

# Solvency and Financial Condition Report

IDA INSURANCE LIMITED

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This Solvency and Financial Condition Report (SFCR) has been prepared to allow IDA Insurance Limited ('IDA' or 'the Company') to comply with the Pillar III reporting requirements under Directive 2009/138/EC and associated Regulations ('the Solvency II Directive').

IDA Insurance Limited maintains a robust system of governance which is commensurate to the nature, scale and complexity of the Company's activities and its risk profile. The system of governance revolves around the Board and its Committees – the Investment Committee and Risk and Compliance Committee; with key functions outsourced to external service providers in line with the Company's Outsourcing Policy. The mainstay 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 assess their potential impact and to adequately report them, so that they can be managed or mitigated.

During the year under review, the Company registered a loss after tax amounting to €123,997 (Loss after tax 2017: €238,650) with gross premiums marginally increasing by €86,554 to €5,675,398 (2017: 5,588,844). Claims performance improved with claims incurred net of reinsurance amounting to EUR1,169,165 compared to EUR1,547,369 in 2017 .

The Directors were actively involved in the implementation of the Solvency II legislation and these are deeply embedded in the Company's operations. Regular monitoring of the Solvency Capital Requirement (SCR) and Minimum Capital Requirements is carried out and a Capital Management Policy is in place to ensure on-going adherence to the requirements. This policy outlines the main drivers of the SCR.

The Company monitors its capital level on a regular basis. The Company complied with the capital requirements during the years ended 2017 and 2018. No changes were made in the Company's approach to capital management during the year ended 30<sup>th</sup> June 2018.

Going forward, the Company is expected to continue meeting the Solvency II regulatory capital requirements based on the latest audited SCR calculations as at 30 June 2018 and those resulting from the 2018 Own Risk and Solvency Assessment.

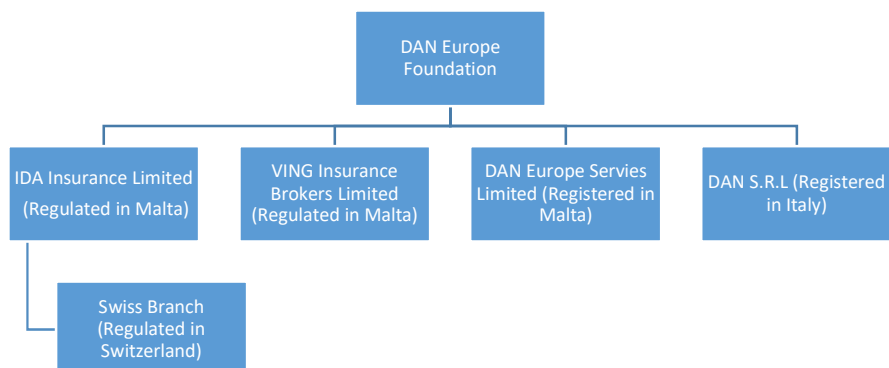
IDA's internal capital target is to hold the higher of 140% of its Pillar 1 requirement and the Own Risk and Solvency Assessment capital requirement plus a Board-approved buffer (Pillar 2). On an annual basis, the Board considers whether a dividend should be paid to remit any surplus capital to its parent entity.

## Section A - Business and Performance

### A.1 Business

#### Legal Form

The Company was incorporated in Malta on 8<sup>th</sup> July 2005 and is a 100% subsidiary of DAN Europe Foundation, a non-profit Emergency Medical Organisation, which strives not just to provide standard insurance services but an insurance company that cares for divers.



#### Registered Office and Registered Number

Registered Office: DAN Building, Sir Ugo Mifsud Street, Ta' Xbiex, Malta

Registration Number: C36602

#### Regulator

IDA is authorised to carry on business of insurance in in terms of the Insurance Business Act 1998, regulated by the Malta Financial Services Authority.

The Regulator can be contacted as follows:

Malta Financial Services Authority  
Notabile Road  
BKR3000  
Attard  
MALTA  
Insurance & Pensions Supervisory Unit

#### Auditors

The statutory accounts are audited by Deloitte Audit Limited who can be contacted as follows:

Deloitte Audit Limited  
Deloitte Place  
Mriehel Bypass  
Mriehel  
Malta, BKR3000  
Partner: Mr Ian Coppini

## **Risk Profile**

IDA is authorised to offer classes of insurance business namely, accident, sickness, fire and natural forces, other damage to property, general liability, legal expenses and assistance. Furthermore, it is passported in Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom. It is also licenced to provide insurance in Switzerland regulated by Swiss authorities (FINMA). The main line of insurance classes that is currently provided is namely, accident, general liability, legal expenses and assistance. The principal activity is to underwrite scuba diving risk for the leisure and commercial diving industry. The company offers its policies through the group's online portals.

IDA distributes its insurance business directly, through VING Insurance Brokers Limited ("VING") a related company and licenced as a tied insurance intermediary in Malta, and also through its licenced branch in Switzerland.

The Company writes insurance for students, recreational and professional divers. This business is accepted within safe practice guidelines issued by the international recognised diving bodies. The Company insures members of DAN Europe Foundation the majority of who are EU residents. The policies issued are in the EU but provide insurance benefits when diving anywhere in the world.

### **Significant events in the reporting period**

#### Balance written off – iBroker (Software)

A receivable of iBroker software fees amounting to €92,675 have been written off during the year, due to discontinued use of the iBroker (software)

#### Intangible asset – VIS (Software)

An intangible asset in the form of an insurance software application has been recognised with cost amounting to €1,030,140 and accumulated depreciation amounting to €257,535 at year end. The intangible asset has a net balance of €772,605 as at end of June 2018

## A.2 Underwriting Performance

IDA Insurance Limited (the “Company”) is a limited liability company incorporated and domiciled in Malta with registration number C36602. The Company was incorporated on 8 July 2005. The registered office of the Company is DAN Building, Sir Ugo Mifsud Street, Malta. The Company’s principal activity is to underwrite scuba diving risks for the leisure diving industry. The Company offers accident, liability and legal defence policies to clients through its online portal.

On 20th September 2017, the shareholders of the Company resolved to change the name of the Company from International Diving Assurance Limited to IDA Insurance Limited.

The financial statements of the Company have been prepared and presented in accordance with the provisions of the Companies Act (Cap. 386), which requires adherence to International Financial Reporting Standards (IFRSs) as adopted by the EU and their interpretations adopted by the International Accounting Standards Board (IASB), and the provisions of the Insurance Business Act (Cap. 403).

The Company’s main products and the ways in which it manages the associated risks are as follows:

### **Emergency medical, personal accident, repatriation and travel assistance**

These policies offer insurance cover for emergency medical, personal accident, repatriation and travel assistance anywhere in the world. As such the claim costs of the insured accident vary depending on the severity of the accident, its location and the quality extent and tariffs of the medical facilities in the accident location.

### **Civil and professional liability**

These policies are occurrence based wordings. Therefore, the Company is liable to all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract terms. These liability claims also take longer to develop than claims submitted under the Company’s Accident programme and as a result, the estimation of claims incurred but not reported and claims incurred but not enough reported is generally subject to a greater degree of uncertainty.

### **Legal defence**

These policies offer legal defence benefits when diving anywhere in the world. As a result, the claim costs of the insured accident vary.

The Company manages these risks by implementing its underwriting and claims management strategy after having obtained and considered expert advice approved by the board. The skills available to the Company to manage the insurance claims issues arising from the insured accidents have been built over many years. The results are found on the next page.

**Income Statement – Technical Account**

|   | <i>Notes</i> | <b>2018<br/>EUR</b> | <b>2017<br/>EUR</b> |
|---|--------------|---------------------|---------------------|
| <b>Earned premiums, net of reinsurance</b>                                |              |                     |                     |
| Gross premiums written  |              | 5,675,398           | 5,588,844           |
| Outward reinsurance premiums  |              | (2,985,793)         | (2,953,161)         |
| Inward reinsurance premium  |              | 268,527             | 275,898             |
| <b>Net premiums written</b>   |              | <u>2,958,132</u>    | <u>2,911,581</u>    |
| <br>  |              |                     |                     |
| Change in gross provision for unearned premiums                           |              | (57,077)            | (244,526)           |
| Change in provision for unearned premiums,<br>Reinsurer's share           |              | 21,191              | (47,371)            |
|   |              | <u>(35,886)</u>     | <u>(291,897)</u>    |
| <b>Earned premiums net of reinsurance</b>                                 |              | <u>2,922,246</u>    | <u>2,619,684</u>    |
| <br>  |              |                     |                     |
| Profit commission   |              | 176,654             | 85,374              |
| <br>  |              |                     |                     |
| Allocated investment return transferred<br>from the non-technical account | 7            | 68,646              | 121,455             |
| <b>Total technical income</b>   |              | <u>3,167,546</u>    | <u>2,826,513</u>    |
| <br>  |              |                     |                     |
| <b>Claims incurred, net of reinsurance</b>                                |              |                     |                     |
| Claims paid   |              |                     |                     |
| - Gross amount  |              | 2,122,936           | 4,478,803           |
| - Reinsurer's share   |              | (996,751)           | (2,600,578)         |
|   |              | <u>1,126,185</u>    | <u>1,878,225</u>    |
| <br>  |              |                     |                     |
| Change in the provision for claims  |              |                     |                     |
| - Gross amount  |              | 1,254               | (830,137)           |
| - Reinsurer's share   |              | 41,726              | 499,281             |
|   |              | <u>42,980</u>       | <u>(330,856)</u>    |
| <b>Claims incurred, net of reinsurance</b>                                |              | <u>1,169,165</u>    | <u>1,547,369</u>    |
| <br>  |              |                     |                     |
| Net operating expenses  | 8            | 1,669,751           | 1,421,255           |
| <b>Total technical charges</b>  |              | <u>2,838,916</u>    | <u>2,968,624</u>    |
| <br>  |              |                     |                     |
| <b>Balance on the technical account<br/>for general business (page 8)</b> |              | <u>328,630</u>      | <u>(142,111)</u>    |



### A.3 Investment Performance

|   | <b>2018</b>     | 2017     |
|---|-----------------|----------|
|   | <b>EUR</b>      | EUR      |
| <b>Investment gains/(losses)</b>  |                 |          |
| Interest income on bank deposits  | <b>7,929</b>    | 7,950    |
| Interest income on financial assets   | <b>145,142</b>  | 139,951  |
| Realised gain on sale of investments  | <b>66,844</b>   | 89,923   |
| Exchange losses   | <b>(62,880)</b> | (23,737) |
| Impairment losses on financial assets (see note 14)                               | <b>(37,500)</b> | -        |
|   | <b>119,535</b>  | 214,087  |
| <b>Analysed between:</b>  |                 |          |
| Allocated investment return transferred to the general business technical account | <b>68,646</b>   | 121,455  |
| Investment return included in the non-technical account                           | <b>50,889</b>   | 92,632   |
|   | <b>119,535</b>  | 214,087  |

### A.4 Performance of other activities

|   | <b>2018</b>      | 2017      |
|---|------------------|-----------|
|   | <b>EUR</b>       | EUR       |
| <b>Balance on technical account for general business</b> (page 7)                 | <b>328,630</b>   | (142,111) |
| Investment income   | <b>219,915</b>   | 237,824   |
| Investment expenses and charges   | <b>(100,380)</b> | (23,737)  |
| Allocated investment return transferred to the general business technical account | <b>(68,646)</b>  | (121,455) |
| Net operating expenses  | <b>(327,078)</b> | (317,646) |
| <b>Profit/(loss) before tax</b>   | <b>52,441</b>    | (367,125) |
| Income tax (expense)/credit   | <b>(176,438)</b> | 128,495   |
| <b>Loss for the year</b>  | <b>(123,997)</b> | (238,630) |

### A.5 Any other information

There are no other information to report on.



The following were members of the Board at 30th September 2018:

- Prof Alessandro Marroni (Chairman)
- Dr Iro Cali Corleo (Managing Director)
- Dr Filomena de Angelis (Executive Director)
- Ms Laura Marroni (Executive Director)
- Dr Matthew Bianchi (Independent Non-Executive Director)
- Ray Mercieca (Independent Non-Executive Director)

The Board of Directors appoint a Chairman of the Board and determine the period for which he will hold office.

The Board of Directors is made up of mix of individuals who have the necessary skills and expertise in the following areas:

- Market knowledge - the awareness and understanding of the wider business, economic and market environment in which the undertaking operates and the knowledge and needs of policyholders;
- Business strategy and Business model - an appropriately detailed understanding of the undertaking's business strategy and model;
- System of governance - this includes risk management and control, which means the awareness and understanding of the risks the undertaking, is facing and the capability of managing them. Furthermore the ability to assess the effectiveness of the undertaking's arrangements to deliver effective governance, oversight and controls in the business and, if necessary, oversee changes in these areas;
- Financial and actuarial analysis - the ability to interpret the undertaking's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information;
- Regulatory framework and requirements - awareness and understanding of the regulatory framework in which the undertaking operates, and the regulatory requirements and expectations relevant to it and the capacity to adapt to changes which stem from the regulatory framework without delay.

The Board of Directors is made up of a mix of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors.

The Roles and Responsibilities of the Board are the following:

- Provide entrepreneurial leadership of IDA Insurance Limited (“IDA”/“the Company”) within a framework of prudent and effective controls which enable risk to be assessed and managed.
- Set IDA’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 IDA’s values and standards and ensure that its obligations to its shareholders and others are understood and met.
- 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 IDA is operating.
- Assume responsibility for the day to day conduct of IDA’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 Audit Committee and Risk Management & Compliance Committee.
- Oversee the process of outsourcing, and monitor the discharge of the Compliance, Risk Management, Internal Audit and Risk Management functions.

#### **Meetings of the Board**

1. Meetings of the Board of Directors (BoD) are held no less than four times annually but are also be held as frequently as considered appropriate.
2. All meetings of the BoD and any general meeting of the members of the Company are held in Malta unless otherwise resolved by the Directors of the Company.
3. A person is entitled to participate at a meeting of the BoD or at any GM by means of a telephone link provided the other members or directors agree to such participation by telephone. The Chairman of the meeting, in such cases, shall sign on behalf of the person participating by telephone and shall record the fact that all persons present at the meeting have agreed to such telephone participation.
4. The Chairman or any member of the Board may call meetings of the Board.

5. A minimum of seven days' notice in writing is provided to all directors of a Board meeting. However, the Company recognises that from time to time Board meetings may need to be called at short notice. If a Board meeting is called at short notice all directors must be contacted in writing or by telephone advising them of the meeting and the proposed agenda. Prior approval for the meeting to take place must be obtained from all directors notwithstanding that a director may not be able to attend a meeting called at short notice. Such approval must be documented in the meeting minutes

#### **Quorum**

The quorum for decisions of the Board is three.

#### **Attendance**

1. The Chairman presides on each board meeting held.
2. A member of the Board is entitled to appoint an alternate in his stead.
3. The chairman, at his/her discretion, may invite other executives to attend and be heard at meetings of the Board.

#### **Decisions/noting**

1. The directors may meet together for the dispatch of business, adjourn or otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a 4/5<sup>th</sup> majority of votes.
2. No advisers are entitled to vote at meetings of the Board.
3. In the case of round robin approvals, a resolution in writing, including through the medium of electronic facsimile, approved by all members, is as valid and effectual as if it had been passed at a Board meeting duly called and constituted.
4. Such a round robin approval is tabled at the next meeting for noting.

#### **Minutes**

1. Detailed minutes of all Board meetings are prepared with all decisions, discussions and points for further actions being documented. Abstentions or negative votes are documented in terms acceptable to the abstaining or dissenting person or negative voter. The minutes of meetings provide sufficient detail to evidence appropriate Board attention, the substance of discussions and their outcome and are agreed at the subsequent Board meeting. Minutes also document the attendance or non-attendance of members of the Board.
2. Minutes of all Board meetings are taken by the Company Secretary and are circulated to all directors for review in a reasonable timeframe after each meeting.
3. The final draft of the Board minutes of a meeting are presented to the Board for approval at the next Board meeting. If approved the minutes are signed by the Chairman of the Meeting and kept at the Company's registered address.

### **Information on Remuneration Policies and Practices**

The governance framework includes a Remuneration policy for defining the remuneration practices of the Company designed to support the Company's risk appetite, strategy, objectives and values. The Board of Directors is responsible for the Remuneration Policy and the regular review of the Policy.

The Remuneration Policy applies to all levels of the organisation and categories of employees including Directors. It contains specific arrangements that take into consideration the roles of the members of the Board, persons responsible for key functions, senior management, and personal undertakings that involve significant risk taking and other employees. It further extends to the arrangements with any outsourced parties involved in the distribution of the Company's products.

The remuneration Policy reflects the Company's objectives for good corporate governance as well as sustained and long-term value creation of the shareholders. The Remuneration Policy does not excessively reward short term profits and discourages incentives to take on risks that are not in line with the Company's risk profile. This can undermine the sound and effective risk management framework, exacerbate excessive risk-taking behaviour and the protection of the policy holders. Hence the performance criteria, including non-financial performance factors such as goals and criteria relating to effective risk management practices are considered.

The salary is made up of a fixed component namely salary and benefits. The fixed component represents a significant and sufficiently proportion of the total remuneration and thus avoids that the employees are any way dependent on the variable component.

Variable components are discretionary and fully flexible as opposed to a contractual entitlement. It is based on performance and are capped at a maximum limit set by the Company. The Company has the right to withhold bonuses where its financial objectives have not been met.

Performance based remuneration is aligned to an assessment of the strategic priorities of the Company which promotes sound risk management, the strengthening of long term customer relations and the value of the business. Non-financial factors are taken into consideration. Persons responsible for a key function are not eligible for performance based remuneration.

Currently the Company has no arrangements applicable to supplementary persons or early retirement scheme for members of the Board

### **B1.2 Investment Committee**

The Company's investments are managed through an Investment Committee which operates within investment parameters set and approved by the Board of Directors. The procedures consider a recommended portfolio structure, asset and counterparty limits as well as currency restrictions.

IDA Investment Committee (IC) has been established as a committee of the Board and is comprised of the Managing Director, an independent non-executive director and an independent investment advisor. A third party Investment Manager, duly appointed by the Board of Directors also attends every meeting. The quorum for the meeting is two members present in person.

The objectives of the Committee are to:

- (a) Prepare and submit for approval by the Board, and thereafter communicate to the Investment Manager, the basic investment strategy and policy for the Company, after considering the relative recommendations submitted to it by the Investment Manager.

Such recommendations shall be based on, inter-alia:-

- consideration of the Company's cash flow projections, and forecast assets and liabilities, which the Insurance Manager shall determine in conjunction with the Manager;
  - compliance with relevant statutory and regulatory solvency requirements-, as agreed with the Insurance Manager;
  - the Company's latest investment strategy and policies, and anticipated market evaluations;
  - the Company's credit, market and liquidity risk policies, and the performance benchmark as recommended by investment manager and approved by the investment committee;
  - a considered view of future investment prospects.
- (b) To review the Investments Manager's report of its activity in the preceding period, and to ensure that the actual tactical changes carried out during such period were consistent with approved policy and restrictions and reasonable in the light of short to medium term investment prospects prevailing at the time.
- (c) Monitor the investment activity and performance of the Investment Manager and their ongoing ability and suitability to provide the appropriate services, and to recommend appropriate action to the Board where necessary.
- (d) Review and determine any limits, authorities and procedures that are relevant to the effective execution of investment policy, and advise the Board accordingly,

The Board shall support the Investment Committee in attaining its objectives, and shall procure that the responsibilities of the Investment Manager will similarly include providing such support to the Investment Committee in any form that it may be reasonably required.

The Investment Committee meets at least every quarter. The Investment Committee meetings may be held via teleconference link and any resolutions or recommendations or decisions of the Committee in writing signed by all the members of the Investment Committee shall be equivalent to a meeting of the Committee.

Any decision in respect of recommendations submitted to the Company by the Investment advisors require the consent of all the members of the Investment Committee. A written record of such decisions is maintained in relation to each recommendation and maintained in relation to each recommendation and are submitted to the Company, and such records are made available to all members of the Investment Committee.

### **B1.3 Risk Management & Compliance Committee**

The Risk Management & Compliance Committee (RMC) has been established as a committee of the Board and is comprised of an Executive Director who also acts as Chairman, the General Manager and the Managing Director. The Insurance Managers, duly appointed by the Board of Directors also attends every meeting.

The purpose of the Risk Management & Compliance Committee is to have overall responsibility for establishing a strategic approach to Risk Management & Compliance across the organisation, ensuring that the approach is pro-active. The Committee is also responsible for the overall co-ordination of Risk Management & Compliance activity. It ensures that the necessary processes are in place to achieve compliance with statutory requirements and to protect the Company's policyholders, staff and assets. Risk Management & Compliance is an integral part of the Company's strategic and operational objectives.

The Risk Management & Compliance Committee is established in accordance with guidance set out by the Regulator and the obligations under the present corporate governance standards.

The Committee is one the Committees of the Board authorised to make executive decisions regarding the management of risk and compliance with regulations. The Chairman of the Committee reports to the Board at every board meeting and provides an update of the salient matters discussed during the Risk Management & Compliance meetings which are held on a quarterly basis in the same month prior to the Board meeting.

The Committee

1. Agree, monitor and ratify the Company's Risk Management & Compliance strategy and policies.
2. The Committee is made aware of all policies approved under the Insurance Financial Risk, Non-Insurance Financial Risk, Non-Financial Risk, Internal Control, Compliance and Outsourcing policies and of any material decisions taken by the Investment Committee or Audit Committee and ensure the policies are implemented effectively, reviewed, updated and approved;
3. Act as the Company co-ordinating body on all risk-related policies and procedures in conjunction with other specialist committees or departments;
4. Assist the Board in defining acceptable risk within the organisation and propose the Company's risk appetite statement;
5. Ensures that adequate organisational systems are in place for implementing, monitoring and reviewing assurances on controls;
6. Makes recommendations to the Board on priority risk areas and on the appropriate action required to avoid or mitigate these risks;
7. Oversee, identify and implement the Risk Management & Compliance action plan and risk registers;
8. Receives information from any director or officer highlighting any "high" risk areas of concern outside the rolling programme of risk register reviews.



9. Reviews and approves the risk registers;
10. Monitors and review the Company's internal control framework and monitor the assurances detailed within the document;
11. Designs, manages and implements the company's insurance and claims Risk Management & Compliance strategy to assess and anticipate trends and developments and makes recommendations on appropriate actions or improvement;
12. Review the Risk Management & Compliance Strategy on an annual basis.

The Risk Management & Compliance Committee receives reports from the Risk Management Function and Compliance Function at each Committee meeting.

Appointed members are required to attend the Risk Management & Compliance Committee on a regular basis. No more than two meetings should be missed in any one year unless due to extenuating circumstances. Should a Committee member not be able to attend the meeting, the meeting should if possible be postponed to another day provided it is still possible to make it in time to report to the subsequent board meeting.

The effectiveness of the Risk Management & Compliance Committee is monitored through the following:

1. Committee minutes to be monitored by the Board
2. Internal audit
3. Maintenance of a Corporate risk register and corporate accepted risk register
4. Associated action plans related to the internal controls framework

The secretary of the Committee is a representative from the Insurance Manager who attends all meetings and prepares minutes.

#### **B1.4 Internal Control Working Group**

Given the size, the Company is exempt from having an Audit Committee however it has set up an Internal Control Working Group with the objective

1. To monitor the integrity of the financial statements of the Company, independent auditors qualifications and independence, performance of the Company's independent auditors, appropriateness of the Company's internal data, systems and controls, compliance by the Company with legal and regulatory requirements relating to audit and financial reporting functions and Company's internal audit and risk management functions.
2. To report to the Board on the foregoing and to assist the Board in considering and adopting accounting policies.

The Working Group is composed of such Directors as may be recommended to the Board who after considering its Corporate Governance and the requirements and guidelines and obligations under Solvency II has nominated the Chairman of the Company, an independent non-executive director and an executive director:

A representative from the Insurance Manager acts as secretary for the purposes of the Working Group meeting who attends all meetings and prepare minutes.

The quorum for the meeting is one plus the Chairman of the Working Group.

The Working Group Responsibilities are:

- a) To 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), including:
- Reviewing the experience and qualifications of the independent audit firm and the senior members of the independent auditor team;
  - Obtaining and reviewing a report from the independent auditor at least annually regarding the auditors internal quality-control procedures,
  - Evaluating the performance of the independent auditor;
  - Presenting its conclusions on the preceding point to the Board, taking any actions deemed necessary or desirable by the working group to satisfy itself as to the qualifications, performance and independence of the independent auditor, and making any recommendations to the Board concerning such matters as the working group deems advisable;
  - Meeting with the independent auditor prior to the audit to discuss the planning and staffing of the audit;
  - Receiving direct reports from the independent auditor in connection with conduct of the audit, issuing an audit report and related work;
  - Reviewing and agreeing the independent auditors annual engagement letter (including terms of remuneration); and
  - Assessing the effectiveness of the audit process.
- (b) To receive, and take any appropriate action in relation to, all reports and other communications which the independent auditor is required to make to the working group, including timely reports concerning:
- All critical accounting policies and practices to be used;
  - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company
  - ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - Other material written communications between the independent auditor and the management of the Company, such as any management letter or schedule of unadjusted differences.
- (c) To 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.

- (d) To 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.
  - (e) To discuss with management and the independent auditor the effect of regulatory and accounting initiatives.
  - (f) To meet with management, the internal accountants / auditors and the independent auditor separately, quarterly or at such other interval as the working group deems reasonable.
  - (g) To monitor the independence of the independent auditor, including:
    - Evaluating the independence of the independent auditor, including whether the provision of non-audit services is compatible with maintaining the auditors independence;
    - Approving or disapproving any engagement by the Company or its subsidiaries of the independent auditor to perform any non-audit services, subject to a de minimus threshold of €2,500; and
  - (h) To monitor the integrity of the Company's financial and other internal controls.
  - (i) To oversee and monitor the documentation the reports and documents produced by the risks management committee.
  - (j) To 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.
  - (k) To review and approve the statements included in the annual report in relation to internal control and the management of risk.
  - (l) To monitor and review the effectiveness of the internal audit function, and to approve the appointment or termination of the internal auditor.
  - (m) To review and discuss with management the reserving methodology and process of establishing the Company's reserves, together with internal or external reports or studies.
  - (o) To receive reports from the Company's Head of Compliance on compliance related matters including any material compliance breaches.
  - (p) To recommend to the Board for adoption a procedure for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting, auditing or other matters.
  - (q) To meet at least quarterly.
  - (r) To make regular reports to the Board.
  - (s) To review and reassess the adequacy of these terms of reference and its own performance annually and recommend any proposed changes to the Board for approval.
  - (t) To provide a statement about its activities for the annual report.
-

#### Working Group Authority

- (a) The Working Group has the authority reasonably required to enable it to discharge the Working Group Responsibilities.
- (b) The Working Group shall have the authority to engage at the company's expense independent counsel and other advisors as it determines to be reasonable to carry out the Working Group's Responsibilities.
- (c) The Working Group shall have authority to require any officer or employee of the Company, of the Company's outside counsel or independent auditor to attend a meeting of the Working Group or to meet with any members of, or consultants to, the Working Group.
- (d) The Working Group may form subcommittees and delegate authority to such subcommittees or an individual member of the Working Group when appropriate.
- (e) The Responsibilities and Authority of the Working Group do not include the obligation to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor, as applicable. It is also not the responsibility of the Internal Controls Working Group to set or determine the adequacy of the Company's reserves.

#### Managing Director

The Managing Director is empowered to exercise the authority of the Board between board meetings and has delegated authority in all issues, except matters reserved for the Board.

Representatives of all the key functions and businesses that either provides services to, or use, IDA are members of the executive group which provides a forum for ensuring:

- issues are raised, debated and resolved (being escalated to the Board where necessary)
- proposals are discussed and shared across the stakeholder network
- matters to be raised for decision at the Board are communicated and support gained

#### Related Party Transactions

During the year the Company entered into various transactions which are subject to common control. All transactions are conducted within the normal course of business.

The Company is a subsidiary of the Dan Europe Foundation (the "parent") which holds 99% of the ordinary shares of the Company. The registered address of the Foundation is 26, Fidiel Zarb Street, Gharghur, Malta.

During the course of the year, the Company entered into transactions with related parties as set out below.

All the Company's insurance business is transacted through a licensed broker, which is also a related party, by virtue of common ownership. The transactions with the broker are included with "other related parties", defined below.

The related party transactions in question were:

|  | 2018                          |                       |            | 2017                          |                       |           |
|--|-------------------------------|-----------------------|------------|-------------------------------|-----------------------|-----------|
|  | Related party activity<br>EUR | Total activity<br>EUR | %          | Related party activity<br>EUR | Total activity<br>EUR | %         |
| Other operating income                     |                               |                       |            |                               |                       |           |
| <i>Related party transactions with:</i>    |                               |                       |            |                               |                       |           |
| - Other related parties                    | <u>130,050</u>                | <u>130,050</u>        | <u>100</u> | <u>-</u>                      | <u>-</u>              | <u>-</u>  |
| Acquisition costs                          |                               |                       |            |                               |                       |           |
| <i>Related party transactions with:</i>    |                               |                       |            |                               |                       |           |
| - Other related parties                    | <u>737,336</u>                | <u>829,348</u>        | <u>89</u>  | <u>737,336</u>                | <u>826,370</u>        | <u>89</u> |
| Administrative expenses:                   |                               |                       |            |                               |                       |           |
| <i>Related party transactions with:</i>    |                               |                       |            |                               |                       |           |
| - parent company and other related parties | <u>567,702</u>                | <u>1,667,377</u>      | <u>34</u>  | <u>572,070</u>                | <u>1,389,391</u>      | <u>41</u> |

“Other related parties” consist of related parties other than the parent, entities that are controlled or jointly controlled by, directly or indirectly, key management personnel of the Company.

The Company entered into a transfer of ownership agreement on 1 July 2017 with Mar Sud Limited (“Mar Sud”), a related party of the Company, which had facilitated the development of an insurance software by entering into an agreement with a third party software developer. Mar Sud was financed by the various group companies. As part of the transfer ownership agreement entered between Mar Sud and the Company, the Company agreed to absorb the payable balance of Mar Sud to the parent company of EUR188,500. The transaction was affected without cash. An impairment loss of EUR92,675 was incurred but this was offset by the license fee income earned from the transaction of EUR89,250, resulting to a net impairment losses on receivable from a related party of EUR3,425 that is reported in the statement of profit or loss and other comprehensive income.

### Key Functions

The Company complies with the requirements under Solvency II and the Fitness & Probity Standards to ensure that Key Functions are held by persons with the appropriate knowledge, experience and competence. The following Key Functions are outsourced by the Company:

#### Risk Management Function

Risk management lies at the heart of the Company’s business activities. The adopted risk appetite reflects the articulated risk profile set by the Board through its risk-return profiling of the identified key risks.

The Board is assisted by Willis Towers Watson Management (Malta) Limited being the outsourced service provider of this Function in executing the risk management strategy laid down by the Board, 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. The Risk Management and Compliance Committee chaired by Mrs Laura Marroni act as oversight.

Furthermore, Willis Towers Watson Management (Malta) Limited also assists 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. It also assists 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. It also seeks to identify and assess emerging risks and advise the Board thereon.

Acceptable risk limits for each risk type are determined to facilitate 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.

As the Company operates in a dynamic business environment it is alert to changes in the Company and in the environment in which it operates and modifies the Risk Management system as necessary.

#### **Compliance Function**

The Compliance Function is outsourced to Willis Towers Watson Management (Malta) Limited, with Ms Marie Louise Cassar being the Compliance Officer and the Risk Management & Compliance Committee chaired by Mrs Laura Marroni acting as Board oversight. The Function is responsible for:

- Providing a compliance function (the "Compliance Function"), which has established a Compliance Policy and set out its planned activities, reviews and monitoring in a Compliance Plan, which is submitted annually to the Board for review and approval;
- Providing the Company with the services of an eligible associate to act as the Company's Compliance Officer, subject to the approval of the Board and the Regulator;
- Facilitating reasonable access by the Company, its auditors and Regulator to information held by the Compliance Function in connection with the provision of the Services;
- Liaising with the Regulator in relation to changes in existing regulations and guidelines;
- Making all necessary returns to Regulators and observe all reporting requirements imposed upon the Company by Regulators;
- Arranging for remittance, at the Company's expense (subject always to sufficient funds being available from the Company in advance) of applicable regulatory fees to the Malta Financial Services Authority;
- Providing to new Directors and officers of the Company, who are to undertake controlled functions requiring regulatory approval, appropriate documentation for submission to the Regulator, assisting with completion, submission and response to follow-up enquiries in relation to the authorisation process, and submitting the appropriate filing upon the termination of a director or officers' appointment.

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#### **Actuarial Function**

The Company's Actuarial Function is currently outsourced to Lux Actuaries with Profs Alessandro Marroni acting as oversight.

The Actuarial Function is carried out by persons who have an appropriate knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the Company, and who are able to demonstrate their relevant experience with applicable professional and other standards in line with the Company's Fitness and Probity Policy and the Malta Financial Services Authority's rules and regulations.

#### **Internal Audit Function**

The Internal Audit Function is an outsourced service, provided by a third party audit firm (Mazars Consulting Limited) with Mr Ray Mercieca acting as oversight. The Internal Audit Function's mission is to independently examine and evaluate the functioning effectiveness and efficiency of the Company's internal control system and all other elements of governance.

The activities of the Internal Audit function are designed to provide advice to management in improving the internal control environment, monitoring the implementation of strategic control initiatives and managements remediation activity. The Internal Audit Function provides a formal report to the Board at least annually. The findings of Internal Audit reviews conducted are discussed with and challenged by the Board and an action plan is agreed upon to remediate any issues identified, along with a timeline for completion.

#### **B.2 Fit and Proper Requirements**

The Company considers the following as Relevant Person for the purposes of its Fit and Proper Policy:

- i. The Board of Directors of IDA;
- ii. the Members of the Investment Committee, the Risk & Compliance Committee and the Internal Control Working Group of IDA;
- iii. any advisor of the Board of Directors of IDA;
- iv. the persons who effectively run IDA;
- v. any person performing a key function of IDA including persons performing the function under an outsourcing arrangement; and
- vi. any other personnel of IDA for the time being or from time to time prescribed by regulation or identified by the Board as being subject to fitness and propriety requirements.

The Company considers the key functions to be the following:

- i. Risk Management;
- ii. Compliance;
- iii. Internal Audit;
- iv. Actuarial;
- v. any other key function identified by the Board as important or critical in IDA's system of governance taking into account the nature, scale and complexity of its business and organisational structure.

The Company's Fit and Proper Policy aims to ensure that no person is appointed to or confirmed in a Relevant Person role unless they have been appropriately assessed by IDA to be fit and proper for the role in accordance with regulatory requirements referenced in the Company's policy. The principles for achieving that objective are:

Fitness:

- i. Every Relevant Person must be fit for their role and responsibilities and hold the qualifications, knowledge and experience relevant and necessary to ensure that the role is managed in a professional manner with the necessary degree of management and technical competence.
- ii. The members of the Board of IDA collectively must possess at least qualification, experience and knowledge:
  - a. of insurance and financial markets relevant to the operations of the Company;
  - b. of the business strategy and business model of IDA;
  - c. of IDA's system of governance;
  - d. to perform required financial and actuarial analysis in respect of IDA;
  - e. of the regulatory framework and requirements applicable to the Company; and
  - f. generally to be able to provide for the sound and prudent management of IDA.
- iii. The appointment and continuing engagement of any Relevant Person must comply with the fitness elements as set out within the applicable MFSA rules and guidelines.

Propriety:

- i. The honesty, financial soundness and reputation of every Relevant Person must be assessed by the Company to determine that they are of good repute and integrity, based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects, regardless of location but taking account of any applicable period of limitation in respect of any committed offence.
- ii. The appointment and continuing engagement of any Relevant Person must comply with the probity elements of the aforementioned MFSA rules and guidelines.



Each Relevant Person shall complete a Fit & Proper Questionnaire and submit to the Compliance officer.

Board – The Board is responsible for:

- i. The approval and periodic review of this policy;
- ii. overseeing the implementation of this policy;
- iii. establishing the minimum criteria for each Relevant Person, including any minimum qualifications, experience and competencies deemed necessary to fulfil their respective functions.
- iv. establishing who are IDA's Relevant Persons, taking into account the nature, scale and complexity of the risks inherent in the business, the nature of the relevant function and its organisational structure.
- v. assessing (pre-appointment and at least annually thereafter) the fitness and propriety and approving any new or ongoing appointment of each Relevant Person.
- vi. suggesting the removal of any Relevant Person from their key function role if a material issue arises.
- vii. designating a Relevant Person to have overall responsibility for overseeing any outsourced key function's Relevant Persons and to challenge and monitor the performance and results on a regular basis.

Compliance Officer – The Compliance Officer is responsible for:

- i. Maintaining a Register of IDA's Relevant Persons
- ii. ensuring that all notifications required to be made by IDA to the National Regulator in respect of the appointment or removal of a Relevant Person are submitted in the prescribed manner and within the prescribed time limit;
- iii. assisting the Board in the performance and documenting of its pre-appointment and ongoing fitness and propriety assessment of Relevant Persons;
- iv. monitoring and reporting to the Board on the execution and implementation and any identified breaches of this policy.

To assist the Board in overseeing the execution and implementation of this policy, the Compliance Officer shall keep report to the Board on the Fitness and Propriety questionnaires completed, on an annual basis.

The IDA outsourcing model and functional organisation of the Company mean that individuals that head Group functions also have individual accountability for the performance of their functions in respect of services provided to IDA. Accordingly, in addition to Board members, the following individuals had been approved by the MFSA regulatory bodies:

| Approved person                           | Function  |
|---|---|
| Marie Louise Cassar                       | Designated Compliance Officer – Willis Towers Watson Management (Malta) Limited |
| Dimitris Dimitrou                         | Designated Actuary – Lux Actuaries  |
| Mazaars Consulting Limited                | Internal Audit  |
| Willis Towers Watson – Insurance Managers | Risk Management   |

### **B.3 Risk Management System including ORSA**

The Company's Risk Management Function is outsourced to Willis Towers Watson Management (Malta) Limited, subject to the conditions outlined in the Company's Outsourcing Policy.

The Board reviews the composition of its Risk Management Function at least annually.

The acceptance of risk is fundamental to the Company and a core element of the overall strategic objectives as an insurance company.

IDA therefore recognizes the importance of having an effective risk management system embedded throughout all areas of the Company.

The Company's Risk Management System is comprised of the following elements;

- Risk Register
- Risk Appetite Statement (RAS)
- Formal Policy Documents for all key risks
- Own Risk and Solvency Assessment (ORSA)
- Formalised Risk Reporting

Each of the elements of the Risk Management System detailed above contribute to the identification, measurement, monitoring, management and reporting of risks and is intended to work as an integrated system, and therefore each should be considered in both in terms of the specific function of the respective element, and in terms of its function within the overall system.

Each element of the system shall be embedded effectively within the Company and managed by the Risk Management Function with appropriate oversight from the Board.

#### **B3.1 Risk Management Approach**

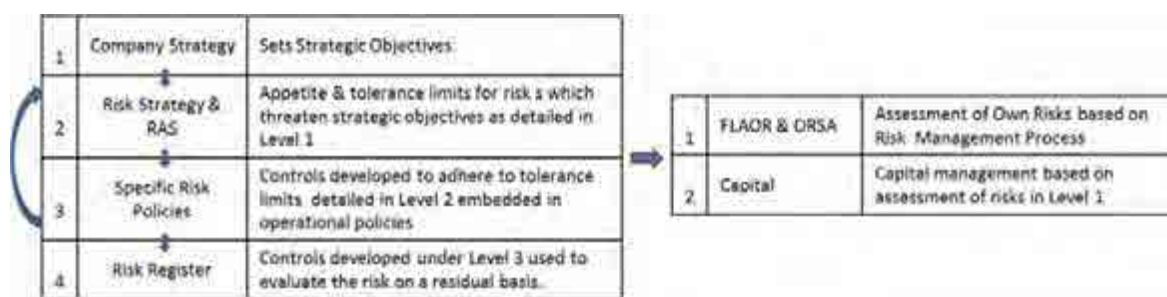
Risk management is the continuous approach and dynamic process that aims to guide the Company to understand, evaluate and assess all of its risk with a view to increasing the successful achievement of its strategic objectives and reducing the likelihood of the unwanted risk.

Risk management is integral to the Company’s corporate governance, business strategy and own risk and solvency assessment (“ORSA”). The framework consists of an effective program led by senior management, which clearly identifies risk appetite; risk policies, standards, roles and responsibilities for managers and other employees involved in the management of risk.

Thus, the Company’s risk management approach is centred on ensuring the inherent risk which the Company faces in the course of its business is appropriately managed to ensure the strategic objectives are achieved.

A direct linkage from strategic to operational levels is established through a cascading of the principles of the hierarchy down to the immediate sub level. This approach also ensures that risk management is appropriately included in the Company’s decision making processes.

The following level hierarchy summarises this approach;



### B3.2 Risk Profile

The risk profile of IDA is included in the latest ORSA report. The Company’s risk profile is formally reviewed at least annually as part of the Company’s ORSA exercise. The Risk Management Function monitors the Company’s risk profile and the corresponding risk management arrangements in place on an annual basis and report to the Board on any observed material changes.

### B3.3 Risk Function

The Risk Function of the Company is responsible for the operational coordination and application of all Risk Management activities throughout the Company on an ongoing basis.

The Risk Function reports directly to the Board on an annual basis or upon occurrence of an event which could materially impact the Company’s risk profile.

The Function is responsible for coordination of all risk management activities throughout the Company. The Function is also responsible for providing the Board with assistance and support in development and implementation of the various risk management arrangements within the Company.

### **B3.4 Risk Categories & Key Risks**

Key risks are considered to be the six risk categories detailed in the Solvency II Directive text together with any other risks evaluated as being key risk through the operation and activity of the Risk Management Function and approved by the Board.

All risks, aside from those which fall within the risk categories prescribed in the Solvency II text, shall be considered to be a key risk if, on a residual basis, a material level of capital is deemed to be required in order to accept the risk, or if particular controls or risk mitigation techniques specific for the risk in question must be employed.

Each of the key risks is included in the Risk Appetite Statement and is subject to a specific policy document which addresses how the risk is to be managed in line with the hierarchy outlined previously.

The risk categories and key risks to which the Company is exposed is reviewed periodically by the Risk Management Function and at least;

- annually
- on occurrence of an event which could materially affect the Company's risk profile
- on the introduction of material new business
- at the discretion or order of the Board

### **B3.5 Risk Appetite Statement**

The Company has in place a Risk Appetite Statement ("RAS"). The RAS sets out the risk appetite and tolerance levels for all key risks over the planning period of the Company.

The Company considers the RAS to be the primary element of the Risk Management System, directly linking to the overall Company Strategy and determining the levels retained for each key risk, and also influencing the nature of the controls and mitigation techniques employed to ensure that the risk remains within the tolerable range.

The Board is responsible for setting the Company's RAS. The Board shall periodically review the appropriateness and effectiveness of the RAS and will perform a formal review of the RAS at least annually or upon a material change in the Company's risk profile.

The RAS includes both qualitative and quantitative aspects for each key risk and is aligned to the planning period of the Company.

The RAS includes in the decision making processes of the Company. The Board, before finalizing any material decision which could impact the risk profile of the Company, refer to the RAS for guidance as to the likely effect of the decision on the tolerance levels of the Company.

The RAS is also used to track actual performance against the metrics detailed in the RAS to ensure that no breach in the agreed tolerance levels has occurred.

Monitoring of the actual performance against the metrics identified in the RAS is performed periodically by the Risk Management Function and reported to the Board in line with the reporting trigger system included in the RAS.

### **B3.6 Risk Policies**

The Company holds a formal policy for each key risk included in the RAS. The policies for each specific risk are consistent with the details contained in the RAS relating to the risk in question. The controls, reporting triggers and any other relevant aspects of the management of the risk are appropriately reflected in the policy for the risk.

### **B3.7 Risk Register**

The Company has in place a comprehensive Risk Register to evaluate and assess the risks to which the Company is exposed.

The Risk Register initially assesses the risk universe of the Company on an inherent basis. The controls and risk mitigating techniques employed by the Company and as detailed in the individual risk policies which act on the risk allow for an evaluation of the risk on a residual basis.

If the risk on a residual basis is deemed to potentially require a material level of capital to accommodate the risk, this risk is considered a key risk and is considered for inclusion in the RAS by the Board and a policy developed.

The Risk Management Function is responsible for the ongoing maintenance of the Risk Register. The Risk Register is updated on at least an annual basis and upon the occurrence of an event which may materially impact the Company's risk profile.

A summary of the results of the Risk Register is distributed to the Board upon completion of each review as soon as is practicable and form part of the Risk Management Function's periodic Risk Reporting.

As part of each update, the Risk Register is reviewed by the Risk Management Function to ensure that the Risks included represent all the material risks to which the Company is exposed and that all applicable emerging risks have been appropriately included.

Where an emerging risk has been identified as one which should potentially be included in the Risk Register, the Risk Function will advise the Board of the nature and context of the risk. The Board then shall determine whether the risk in question should be considered as a Key Risk.

### **B3.8 ORSA**

The Company aims to ensure that the Company is appropriately and prudently capitalized in order to accept the risk to which the Company is exposed. In order to ensure this, the Company performs an ORSA at least annually and upon the occurrence of an event which may materially impact the Company's risk profile. The Company maintains separate policies on ORSA and Capital Management.

### **B3.9 Risk Reporting**

The Risk Management Function formally reports to the Board on at least an annual basis. The report contain details of the outcome of the Risk Register review, the results of the comparison of the RAS to actual results and an update on emerging risks.

The Risk Management Function is responsible for the development of the Risk Reports. The Risk Management Function provides a report to the Board based on the occurrence of an event which materially alters the risk profile of the Company or if the tolerance level triggers are detonated.

The Risk Management Function comments on the quality of the data used in the Risk Management System and advise the Board where data quality issues may distort or mislead results.

### **ORSA Approach**

The Board believes the ORSA process to be an important component of the Company's overall Risk Management System.

The IDA's ORSA approach is based on recognized Enterprise Risk Management principles and considers the Company's risk, controls and capital in a coordinated and holistic manner, building upon the strength of the risk management arrangements in place within the Company.

The Board is satisfied that the Company's ORSA approach is commensurate with the nature, scale and complexity of the Company's operations.

The risk profile of IDA can be found in the Company Strategy section of the latest ORSA report and is updated at least on an annual basis.

The Board is satisfied that they have a strong understanding of the risks to which the Company is exposed and that the controls and risk mitigation techniques in place provide appropriate protection to the Company's strategic objectives.

Based on this, the Board is satisfied that they can assess the range within which risk is expected to materialize with an adequate level of confidence. This assessment can be made for each material risk to which the Company is exposed allowing the Company to assess the range within which the risk is likely to fall with an appropriate level of confidence on a risk-by-risk basis. This risk range can then be used as a basis for profiling each material risk that the Company is exposed to over the planning period. This will provide an 'expected' risk assessment under normal business conditions.

The assessment made for a given risk should be corroborated by the observed actual results of how IDA has managed this risk over the preceding periods. The findings of the Risk Management Function as documented in the reports produced by the function should also serve to corroborate the basis for risk assessments made.

An appropriate level of stress test should be applied to the overall risk assessment process. The stress test should adversely affect the outcome of the risk profiled on an expected basis. An overall 'risk capital' amount can then be determined for each material risk individually and for the Company's overall business over the planning period. The Board believes that this approach focuses on the risks assumed by the Company, the effectiveness of the controls and risk mitigation techniques employed and the resultant level of capital held by the Company for each of these risks on an individual and aggregated level, and therefore directly links the risk profile, tolerance limits and overall capital and solvency needs of the Company in line with ORSA requirements.

#### **B.4 Internal Control System**

IDA utilises the internal control system that comprises three lines of defence, comprising primary risk owners (first line), independent risk management and control functions (second line) and an independent internal audit (third line). This structure is consistent with IDA's risk management structure and the IDA Board considers it appropriate to the management of the IDA risks.

- First line: The majority of IDA's employees comprise the first line of defence.
- Second line: The insurance managers comprise the second line of defence. These managers provide independent oversight of the activities performed within the first line.
- Third line: The third line of defence comprises the Internal Audit function. Senior managers are attendees of risk governance committees.

The Company is fully committed to compliance with the requirements of the MFSA and all applicable legislation and regulations (collectively known as the Company's "Compliance Obligations"). The Board of Directors is fully committed to ensuring that the Company's activities remain within the boundaries of these "Compliance Obligations".

In order to demonstrate the Company's ongoing commitment to compliance, a submission is made by the appointed Compliance Officer to the Board of Directors at each Board meeting. This reporting activity addresses how the Company is achieving full compliance, if there are any breaches and how such breaches are being rectified.

In terms of the Compliance Policy

- The Company has appropriate policies and procedures as are required to ensure that it can meet its Compliance Obligations;
- the Company prepares on an annual basis an appropriate Compliance Plan, in order to set the compliance objectives and detailing the actions to be taken by the Compliance Function;
- a program of monitoring is implemented to assess the Company's fulfilment of its Compliance Obligations;
- the Company maintains/retains documentary evidence to support the conclusions reached regarding the status of its Compliance.

In assessing the requirements

- All the legal, regulatory and statutory code requirements underlying the Compliance Obligations and under which the Company is authorised and licensed to operate are identified on an annual basis as being the Compliance Universe for the Company and included into the annual Compliance Plan of the undertaking;
- the Compliance Universe of the Company is updated according to any new legislation, regulations, standards or guidelines enacted or introduced during the year;
- the detailed requirements of the Company's Compliance Obligations are monitored and documented into the Compliance Audit Statement in order to identify the current state/method of compliance and any deficiencies; and
- any identified deficiencies or breaches are brought to the attention of the Board of Directors and a relevant action plan is prepared, thus identifying the specific actions to be taken, the relevant owner and a reasonable timeframe for completion.

Policies and procedures in support of the Company's Compliance Obligations are documented and the Company ensures that these policies and procedures are "fit for purpose" and are appropriate and proportioned to the nature, scale and complexity of the business of the undertaking; and once adopted, are reviewed annually.

Prior to being adopted, all policies and procedures are approved by the Board and all relevant Personnel are made familiar with the Company's policies and procedures to ensure the effective performance of their roles in accordance with the Company's Compliance Obligations. The Company ensures that Risk Based ongoing monitoring and oversight procedures are implemented to enable it to clearly demonstrate the fulfilment of its Compliance obligations.

Individuals whose role requires them to have compliance competencies are made aware of and receive appropriate training in respect of the requirements of the Company's Compliance Obligations.

### **B.5 Internal audit Function**

Internal audit primarily provides an independent and objective opinion to the Board and Management of the Company, and to its supervisory authority as necessary, on the functioning, adequacy and effectiveness of the company's system of governance, internal controls and risk management framework, and on compliance with the Company's established policies and procedures, internal strategies and reporting requirements. The Internal Audit findings are also of benefit to line management in the audited areas.

Internal Audit is independent of the organisational and operational activities which it audits to ensure that the judgements essential to its proper conduct and impartial advice to management are objective and unbiased. The Company commits itself to ensuring that the Internal Audit Function is not subject to influence from the Board of Directors that can impair its operational independence and impartiality. Given the size of the Company, the Internal Audit Function reports on a regular basis directly to the Board of Directors. It is free to express its opinions and to disclose its findings and appraisals to the whole Board.

Under the authority conferred on it by the Board of Directors, Internal Audit has UNRESTRICTED ACCESS to all records, including management information and Board and Board committees minutes, assets, third party service providers (TPSP) and their premises and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities, by direct communication with all members of staff of TPSPs.

By order of the Board of Directors all business units are obliged to inform the internal audit function when control deficiencies are recognised, losses are sustained or there is a definite suspicion concerning irregularities.

Internal Audit is required to operate to the standards of the International Institute of Internal Auditors or similar standards. It fulfils its role by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations that management have put in place to:

- establish, and monitor the achievement of, the company's objectives;
- identify, assess and manage the risks to achieving the organisation's objectives;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;



- safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

In order to support this role the Internal Audit Function is required to maintain an audit strategy in line with the best practice guidance issued by the International Institute of Internal Auditors or any guidance issued by EIOPA or local regulators that is more specific to the internal auditing of insurers.

#### Reporting

Following an audit, once reports have been agreed and finalised with line managers of the audited unit, a copy of the final report is copied to the following:

TPSPs responsible for the area in question;

Members of the Board of Directors.

These written reports are issued regardless of whether material shortcomings have been found. The Board, supported by the Management, determines what actions are to be taken with respect to each of the internal audit finds and recommendations and ensures that these actions are carried out.

The Internal Auditor is required to submit an annual report to the Board, providing the Internal Audit's (IA) overall opinion on corporate governance, risk management and control within the Company, (including any branches, agencies and TPSPs) and any major shortcomings with regard to the compliance with internal policies, procedures and processes. This report includes recommendations on how to remedy inadequacies, including the envisaged period of time to remedy such shortcomings, and also addresses how past points of criticism and past recommendations have been followed up.

The internal audit function prepares an audit plan setting out the audit work to be undertaken in the upcoming business year(s). The audit plan is based on a methodical risk analysis, taking into account all activities and the complete system of governance, as well as expected developments of activities and innovations. On the basis of the result of this risk analysis, a detailed plan for the upcoming year, with an outline plan for the following 3 years, is established.

The plan allows for the review, within a reasonable period of time based on the audit cycle principle, of all significant activities, taking into consideration how often important areas of the company require scrutiny.

During the course of the year the detailed plan is varied as necessary to take account of altered circumstances and new or emerging risks, with the approval of the Board.

The Board of Directors is entitled to instruct the Internal Audit Function to perform any other special tasks as deemed appropriate.

## **B.6 Actuarial function**

IDA outsources the Actuarial Function to take advantage of external expertise. This critical operational service is outsourced to Lux Actuaries. Lux carries out the duties of the Actuarial Function as required by the Solvency II Directive. These services are outlined below as per the Solvency II Directive and are explained in more detail further below:

- a. coordinate the calculation of technical provisions;
- b. ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- c. assess the sufficiency and quality of the data used in the calculation of technical provisions;
- d. compare best estimates against experience;
- e. inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- f. oversee the calculation of technical provisions;
- g. express an opinion on the overall underwriting policy;
- h. express an opinion on the adequacy of reinsurance arrangements;
- i. contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements, and to the Own Risk and Solvency Assessment.
- j. Carry out the risk modelling underlying the calculation of the capital requirements, the financial and solvency projections in the context of the Own Risk and Solvency Assessment;
  - Perform the calculation of SCR and MCR
  - Carry out investigations in relation to the claims experience and the expenses of the company
- k. Attend Board of Directors meetings as required by the Company
- l. Liaise with the Company's auditors as necessary
- m. Prepare the pillar 3 reports relating to the Actuarial function

### **B6.1 Calculation of Technical Provisions**

The frequency of the valuation is quarterly for all reserves and all classes of business.

The scope of Engagement also includes active participation and mediation with the Malta Financial Services Authority for any regulatory matters of the company.

The following duties fall within the scope of the Function:

- a) Identification of any sources of deviation from statutory requirements and implementation of any relevant changes in order to ensure that the calculation performed is consistent with those requirements. In particular, Lux use methodologies that allow a complete analysis regarding those requirements;
- b) Validation of the methodologies used to assess the sufficiency of the technical provisions, including back testing against past experience, giving due considerations to changes over time;
- c) Development of an understanding of the different drivers of risk that affect the level of technical provisions and its structure of dependencies. Furthermore, we will perform any relevant analysis of the internal data and consult relevant market information in order to improve this understanding;

- d) Coordination of the assessment and validation of internal data to determine the level of compliance according to the standards for data quality and, if necessary, recommend the implementation of improvements in the internal procedures that are considered relevant;
- e) Comparison and validation of technical provisions based on experience and identification of solutions on how to deal with any material differences detected, which may imply revisions of assumptions and/or methodologies;
- f) High level analysis of movement between successive valuations.

#### **B6.2 Calculation of SCR and MCR**

The actuarial function is responsible for the calculation of the SCR and the MCR. The frequency of the calculation will be quarterly.

A management report on the process and results is prepared at least quarterly, covering:

- a) The revised balance sheet of the company pinpointing the valuation adjustments to assets and liabilities due to the differences in the valuation principles;
- b) Summary of the indicative results of the stress test regarding the calculation of the MCR and the SCR;
- c) Analysis of capital requirement, including capital requirements per type of risk and simulations to assess how capital requirements vary with different strategic options;
- d) Interpretation of results, identifying any particular issues with the EIOPA methodology;
- e) A comparison of results with the ones under the existing solvency capital methodology, highlighting key differences;
- f) Identification of areas for improvement in the process and methodology and suggestions of methods to improve.
- g) Prepare the required input into the ORSA if the risk profile and/or the business model of the Company changes during a year, requiring an additional SCR calculation and an exceptional ORSA to be carried out during the same year.

#### **B6.3 Issuing an Opinion on the Underwriting Policy**

The opinion on the overall underwriting policy covers the following:

- a) whether the underwriting policy is consistent with product pricing;
- b) an opinion on the principal risk factors influencing the profitability of business to be written during the next year, including the potential impact on future profitability of external factors such as inflation, legal risk and changes in the market environment;
- c) an opinion on the likely financial impact of any material planned changes in products' terms and conditions;

- d) the approximate degree of variability surrounding the estimate of expected profitability; and,
- e) the consistency of this approximate degree of variability with the risk appetite of the undertaking.

All information is communicated to the senior management of the Company. The opinions on the underwriting policy and reinsurance arrangements include, when necessary, recommendations regarding the most appropriate strategies to be followed by the company in this matter.

#### **B6.4 Issuing an opinion on the reinsurance arrangements**

The opinion of the adequacy of the undertaking's reinsurance arrangements includes the following components:

- a) the consistency of the company's reinsurance arrangements with its risk appetite;
- b) the treatment and effect of reinsurance on the estimation of net technical provisions; and
- c) the effect of reinsurance arrangements on the volatility of the company's financial strength.

The opinion on the adequacy of reinsurance arrangements will include an assessment of how the reinsurance coverage could respond under a number of stress scenarios. These scenarios may include situations such as the following:

- exposure of the undertaking's portfolio of business to catastrophic claims experience,
- aggregations of risks,
- concentrations of reinsurance security and potential reinsurance exhaustion.

#### **B6.5 Contributing to the effective implementation of the risk-management system**

Lux provides guidance and expertise for the implementation of an effective ERM framework. This service encompasses all critical steps of the framework.

The Actuarial Function works closely with the Risk Management Function (RMF), and makes available to it our expertise and experience. The Actuarial Function supports the RMF in meeting the various requirements of its role and be familiar with what is required of it.

The Actuarial Function contributes to the risk modelling underlying the calculation of both the solvency capital requirement and minimum capital requirement. Depending on the complexity of the risk management system, actuarial methods are applied that call for a detailed understanding of statistical methods and the probabilities of insurance risks, such as claims frequencies and severities, understanding and assessing the use of risk mitigation techniques and understanding volatility and adverse deviation.

The Actuarial Function guides the Company on how to reflect business realities in actuarial models and risk management processes, to ensure that the ORSA output is relevant for the business. The Actuarial Function provides the necessary expertise in order to:

- Understand the detailed requirements regarding the ORSA and identify gaps relative to current risk management processes
- Begin to plan how current risk management, financial reporting and modelling Systems will need to change to create an effective ORSA

As part of the ORSA, the Actuarial Function contributes to the assessment of the compliance with the requirements regarding the technical provisions and the analysis of deviations of the company's risk profile from the assumptions underlying the calculation of the solvency capital requirement with the standard formula.

The Actuarial Function is also expresses an opinion on the following parts of the ORSA process:

- Determine the risks to be included in the ORSA and how these will be quantified
- Set up processes in order to notify the Company whenever the risk profile deviates from the assumptions underlying the SCR
- Introduce a formalised and documented capital monitoring and management process.
- Describe the controls and processes needed to ensure that robust & formalised modelling, monitoring and roll forward tools are in place
- Assist the company in preparing and adequately document a risk based business strategy and a process to ensure that the business strategy is reviewed and updated regularly
- Identify and introduce projections of the business risks which are a key part of any undertaking's financial planning, such as projections of the business plan (capital impact), economic balance sheet and profit and loss account
- Provide the resources and the expertise necessary in order to set up the processes to facilitate a regular assessment of the company's solvency needs and compliance.

### **B.7 Outsourcing**

IDA outsources various activities where the Board believes outsourcing can provide access to superior processes and technical skills than it would achieve on a standalone basis. As a result of these arrangements, IDA has transferred its functional risk exposure but accepts counterparty risk exposure.

The objectives and high level principles of the outsourcing policy are;

- that the risks associated with outsourcing are appropriately managed and that the Company has adequate measures in place to identify, measure, monitor, manage and report these risks in a timely manner as part of the Company's overall risk management system;
- that outsourced service providers have the appropriate expertise and experience and resources to undertake the outsourced activities to the standards required by the Company;
- that there is no reduction in the Board of Directors' ("the Board"), and where applicable a relevant sub committee's responsibility for, or influence over, key functions of the Company as a result of outsourcing;
- that there is no material impairment of the quality of the Company's System of Governance as a result of outsourcing a key activity or function;
- that the Company's approved policies and procedures are adhered to by the outsourced service provider;
- that there is no material impairment of the Company's ability to fulfil its obligations to stakeholders, nor impede effective supervision by regulators as a result of outsourcing a key activity or function;
- that no material conflicts of interest result from outsourcing a key function or activity;
- that all outsourcing arrangements are supported by appropriately detailed written agreements

The Board is responsible for the approval, application and review of the Outsourcing Policy.

The Board is ultimately responsible for the approval of and termination of all outsourcing arrangements of critical or important functions and activities.

The Board may delegate the on-going monitoring and supervision of outsourcing arrangements to a subcommittee of the Board.

All functions and activities of the Company are eligible to be outsourced provided that each of the objectives detailed above are achieved in each instance.

A service provider may be either an entity from within the Group (Internal Outsourcing) or an entity that is not part of the same (External Outsourcing), provided that the objectives detailed above are achieved in each instance.

Sub-outsourcing is allowable on the condition that the sub-outsourced service provider satisfies the Service Level Agreements requirements and is subject to approval from the Board.

All outsourcing relationships must be governed by written contracts in accordance with specific Service Level Agreement requirements.

Upon agreement by the Board to outsource a critical or important function, formal 'requests for proposal' ('RFP') should be sent to at least three potential providers where possible. The RFP shall specify the information required to allow the Board to evaluate the service provider based on the evaluation rationale detailed below.

The appointment of a service provider is subject to the following:

- An evaluation process must be undertaken prior to any decision on appointments.
- The evaluation process must include an assessment of the service provider's control framework, covering performance standards, policies, procedures, compliance, reporting, monitoring processes and BCP.
- The evaluation should also address other issues, such as business strategy, reputation, experience with the proposed outsourced activities and potential conflict of interest where the service provider is related to the Company or has arrangements with competitors.
- The Board may delegate the execution of the evaluation process to a subcommittee, function or Company representative provided no material conflict of interest arises from such delegation.
- The risks associated with the outsourcing of the activity or function, shall be considered and included in the evaluation process.
- The evaluation process should be appropriately documented with results presented to the Board for consideration.
- All decisions in relation to approval of outsourcing rest with the Board of Directors only.
- The Board shall ensure prior to appointment of a service provider that the service provider has checked the fitness and propriety of the key persons working on the function or performing the activity.
- The Board shall ensure that the outsourced service provider adheres to the Company's policies and that the effectiveness of the Company's system of governance is not lessened or compromised by the outsourcing arrangements.

This adherence to the Companies policies shall contribute to the evaluation process of the service provider as outlined in the following section.

- The Board shall review the performance of service providers acting in an outsource capacity on a periodic basis and at least annually.
- The Company shall ask each Critical Outsourced Function to complete a questionnaire to assess the continued appropriateness of its outsourcing arrangements.

- The Board may delegate the responsibility for the performance evaluation to a subcommittee, function, Company representative or Group subject to conflict of interest considerations. The Board retains ultimate responsibility for all decisions in relation to outsourcing arrangements.
- The performance of the service provider will be based on a comparison of the actual performance of the service provider in comparison with the required performance as per the agreed Service Level Agreement ('SLA').
- The review shall also consider the requirement for the function or activity to be outsourced for the short, medium and long term.
- The review process shall be adequately documented with results communicated to the Board for consideration.

All decisions and actions points arising from the Board's considerations of the Company's outsourcing arrangements shall be appropriately actioned and documented.

Outsourcing risk shall be monitored by the Risk Management Function periodically in line with the Company's overall risk management arrangements and procedures, and be present in the Company's Risk Appetite and Risk Register as required.

The results of the assessment of the risks associated with outsourcing shall be documented and reported to the Board at least annually.

The following risks and related mitigations available should at least be considered as part of this process:

- The financial, reputational, and operational impact on the Company of the failure of a service provider to adequately perform the activity;
- The financial, reputational, and operational impact on the Company of service provider failure;
- The risk associated with increased considerations in Business Continuity Planning (BCP);

Consideration should be given as to whether all the risks associated with the outsourcing of an activity or functions are included in the Company's Risk Management System.

All outsourcing arrangements deemed within scope of the Company's Outsourcing policy must be undertaken using a written, legally binding Service Level Agreements ("SLA"). The SLA must document all components of the outsourcing arrangement between the parties.

The agreement shall have a termination clause.

The SLA shall specify the content, frequency and format of the service being provided.

The SLA shall specifically cover any subcontracting by the service provider, including any specific rules or limitations to such arrangements. The same terms that apply to the service provider, as outlined in the SLA, should apply to sub-contractors or outsourcing arrangements by the primary service provider.



The SLA shall include clauses enabling the Company to access documentation related to the outsourcing arrangement, and to conduct on-site visits to the service provider. This should include arrangements for the Company to meet directly with the service provider, and for the service provider to cooperate with the Company's requests for information and assistance. The regulatory and supervisory authority and the external auditor of the Company shall also have effective access to all information relating to the outsourced functions and activities, including carrying out on-site inspections at the business premises of the service provider. The regulatory and supervisory authority may also address questions directly to the service provider, to which the service provider shall reply.

The SLA shall require the service provider to disclose any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements.

The SLA must include details covering BCP to ensure that acceptable service levels are maintained in the event of problems occurring with the service provider. The SLA should also ensure that this requirement applies to any sub-contracting or outsourcing by the service provider.

With respect to default arrangements, the SLA shall clearly specify what constitutes a default event, identify how these are to be rectified and specify any indemnity provisions.

The circumstances that would lead to a termination of the outsourcing arrangement should be clearly specified in the SLA. It should set out possible reasons for terminating the arrangement and procedures to be followed in the event of termination, including notice periods, the rights and responsibilities of the respective parties and transition arrangements. The latter would address access to, and ownership of, documents, records, software and hardware. Termination clauses should also specify the time period over which the business activity continues to be undertaken by the service provider and its role in transitional arrangements. The service provider can only terminate the SLA with a period sufficiently long to enable the Company to find alternate solutions or service providers and without detriment to the continuity and quality of its provision of service to the policyholders.

The designated subcommittee/function/representative shall report on the performance of the various outsourced service providers against the agreed SLA as appropriate, and the finding will be documented appropriately.

The Risk Management Function shall report at least annually to the Board on the assessment of the risks associated with the outsourcing of the various functions as part of the overall risk monitoring and reporting arrangements of the Company.

#### **B.8 Any other information**

There are no other information to report on.

## Section C – Risk Profile

The Company operates a low-risk business model that is supported by a robust risk management framework that ensures risks are well understood and controlled. This is facilitated by daily systematic quantification of all risks and a culture that promotes the importance of risk management. Integral to this is a thorough understanding and articulation of the Company's risk exposures. Determining the prevailing risk landscape within the Company allows Management, the Risk Committee and the Board to assess the appetite for each emerging risk and to ensure that all are quantifiable and managed consistently with our appetite to risk.

An overview of the principal risks associated with the business including an outline of how they are each managed is provided below.

### C.1 Underwriting Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random, unknown and unpredictable

As its primary insurance activity the company assumes risks relating to underwater diving activity. The company is therefore exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The terms and conditions of the insurance contracts it issues set out the basis for the determination of the company's liability should the insured event occur. Through its insurance and investment activity the company also has exposure to market and financial risk.

The company also faces risks that the actual claims are significantly different to the amounts included within the technical provisions. This could occur because the frequency of severity of claims is greater or lower than estimated. The insurance risks are further mitigated through strict underwriting criteria, the utilising of actuarial review and the use of reinsurance.

The company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

Since its establishment, the company has developed its own underwriting criteria and strategy which have evolved in line with the technical underwriting discipline of its international treaty reinsurers. The Company reinsures part of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the Company's net exposure.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions, if any, for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers' on an ongoing basis and reviews its reinsurance arrangements annually. The company utilises a reinsurance agreement with non-affiliated reinsurers to control its exposure to losses resulting from one occurrence and for the accumulation of net losses arising out of one occurrence.

## C.2 Market Risk

### C2.1 Interest Rate Risk

The Company invests in fixed income securities in order to back its technical provisions. Interest rate exposure arises due to movements in future expectations of interest rates.

The portfolio is constructed by analysing the sensitivity of all investment assets and insurance liabilities to movements in each of the underlying market instruments. Solvency II balance sheet is still exposed to interest rate movements however, due to the low rate of current market interest the exposure is very low and the company is not sensitive to movements in this area of risk.

### C2.2 Counterparty Default Risk

The Group utilises reinsurance to manage efficiently insurance risk. The Group is therefore exposed to the failure of these counterparties. The exposure is reduced as the counterparties are diversified and also their credit riskiness is managed by ensuring A+ or above credit rating.

### C.3 Credit Risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- Cash and cash equivalents
- Reinsurance assets
- Receivables
- Loans and receivables
- Available-for-sale investments

The company cedes insurance risk to limit exposure to underwriting losses under various agreements. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the company's evaluation of the specific risk subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However the company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. The company manages its credit risk arising through its reinsurance arrangements by using "A" rated reinsurers or reinsurers that are part of an "A" rated group. When selecting a reinsurer the company considers their relative security. The security of the reinsurer is assessed from public rating information and from internal investigations.

The company is exposed to contract holders and insurance intermediaries for insurance premium due. Insurance receivables are presented net of any allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Credit risk with respect to insurance receivables is limited as insurance receivables are due from related parties.

The company's investments are managed through an investment committee which operates within investment parameters set and approved by the Board of Directors. The procedures consider a recommended portfolio structure, asset and counterparty limits as well as currency restrictions.

Loans and receivables are term deposits held with quality financial institutions.

Available-for-sale investments comprise locally and foreign quoted bonds, locally and foreign quoted equities as well as an exchange traded fund. Quoted investments are acquired after assessing the quality of the relevant investments.

#### **C.4 Liquidity Risk**

A lack of liquidity within the business may both prevent the Company from being able to pay its obligations as amounts fall due. Such outcomes will clearly limit the ability of IDA to continue as a going concern and write new business.

The company has to meet daily calls on its cash resources, notably from claims arising on its insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due. The company manages this risk by adhering to its investment policy ensuring that an adequate amount of funds are invested in highly liquid investments.

Furthermore, the Company's Liquidity Policy requires sufficiently liquid assets to be held in order to meet outflows in extreme market. The liquidity buffer exists; ongoing monitoring also allows mitigating actions to be taken at an early stage if required.

#### **C.5 Operational Risk**

The Company is exposed to operational risk, which is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this includes the failure of key outsourcing arrangements, business disruption, fraud and loss of key management.

This definition also includes legal risk and reputational risk, as the Company considers reputational risk critical and therefore has adopted this broad definition of operational risk.

The process through which the Company's operational risk universe is determined and subsequent estimates of frequency and severity are assessed is captured in the Operational Risk Policy document. This process safeguards the ongoing improvement of the control environment and ensures that operational risk is identifiable and mitigated.

The Company is reliant on the use of external parties to provide some services, and thus is therefore exposed to the potential failure of these outsourcing partners. All high value functions are managed in-house in order to mitigate this risk and to ensure direct oversight so that should an outsourced partner fail, the service can be shifted with applicable continuity.

## **C.6 Other material risks**

### **C6.1 Regulatory Risk**

A change in the regulatory, legal or political environment may have consequences on the Company's Business Model, operations and financials. The Company is subject to financial regulation in the Malta and is required to comply with capital adequacy requirements.

Although the Solvency II regime has now been implemented, it remains subject to future amendments to improve its operation and to better align approaches across Europe. The Company maintains ongoing dialogue with the Regulator in order to ensure ongoing compliance and the ability to react quickly to any unanticipated changes.

### **C6.2 Political Risk**

In the event that the UK were to vote in favour of exiting the European Union, it is likely that there would be a period of increased market volatility. The negotiations surrounding any exit are likely to take a significant amount of time and it is then unclear what scope or appetite the UK government would have to amend the UK regulatory framework that applies to insurance companies.

The Company considers that the UK market is a significant portfolio and has taken steps to continue to be able to service this market. As a result of the eventual inability to provide insurance cover to this territory it will still be possible to provide insurance using a fronting/cover holder arrangement. Although, this change will give a rise to a loss of premium, it is expected it will be offset by fees for the provision of underwriting and claims handling to the eventual frontier/cover holder. On this basis, it is considered that the impact of the departure of the UK from the European Union will have minimal effect on the net contribution of this area of portfolio.

### **Investment of Assets in accordance with the Prudent Person Principle**

The Company invests its assets in a manner to ensure the quality of security, performance and its convertibility into cash for its life and non life portfolio of investments.

The Investment Committee takes investment decisions based on Prudent Person Principle in the interest of policyholders and shareholders. The committee manages the investments through an investment policy approved by the Board. The strategy allows instruments, within the tolerance levels, that can be identifiable, measured and monitored. The Committee ensures that the assets of the Company are held with a Custodian of good repute.

In particular, the Company invests in a prudent manner, in securities

- In countries with a stable outlook
- Which are sufficiently liquid
- Of high and good quality
- Not subordinated; and
- Not in government securities in countries included in the 'black list' of the FATF

### **C.7 Any other information**

There are no other information to report on.

## Section D - Valuation for Solvency Purposes

### D.1 Valuation of Assets

The valuation and measurement bases of assets under the International Financial Reporting Standards (“IFRS”) and Solvency II Directive with the valuation and recognition for material classes is as follows:

#### D.1.1 Investments (other than assets held for index-linked and unit-linked contracts)

##### IFRS

The Company’s investments are classified into the following categories – loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the Company may not recover substantially all of its initial investment other than because of credit deterioration. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Company or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value.

##### Solvency II

All investments must be measured at fair value on the Solvency II balance sheet, regardless of the accounting portfolio under which they are classified. As the assets are reported on a fair value basis for IFRS and Solvency II, the only difference is the inclusion of the accrued interest received in the investments in bonds as required for Solvency II purposes.

#### D.1.2 Intangible asset

##### IFRS

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite.

##### Solvency II

For Solvency II balance sheet, intangible asset has been set to zero since these assets cannot be sold separately hence they have a zero-market value.

### **D.1.3. Plant and equipment**

#### **IFRS**

The Company's plant and equipment relates to the computer equipment acquired during the year. Plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The Company's plant and equipment relates to the computer equipment acquired during the year.

#### **Solvency II**

For Solvency II balance sheet, plant and equipment should be revalued at fair value. Since the amount of the plant and equipment is not material, the carrying value of the computer equipment as at balance sheet date was deemed to approximate its fair value.

### **D.1.4 Deferred acquisition costs**

#### **IFRS**

Acquisition costs comprise all direct and indirect costs arising from entering into general insurance contracts. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent those acquisition costs incurred in respect of unearned premiums existing at the end of each reporting period.

#### **Solvency II**

There is no concept of Deferred acquisition costs in Solvency II hence the account has nil value per Solvency II balance sheet.

### **D.1.5 Deferred tax asset**

#### **IFRS**

Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also dealt with in other comprehensive income or in equity, as appropriate.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **Solvency II**

There are no differences between the recognition and valuation for deferred tax asset for Solvency II and IFRS balance sheet.

### **D.1.6 Cash and cash equivalents**

#### **IFRS**

Cash and cash equivalents comprise of cash balances and term deposits with an originating maturity of three months or less.

### **Solvency II**

There are no differences between the recognition and valuation for cash and cash equivalent for Solvency II and IFRS balance sheet.

### **D.1.7 Reinsurance recoverables**

#### **IFRS**

Reinsurance assets consist of receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting period. Such assets are deemed as being impaired if objective evidence exists, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer

### **Solvency II**

On a Solvency II valuation, these reinsurance recoverables are valued on a best estimate basis.

### **D.1.8 Receivables**

#### **IFRS**

Receivables are stated at their nominal value unless the effect of discounting is material, in which case receivables are measured at amortised cost using the effective interest method.

### **Solvency II**

There are no differences between the recognition and valuation for receivables for Solvency II and IFRS balance sheet except for the accrued interest receivable which are reported as part of the investments for Solvency II purposes.

### **D.1.9 Inventories**

None held at year end.



### D.1.10 Leases

None held at year end.

### D.1.11 Related undertakings

These are covered under investments

## Summary of Differences between IFRS and Solvency II valuation

SE.02.01.16

Variant of Solvency II template S.02.01.01 with ECB add-ons (annual reporting, solo) - Balance sheet

|  | Solvency II value | Statutory accounts value |
|--|-------------------|--------------------------|
|  | C0010             | C0020                    |
| <b>Assets</b>  |                   |                          |
| Goodwill   |                   |                          |
| Deferred acquisition costs   |                   |                          |
| Intangible assets  |                   |                          |
| Deferred tax assets  |                   |                          |
| Pension benefit surplus  |                   |                          |
| Property, plant & equipment held for own use   |                   |                          |
| Investments (other than assets held for index-linked and unit-linked contracts)        |                   |                          |
| Equities   |                   |                          |
| Equities - listed  |                   |                          |
| Equities - unlisted  |                   |                          |
| Bonds  |                   |                          |
| Government Bonds   |                   |                          |
| Corporate Bonds  |                   |                          |
| Deposits other than cash equivalents   |                   |                          |
| Other investments  |                   |                          |
| Assets held for index-linked and unit-linked contracts                                 |                   |                          |
| Reinsurance recoverables from:   |                   |                          |
| Non-life and health similar to non-life  |                   |                          |
| Non-life excluding health  |                   |                          |
| Health similar to non-life   |                   |                          |
| Life and health similar to life, excluding health and index-linked and unit-linked     |                   |                          |
| Insurance and intermediaries receivables   |                   |                          |
| Reinsurance receivables  |                   |                          |
| Receivables (trade, not insurance)   |                   |                          |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in |                   |                          |
| Cash and cash equivalents  |                   |                          |
| Any other assets, not elsewhere shown  |                   |                          |
| <b>Total assets</b>  |                   |                          |
|  | R0010             |                          |
|  | R0020             |                          |
|  | R0030             |                          |
|  | R0040             |                          |
|  | R0050             |                          |
|  | R0060             |                          |
|  | R0070             |                          |
|  | R0100             |                          |
|  | R0110             |                          |
|  | R0120             |                          |
|  | R0130             |                          |
|  | R0140             |                          |
|  | R0150             |                          |
|  | R0200             |                          |
|  | R0210             |                          |
|  | R0220             |                          |
|  | R0270             |                          |
|  | R0280             |                          |
|  | R0290             |                          |
|  | R0300             |                          |
|  | R0310             |                          |
|  | R0360             |                          |
|  | R0370             |                          |
|  | R0380             |                          |
|  | R0400             |                          |
|  | R0410             |                          |
|  | R0420             |                          |
|  | R0500             |                          |

Differences exist for Reinsurance Recoverables, Deferred Acquisition Cost, Investments and Intangible assets as described in detail below:

- Reinsurance recoverables**  
 Reinsurance Recoverables represent the difference between Gross and Net provisions. On a solvency II valuation these are valued on a best estimate basis.
- Deferred Acquisition Cost (DAC)**  
 There is no concept of Deferred Acquisition Costs in Solvency II. The premium provision only allows for future expense cash flows. For those policies already in-force. Initial expenses such as up-front commission occurred in the past and so not been allowed in the premium provision.



### **D.2.1 Methodology and Assumptions used in the Valuation of Technical Provision for Solvency II Purposes**

The calculation of Technical Provision under Solvency II includes changes to the calculation of provisions for claims outstanding and premium provisions. It also introduced the calculation of a risk margin that is not considered under IFRS.

#### **D.2.1.1 Premium Provision**

The calculation of the best estimate of the premium provision relates to all future claim payments expected to arise from future events (post the valuation date) that are insured under the insurer's existing policies that have not yet expired and to all administrative expenses associated with these policies.

Premium provision is determined on a prospective basis taking into account the expected cash-in and cash-out flows and time value of money. The expected cash flows were determined by applying an appropriate prospective combined ratio to the Unearned Premium Reserve ("UPR").

On the basis of the data analysis, this methodology and its underlying model and assumptions are deemed to be realistic for each line of business. The conditions rendering this method valid are met; namely:

- It can be expected that the combined ratio, explained below, remains stable over the run-off period of the premium provision,
- A reliable estimate of the combined ratio can be made,
- The unearned premium provision is an adequate exposure measure for estimating future claims during the unexpired risk period.

The Combined Ratio is defined as the sum of the expense ratio, the claims ratio and the reinsurance cost ratio. This enables the claims forecast and the expense forecast to be modelled separately. For the purpose of this valuation we have assumed that "Expenses", under the Premium Provision, include all expense items, except acquisition costs which are allocated to each line of business by the company.

The difference between the Premium Provision and the current UPR represents the expected profits (losses if negative) that are expected to emerge during the remaining duration of unexpired policies. (The cost of commission is not taken into account).

#### **D.2.1.2 Claims Provision**

The provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. Thus, the components of the Claims Provision are the Case by Case Estimates (OSLR), the IBNR, the IBNER and the reserve for Claims Handling Expenses. Under Solvency II, the reserves are discounted to allow for the time value of money.

#### **D.2.1.2a Incurred but not enough Reported (IBNER)**

This reserve captures the expected inadequacy of case estimates of outstanding claims. The methods used to calculate this reserve are the Chain Ladder on Paid and Incurred claims, the Loss Ratio method Report and the Bornhuetter-Ferguson method. The methods applied, capture both the IBNR and IBNER reserves. The IBNER was determined by subtracting the IBNR calculation from the total reserve.

#### **D.2.1.2b Incurred But Not Reported Claims (IBNR)**

The Delay Method (average Cost per Claim) was applied. Nil claims have been excluded for the purpose of the calculation of the IBNR.

#### **D.2.1.2c Large Losses**

Large losses usually exhibit a development pattern different to that of attritional claims. Thus, including them in the valuation exercise would distort the results. The threshold for large claims in the valuation of 30.06.2018 was €200k and it was determined following thorough review of the data and identification of claims which follow an irregular pattern with respect to the pattern of the aggregate claims pool. The €200k is also the retention of the company hence any development above this amount will be ceded to reinsurer.

The development of these claims was capped to the threshold amount and the remainder (i.e. development above the €200k) was transferred to the “Large Loss pool” and excluded from the scope of the actuarial valuation.

Any outstanding Large Claims, above the large threshold, were subsequently added to the calculated reserve at their book value. The small number of these claims makes it difficult to apply any statistical modelling for the purpose of their valuation. If large losses are reviewed and adjusted frequently and appropriately, the reported large loss case estimates can be considered as robust and as a valid reserving basis.

#### **D.2.1.3 Risk Margin**

The Risk Margin is designed to ensure that the value of technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the Company’s insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the Company’s reinsurance obligations over the lifetime thereof. This rate, called the Cost-of-Capital, is prescribed by EIOPA and currently stands at 6%.

The method used is method 3 as specified in Guideline 61 of the EIOPA guidelines on the valuation of technical provisions. More specifically, for each future a proportional method (based on the development of the best estimate) was used to estimate the future SCR.

The risk margin is allocated to the individual lines of business using the simplification outlined in Guideline 63 of the EIOPA guidelines on the valuation of technical provisions.

#### **D.2.1.4 Gross-to-Net Adjustment**

Reinsurance Recoverables represent the difference between Gross and Net provisions. The Company has proportional reinsurance arrangements for the Medical Expense line of business.

For the General Liability line of business the Company has non-proportional reinsurance. Therefore, the reinsurance recoverable was determined as the reinsurers' share of current outstanding large losses which have exceeded the reinsurance deductible.

There is no reinsurance in place for the Legal Expenses line of business.

#### **D.2.1.5 Discounting**

The reserve payment pattern for each line of business has been derived using the historical payment pattern as derived by the paid claims triangles. The euro risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA, has been used for discounting. As expected, the impact of discounting was very small due to the short-term nature of the business and the low interest rates.

#### **D.2.2 Level of Uncertainty Associated with the Value of Technical Provisions**

Management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are continually evaluated and reviewed and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. As a result, actual results may differ from estimates.

Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumption concerning the future, and other key sources of estimation uncertainty, at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

Ultimate claims, when fully settled, will turn out to be different from the best estimates. This uncertainty results from a number of sources and is normal for any actuarial investigation. Some of the sources contributing to uncertainty include:

- The inherent uncertainty in the process of statistical estimation
- The extent to which past development patterns are an indication of likely future development patterns
- Uncertainty in the level of future claims inflation
- Uncertainty with regard to claim propensity and severity

The variability of reserve estimates was quantified using statistical techniques, based on the historical development claims.

In addition to the above, a number of methods have been used to calculate the reserve (i.e. Chain Ladder on Paid and Incurred Claims, the Expected Loss Ratio method, the Bornhuetter Ferguson method and the Average Cost per Claim).

### **D.2.3 Additional Disclosures**

There were no material changes in the methodology used when compared to prior year.

The Company does not use the matching adjustment, the volatility adjustment, extrapolation of the risk-free rate, the transitional risk-free interest rate-term structure or the transitional deduction in calculating its technical provisions. Neither does it use economic scenario generator.

The euro risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA, has been used for discounting.

### **D.2.4 Summary of Differences between Solvency II Valuation and IFRS Valuation**

The main valuation principles of Solvency II leading to differences from reserves shown in the IFRS financial statements are:

- Removal of any implicit or explicit margin for prudence
- Allowance for time value of money through the discounting of future cash flows
- Allowance is possible for negative IBNER where it is expected that there will be a favourable development of case-by-case reserves
- In the calculation of the Premium Provision under Solvency II, an insurer may take credit for profits embedded in unexpired policies. Under IFRS valuation basis this is disallowed and any profits embedded in the UPR may not be recognised until the expiry of these contracts. An Additional Unexpired Risk Reserve (AURR) is mandatory only where it is positive but not when it is negative.
- The UPR/URR only allows for policies inforce at the valuation date. The Premium Provision needs to include all policies that the insurer is obligated to, at the valuation date, including policies that have not yet incepted.
- There is no concept of risk margin under the current IFRS valuation

In addition to differences streaming from requirements to value in line with gross liabilities, there are also differences in requirements specific to the valuation of reinsurance. These include the requirement to allow for expected non-payment due to default or dispute.

### **D.3 Valuation of Other Liabilities**

The valuation of other liabilities of the Company other than technical provision for Solvency II and IFRS balance sheets are described as follows:

#### **D.3.1 Bank overdrafts**

##### **IFRS**

Bank overdrafts are repayable on demand and form an integral part of the Company's cash management.

##### **Solvency II**

There are no differences between the recognition and valuation for bank overdrafts for Solvency II and IFRS balance sheet.

### D.3.2 Payables

#### IFRS

Trade payables are classified with current liabilities and are stated at their nominal value. Current liabilities approximated their fair values due to the short term maturities of liabilities. Payables comprise (a) Insurance and intermediaries payable, and (b) Payables (trade, not insurance).

#### Solvency II

There are no differences between the recognition and valuation for payables for Solvency II and IFRS balance sheet.

#### Summary of Differences between IFRS and Solvency II valuation

|                                     | Solvency II value | Statutory accounts value |
|-------------------------------------|-------------------|--------------------------|
|                                     | C0010             | C0020                    |
| <b>Other Liabilities</b>            |                   |                          |
| Debts owed to credit institutions   |                   |                          |
| Insurance & intermediaries payables | R0800 42,192.00   | 42,192.00                |
| Payables (trade, not insurance)     | R0820 110,751.00  | 110,751.00               |
| <b>Total Other liabilities</b>      | R0840 456,663.00  | 456,663.00               |

There are no valuation differences for other liabilities other technical provision between the accounting criteria and the solvency II criteria.

#### D.4 Alternative Methods of Valuation

The Company does not make use of an internal model, of underaking specific parameteres to calculate the SCR. No matching adjustment is applied to the relevant risk free interest term structure.

#### D.5 Any Other Material Information

There is no other material information that has not already been disclosed in the sections above.

## Section E – Capital Management

### E.1 Own Funds

IDA has three components of own funds, two of which are tier 1 basic own funds; ordinary share capital, and retained earnings. One of which is tier 3 own funds; Deferred tax asset.

IDA's ordinary shares have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

#### E.1.1 Analysis of Significant Changes of each Tier over the Reporting Period

Basic own funds movement:

| Own Funds                       | Share Capital<br>(Tier 1)<br>€'000 | Surplus Fund<br>(Tier 1)<br>€'000 | Deferred Tax<br>asset (Tier 3)<br>€'000 | Total |
|---------------------------------|------------------------------------|-----------------------------------|---|-------|
| Basic own funds at 30 June 2017 | 5,500                              | -                                 | 123                                     | 5,623 |
| Movement in surplus fund        |                                    | -38                               |   | -38   |
| Movement in Deferred tax asset  |                                    |                                   | -89                                     | -89   |
| Basic own funds at 30 June 2018 | 5,500                              | -38                               | 34                                      | 5,496 |

The movement of the reconciliation reserve during the year is as follows:

| Reconciliation reserve     | €'000 |
|----------------------------|-------|
| Balance as at 30 June 2017 | -263  |
| Movement during the year   | -810  |
| Balance as at 30 June 2018 | -1073 |

#### E.1.2 Material Differences between Equity as shown in the IFRS financial statements and the Excess of Assets over Liabilities under Solvency Purposes

The following table shows the comparisons and movement in the IFRS and Solvency II valuation of assets, liabilities and own funds.

| Reconciliation between IFRS and Solvency II Valuations | €'000 |
|--|-------|
| Excess assets over liabilities as per Solvency II      | 4,422 |
| Adjustments arising from Solvency II                   |       |
| - Difference in valuation of assets                    | 1,711 |
| - Difference in valuation of technical provisions      | -671  |
| Equity as per IFRS                                     | 5,462 |

The movement in the valuation of assets and liabilities, as explained in Section D, arises from the differences between the IFRS and Solvency II principles as explained below:



- DAC and Intangible Assets is only included under IFRS
- Net Technical provision including risk margin making allowance of the time value of money

### E.1.3 Eligible Amount of Own Funds to Cover the SCR and MCR

The MCR and SCR were calculated using the standard formula, and the eligible own fund are shown in the table below:

| Eligible Own Funds<br>€'000              | Total | Tier 1       |            | Tier 2 | Tier 3 |
|--|-------|--------------|------------|--------|--------|
|  |       | Unrestricted | Restricted |        |        |
| Total eligible own funds to meet the SCR | 4,422 | 4,388        | -          | -      | 34     |
| Total eligible own funds to meet the MCR | 4,388 | 4,388        | -          | -      | -      |
| SCR                                      | 2,334 | -            | -          | -      | -      |
| MCR                                      | 3,700 | -            | -          | -      | -      |
| Ratio of eligible own funds to the SCR   | 189%  |              |            |        |        |
| Ratio of eligible own funds to the MCR   | 119%  |              |            |        |        |

### E.2 Capital Objectives and Policies

The Company's objectives when managing capital are:

- To comply with the obligations to maintain positive solvency position based on the regulatory requirements of the insurance market where the Company operates;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The Company's Directors manage the Company's capital structure and make adjustments to it, in the light of changes in economic conditions. The capital requirement of the Company is maintained in accordance with regulatory solvency and capital requirements of the insurance market in which it operates.

The Company is financed by shareholders' total equity. The capital structure is reviewed on an ongoing basis. Based on recommendations of the Directors, the Company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt.

As of 1 January 2016, the Solvency II Directive (2009/138/EC) came into force, introducing new risk-based, regulatory requirements that ascertain the level of the required regulatory capital to be held on the basis of the risks that the Company is or can be exposed to. Solvency II also sets out the approach to be undertaken in order to establish the amount of Solvency II own funds, namely by converting the Statement of Financial Position from an IFRS perspective to one where assets and liabilities are measured in line with their underlying economic value.

The Company's internal capital target is to hold the higher of 1.4 times the pillar 1 requirement or the requirement identified during the ORSA process plus a board approved buffer. On an annual basis, and

having regard to the results of stress tests applied to projections over the three year planning period, the Board will consider whether a dividend should be paid to remit any surplus capital above this target to the Foundation.

The Directors were actively involved in the implementation of the Solvency II regulations, which are also highly embedded in the Company's operations. Regular monitoring of the Solvency Capital Requirement ('SCR') and the Minimum Capital Requirement ('MCR') is considered crucial. To this effect, a Capital Management Policy, outlining the main drivers of the SCR, was put in place to address the procedures and controls in this regard. In the case of any identified breaches with the SCR and MCR, the Directors have put in place a capital plan aimed at ensuring that the Company will restore its level of own funds to one which covers both the SCR and MCR.

**Own funds**

**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)  
Share premium account related to ordinary share capital  
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
Subordinated mutual member accounts  
Surplus funds  
Preference shares  
Share premium account related to preference shares  
Reconciliation reserve  
Subordinated liabilities

An amount equal to the value of net deferred tax assets  
Other own fund items approved by the supervisory authority as basic own funds not specified above

**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

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

**Total ancillary own funds**

**Available and eligible own funds**

Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**

**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business  
Expected profits included in future premiums (EPIFP) - Non- life business

**Total Expected profits included in future premiums (EPIFP)**

|       | Total      | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|-------|------------|-----------------------|---------------------|--------|--------|
|       | C0010      | C0020                 | C0030               | C0040  | C0050  |
| R0010 | 5,500,000  | 5,500,000             |                     | 0      |        |
| R0030 | 0          | 0                     |                     | 0      |        |
| R0040 | 0          | 0                     |                     | 0      |        |
| R0050 | 0          |                       | 0                   | 0      | 0      |
| R0070 | 0          | 0                     |                     | 0      |        |
| R0090 | 0          |                       | 0                   | 0      | 0      |
| R0110 | 0          |                       | 0                   | 0      | 0      |
| R0130 | -1,112,226 | -1,112,226            |                     |        |        |
| R0140 | 0          |                       | 0                   | 0      | 0      |
| R0160 | 34,214     |                       |                     |        | 34,214 |
| R0180 | 0          | 0                     | 0                   | 0      | 0      |
| R0220 |            |                       |                     |        |        |
| R0230 | 0          |                       |                     |        |        |
| R0290 | 4,421,988  | 4,387,774             | 0                   | 0      | 34,214 |
| R0300 | 0          |                       |                     |        |        |
| R0310 | 0          |                       |                     |        |        |
| R0320 | 0          |                       |                     |        |        |
| R0330 | 0          |                       |                     |        |        |
| R0340 | 0          |                       |                     |        |        |
| R0350 | 0          |                       |                     |        |        |
| R0360 | 0          |                       |                     |        |        |
| R0370 | 0          |                       |                     |        |        |
| R0390 | 0          |                       |                     |        |        |
| R0400 | 0          |                       |                     | 0      | 0      |
| R0500 | 4,421,988  | 4,387,774             | 0                   | 0      | 34,214 |
| R0510 | 4,387,774  | 4,387,774             | 0                   | 0      |        |
| R0540 | 4,421,988  | 4,387,774             | 0                   | 0      | 34,214 |
| R0550 | 4,387,774  | 4,387,774             | 0                   | 0      |        |
| R0580 | 2,333,860  |                       |                     |        |        |
| R0600 | 3,700,000  |                       |                     |        |        |
| R0620 | 189%       |                       |                     |        |        |
| R0640 | 119%       |                       |                     |        |        |

**C0060**

|       |            |
|-------|------------|
| R0700 | 4,421,988  |
| R0710 | 0          |
| R0720 |            |
| R0730 | 5,534,214  |
| R0740 | 0          |
| R0760 | -1,112,226 |
| R0770 |            |
| R0780 |            |
| R0790 |            |

**E.3 SCR and MCR**

**E.3.1 Solvency Capital Requirements Split by Risk Modules**

The table below sets out the risk modules making up the solvency capital requirement of the Company.

Solvency Capital Requirement - for undertakings on Standard Formula

|   |              | 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        | 1,209,041                        | 1,209,041                          |  |
| Counterparty default risk   | R0020        | 744,775                          | 744,775                            |  |
| Life underwriting risk  | R0030        |                                  |                                    |  |
| Health underwriting risk  | R0040        | 404,698                          | 404,698                            |  |
| Non-life underwriting risk  | R0050        | 738,282                          | 738,282                            |  |
| Diversification   | R0060        | -959,729                         | -959,729                           |  |
| Intangible asset risk   | R0070        | 0                                | 0                                  |  |
| <b>Basic Solvency Capital Requirement</b>   | <b>R0100</b> | <b>2,137,068</b>                 | <b>2,137,068</b>                   |  |
| <b>Calculation of Solvency Capital Requirement</b>  |              | <b>C0100</b>                     |                                    |  |
| Adjustment due to RFF/MAP nSCR aggregation  | R0120        |                                  |                                    |  |
| Operational risk  | R0130        | 196,793                          |                                    |  |
| Loss-absorbing capacity of technical provisions   | R0140        | 0                                |                                    |  |
| Loss-absorbing capacity of deferred taxes   | R0150        |                                  |                                    |  |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160        |                                  |                                    |  |
| <b>Solvency Capital Requirement excluding capital add-on</b>                                | <b>R0200</b> | <b>2,333,860</b>                 |                                    |  |
| Capital add-on already set  | R0210        |                                  |                                    |  |
| <b>Solvency capital requirement</b>   | <b>R0220</b> | <b>2,333,860</b>                 |                                    |  |
| <b>Other information on SCR</b>   |              |                                  |                                    |  |
| 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        |                                  |                                    |  |
| Method used to calculate the adjustment due to RFF/MAP nSCR aggregation                     | R0450        | 4 - No adjustment                |                                    |  |
| Net future discretionary benefits   | R0460        |                                  |                                    |  |

### E.3.2 Input used for MCR calculation and material changes to MCR and SCR

The MCR was calculated based in the standard formula.

In addition to the above, the table below shows a comparison between the SCR as at 30<sup>th</sup> of June 2017 and 30<sup>th</sup> of June 2018

| Solvency Capital Requirement                               | 2017Q2 € '000 | 2018Q2 € '000 |
|--|---------------|---------------|
| <b>Market risk</b>   | 803           | 1,209         |
| <b>Counterparty risk</b>                                   | 2,556         | 745           |
| <b>Life Underwriting risks</b>                             |               |               |
| <b>Health Underwriting risks</b>                           | 353           | 405           |
| <b>Non-Life Underwriting risks</b>                         | 755           | 738           |
| <i>Diversification effects</i>                             | -1,043        | -960          |
| <i>Basic SCR</i>   | 3,424         | 2,137         |
| <b>Operational Risk</b>                                    | 198           | 197           |
| <b>Adjustments</b>   | -             | -             |
| <b>SCR</b>   | <b>3,622</b>  | <b>2,334</b>  |
| <b>Basic Own Funds (Assets-Liabilities)</b>                | <b>5,360</b>  | <b>4,388</b>  |
| <b>Own Funds in excess of Solvency Capital Requirement</b> | <b>1,737</b>  | <b>2,246</b>  |
| <b>Solvency Ratio</b>                                      | <b>148%</b>   | <b>188%</b>   |
| <b>MCR</b>   | <b>3,700</b>  | <b>3,700</b>  |

The most material movements are listed below:

-The material reduction in the Counterparty Default Risk (i.e. from €2,556k in 2017Q2 to €745k in 2018Q2) is mainly attributed to the reduction of the Insurance & intermediaries' receivables.

-The increase in the Market Risk in 2018Q2 is mainly attributed to the higher Concentration Risk arising from the exposure in the Bank of Valetta

-The material reduction in the Own Funds in 2018Q2 compared to 2017Q2 is mainly attributed to the purchase of intangible assets in 2018 (i.e. software) the value of which is not allowed under the SII Balance sheet.

**E.4 Use of the duration-based equity risk sub-module in the calculation of the SCR**

Duration-based equity risk sub-module is not used in the Company's SCR calculation.

**E.5 Differences between the standard formula and any internal model used**

As at 30<sup>th</sup> June 2018, the Company used solely the standard formula for its SCR calculation.

**E.6 Non Compliance with MCR and SCR during the period**

The Company was compliant at all times with the MCR and SCR requirements during the reporting period.

**E.7 Any Other Material Information**

There is no other material information that has not already been disclosed in the sections above.

# IDA Insurance Limited

## Solvency and Financial Condition Report

### Disclosures

30 June

**2018**

(Monetary amounts in EUR thousands)

## General information

|   |   |
|---|---|
| Undertaking name                                    | IDA Insurance Limited   |
| Undertaking identification code                     | 213800ACYSLJ63BM7N69  |
| Type of code of undertaking                         | LEI   |
| Type of undertaking                                 | Non-life undertakings   |
| Country of authorisation                            | MT  |
| Language of reporting                               | en  |
| Reporting reference date                            | 30 June 2018  |
| Currency used for reporting                         | EUR   |
| Accounting standards                                | IFRS  |
| Method of Calculation of the SCR                    | Standard formula  |
| Matching adjustment                                 | No use of matching adjustment                                 |
| Volatility adjustment                               | No use of volatility adjustment                               |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions        | No use of transitional measure on technical provisions        |

## List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

**S.02.01.02**  
**Balance sheet**

|               |  | Solvency II<br>value |
|---------------|--|----------------------|
|               |  | C0010                |
| <b>Assets</b> |  |                      |
| R0030         | Intangible assets  |                      |
| R0040         | Deferred tax assets  | 34                   |
| R0050         | Pension benefit surplus  |                      |
| R0060         | Property, plant & equipment held for own use   | 1                    |
| R0070         | Investments (other than assets held for index-linked and unit-linked contracts)        | 6,244                |
| R0080         | <i>Property (other than for own use)</i>   | 0                    |
| R0090         | <i>Holdings in related undertakings, including participations</i>                      | 0                    |
| R0100         | <i>Equities</i>  | 621                  |
| R0110         | <i>Equities - listed</i>   | 621                  |
| R0120         | <i>Equities - unlisted</i>   |                      |
| R0130         | <i>Bonds</i>   | 3,379                |
| R0140         | <i>Government Bonds</i>  | 151                  |
| R0150         | <i>Corporate Bonds</i>   | 3,228                |
| R0160         | <i>Structured notes</i>  | 0                    |
| R0170         | <i>Collateralised securities</i>   | 0                    |
| R0180         | <i>Collective Investments Undertakings</i>   | 0                    |
| R0190         | <i>Derivatives</i>   |                      |
| R0200         | <i>Deposits other than cash equivalents</i>  | 1,990                |
| R0210         | <i>Other investments</i>   | 253                  |
| R0220         | Assets held for index-linked and unit-linked contracts                                 |                      |
| R0230         | Loans and mortgages  | 0                    |
| R0240         | <i>Loans on policies</i>   | 0                    |
| R0250         | <i>Loans and mortgages to individuals</i>  |                      |
| R0260         | <i>Other loans and mortgages</i>   |                      |
| R0270         | Reinsurance recoverables from:   | 2,701                |
| R0280         | <i>Non-life and health similar to non-life</i>   | 2,701                |
| R0290         | <i>Non-life excluding health</i>   | 1,529                |
| R0300         | <i>Health similar to non-life</i>  | 1,172                |
| R0310         | <i>Life and health similar to life, excluding index-linked and unit-linked</i>         | 0                    |
| R0320         | <i>Health similar to life</i>  |                      |
| R0330         | <i>Life excluding health and index-linked and unit-linked</i>                          |                      |
| R0340         | <i>Life index-linked and unit-linked</i>   |                      |
| R0350         | Deposits to cedants  | 0                    |
| R0360         | Insurance and intermediaries receivables   | 1,135                |
| R0370         | Reinsurance receivables  | 290                  |
| R0380         | Receivables (trade, not insurance)   | 44                   |
| R0390         | Own shares (held directly)   |                      |
| R0400         | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0                    |
| R0410         | Cash and cash equivalents  | 1,188                |
| R0420         | Any other assets, not elsewhere shown  |                      |
| R0500         | <b>Total assets</b>  | <b>11,637</b>        |

**S.02.01.02**  
**Balance sheet**

|                    |  | Solvency II<br>value |
|--------------------|--|----------------------|
|                    |  | C0010                |
| <b>Liabilities</b> |  |                      |
| R0510              | Technical provisions - non-life  | 6,758                |
| R0520              | <i>Technical provisions - non-life (excluding health)</i>                              | 3,909                |
| R0530              | <i>TP calculated as a whole</i>  | 0                    |
| R0540              | <i>Best Estimate</i>   | 3,781                |
| R0550              | <i>Risk margin</i>   | 127                  |
| R0560              | <i>Technical provisions - health (similar to non-life)</i>                             | 2,850                |
| R0570              | <i>TP calculated as a whole</i>  | 0                    |
| R0580              | <i>Best Estimate</i>   | 2,778                |
| R0590              | <i>Risk margin</i>   | 71                   |
| R0600              | Technical provisions - life (excluding index-linked and unit-linked)                   | 0                    |
| R0610              | <i>Technical provisions - health (similar to life)</i>                                 | 0                    |
| R0620              | <i>TP calculated as a whole</i>  |                      |
| R0630              | <i>Best Estimate</i>   |                      |
| R0640              | <i>Risk margin</i>   |                      |
| R0650              | <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i> | 0                    |
| R0660              | <i>TP calculated as a whole</i>  |                      |
| R0670              | <i>Best Estimate</i>   |                      |
| R0680              | <i>Risk margin</i>   |                      |
| R0690              | Technical provisions - index-linked and unit-linked                                    | 0                    |
| R0700              | <i>TP calculated as a whole</i>  |                      |
| R0710              | <i>Best Estimate</i>   |                      |
| R0720              | <i>Risk margin</i>   |                      |
| R0740              | Contingent liabilities   |                      |
| R0750              | Provisions other than technical provisions   |                      |
| R0760              | Pension benefit obligations  |                      |
| R0770              | Deposits from reinsurers   |                      |
| R0780              | Deferred tax liabilities   |                      |
| R0790              | Derivatives  |                      |
| R0800              | Debts owed to credit institutions  | 42                   |
| R0810              | Financial liabilities other than debts owed to credit institutions                     | 0                    |
| R0820              | Insurance & intermediaries payables  | 111                  |
| R0830              | Reinsurance payables   |                      |
| R0840              | Payables (trade, not insurance)  | 304                  |
| R0850              | Subordinated liabilities   | 0                    |
| R0860              | <i>Subordinated liabilities not in BOF</i>   |                      |
| R0870              | <i>Subordinated liabilities in BOF</i>   | 0                    |
| R0880              | Any other liabilities, not elsewhere shown   |                      |
| R0900              | <b>Total liabilities</b>   | <b>7,215</b>         |
| R1000              | <b>Excess of assets over liabilities</b>   | <b>4,422</b>         |





## S.05.02.01

## Premiums, claims and expenses by country

## Non-life

|   | C0010        | C0020  | C0030 | C0040 | C0050  | C0060 | C0070                        |
|---|--------------|--|-------|-------|--|-------|------------------------------|
|   | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations |       |       | Top 5 countries (by amount of gross premiums written) - non-life obligations |       | Total Top 5 and home country |
|   |              | IT   | GB    | BE    | FR   | CH    |                              |
|   | C0080        | C0090  | C0100 | C0110 | C0120  | C0130 | C0140                        |
| <b>Premiums written</b>                             |              |  |       |       |  |       |                              |
| R0110 Gross - Direct Business                       | 102          | 1,291  | 543   | 490   | 485  | 401   | 3,312                        |
| R0120 Gross - Proportional reinsurance accepted     | 0            | 0  | 0     | 0     | 0  | 0     | 0                            |
| R0130 Gross - Non-proportional reinsurance accepted | 0            | 0  | 0     | 0     | 0  | 0     | 0                            |
| R0140 Reinsurers' share                             | 57           | 653  | 268   | 243   | 240  | 197   | 1,658                        |
| R0200 Net   | 45           | 638  | 275   | 247   | 245  | 204   | 1,654                        |
| <b>Premiums earned</b>                              |              |  |       |       |  |       |                              |
| R0210 Gross - Direct Business                       | 74           | 831  | 377   | 333   | 334  | 276   | 2,225                        |
| R0220 Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| R0230 Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| R0240 Reinsurers' share                             | 51           | 389  | 164   | 146   | 148  | 120   | 1,018                        |
| R0300 Net   | 23           | 442  | 214   | 187   | 186  | 156   | 1,207                        |
| <b>Claims incurred</b>                              |              |  |       |       |  |       |                              |
| R0310 Gross - Direct Business                       | 359          | 359  | 328   | 0     | 219  | 35    | 1,299                        |
| R0320 Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| R0330 Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| R0340 Reinsurers' share                             | 0            | 146  | 170   | 0     | 110  | 18    | 444                          |
| R0400 Net   | 359          | 214  | 157   | 0     | 109  | 17    | 855                          |
| <b>Changes in other technical provisions</b>        |              |  |       |       |  |       |                              |
| R0410 Gross - Direct Business                       |              |  |       |       |  |       | 0                            |
| R0420 Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| R0430 Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| R0440 Reinsurers' share                             |              |  |       |       |  |       | 0                            |
| R0500 Net   | 0            | 0  | 0     | 0     | 0  | 0     | 0                            |
| R0550 Expenses incurred                             | 13           | 161  | 68    | 61    | 61   | 50    | 414                          |
| R1200 Other expenses                                |              |  |       |       |  |       |                              |
| R1300 Total expenses                                |              |  |       |       |  |       | 414                          |



S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020

Accident year / underwriting year

| Gross Claims Paid (non-cumulative) |                  |       |       |       |       |       |       |       |       |       |                 |                           |        |    |
|------------------------------------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------|---------------------------|--------|----|
| (absolute amount)                  |                  |       |       |       |       |       |       |       |       |       |                 |                           |        |    |
| Year                               | C0010            | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110           | C0170                     | C0180  |    |
|                                    | Development year |       |       |       |       |       |       |       |       |       | In Current year | Sum of years (cumulative) |        |    |
|                                    | 0                | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     |                 |                           | 10 & + |    |
| R0100                              | Prior            |       |       |       |       |       |       |       |       |       |                 | 51                        | 51     | 51 |
| R0160                              | 2009             | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 9     | 0     |                 | 0                         | 9      |    |
| R0170                              | 2010             | 0     | 0     | 0     | 0     | 0     | 4     | 1     | 0     |       |                 | 0                         | 5      |    |
| R0180                              | 2011             | 0     | 0     | 0     | 0     | 0     | 49    | 3     |       |       |                 | 3                         | 52     |    |
| R0190                              | 2012             | 0     | 0     | 0     | 0     | 21    | 1,480 | 13    |       |       |                 | 13                        | 1,513  |    |
| R0200                              | 2013             | 0     | 0     | 0     | 22    | 188   | 45    |       |       |       |                 | 45                        | 255    |    |
| R0210                              | 2014             | 0     | 0     | 192   | 5     | 24    |       |       |       |       |                 | 24                        | 222    |    |
| R0220                              | 2015             | 10    | 370   | 151   | 91    |       |       |       |       |       |                 | 91                        | 622    |    |
| R0230                              | 2016             | 1,447 | 1,588 | 229   |       |       |       |       |       |       |                 | 229                       | 3,263  |    |
| R0240                              | 2017             | 967   | 1,237 |       |       |       |       |       |       |       |                 | 1,237                     | 2,204  |    |
| R0250                              | 2018             | 423   |       |       |       |       |       |       |       |       |                 | 423                       | 423    |    |
| R0260                              | <b>Total</b>     |       |       |       |       |       |       |       |       |       |                 | 2,116                     | 8,618  |    |

| Gross Undiscounted Best Estimate Claims Provisions |                  |       |       |       |       |       |       |       |       |       |                            |       |        |
|--|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------------|-------|--------|
| (absolute amount)                                  |                  |       |       |       |       |       |       |       |       |       |                            |       |        |
| Year   | C0200            | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300                      | C0360 |        |
|  | Development year |       |       |       |       |       |       |       |       |       | Year end (discounted data) |       |        |
|  | 0                | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     |                            |       | 10 & + |
| R0100  | Prior            |       |       |       |       |       |       |       |       |       |                            | 0     | 0      |
| R0160  | 2009             | 0     | 0     | 0     | 0     | 0     | 0     | 18    | 230   | 0     |                            | 241   |        |
| R0170  | 2010             | 0     | 0     | 0     | 0     | 0     | 47    | 39    | 26    |       |                            | 112   |        |
| R0180  | 2011             | 0     | 0     | 0     | 0     | 25    | 17    | 3     |       |       |                            | 28    |        |
| R0190  | 2012             | 0     | 0     | 0     | 0     | 109   | 22    | 24    |       |       |                            | 15    |        |
| R0200  | 2013             | 0     | 0     | 0     | 354   | 429   | 385   |       |       |       |                            | 61    |        |
| R0210  | 2014             | 0     | 0     | 1,903 | 269   | 2,363 |       |       |       |       |                            | 365   |        |
| R0220  | 2015             | 0     | 545   | 1,284 | 237   |       |       |       |       |       |                            | 1,016 |        |
| R0230  | 2016             | 1,720 | 893   | 285   |       |       |       |       |       |       |                            | 846   |        |
| R0240  | 2017             | 1,260 | 480   |       |       |       |       |       |       |       |                            | 1,189 |        |
| R0250  | 2018             | 471   |       |       |       |       |       |       |       |       |                            | 576   |        |
| R0260  | <b>Total</b>     |       |       |       |       |       |       |       |       |       |                            | 4,448 |        |

S.23.01.01  
Own Funds

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

|       |   |
|-------|---|
| R0010 | Ordinary share capital (gross of own shares)  |
| R0030 | Share premium account related to ordinary share capital   |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings |
| R0050 | Subordinated mutual member accounts   |
| R0070 | Surplus funds   |
| R0090 | Preference shares   |
| R0110 | Share premium account related to preference shares  |
| R0130 | Reconciliation reserve  |
| R0140 | Subordinated liabilities  |
| R0160 | An amount equal to the value of net deferred tax assets   |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above                   |

R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

R0230 Deductions for participations in financial and credit institutions

R0290 Total basic own funds after deductions

Ancillary own funds

|       |   |
|-------|---|
| R0300 | Unpaid and uncalled ordinary share capital callable on demand   |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand |
| R0320 | Unpaid and uncalled preference shares callable on demand  |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand  |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC   |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC   |
| R0390 | Other ancillary own funds   |
| R0400 | Total ancillary own funds   |

Available and eligible own funds

|       |   |
|-------|---|
| R0500 | Total available own funds to meet the SCR |
| R0510 | Total available own funds to meet the MCR |
| R0540 | Total eligible own funds to meet the SCR  |
| R0550 | Total eligible own funds to meet the MCR  |

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconciliation reserve

|       |   |
|-------|---|
| R0700 | Excess of assets over liabilities   |
| R0710 | Own shares (held directly and indirectly)   |
| R0720 | Foreseeable dividends, distributions and charges  |
| R0730 | Other basic own fund items  |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds |
| R0760 | Reconciliation reserve  |

Expected profits

|       |   |
|-------|---|
| R0770 | Expected profits included in future premiums (EPIFP) - Life business      |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business |
| R0790 | Total Expected profits included in future premiums (EPIFP)                |

| Total  | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|--------|---------------------|-------------------|--------|--------|
| C0010  | C0020               | C0030             | C0040  | C0050  |
| 5,500  | 5,500               |                   | 0      |        |
| 0      | 0                   |                   | 0      |        |
| 0      | 0                   |                   | 0      |        |
| 0      |                     | 0                 | 0      | 0      |
| -38    | -38                 |                   |        |        |
| 0      |                     | 0                 | 0      | 0      |
| 0      |                     | 0                 | 0      | 0      |
| -1,074 | -1,074              |                   |        |        |
| 0      |                     | 0                 | 0      | 0      |
| 34     |                     |                   |        | 34     |
| 0      | 0                   | 0                 | 0      | 0      |
| 0      |                     |                   |        |        |
| 0      |                     |                   |        |        |
| 4,422  | 4,388               | 0                 | 0      | 34     |

|   |  |  |   |   |
|---|--|--|---|---|
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  |   |   |
| 0 |  |  | 0 | 0 |

|       |       |   |   |    |
|-------|-------|---|---|----|
| 4,422 | 4,388 | 0 | 0 | 34 |
| 4,388 | 4,388 | 0 | 0 |    |
| 4,422 | 4,388 | 0 | 0 | 34 |
| 4,388 | 4,388 | 0 | 0 |    |

|         |
|---------|
| 2,334   |
| 3,700   |
| 189.47% |
| 118.59% |

| C0060  |
|--------|
| 4,422  |
| 0      |
|        |
| 5,496  |
| 0      |
| -1,074 |

|   |
|---|
|   |
|   |
| 0 |

S.25.01.21

**Solvency Capital Requirement - for undertakings on Standard Formula**

- R0010 Market risk
- R0020 Counterparty default risk
- R0030 Life underwriting risk
- R0040 Health underwriting risk
- R0050 Non-life underwriting risk
- R0060 Diversification

R0070 Intangible asset risk

**R0100 Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

- R0130 Operational risk
- R0140 Loss-absorbing capacity of technical provisions
- R0150 Loss-absorbing capacity of deferred taxes
- R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
- R0200 Solvency Capital Requirement excluding capital add-on**
- R0210 Capital add-ons already set
- R0220 Solvency capital requirement**

**Other information on SCR**

- R0400 Capital requirement for duration-based equity risk sub-module
- R0410 Total amount of Notional Solvency Capital Requirements for remaining part
- R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
- R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
- R0440 Diversification effects due to RFF nSCR aggregation for article 304

| Gross solvency capital requirement | USP   | Simplifications |
|------------------------------------|-------|-----------------|
| C0110                              | C0090 | C0120           |
| 1,209                              |       |                 |
| 745                                |       |                 |
| 0                                  |       |                 |
| 405                                |       |                 |
| 738                                |       |                 |
| -960                               |       |                 |
| 0                                  |       |                 |
| 2,137                              |       |                 |
| <b>C0100</b>                       |       |                 |
| 197                                |       |                 |
| 0                                  |       |                 |
| 0                                  |       |                 |
| 0                                  |       |                 |
| 2,334                              |       |                 |
| 0                                  |       |                 |
| 2,334                              |       |                 |
| 0                                  |       |                 |
| 0                                  |       |                 |
| 0                                  |       |                 |
| 0                                  |       |                 |

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR<sub>NL</sub> Result

|       |     |
|-------|-----|
| C0010 | 493 |
|-------|-----|

|   |   |
|---|---|
| Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

|       |       |
|-------|-------|
| C0020 | C0030 |
| 1,607 | 2,165 |
| 0     | 0     |
| 0     | 0     |
| 0     | 0     |
| 0     | 0     |
| 0     | 0     |
| 2,167 | 477   |
| 0     | 0     |
| 85    | 316   |
| 0     |       |
| 0     |       |
| 0     |       |
| 0     |       |
| 0     |       |

Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

|       |   |
|-------|---|
| C0040 | 0 |
|-------|---|

|   |  |
|---|--|
| Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|--|

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations

|       |       |
|-------|-------|
| C0050 | C0060 |
|       |       |
|       |       |
|       |       |
|       |       |

Overall MCR calculation

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 **Minimum Capital Requirement**

|       |       |
|-------|-------|
| C0070 | 493   |
|       | 2,334 |
|       | 1,050 |
|       | 583   |
|       | 583   |
|       | 3,700 |
|       | 3,700 |