance Plan, detailing the timetable of compliance activities to be undertaken for the forthcoming year, is prepared and approved by the Board.

## B5. Internal audit function

### Internal Audit function

The Internal Audit Function is responsible for monitoring the Company's system of internal controls and is an important part of the Risk Management system, providing an independent assessment of the adequacy of, and compliance with, the Company's established policies, procedures and risk management framework. To ensure its effectiveness as an independent function within the organisation, and to enable it to carry out its duties in an objective and impartial manner, the Internal Audit Function:

- Works under an annual audit plan which ensures that all significant activities are reviewed within a reasonable period of time, in accordance with the audit cycle principle. This plan is drawn up by the internal audit function, to determine its future auditing actions, taking a risk-based approach in deciding its priorities, with areas of key strategic risk informing the internal audit cycle.
- Is not subject to the instructions of the general management, audit committee or board except that the board and general management must approve audit plans.
- Is able to exercise its assignments on its own initiative in all areas of the company.
- Is free to communicate directly with all staff and to express its opinion.
- Has a complete and unrestricted right to obtain information, which includes the prompt provision of all necessary information, the availability of all essential documentation and the ability to see into all the company's activities and processes, relevant for the discharge of its responsibilities.
- Is granted access to any of the Company's records, files or data including management information and board and committee meeting minutes, whenever relevant for the performance of its tasks.

The current size and nature of the Company's activities is such that it is disproportionate to establish a dedicated Internal Audit Function outside of the R&Q Group Internal Audit Function. Accordingly the Internal Audit Function has been outsourced to the Group. Group Internal Audit has the ability to sub-contract elements of the work to professional firms who report independently to the Group Audit Committee and Board as appropriate.

The specific responsibilities are as follows:

**Board**

Oversight and review of internal control and risk management including:

- Receiving reports on, and reviewing the effectiveness of, RQIM's risk and control processes to support its strategy and objectives.
- Undertaking regular assessment of these processes.

**Audit Committee**

- Reviewing the internal audit programme at least annually to ensure that the Internal Audit function has sufficient regard to RQIM.
- Meeting with the internal auditors regularly and at such other times as deemed appropriate by the Chairman of the Audit Committee to discuss and review the findings of any internal audit performed or the forward planning for any proposed audit.
- Considering the internal and external auditors' reports on the effectiveness of internal control systems, financial reporting and risk management.
- Considering management's response to any significant internal and external audit recommendations.
- Reviewing progress and direct as necessary to ensure implementation of any significant recommendations made by the internal and/or external auditors.
- Reporting to the Board on the robustness of the control environment within the Company and any other matters within its remit.

The terms of reference of the Internal Audit Function are outlined within an Internal Audit Charter & Policy which specifies the objective and scope of the internal audit function within the R&Q Group, its status within the organisation, competencies/tasks required and its responsibilities.

The Internal Audit Charter & Policy is approved by the Group Audit Committee and by the Board of RQIM.

**Internal Audit Programme & Reporting**

The Audit Committee is responsible for reviewing the Internal Audit programme. This review is designed to ensure that the final audit programme undertaken by Group Internal Audit is appropriately risk based and includes an assessment and evaluation of the systems and controls in place to manage the risks faced by RQIM.

Following completion of each audit the Group Internal Audit function prepares a written report on the effectiveness of RQIM's internal control systems, financial reporting and risk management for consideration by the Board. The report includes outsourced providers responses to Group internal audit’s recommendations.

The Internal Audit function reports to the Audit Committee on the achievement of its own objectives and in particular on the execution of the audit plan in respect of RQIM.

**B6. Actuarial function**

The Company’s Actuarial Policy establishes and maintains an effective Actuarial Function as appropriate to the nature, scale and complexity of the Company and its risk profile.

The objective of the Actuarial Function is to establish and maintain appropriate procedures, processes and systems sufficient to allow the Company to reasonably estimate its insurance obligations and exposures and the related capital requirements, in line with applicable laws and recognised industry standards. The Actuarial Function coordinates the assessment and validation of internal data to determine the level of compliance with recognised standards for data quality and, if necessary, recommends improvements in Company procedures aimed at improving such compliance. Furthermore, the Actuarial Function reviews the integration of any relevant external data within the calculation of technical provisions, as may be appropriate and coordinates the process of validation of such external data, using the same criteria and standards applied to internal data.

The Actuarial Function should at all times be carried out by persons who are fit and proper to carry out the duties outlined below, in an objective manner and free from any undue influences.

The Board has outsourced the Actuarial Function to R&Q Market Services Ltd after having satisfied itself of the service provider’s ability and capacity to perform the Actuarial Function satisfactorily.

The role of the Actuarial Function has been described above in Section B1.

During 2016, the Actuarial Function participated in Board and Underwriting and Claims Committee meetings. In addition the Actuarial Function is fully integrated in the due diligence process on the uptake of new business, working alongside the Underwriting Committee. The Actuarial functions reviews and reports upon the quarterly, and annual, actuarial valuations, both in terms of statutory reserves and the reserves based on the Solvency II valuation. In addition it also acts as the liaison between the Board and the external independent actuaries.

The Actuarial Function is also fully integrated into ORSA process working alongside the Risk Management Function. It also confirmed the Company’s SCR cover at 1 January 2016 and 31 December 2016.

## B7. Outsourcing

### Outsourcing Policy

The Company enters into a number of outsourcing arrangements which are central to the operations and management of the Company. The firms as well as the individuals responsible for outsourced functions are listed in the following table:

### Outsourced Functions

| Entity | Function | Jurisdiction |
|---|---|---|
| Willis Towers Watson Management (Malta) Ltd | Insurance Management, Accounting function, Compliance, Regulatory reporting | Malta |
| R&Q Market Services Ltd | Underwriting and claims administration, actuarial, risk management, Internal audit function | United Kingdom |
| Eridge Underwriting Agency Limited | Underwriting and claims administration | United Kingdom |
| Muzinich & Co | Investment management | United Kingdom |

The Company acknowledges that due to its business strategy and the resulting nature, scale and complexity of the Company, carrying out all its business functions in-house would not result in full use of the deployed resources, which is neither efficient nor effective. Nonetheless, the Company acknowledges that outsourcing does not in any way relieve the Company of ultimate responsibility for the outsourced function. Therefore, the Board remains fully responsible for discharging all of its obligations, even in circumstances where a function has been outsourced.

The Company maintains an Outsourcing Policy which outlines the conditions to be met prior to outsourcing as well as the procedures and controls for monitoring the service providers and the adequacy of outsourcing arrangements.

### Conditions

In accordance with the Company's Outsourcing Policy, a process, activity or function can only be outsourced if the following conditions are met:

- A detailed outsourcing agreement, containing the items outlined in the Outsourcing Policy, must be put in place in respect of each outsourced service, provided that any outsourcing within R&Q Group can be covered solely by a service level agreement.
- The outsourcing agreement must be clearly explained to the Board and approved by the Board;
- A detailed examination has to be performed to ensure that the potential service provider has the ability, the capacity and any authorisation required by law to deliver the required functions or activities satisfactorily.

- The quality of the Company's system of governance and internal controls must not be materially affected by the existence of the outsourcing agreement. In particular, the ability of the MFSA to monitor the Company's compliance must not be obstructed in any manner.
- The service provider has to adopt all means to ensure that no explicit or potential conflict of interest jeopardizes the fulfilment of the needs of the Company.
- The outsourcing arrangement must not entail the breaching of any law, in particular with regard to rules on data protection.
- MFSA approval must be obtained prior to the appointment of the outsourced provider.

Prior to choosing key service providers, a detailed examination is undertaken of the potential service provider's ability, capacity and authorisation to deliver the required functions or activities satisfactorily. This examination includes an assessment of the technical and financial resources of the potential service provider, the qualifications and experience of its staff, its risk management and internal control system, including the manner in which client information is handled and its contingency plans.

**Reviews and Controls**

The Executive Directors monitor each outsourced function and would report to the Board if:

- The performance and quality of output of the service provider is not in line with the service level set out in the written agreement.
- The outsourced service provider is not adhering to the terms of the agreement and to the procedures and controls put in place to mitigate the risks associated with the outsourced function as resulting from internal audits.

In addition, an immediate, specific review should be undertaken, involving the Internal Audit Function and/or Risk Management Function, as appropriate, if any of the following occurs:

- The performance of the service provider falls below agreed levels or the poor performance of the service provider causes the Company to sustain losses.
- A dispute with the service provider remains unresolved after the dispute resolution process contemplated by the agreement has been exhausted.
- The service provider has been subject to public censure or criticism by any government or regulatory body.
- The costs of the service provider have increased inappropriately and without a valid reason.
- A material change to the management or ownership structure of the provider.

### B8. Any other information

There is nothing to report.

## C. Risk Profile

RQIM operates proportionate processes for identifying, assessing, monitoring, managing and reporting risks faced in both the short and medium/long term.

In conjunction with the R&Q Group, RQIM maintain a Risk Register recording the results of its Risk & Control Self-Assessment process providing for an assessment of risk across the categories defined in the Group Risk Universe.

The Risk Register includes assessments both of those risks considered covered by own funds and those that are not (for example, Liquidity Risk) and details the controls applied to the management of these risks.

Material risks or material changes in the perception of actual or potential future risk arising are reported to the RQIM Board together with recommended actions as appropriate.

Risk Management is a core process within RQIM's Own Risk and Solvency Assessment (ORSA) policy and is explained in greater detail in Section B3.

RQIM faces risks spanning a range of categories including, but not limited to, those categories of risk that are encompassed by the Standard Formula and for which the holding of capital is considered an appropriate response.

At a high level, RQIM considers risks within the following categories:

- Insurance / Underwriting Risk.
- Financial / Market Risk.
- Insurance Counterparty Risk.
- Liquidity Risk.
- Strategic Risk.
- Group Risk.
- Operational Risk (including Regulatory and Legal risks).

*Liquidity Risk and Strategic Risk are not explicitly considered by the Standard Formula SCR, but have been included for completeness.*

Sensitivities to the risks are included within Appendix 1

### C1. Underwriting risk

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract.

The main insurance risks which affect the Company are:

- Pricing risk – the risk that the risk premium charged by the Company is inadequately priced, resulting in underwriting losses which in turn could lead to capital impairment.

- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of.
- Reinsurance risk – the risk that the reinsurers will dispute the coverage of losses and/or inadequate or inappropriate reinsurance cover, especially given the long term nature of these risks.
- Legal risk – changes in statute or legal precedent.
- Reserving risk – the risk that the provisions established by the Company proves to be inadequate.
- Fronting risk – The risk that the counterparty fails or fails to pay a valid claim risk.

The Company mitigates these risks in the following manner:

**Pricing Risk**

At the underwriting stage a detailed due diligence is performed by experienced in-house or outsourced providers on each portfolio under consideration. The due diligence will include a review of notified claims outstanding, inuring reinsurance treaties in place and recoverability thereof, legal cases against the Company, policy information and asset values (if assets other than cash are to be taken over as part of the portfolio transfer). In addition the Company will use market information available to it on the classes of business being considered, in addition to any direct experience that the Company might have had on similar exposures.

An actuarial valuation of the business being taken over is performed, or external reports reviewed and evaluated, in order to assess the adequacy of the IBNR and the risk premium to be charged, if any.

**Claims risk**

The Company has outsourced the claims handling to a specialised R&Q Group service provider who is contracted to investigate and adjust all claims. Claims are reviewed individually on a regular basis. The Company actively manages and pursues early settlement for claims to reduce its exposure to unpredictable developments. In addition, during 2016 the Company diversified further its business both in terms of additional portfolios taken over and in terms of the different classes of business entered into.

**Reinsurance Risk**

The Company has inherited reinsurance protection in place for certain portfolios of business. The type of reinsurance cover, and the level of retention, is based on the Company’s internal risk management assessment which takes into account the risk being covered and the sums assured. The Board will approve the reinsurance taken over at the time a portfolio of business is written. In addition the Board of the Company could decide to purchase additional reinsurance should it feel it appropriate to do so. The reinsurance arrangements currently in place are a mix of proportional and non-proportional cover over three of its portfolios. The Board could also decide to commute certain treaties should it be considered beneficial to do so.

**Reserving Risk**

In addition to the reserving methodology in place at the Company on the known claims outstanding, the Company uses the services of internal and external professional actuaries to assist in the determination of the reserves that the Company holds.

**Fronting Risk**

RQIM's fronting strategy is to underwrite live business, on a fronting basis, with a selective exposure to RQIM from underwriting risk. This will be achieved through the purchase of significant quota share insurance on a back-to-back basis from reinsurers who have at least an A- credit rating. If an insurer does not have this rating level or they are downgraded they will be required to provide RQIM with collateral that is at least equivalent to the projected level of reserves, IBNR and UPR.

Each portfolio presented to be written through a fronting arrangement will be required to complete a due diligence questionnaire and provide sufficient data to enable the Company and the supporting reinsurers to understand and analyse what is being proposed. Prior to agreeing to provide a fronting facility, the Company will carry out both an internal actuarial valuation and due diligence of the business and an assessment of the Capital required to underwrite the business over a three-year projected timeframe. The arrangement will only proceed if the Company has sufficient capacity to underwrite the business and the business being underwritten meets strict underwriting guidelines as the Company is ultimately on risk.

RQIM's exposure will be further mitigated by the purchase of additional reinsurance including stop loss or Adverse Development Cover (ADC) Contracts.

## C2. Market risk

The Company is exposed to Market Risk, through its financial assets, financial liabilities and insurance assets and liabilities. The key risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance risk.

The main market risks which affect the Company are:

- Interest rate risk.
- Equity Risk.
- Property Risk.
- Spread Risk.
- Currency Risk.
- Concentration Risk.

The Company manages the overall market risk via the diversification into various classes of investments which reduces its exposure to a particular class. The risk management policies employed by the Company to manage the individuals risks are discussed below.

**Interest rate risk**

In general, the Company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets carrying variable rates expose the Company to cash flow interest rate risk. Assets carrying fixed rates expose the Company to fair value interest rate risk. The Company manages this risk through the Investment Committee, and by implementing detailed investment guidelines. Investment performance is regularly monitored against market-based benchmarks.

**Equity price risk**

Where held the Company's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities.

The risk of price volatility is managed by entering into a diverse range of investments including equities. The Company has an active Investment Committee that has established a set of investment guidelines that are also approved by the Board of Directors. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, inter alia, reference to an optimal spread of the investment portfolio, maximum exposures by the Company to any one issuer and its connected parties. These parameters also consider solvency restrictions imposed by the Regulator.

Management structures are in place to monitor all the Company's overall market positions on a frequent basis. Reports are prepared at portfolio, and asset and liability class level that are circulated to the Company's relevant key management personnel. These are also reviewed on a quarterly basis by the Investment Committee and the Board.

**Property Risk**

Property risk is the risk of decreases in value of the Company's investment in property. The property is a commercial building in a favourable location and is valued on the basis of the lease agreement in place. (see Section A4)

**Spread risk**

The spread risk relates to RQIM's investment in bond funds and Group loans and reflects potential volatility in credit spreads over risk free rates. As previously stated management structures are in place to monitor all the Company's overall market positions on a frequent basis and are reviewed on a quarterly basis by the Investment Committee and the Board. Detailed investment guidelines are in place with investment performance regularly monitored against market-based benchmarks.

**Concentration Risk**

Concentration risk is the additional risk related to the default of individual counterparties in respect of equities, bond funds, intercompany loans and properties. RQIM limits its concentration risk by spreading investments over multiple counterparties.

**Currency Risk**

Currency risk arises from changes in the level or volatility of currency exchange rates. The Company has a potential currency risk due to the global nature of the underlying business. The Company carries technical reserves in multiple currencies with the currency exposure substantially matched on an IFRS basis. Under the Solvency II valuation the Company’s currency exposure attracts a level of capital charge that is acceptable to the Board.

## C3. Credit risk

Credit Risk is the risk of decreases in value where the Company’s counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. Key areas where the Company is exposed to credit risk are:

- Investments and cash and cash equivalents.
- Counterparty exposures to reinsurers.
- Amounts due from intermediaries and other insurers in respect of premium written.

The risk management processes in place to mitigate these risks are detailed below:

- The Company places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the Company considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.
- The Company structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties. The Company has in place internal control structures to assess and monitor credit exposures and risk thresholds.
- The Company’s cash is placed with quality financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.
- Reinsurance/retrocessional transfer is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer/reinsurer. If a reinsurer fails to pay a claim or any reason, the Company remains liable for the payment to the policyholder/reinsured. The creditworthiness of reinsurers is monitored regularly by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous monitoring of the financial strength of the reinsurer. At the same time as the Board approves a portfolio transfer, it assesses the reinsurers’ credit rating (either Standard & Poors or equivalent) of any inuring treaties and ensures that adequate provisions are put in place for those that fall outside ratings acceptable to the Company.
- The exposure to individual counterparties is also managed by other controls, such as the right to offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and on reinsurers’ share of technical provisions and subsequent write-offs.

## C4. Liquidity risk

The Company is exposed to regular calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls.

The Company does not include any expected profit in future premiums.

## C5. Operational risk

The Company is exposed to operational risk through its operational outsourcing relationships, regulatory or legal environments and external events that affect the operation of RQIM's offices.

**Regulatory and Legal risk**

The risk that changes in the regulatory or legal environments lead to a change in the portfolio's liability profile and Regulators not having sufficient resource available to review and approve portfolio transfer applications in the timeframe predicted by the business. The Company has regular meetings with its Regulators and closely monitor legal developments in involved jurisdictions and any regulatory prouncements.

**Operational Outsourcing risk**

The risk that the Company is adversely affected because RQIM's outsourced service providers do not meet their service level agreements. The Company outsources functions to the Group and to two other outsource providers that are themselves regulated, thereby ensuring stability and continuity whilst ensuring adequate an adequate skillset. In addition on an ongoing basis, the Company has regular formal performance review meetings with major outsourced service providers and measures against Service Level Agreements both internal and external.

**External risk**

The risk that an external event affects the operations of one, or more, of its outsourced providers. The Company has a tested Business Interruption strategy in place.

## C6. Other material risks

The Company is exposed to further risks including both reputational and strategic risk.

**Reputational risk**

Historically, due to the run-off nature of the portfolios acquired by RQIM, the Company has not been considered to have a material exposure to reputational risks (a risk that is often considered to be non-quantifiable). However, given the strategic move into the fronting of live direct insurance business, the relative importance of reputational risk may increase. These fronting deals will initially be substantially quota share reinsured on a back to-back basis. Generally, the reinsurers will be required to have at least an A- rating or provide sufficient collateral to cover the reserves and IBNR.

However, in some circumstances this requirement may be adjusted to BBB below which it is easier for the reinsurer to accept posting collateral. These will be considered on a case by case basis.

**Group Contagion Risk**

The risk that adverse events or circumstances affecting one or more business units or entities damage the solvency, liquidity, results or reputation of other entities or the overall Group.

In the Company these risks are not directly referenced in the model and its outputs. Their impacts are assessed and communicated through qualitative assessment / narratives and the use of scenarios rather than attempting to assign simple probabilistic assessments.

**Strategic risk**

The material Strategic Risk relating to the run-off portfolio is that the Company faces an inability to identify and complete suitable run-off books of business in-line with the business plan. This risk is mitigated through use of a dedicated team, the risk is actively reviewed and there is currently a healthy pipeline, combined with intensive and thorough due diligence of potential deals.

The main strategic risk in respect of the proposed fronting deals would be the failure to appropriately implement the operational process and controls within RQIM that relate to the underwriting of live insurance business.

There is also a potential strategic risk to RQIM's current business strategy following the result of the 2016 UK referendum on EU membership**.** This result is now being considered in detail by governments, regulators and other interested stakeholders across the European Union.

Much will depend on the timetable for Brexit, and the likely shape of the UK's trading relationship with its EU counterparts post Brexit regarding the Single Market and related pass-porting arrangements. In the meantime exchange rate sensitivities between Sterling and the Euro will need to be monitored closely.

At the current time, it is too early to say specifically what impact this might have on the Business Plan for RQIM should the existing arrangements be compromised by Brexit. The current business plan and related Forward Looking Assessments is based on the assumption of a Soft Brexit scenario, whereby, the UK retains its passporting rights into the EU market and thus RQIM is still able to accept Part VII transfers from the UK.

An alternative scenario that has been considered is a Hard Brexit scenario whereby, the UK loses its passport and thus RQIM is not able to accept Part VII transfers from the UK. Under this scenario RQIM would continue to accept run-off portfolio transfers from within the EU. However, based on the timing of any EU/UK Government decision, the three Part VII transfers planned to occur in 2018 may not be capable of transfer into RQIM. The potential impact relating to this scenario has been included in Appendix 1, Stress and Scenario Testing of this report.

When there is greater clarity, the business plans will be revisited. Nonetheless, in particular, short term issues such as exchange rate sensitivities between Sterling and the Euro will be kept under review.

The Board is studying its contingency plans to ensure the ongoing operations of the Company.

### C7. Any other information

There is no further information to be included.

# D. Valuation for Solvency Purposes

## D1. Assets

As at 31 December 2016, the Company held the following assets with valuation for solvency purposes as shown:

| Class | Valuation (£000s) |
|---|---|
| Investments | |
| Property | 2,487 |
| Equities | 4,091 |
| Collective investment undertakings | 29,778 |
| Deposits other than cash equivalents | 2,733 |
| | |
| Intra-Group loans | 37,353 |
| Insurance receivables | 13,899 |
| Deposits to Cedants | 280 |
| Resinsurance Receivables | 493 |
| Trade receivables | 6,319 |
| Cash and cash equivalents | 4,142 |
| | |
| **Total assets** | **101,575** |

**Investments**

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification is dependent on the purpose for which the investments were acquired.

**Investment in Commercial Property**

Commercial property held for long-term rental yields is classified as investment property. Freehold and leasehold properties treated as investment property principally comprise office buildings that are held for long term rental yields.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit and loss.  Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods as recommended by the Valuation Standards for Accredited Valuers. These valuations are reviewed annually by an independent valuation expert.

**Equities and collective investment undertakings**

Equities and collective investment undertakings are valued as financial assets at fair value through profit and loss account. Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Company's Board and Investment Committee in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance liabilities are also designated at inception as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different bases.

**Deposits, intra-group loans, deposits to cedants, reinsurance receivables, insurance and trade receivables, cash and cash equivalents.**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company has designated at fair value through profit or loss. They include, inter alia, loans to Group companies, insurance and other receivables, cash and cash equivalents in the statement of financial position as well as other financial investments (comprising deposits with credit institutions).

Loans and receivables are measured at amortised cost using the effective interest method, less any provision for impairment.

**Compliance with IFRS**

With the exception of intangible assets (which are valued at nil in the Company's assets for solvency purposes), the Company's valuation of assets in its financial statements (prepared under IFRS accounting standards) does not materially differ from the valuation for solvency purposes.

## D2. Technical provisions

RQIM has gross discounted best estimate Technical Provisions (TPs) of £53.4m. The equivalent net amount is £37.2m. In addition RQIM holds a risk margin of £4.8m.

| Class | Gross Best Estimate | Risk Margin | Best Estimate RI Share of Technical Provisions | Net Technical Provisions |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| Workers' compensation | 16,032 | 1,332 | (311) | 17,054 |
| Marine, Aviation & Transport | 4,085 | 339 | (1,247) | 3,177 |
| Motor Vehicle Liability | 2,647 | 209 | (2,394) | 461 |
| General Liability | 27,695 | 2,302 | (14,830) | 15,166 |
| Fire and Property | 417 | 35 | - | 452 |
| Miscellaneous Financial Loss | 200 | 17 | (160) | 56 |
| Credit & Surety | 2 | - | - | 2 |
| Other Motor | - | - | - | - |
| Non Proportional - Casualty | 5,199 | 432 | (560) | 5,072 |
| Non Proportional - Marine, Aviation & Transport | 1,052 | 87 | (452) | 687 |
| Non Proportional - property | 161 | 13 | 0 | 174 |
| **Total Undiscounted** | **57,490** | **4,766** | **(19,955)** | **42,302** |
| | | | | |
| SII Expenses | 2,758 | - | - | 2,758 |
| ENIDs | 662 | - | (212) | 450 |
| Bad Debt | - | - | 1,271 | 1,271 |
| Discount | (7,558) | - | 2,779 | (4,779) |
| **Total Discounted** | **53,352** | **4,766** | **(16,116)** | **42,002** |

### Methodology

In setting the gross undiscounted claim element of TPs, the starting point is the GAAP claims reserves determined for reporting in the financial statements. The bases, methods and assumptions for each line of business are detailed below:

- TPs for inclusion within the full year GAAP accounts are estimated by the Group Chief Actuary and the R&Q AF and approved by the RQIM Board. The estimates for the purpose of GAAP are permitted to contain a level of prudence to reflect the degree of uncertainty in specific areas of the business written. Following the R&Q AF reserving policy, the AF determines best-estimate reserves with no margin for prudence on both a GAAP and Solvency II basis.
- The GAAP reserves are set by homogenous risk groups according to the class of business

- Claims TPs are projected using ResQ at various points through the year. We select underwriting year loss development factors using historical paid and incurred claims development triangles. Where underwriting years within a class showed significantly different development patterns we selected different loss development factors. Where necessary, we have estimated tail factors by fitting mathematical curves.
- For disease losses, reserves are projected using frequency severity decay models. Where appropriate (e.g. for disputes and large claims) the reserves for specific losses are estimated separately outside the standard models. Approximately 10-15% of the losses are currently reserved to policy limits.
- Net claims reserves have been estimated by using Gross-to-Net ratios to reduce the gross reserves. There are £11m of discounted reinsurance TPs.
- The bad debt on the projected reinsurance recoveries is estimated using a credit default charge against all reinsurers based on Standard & Poor's Reinsurer Strength Ratings, where available. Where S&P ratings are unavailable, A.M. Best data is used to complete the listing of reinsurers and ratings.
- The GAAP claims reserves are set on a Best Estimate basis with no margin for prudence. These GAAP reserves are then mapped to Solvency II class.

In determining the TP Claims Provisions, the GAAP reserves are adjusted for:

- Events Not In Data ("ENIDs").
- Additional expenses and Bad Debt.
- Discounting.

There are no future premium cash-flows within the Claims TPs.

There is only one line of business within RQIM which is live. In setting the undiscounted claims TPs for this class, the starting point is the GAAP Unearned Premium Reserves (UPR). This is multiplied by the Initial Expected Loss Ratio (IELR) to determine the unearned future claims TPs. In determining these provisions, the unearned future claim amounts are adjusted for:

- Legally Obliged business.
- Expenses.
- Discounting.

### Comparison to Financial Statements

The table below shows the differences between the TPs held in the financial statements and those calculated for Solvency II:

**RQIM Technical Provisions - 31/12/16**

| | | **£000s** |
|---|---|---|
| GAAP | Net Claims Reserves | 38,806 |
| | Net UPR | 663 |
| | Net Expense Reserves | - |
| **Total Net GAAP Provisions** | | **39,469** |
| SII Adjustments | ENIDs | 450 |
| | Removal of Profit from Unearned Business | (663) |
| | Additional Expenses | 2,758 |
| | Discount | (4,779) |
| | Risk Margin | 4,767 |
| **Total Adjustments** | | **2,533** |
| **Total Net SII Provisions** | | **42,002** |

Material differences are highlighted below.

- ENIDs
  To allow for the occurrence of all possible future outcomes under Solvency II, ENIDs have been considered. ENIDs represent low frequency, high cost events which are not represented within historical data, therefore must be estimated explicitly. Due to the (mainly) run-off nature of the company, a simple percentage approach is taken to estimating ENIDs.

- Expenses
  RQIM does not hold a provision for ULAE within the GAAP reserves as it is considered that investment income will be more than sufficient to cover these costs. For Solvency II TPs the discounted cashflows associated with the estimated cost of running all claims off to finality is required to be held included in the TPs. Due to the (mainly) run-off nature of the Company, a simple percentage approach is taken to estimating ENIDs.

- Discounting
  Solvency II best estimates represent the probability weighted average value of all future cash flows, discounted to allow for the time value of money.

  Discounting has been carried out in accordance with EIOPA guidelines. Yield curves have been provided by EIOPA. Claim payment patterns used for discounting provisions were derived from the gross claim projections. Claims payment pattern are determined for each currency and currency specific discount rates have been used.

ULAE is discounted assuming the same underlying payment pattern as gross claims to which the expense has been allocated. Reinsurance recoveries are assumed to mirror gross payments.

- Risk Margin
  Currently the risk margin is calculated on a simplified cost of capital approach (method 3 in the UK QIS5 template). The SCR relating to the written and obliged business is run off using best estimate net discounted cash flows adjusted for future premiums, ENIDs and ULAE. The cost of capital of 6% is then applied to the SCR and discounted without liquidity premium to give the risk margin. This approach runs off the SCR in line with the expected run-off of technical provisions. The simplified method has been chosen due to the maturity of the Company and the nature of the exposures.

The SF model risk margin is calculated using the same approach to the simplified method 3.

- Uncertainty
  There is always uncertainty associated with the estimation of TPs. Future development can and does differ from past experience.

  A majority of RQIM's TPs are related to Industrial Disease claims. Uncertainties associated with these loss types increase the inherent uncertainty in the selected best estimate reserves.

  Additional uncertainties for these types of liabilities include:

  - The long tail nature of these liabilities means they are reported and settled over many decades.
  - There is a limited volume of past claims data meaning there is a large degree of subjectivity in the selection of parameters.
  - Court interpretations and legislative changes can have a material impact on reserves.
  - Models are used in the projection of the reserves for Industrial Disease liabilities and there are a number of underlying assumptions. Given that actual claim development does not typically conform to statistical models there is a degree of model uncertainty.
  - These models have been parameterised with reference to past experience. Any extent to which there are inaccuracies or poor quality data will introduce parameter uncertainty. In addition, there is significant expert judgement involved with the selection of the parameters and the models are sensitive to these assumptions.
  - Future development can and does differ from past experience.

**Other Information**

The data used to determine TPs is complete and accurate and appropriate for purpose as assess in accordance with Article 19 of Directive 2009/138/EC.

In assessing the TPs; there is no matching adjustment (Article 77b of Directive 2009/138/EC), no volatility adjustment (Article 77d of Directive 2009/138/EC), no transitional risk-free interest rate-term structure (Article 308c of Directive 2009/138/EC) and no transitional deduction (Article 308d of Directive 2009/138/EC).

This is the first time that year-end Solvency II TPs have been formally reported for RQIM. A dry-run was performed last year and there have been no material changes in the methods or assumptions over the period.

The Company took advantage of simplification on counterparty default risk on pooling arrangements under Article 109 of the Delegated Regulation 2015/35.

## D3. Other liabilities

As at 31st December 2016, the Company held the following other liabilities with valuation for solvency purposes as shown:

| Class | Valuation (£000s) |
|---|---|
| Subordinated liabilities | 16,651 |
| Insurance & intermediaries payable | 1,564 |
| Reinsurance payables | 4,096 |
| Trade payables | 3,841 |
| Provisions other than technical provisions | 334 |
| Contingent liabilities | 127 |
| **Total liabilities** | **26,613** |

**Subordinated liabilities, insurance & intermediaries, reinsurance and trade payables**

The Company initially recognises its financial liabilities on the date that they are originated. The Company does not recognise a financial liability when its contractual obligations are discharged or cancelled or expired. All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using effective interest method. The Company's financial liabilities include insurance and other payables.

**Provisions other than technical provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

### Contingent liabilities

The Contingent liability relates to the best estimate valuation are measured at the future expected outflow of resources given the possible outcomes of such a contingent event occurring.

### Compliance with IFRS

The Company's valuation of other liabilities in its financial statements (prepared under IFRS accounting standards), with the exception of contingent liabilities (which are valued at nil in the Company's financial statements), does not materially differ from the valuation for solvency purposes.

## D4. Alternative methods for valuation

No alternative methods for valuation of assets or other liabilities have been used.

## D5. Any other information

There is nothing else to report.

# E. Capital Management

## E1. Own funds

The Company's objectives when managing capital are to:

- Comply with the insurance capital requirements to hold Eligible Own Funds to cover the Solvency Capital Requirement and Minimum Capital Requirement in terms of the Insurance Business Act, 1998, (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act ('Insurance Rules') by the Malta Financial Services Authority ('MFSA').
- Safeguard the Company's ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders.
- Maintain financial strength to support new business growth and to provide for the capital requirements of the Company; and
- Provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The Company aims to ensure that its 'own funds' consists of 'tier 1', 'tier 2' and 'tier 3' capital as defined by Solvency II Directive. The Company's own funds shall take the form of:

- Ordinary Share Capital.
- Retained Earnings.
- Shareholders' contribution.
- Subordinated Debt.

In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders, or issue further subordinated debt. There were no changes over the period.

The Company utilised a 3 year time horizon for business planning purposes and the last complete business plan was for 2017-2019.

From 2017 it is planned that the strategy of RQIM will be changed to also incorporate the fronting of live direct insurance business for General (re)insurance companies that do not have the relevant licenses to directly underwrite this business within the European Economic Area (EEA). Any fronting deals will be subject to significant quota share, reinsured on a back-to-back basis.

Own funds as at 31 December 2016 are as follows:

| | Tier 1 £000s | Tier 2 £000s | Total £000s |
|---|---|---|---|
| **Basic own funds** | **24,183** | **16,651** | **40,834** |
| **SCR** | | | **18,203** |
| MCR | | | 4,551 |
| | | | |
| **Total available own funds to meet SCR and MCR** | **24,183** | **16,651** | **40,834** |
| **SCR Cover** | | | **224%** |
| MCR Cover | | | 897% |
| | | | |
| **Total eligible own funds to meet SCR** | **24,183** | **9,102** | **33,285** |
| Total eligible own funds to meet MCR | 24,183 | 910 | 25,093 |
| **SCR Cover** | | | **183%** |
| MCR Cover | | | 551% |

**Ordinary shares**

The share capital is made up of Ordinary shares.

**Shareholders Contribution**

Contributions made by the Company's Shareholders for which settlement is neither planned nor likely to occur in the foreseeable future, for which no interest is levied by the Shareholders and that are not subject to any restrictions or the fulfilment of any conditions or requirements on the part of the Company.

**Subordinated Debt**

The subordinated debt is denominated in Euro, it attract a floating rate interest charge and are due for redemption on 5 October 2025.

**Available own Funds to cover SCR and MCR**

In assessing the Solvency cover, the Board considers the available own funds to be a significant driver. The Company is in a position to cover the SCR fully with its Tier 1 capital. On this basis it therefore feels that it is appropriate for the total value of Tier 2 funds to be included, when assessing the Company's strength.

Reconciliation between Solvency II excess of assets over liabilities and Equity as per IFRS:

| | £ |
|---|---|
| **Excess of assets over liabilities as per SII** | **32,958** |
| Intangible Asset within IFRS not permitted under Solvency II | 4,377 |
| Difference in value of TP as explained in Section D 2 | 3,087 |
| Contingent Liabilities as explained in section D3 | 127 |
| **Equity as per IFRS** | **40,549** |

## E2. Solvency Capital Requirement and Minimum Capital Requirement

RQIM calculates its capital requirement using a Standard Formula (SF) model. As at the year-end 2016, the assessed SCR is £18.2m with a corresponding MCR of £4.6m. The SCR by risk module is shown in the table below:

| | **RQIM SCR 31/12/2016 £000s** |
|---|---|
| Non-life underwriting risk | 6,983 |
| Health underwriting risk | 4,421 |
| Market risk | 8,706 |
| Counterparty default risk | 2,728 |
| Operational risk | 1,538 |
| **SCR** | **18,203** |
| MCR | 4,551 |

### USP and Simplifications

The main simplifications in the SF model is the use of the simplified approach for Default Risk as defined by the regulation. In addition, we simplify the allocation of TPs to SII class and region and for each class.

RQIM has not made use of any Undertaking Specific Parameters (Article 104 (7) of Directive 2009/138/EC).

The MCR is calculated as the max((min, $3.7m, 25% SCR), 45% SCR). For RQIM, the calculation is 25% of the SCR.

This is the first time that year-end SCR has been formally reported for RQIM. A dry-run was performed last year and there have been no material changes in the methods or assumptions over the period.

## E3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

RQIM does not make use of the Duration based equity risk sub-module (Article 304 of Directive 2009/138/EC).

## E4. Differences between the standard formula and any internal model used

There are no differences as the standard formula is used.

## E5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company was compliant at all times during the period.

## E6. Any other information

There is nothing else to report.

**Appendix 1a – Stress testing**

| | Risk Category | Stress Test Title | Stress Test Description | Qualitative Impact | Approximated Quantitative Impact | Current Risk Mitigation Activity | Possible Future Management Actions | Return Period of Stress Test |
|---|---|---|---|---|---|---|---|---|
| **1** | Insurance Risk | Adverse Claims Experience | Due to a change in the frequency or severity of claims, net technical provisions deteriorate by 10% in 2017. | None | Net technical provisions increase by £3.3m (10%) to £36.1m<br><br>RQIM profit reduces by £3.3m<br><br>Underwriting risk SCR increases by 10% from £8.8m to £9.6m.<br><br>The total SCR increases by £0.7m to £14.3m<br><br>The Total Available Own Funds/ SCR ratio remains above the 1 Risk Appetite, at 232%. | Quarterly reserve review and benchmarking process; (Ad hoc) Independent reviews; Year-end external review of reserves; Year-end external audit of reserves | Review of reserving methodology | 1-in-50 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2** | Market Risk | Reduce credit rating on cash holdings by two notches | A review of the creditworthiness of banks is performed by the major rating agencies and as a result the credit rating on all cash holdings is downgraded by two notches is 2019. | None | Both net technical provisions and RQIM profit remain unchanged.<br><br>Counterparty default risk increases by £2.5m pre diversification<br><br>The total SCR increases by £1.6m to £16.8m<br><br>The Total Available Own Funds/ SCR ratio remained above the Risk Appetite, at 225%. | Investment Committee report monitoring aged and bad debt analysis and prospective view on credit ratings with input from external parties | Review the investment strategy | 1-in-500 |
| **3** | Credit Risk | Failure of RQIM's largest Reinsurer on a fronting deal | The reinsurer of fronting deal 2 fails in 2019 and the related £16.9m reinsurance asset is written off. | None | Net technical provisions increase by £16.9m (46%) to £54.1m<br><br>RQIM profit reduces by £16.9m<br><br>Credit Risk SCR decreases by £0.6m (29%) to £1.6m<br><br>Underwriting risk SCR increases by 46% from £8.5m to £12.4m.<br><br>The total SCR increases by £1.8m to £17.0m<br><br>The Total Available Own Funds/ SCR ratio moves below the Risk Appetite, at 123%. | Quarterly review of the reinsurer's credit ratings and bad debt reviews. Requirement for fronting reinsurers to post collateral equivalent to at least the outstanding reserves and IBNR if their credit rating falls below A- | Perform an ad-hoc review of the strength of RQIMs other material reinsurers and the reinsurance asset | 1-in-500 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **4** | Market Risk | The inter-company loans are subject to Concentration Risk | It is determined by the regulatory authorities in 2017 that the inter-company loans made by RQIM to RQIH are subject to Concentration Risk as Bermuda is not considered to be equivalent to a member state of the EEA following equivalence. | None | Net technical provisions remain unchanged at £32.9m<br><br>RQIM profit remains unchanged<br><br>Concentration Risk SCR increases from £1.0m to £6.9m.<br><br>Market Risk SCR increases by £2.6m (34%) to £10.3m<br><br>The total SCR increases by £2.3m<br><br>The Total Available Own Funds/ SCR ratio remained above the Risk Appetite, at 231%. | Ongoing discussions with the relevant regulatory authorities. | Making the inter-company loans subject to Concentration Risk in future SCR calculations if the regulatory bodies agree that this is the appropriate approach. | 1-in-10 |

**Appendix 1b – Scenario testing**

| # | Risk Category | Scenario Test Title | Scenario Test Description | Qualitative Impact | Approximated Quantitative Impact | Current Risk Mitigation Activity | Possible Future Management Actions | Return Period of Scenario |
|---|---|---|---|---|---|---|---|---|
| **A** | Group Risk | Default of 50% of Intercompany Loans | The intercompany loans are 50% defaulted and written off as bad debt during 2017. | Reputational damage | Net technical provisions remain unchanged.<br><br>RQIM profit reduces by £16.6m<br><br>Market risk SCR reduces by £0.1m<br><br>The SCR requirement reduces by £0.1m to £13.6m<br><br>The Total Available Own Funds/ SCR ratio remains above the Risk Appetite, at 147%. | Contractual arrangements to enable the loans to be recalled immediately.<br><br>Ongoing risk management processes including the ongoing and frequent monitoring of the performance of the recipients of the intercompany loans by the RQIM Investment Committee and Board. | Review of business strategy investment strategy and currency matching to optimise the capital. | 1-in-500 |

| # | Risk Category | Scenario Test Title | Scenario Test Description | Qualitative Impact | Approximated Quantitative Impact | Current Risk Mitigation Activity | Possible Future Management Actions | Return Period of Scenario |
|---|---|---|---|---|---|---|---|---|
| B | Strategic Risk | No Fronting Deals | Due to a lack of availability of suitable fronting deals or failure to achieve regulatory approval none are completed during 2017. | None | Net technical provisions reduce by £0.2m.<br>RQIM profit reduces by £0.2m<br>Underwriting risk reduces by £0.1m<br>The SCR requirement reduces by £0.3m to £13.4m<br>The Total Available Own Funds/ SCR ratio remains above the Risk Appetite, at 274%. | Acquisition/ business development pipeline and ongoing dedicated M&A team. | Review of business strategy. | 1-in-10 |
| C | Strategic Risk | Hard Brexit | The UK's withdrawal from the EU follows a 'Hard Brexit ' Scenario, such that the UK losses its passporting rights into the EU. | None | The quantitative impacts in respect of this scenario have been provided in detail in Appendix 2 of this report. | Risk Management Framework; ORSA Process; Emerging Risks process; RQIM Board and Senior Management engagement in the strategic planning process. | Review of business strategy. | 1-in-2 |

| # | Risk Category | Scenario Test Title | Scenario Test Description | Qualitative Impact | Approximated Quantitative Impact | Current Risk Mitigation Activity | Possible Future Management Actions | Return Period of Scenario |
|---|---|---|---|---|---|---|---|---|
| **D** | Operational Risk | Repeated Regulatory Breaches | Repeated regulatory breaches by RQIM result in a £1m capital load by the MFSA in 2017 and restrictions on future acquisitions. | Reputational damage | Net technical provisions remain unchanged<br><br>RQIM profit remain unchanged<br><br>The total SCR increases by £1m to £14.6m.<br><br>The Total Available Own Funds/ SCR ratio remains above the Risk Appetite, at 306%. | Use of external advisers to provide expertise to meet regulatory obligations; Compliance Training for all Staff; Regular Board reporting on regulatory matters. | Review controls relating to regulatory compliance.<br><br>Review strategy. | 1-in-500 |

## Appendix 2 – QRT Forms

**S.02.01.e**
**Balance sheet**

| Assets | | Solvency II value C0010 |
|---|---|---|
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipement held for own use | **R0060** | |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 39,088,884 |
| Property (other than for own use) | **R0080** | 2,486,450 |
| Participations and related undertakings | **R0090** | |
| Equities | **R0100** | 4,091,067 |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | 4,091,067 |
| Bonds | **R0130** | |
| Government Bonds | **R0140** | |
| Corporate Bonds | **R0150** | |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | |
| Collective Investments Undertakings | **R0180** | 29,777,906 |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | 2,733,461 |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | |
| Loans and mortgages | **R0230** | 37,353,101 |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | 37,353,101 |
| Reinsurance recoverables from: | **R0270** | |
| Non-life and health similar to non-life | **R0280** | 16,116,261 |
| Non-life excluding health | **R0290** | 15,842,648 |
| Health similar to non-life | **R0300** | 273,613 |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | |
| Life index-linked and unit-linked | **R0340** | |
| Reinsurance recoverables not recognised for TP calculation | **R0350** | |
| Deposits to cedants | **R0360** | 14,179,017 |
| Insurance and intermediaries receivables | **R0370** | 492,604 |
| Reinsurance receivables | **R0380** | 6,318,954 |
| Receivables (trade, not insurance) | **R0390** | |
| Own shares | **R0400** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0410** | 4,142,019 |
| Cash and cash equivalents | **R0420** | |
| Any other assets, not elsewhere shown | **R0430** | |
| **Total assets** | **R0500** | 117,690,840 |

| Liabilities | | Solvency II value C0010 |
|---|---|---|
| Technical provisions – non-life | **R0510** | 58,118,758 |
| Technical provisions – non-life (excluding health) | **R0520** | 42,205,184 |
| TP calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | 38,770,997 |
| Risk margin | **R0550** | 3,434,187 |
| Technical provisions - health (similar to non-life) | **R0560** | 15,913,572 |
| TP calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | 14,581,144 |
| Risk margin | **R0590** | 1,332,428 |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | |
| Technical provisions - health (similar to life) | **R0610** | |
| TP calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | |
| TP calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | |
| Risk margin | **R0680** | |
| Technical provisions – index-linked and unit-linked | **R0690** | |
| TP calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |
| Contingent liabilities | **R0740** | 127,000 |
| Provisions other than technical provisions | **R0750** | 334,544 |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 1,564,269 |
| Reinsurance payables | **R0830** | 4,095,995 |
| Payables (trade, not insurance) | **R0840** | 3,841,418 |
| Subordinated liabilities | **R0850** | 16,650,931 |
| Subordinated liabilities not in BOF | **R0860** | |
| Subordinated liabilities in BOF | **R0870** | 16,650,931 |
| Any other liabilities, not elsewhere shown | **R0880** | |
| **Total liabilities** | **R0900** | 84,732,915 |
| **Excess of assets over liabilities** | **R1000** | 32,957,926 |

**S.05.01.e**
**Premiums, claims and expenses by line of business**

| | | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** | | | | | | | | | | | | Line of Business for: **accepted non-proportional reinsurance** | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0110** | 0 | 0 | 0 | 2,931,428 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | 2,931,428 |
| Gross - Proportional reinsurance accepted | **R0120** | 0 | 0 | 0 | 17,229 | 0 | -5 | -11 | 12,617,716 | 0 | 0 | 0 | 321,185 | | | | | 12,956,114 |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | | | | | | 0 | 0 | 2,899 | 0 | 2,899 |
| Reinsurers' share | **R0140** | 0 | 0 | 0 | 2,222,731 | 0 | | | 1,080,000 | | | | | | | | 0 | 3,302,731 |
| Net | **R0200** | 0 | 0 | 0 | 725,926 | 0 | -5 | -11 | 11,537,716 | 0 | 0 | 0 | 321,185 | 0 | 0 | 2,899 | 0 | 12,587,710 |
| **Premiums earned** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0210** | 0 | 0 | 0 | 216,183 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 216,183 |
| Gross - Proportional reinsurance accepted | **R0220** | 0 | 0 | 0 | 17,229 | 0 | -5 | -11 | 12,617,716 | 0 | 0 | 0 | 321,185 | | | | | 12,956,114 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | | | | | | 0 | 0 | 2,899 | 0 | 2,899 |
| Reinsurers' share | **R0240** | 0 | 0 | 0 | 170,314 | 0 | | 0 | 1,080,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,250,314 |
| Net | **R0300** | 0 | 0 | 0 | 63,098 | 0 | -5 | -11 | 11,537,716 | 0 | 0 | 0 | 321,185 | 0 | 0 | 2,899 | 0 | 11,924,882 |
| **Claims incurred** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0310** | 0 | 0 | 2,557,952 | 68,658 | 0 | 438,871 | 23,816 | 591,091 | 0 | 0 | 0 | 34,862 | | | | | 3,715,250 |
| Gross - Proportional reinsurance accepted | **R0320** | 0 | 0 | | 87,957 | 0 | 206,074 | 91,890 | 13,618,744 | -74 | 0 | 0 | 0 | | | | | 14,004,591 |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | | | | | | 0 | 832,898 | 116,270 | 30,456 | 979,624 |
| Reinsurers' share | **R0340** | 0 | 0 | -68,076 | 68,657 | 0 | 295,752 | 0 | 5,532,688 | 0 | 0 | 0 | 24,150 | 0 | 59,622 | 210,972 | 0 | 6,123,765 |
| Net | **R0400** | 0 | 0 | 2,626,028 | 87,958 | 0 | 349,193 | 115,706 | 8,677,147 | -74 | 0 | 0 | 10,712 | 0 | 773,276 | -94,702 | 30,456 | 12,575,700 |
| **Changes in other technical provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0410** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Gross - Proportional reinsurance accepted | **R0420** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | 0 |
| Gross - Non- proportional reinsurance accepted | **R0430** | | | | | | | | | | | | | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | **R0440** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0500** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Expenses incurred** | **R0550** | 0 | 0 | 359,979 | 49,043 | 0 | 154,549 | 14,870 | 1,031,306 | 0 | 0 | 0 | 0 | 0 | 135,665 | 39,467 | 4,088 | 1,788,967 |
| **Other expenses** | **R1200** | | | | | | | | | | | | | | | | | 1,636,948 |
| **Total expenses** | **R1300** | | | | | | | | | | | | | | | | | 3,425,914 |

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health | Health reinsurance | Life-reinsurance | |
| | | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** | | | | | | | | | | |
| Gross | **R1410** | | | | | | | | | |
| Reinsurers' share | **R1420** | | | | | | | | | |
| Net | **R1500** | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | |
| Gross | **R1510** | | | | | | | | | |
| Reinsurers' share | **R1520** | | | | | | | | | |
| Net | **R1600** | | | | | | | | | |
| **Claims incurred** | | | | | | | | | | |
| Gross | **R1610** | | | | | | | | | |
| Reinsurers' share | **R1620** | | | | | | | | | |
| Net | **R1700** | | | | | | | | | |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | **R1710** | | | | | | | | | |
| Reinsurers' share | **R1720** | | | | | | | | | |
| Net | **R1800** | | | | | | | | | |
| **Expenses incurred** | **R1900** | | | | | | | | | |
| **Other expenses** | **R2500** | | | | | | | | | |
| **Total expenses** | **R2600** | | | | | | | | | |

**S.05.02.e**
**Premiums, claims and expenses by country**

| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
| | R0010 | | UK | BELGIUM | | | | |
| | | C0080 | C0090 | C0090 | C0110 | C0120 | C0130 | C0140 |
| **Premiums written** | | | | | | | | |
| Gross - Direct Business | R0110 | | 2,931,428 | | | | | 2,931,428 |
| Gross - Proportional reinsurance accepted | R0120 | | 9,867,000 | 12,617,716 | | | | 22,484,716 |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | | 0 |
| Reinsurers' share | R0140 | | 3,302,731 | | | | | 3,302,731 |
| Net | R0200 | 0 | 9,495,697 | 12,617,716 | 0 | 0 | 0 | 22,113,413 |
| **Premiums earned** | | | | | | | | |
| Gross - Direct Business | R0210 | | 216,183 | | | | | 216,183 |
| Gross - Proportional reinsurance accepted | R0220 | | 9,867,000 | 12,617,716 | | | | 22,484,716 |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | | 0 |
| Reinsurers' share | R0240 | | 1,250,314 | | | | | 1,250,314 |
| Net | R0300 | 0 | 8,832,869 | 12,617,716 | 0 | 0 | 0 | 21,450,585 |
| **Claims incurred** | | | | | | | | |
| Gross - Direct Business | R0310 | | 68,658 | | | | | 68,658 |
| Gross - Proportional reinsurance accepted | R0320 | | 8,555,999 | 2,381,474 | | | | 10,937,473 |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | | 0 |
| Reinsurers' share | R0340 | | 3,437,857 | | | | | 3,437,857 |
| Net | R0400 | 0 | 5,186,800 | 2,381,474 | 0 | 0 | 0 | 7,568,274 |
| **Changes in other technical provisions** | | | | | | | | |
| Gross - Direct Business | R0410 | | 160,107 | 60,622 | | | | 220,729 |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | | 0 |
| Gross - Non- proportional reinsurance accepted | R0430 | | | | | | | 0 |
| Reinsurers' share | R0440 | | | | | | | 0 |
| Net | R0500 | 0 | 160,107 | 60,622 | 0 | 0 | 0 | 220,729 |
| **Expenses incurred** | R0550 | | 160,107 | 60,622 | | | | 220,729 |
| **Other expenses** | R1200 | | | | | | | |
| **Total expenses** | R1300 | | 160,107 | 60,622 | | | | 220,729 |

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| | R1400 | | | | | | | |
| | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| **Premiums written** | | | | | | | | |
| Gross | R1410 | | | | | | | |
| Reinsurers' share | R1420 | | | | | | | |
| Net | R1500 | | | | | | | |
| **Premiums earned** | | | | | | | | |
| Gross | R1510 | | | | | | | |
| Reinsurers' share | R1520 | | | | | | | |
| Net | R1600 | | | | | | | |
| **Claims incurred** | | | | | | | | |
| Gross | R1610 | | | | | | | |
| Reinsurers' share | R1620 | | | | | | | |
| Net | R1700 | | | | | | | |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | R1710 | | | | | | | |
| Reinsurers' share | R1720 | | | | | | | |
| Net | R1800 | | | | | | | |
| **Expenses incurred** | R1900 | | | | | | | |
| **Other expenses** | R2500 | | | | | | | |
| **Total expenses** | R2600 | | | | | | | |

**S.17.01.e**
**Non-life Technical Provisions**

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | | | | | | |
| **Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole** | **R0050** | | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | | |
| **Best estimate** | | | | | | | | | | | | | | | | | | |
| **Premium provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Total | **R0060** | | | | 2,325,653 | | | | | | | | | | | | | 2,325,653 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0140** | | | | 2,325,653 | | | | | | | | | | | | | 2,325,653 |
| **Net Best Estimate of Premium Provisions** | **R0150** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Claims provisions** | | | | | | | | | | | | | | | | | | |
| Gross - Total | **R0160** | 0 | 0 | 14,581,144 | 347,250 | 0 | 4,002,044 | 427,073 | 25,671,385 | 2,419 | 0 | 0 | 211,110 | 0 | 4,682,855 | 947,498 | 153,710 | 51,026,488 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0240** | | | 273,613 | 61,662 | | 1,068,717 | | 11,436,400 | | | | 159,119 | | 416,992 | 374,105 | | 13,790,608 |
| **Net Best Estimate of Claims Provisions** | **R0250** | 0 | 0 | 14,307,531 | 285,588 | 0 | 2,933,327 | 427,073 | 14,234,985 | 2,419 | 0 | 0 | 51,991 | 0 | 4,265,863 | 573,393 | 153,710 | 37,235,880 |
| **Total Best estimate - gross** | **R0260** | 0 | 0 | 14,581,144 | 2,672,903 | 0 | 4,002,044 | 427,073 | 25,671,385 | 2,419 | 0 | 0 | 211,110 | 0 | 4,682,855 | 947,498 | 153,710 | 53,352,141 |
| **Total Best estimate - net** | **R0270** | 0 | 0 | 14,307,531 | 285,588 | 0 | 2,933,327 | 427,073 | 14,234,985 | 2,419 | 0 | 0 | 51,991 | 0 | 4,265,863 | 573,393 | 153,710 | 37,235,880 |
| **Risk margin** | **R0280** | | | 1,332,428 | 208,739 | | 339,475 | 34,618 | 2,301,687 | 191 | | | 16,590 | | 432,114 | 87,407 | 13,368 | 4,766,617 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | | |
| TP as a whole | **R0290** | | | | | | | | | | | | | | | | | |
| Best estimate | **R0300** | | | | | | | | | | | | | | | | | |
| Risk margin | **R0310** | | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | | | | | | | | | | | | | | | | | | |
| Technical provisions - total | **R0320** | 0 | 0 | 15,913,572 | 2,881,642 | 0 | 4,341,519 | 461,691 | 27,973,072 | 2,610 | 0 | 0 | 227,700 | 0 | 5,114,969 | 1,034,905 | 167,078 | 58,118,758 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | **R0330** | 0 | 0 | 273,613 | 2,387,315 | 0 | 1,068,717 | 0 | 11,436,400 | 0 | 0 | 0 | 159,119 | 0 | 416,992 | 374,105 | 0 | 16,116,261 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total | **R0340** | 0 | 0 | 15,639,959 | 494,327 | 0 | 3,272,802 | 461,691 | 16,536,672 | 2,610 | 0 | 0 | 68,581 | 0 | 4,697,977 | 660,800 | 167,078 | 42,002,497 |

**S.19.01.e**
**Non-life Insurance Claims Information (simplified template for the public disclosure)**

**Total Non-Life Business**

| Accident year / Underwriting year | UW Year | 2016 |
|---|---|---|

**Gross Claims Paid (non-cumulative)**
(absolute amount)

**Development year**

| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 |
| Prior | R0100 | | | | | | | | | | | 2,022,217 |
| N-9 | R0160 | - | - | - | - | - | - | - | - | 525,359 | 51,642 | |
| N-8 | R0170 | - | - | - | - | - | - | - | 29,206 | 361,482 | | |
| N-7 | R0180 | - | - | - | - | - | - | 177,382 | 268,011 | | | |
| N-6 | R0190 | - | - | - | - | - | - 258,134 | 175,943 | | | | |
| N-5 | R0200 | - | - | - | - | - | 17,136 | | | | | |
| N-4 | R0210 | - | - | - | - | 35,272 | | | | | | |
| N-3 | R0220 | - | - | - | 53,187 | | | | | | | |
| N-2 | R0230 | - | - | 65,753 | | | | | | | | |
| N-1 | R0240 | - | 219,699 | | | | | | | | | |
| N | R0250 | 241,441 | | | | | | | | | | |

| | | In Current year | Sum of years (cumulative) |
|---|---|---|---|
| | | C0170 | C0180 |
| | R0100 | 2,022,217 | 2,022,217 |
| | R0160 | 51,642 | 577,002 |
| | R0170 | 361,482 | 390,688 |
| | R0180 | 268,011 | 445,394 |
| | R0190 | 175,943 | - 82,191 |
| | R0200 | 17,136 | 17,136 |
| | R0210 | 35,272 | 35,272 |
| | R0220 | 53,187 | 53,187 |
| | R0230 | 65,753 | 65,753 |
| | R0240 | 219,699 | 219,699 |
| | R0250 | 241,441 | 241,441 |
| Total | R0260 | 3,511,784 | 3,985,598 |

**Gross undiscounted Best Estimate Claims Provisions**
(absolute amount)

**Development year**

| Year | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 |
| Prior | R0100 | | | | | | | | | | | 39,847,725 |
| N-9 | R0160 | - | - | - | - | - | - | - | - | - | 711,334 | |
| N-8 | R0170 | - | - | - | - | - | - | - | - | 4,665,773 | | |
| N-7 | R0180 | - | - | - | - | - | - | - | 2,475,541 | | | |
| N-6 | R0190 | - | - | - | - | - | - | 792,817 | | | | |
| N-5 | R0200 | - | - | - | - | - | 667,216 | | | | | |
| N-4 | R0210 | - | - | - | - | 1,682,266 | | | | | | |
| N-3 | R0220 | - | - | - | 720,123 | | | | | | | |
| N-2 | R0230 | - | - | 1,738,323 | | | | | | | | |
| N-1 | R0240 | - | 539,488 | | | | | | | | | |
| N | R0250 | 7,069,650 | | | | | | | | | | |

| | | Year end (discounted data) |
|---|---|---|
| | | C0360 |
| | R0100 | 39,847,725 |
| | R0160 | 711,334 |
| | R0170 | 4,665,773 |
| | R0180 | 2,475,541 |
| | R0190 | 792,817 |
| | R0200 | 667,216 |
| | R0210 | 1,682,266 |
| | R0220 | 720,123 |
| | R0230 | 1,738,323 |
| | R0240 | 539,488 |
| | R0250 | 7,069,650 |
| Total | R0260 | 60,910,254 |

**S.22.01.e**
**Impact of long term guarantees and transitional measures**

| | | Amount with LTG and transitional measures | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** |
| Technical provisions | **R0100** | 0 | 0 | 0 | 0 | 0 |
| Basic own funds | **R0110** | 0 | 0 | 0 | 0 | 0 |
| Eligible own funds to meet SCR | **R0120** | 0 | 0 | 0 | 0 | 0 |
| SCR | **R0210** | 0 | 0 | 0 | 0 | 0 |
| Eligible own funds to meet MCR | **R0220** | 0 | 0 | 0 | 0 | 0 |
| MCR | **R0230** | 0 | 0 | 0 | 0 | 0 |

**S.23.01.e**
**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | **R0010** | 38,553,438 | 38,553,438 | | | |
| Share premium account related to ordinary share capital | **R0030** | 0 | | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | **R0040** | 0 | | | | |
| Subordinated mutual member accounts | **R0050** | 0 | | | | |
| Surplus funds | **R0070** | 0 | | | | |
| Preference shares | **R0090** | 0 | | | | |
| Share premium account related to preference shares | **R0110** | 0 | | | | |
| Reconciliation reserve | **R0130** | -14,370,284 | -14,370,284 | | | |
| Subordinated liabilities | **R0140** | 16,650,931 | | | 16,650,931 | |
| An amount equal to the value of net deferred tax assets | **R0160** | 0 | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | **R0180** | 0 | | | | |
| **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | **R0220** | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | **R0230** | 0 | | | | |
| **Total basic own funds after deductions** | **R0290** | 40,834,085 | 24,183,154 | 0 | 16,650,931 | 0 |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | **R0300** | 0 | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | **R0310** | 0 | | | | |
| Unpaid and uncalled preference shares callable on demand | **R0320** | 0 | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | **R0330** | 0 | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | **R0340** | 0 | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | **R0350** | 0 | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | **R0360** | 0 | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | **R0370** | 0 | | | | |
| Other ancillary own funds | **R0390** | 0 | | | | |
| **Total ancillary own funds** | **R0400** | 0 | | | 0 | 0 |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | **R0500** | 40,834,085 | 24,183,154 | 0 | 16,650,931 | 0 |
| Total available own funds to meet the MCR | **R0510** | 40,834,085 | 24,183,154 | 0 | 16,650,931 | |
| Total eligible own funds to meet the SCR | **R0540** | 33,284,806 | 24,183,154 | 0 | 9,101,653 | 0 |
| Total eligible own funds to meet the MCR | **R0550** | 25,093,319 | 24,183,154 | 0 | 910,165 | |
| **SCR** | **R0580** | 18,203,305 | | | | |
| **MCR** | **R0600** | 4,550,826 | | | | |
| **Ratio of Eligible own funds to SCR** | **R0620** | 183% | | | | |
| **Ratio of Eligible own funds to MCR** | **R0640** | 551% | | | | |

| | | C0060 | |
|---|---|---|---|
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | **R0700** | 32,957,926 | |
| Own shares (held directly and indirectly) | **R0710** | | |
| Foreseeable dividends, distributions and charges | **R0720** | | |
| Other basic own fund items | **R0730** | 38,553,438 | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** | 8,774,772 | |
| **Reconciliation reserve** | **R0760** | -14,370,284 | |
| **Expected profits** | | | |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | | |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | 0 | |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 0 | |

**S.25.01.e**
**Solvency Capital Requirement - for undertakings on Standard Formula**

| | | | | |
|---|---|---|---|---|
| Article 112 | **Z0010** | 2 – Regular reporting | | |
| | | **Net solvency capital requirement** | **Gross solvency capital requirement** | **Allocation from adjustments due to RFF and Matching adjustments portfolios** |
| | | **C0030** | **C0040** | **C0050** |
| Market risk | **R0010** | 8,706,422 | 8,706,422 | |
| Counterparty default risk | **R0020** | 2,728,237 | 2,728,237 | |
| Life underwriting risk | **R0030** | 0 | 0 | |
| Health underwriting risk | **R0040** | 4,420,783 | 4,420,783 | |
| Non-life underwriting risk | **R0050** | 6,982,975 | 6,982,975 | |
| Diversification | **R0060** | -6,172,830 | -6,172,830 | |
| Intangible asset risk | **R0070** | | | |
| **Basic Solvency Capital Requirement** | **R0100** | 16,665,587 | 16,665,587 | |

| | | |
|---|---|---|
| **Calculation of Solvency Capital Requirement** | | **C0100** |
| Operational risk | **R0130** | 1,537,718 |
| Loss-absorbing capacity of technical provisions | **R0140** | |
| Loss-absorbing capacity of deferred taxes | **R0150** | 0 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | **R0160** | |
| **Solvency Capital Requirement excluding capital add-on** | **R0200** | 18,203,305 |
| Capital add-on already set | **R0210** | |
| **Solvency capital requirement** | **R0220** | 18,203,305 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | **R0400** | |
| Total amount of Notional Solvency Capital Requirements for remaining part | **R0410** | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | **R0420** | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | **R0430** | |
| Diversification effects due to RFF nSCR aggregation for article 304 | **R0440** | |

**S.28.01.e**
**Minimum Capital Requirement - Non-Composite**

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| $MCR_{NL}$ Result | **R0010** | 4,550,826 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | **C0020** | **C0030** |
| Medical expense insurance and proportional reinsurance | **R0020** | 0 | |
| Income protection insurance and proportional reinsurance | **R0030** | 0 | |
| Workers' compensation insurance and proportional reinsurance | **R0040** | 14,307,532 | |
| Motor vehicle liability insurance and proportional reinsurance | **R0050** | 285,588 | 725,926 |
| Other motor insurance and proportional reinsurance | **R0060** | 0 | |
| Marine, aviation and transport insurance and proportional reinsurance | **R0070** | 2,933,327 | 2,899 |
| Fire and other damage to property insurance and proportional reinsurance | **R0080** | 427,073 | |
| General liability insurance and proportional reinsurance | **R0090** | 14,234,985 | 12,617,716 |
| Credit and suretyship insurance and proportional reinsurance | **R0100** | 2,419 | |
| Legal expenses insurance and proportional reinsurance | **R0110** | 0 | |
| Assistance and proportional reinsurance | **R0120** | 0 | |
| Miscellaneous financial loss insurance and proportional reinsurance | **R0130** | 51,991 | 321,185 |
| Non-proportional health reinsurance | **R0140** | 0 | |
| Non-proportional casualty reinsurance | **R0150** | 4,265,863 | |
| Non-proportional marine, aviation and transport reinsurance | **R0160** | 573,393 | |
| Non-proportional property reinsurance | **R0170** | 153,710 | |

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| $MCR_L$ Result | **R0200** | |

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

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | **R0300** | 4,550,826 |
| SCR | **R0310** | 18,203,305 |
| MCR cap | **R0320** | 8,191,487 |
| MCR floor | **R0330** | 4,550,826 |
| Combined MCR | **R0340** | 4,550,826 |
| Absolute floor of the MCR | **R0350** | 3,162,393 |
| | | **C0070** |
| **Minimum Capital Requirement** | **R0400** | 4,550,826 |