

## **Solvency and Financial Condition Report**

### **December 2019**

*Issued: May 2020*

*Approved by the B.O.D.: 1<sup>st</sup> June 2020*



Elmo Insurance Ltd  
Abate Rigord Street  
Ta' Xbiex XBX 1111  
Malta

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## **Executive Summary**

The Directors of Elmo Insurance Limited (“the Company” or “EIL”) present the Solvency and Financial Condition Report (“SFCR”) for the year ended 31 December 2019.

The principal activities of the Company are that of an insurance company licenced in terms of the Insurance Business Act, 1998 (Chapter 403 of the Laws of Malta) by the Malta Financial Services Authority (“MFSA”) to write general business in Malta.

On 11 March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak, a global pandemic. Governments around world, including Malta, have imposed a number of measures designed to contain the outbreak, including cancellations of mass gatherings and events, non-essential business closures, travel restrictions, and recommendation to stay at home. The spread of COVID-19 has thus resulted in a drop in economic activity in Malta and globally, as well as causing increased volatility and declines in financial markets, compounded by an oil price war between Saudi Arabia and Russia and plummeting oil prices. If the COVID-19 pandemic is prolonged, the adverse impact on the global economy will be deepened which will result in further volatility in financial markets.

Due to the rapidly evolving nature of the COVID-19 situation and considerable uncertainties around its impact, figures presented in this report and the associated Quantitative Reporting Templates (QRTs) have been prepared based on information as at 31 December 2019 and therefore the valuations and technical provisions including premium provision do not reflect the impact of COVID-19. Further information on the impact of COVID-19 on the relevance of information disclosed in the SFCR can be found in the sections within the report.

Covid-19 is deemed to be a non-adjusting post balance sheet event for the 31<sup>st</sup> December 2019 year end, which required additional disclosures by the Company in the audited financial statements. Information about the impact of the pandemic is set out in note 27 of the financial statements. The appropriateness of the going concern assumption as at the date of signing of the financial statements was tested by the auditors.

## **Business and Performance**

During the year under review the company registered a profit before tax of €6,220K compared to €1,321K in 2018. The charge to taxation amounted to €1,931K compared to €335K in 2018.

The company’s financial position further strengthened during the year. Shareholders’ funds amounted to €25,132K at 31 December 2019. At the end of 2018, shareholders’ funds totalled €18,626K.

Our Solvency II Capital Requirement ratio as at 31 December 2019 strengthened and stands at 277% compared to 242% as at the end of 2018, reflecting principally the improvement in shareholders’ funds.

## Systems of Governance

EIL effectively meets all regulatory organisational and governance requirements in terms of having the necessary corporate governance structure in place and having filled the necessary key functions with highly qualified and experienced function holders.

The Company has implemented numerous formal policies, which are reviewed on a yearly basis, systems and processes which are affected by the management team to provide reasonable assurance regarding:

1. Achievement of the Company's objectives
2. Effectiveness and efficiency of operations
3. Reliability of financial and non-financial reporting
4. Adequate control of risks
5. A prudent approach to business
6. Compliance with applicable legislation.

The Company has established a sound control environment by adopting the 'three lines of defence' model, which provides a simple and effective way to enhance communications on risk management and internal control by clarifying essential roles and responsibilities.

The Senior Management team and the Executive Directors are responsible to set the tone at the top and provide foundation and create discipline and structure for an effective control environment. Control environment factors include the integrity, ethical values and competence of the Company's people; management's philosophy and operating style; the way management assigns authority and responsibility and organises and develops people; and the attention and direction provided by the Board.

There have been no material changes in the system of governance during 2019.

## Risk Profile

The Company has adopted an effective framework for Enterprise Risk Management ("ERM") where enterprise risk is defined as all the risks, both internal and external affecting EIL's strategic objectives. EIL adopted an ERM framework, assessing all the risks which may affect its different operations, activities and objectives, by also addressing the interdependencies and interrelationships between risks. With EIL's ERM approach, the relationship between risks is identified by the fact that two or more risks can have an impact on the same activity or objective or the materialisation of a risk in one business area may increase the impact of risks in another business area.

The Company has adopted the new COSO ERM framework published in September 2017, which Includes five interrelated components essential for the development and execution of the business strategy that begins with the mission, vision and core values of the Company with the aim of creating an enhanced value. COSO's five components adopted by the Company are:

- ♦ Risk Governance and Culture
- ♦ Business Strategy
- ♦ Performance
- ♦ Review and Revisions
- ♦ Information, Communication and Reporting.

The Company has developed a risk register which formally acknowledges the risks identified by the Company, the impact and likelihood scores for each risk, the department/function responsible for overseeing such risks as well as the controls in place to mitigate the risks.

There have been no material changes in the risk profile during 2019.

### **Solvency Position and Capital Management**

Since Solvency II came into force on 1 January 2016 the valuation of the Balance Sheet and the SCR is carried out on a quarterly basis by running the standard-formula-based capital model provided by an external firm and performing stress and sensitivity tests.

In relation to the Solvency II Balance Sheet, specific valuation rules are defined in Solvency II for several Balance Sheet items that differ from the accounting rules as laid out in the International Financial Reporting Standards as adopted by the EU ("IFRS"), which is the basis on which the Annual Financial Statements of the Company are published.

The Company's Solvency position as at 31 December 2019 was as follows:

<b>Solvency Position</b>	<b>2019 € '000s</b>	<b>2018 € '000s</b>
<b>Company's Own Funds</b>	<b>26,327</b>	<b>19,287</b>
<b>Solvency Capital Requirement</b>	9,506	7,957
<b>Solvency Margin cover</b>	<b>277%</b>	<b>242%</b>
<b>Minimum Capital Requirement</b>	3,700	3,700
<b>MCR cover</b>	<b>712%</b>	<b>521%</b>

Sub-modules SCR	2019 € '000s	2018 € '000s
Market	9,645	6,900
Default	2,508	2,900
Health	657	651
Non-life	4,407	4,267
Diversification Benefit	(4,273)	(3,997)
<b>Basic SCR</b>	<b>12,945</b>	<b>10,720</b>

SCR	2019 € '000s	2018 € '000s
Basic SCR	12,945	10,720
Operational	957	745
LACDT	(4,396)	(3,508)
<b>Total</b>	<b>9,506</b>	<b>7,957</b>

The largest risk module under the SCR computation is market risk, mainly due to the holdings in equities and foreign currency investments. If necessary, the Company may reduce relatively easily the capital requirements by transferring its exposure to assets which attract lower capital charges.

In comparison, the insurance risk is not material. Any strategic changes on the insurance business will have a very small impact on the SCR mainly due to the comprehensive reinsurance programme with a panel of highly rated reinsurers, which reduces significantly the Company's net exposure. In fact, strategic decisions on core insurance operations would need to be significant in order to impact materially on the SCR.

## A. Business and Performance

### A.1 Business

#### *Basic Information*

*Name of the undertaking:* Elmo Insurance Limited

*Company number:* C3500

*Registered address:* “Elmo”  
Abate Rigord Street  
Ta’Xbiex  
Malta

*Legal status:* An insurance company licensed in terms of the Insurance Business Act, 1998 (Chapter 403 of the Laws of Malta) by the MFSA to write general business in Malta.

*Directors:* David Bartoli (Managing Director)  
William Harding (Chairman)  
Alan Bartoli  
John Cooper  
Roger Bellamy  
Godfrey Leone Ganado

The Company offers its services via staff at head office, 8 branch offices and a number of insurance brokers and tied insurance intermediaries. The details of the branch offices, brokers and intermediaries can be found on the Company’s website.



*Name of supervisory authority:* Malta Financial Services Authority

*Contact details:* Triq l-Imdina, Zone 1  
Central Business District, Birkirkara  
CBD 1010 Malta  
Tel: +356 2144 1155  
[www.mfsa.com.mt](http://www.mfsa.com.mt)

*Name of the external auditor:* PricewaterhouseCoopers

*Contact details:* 78 Mill Street  
Qormi  
Malta

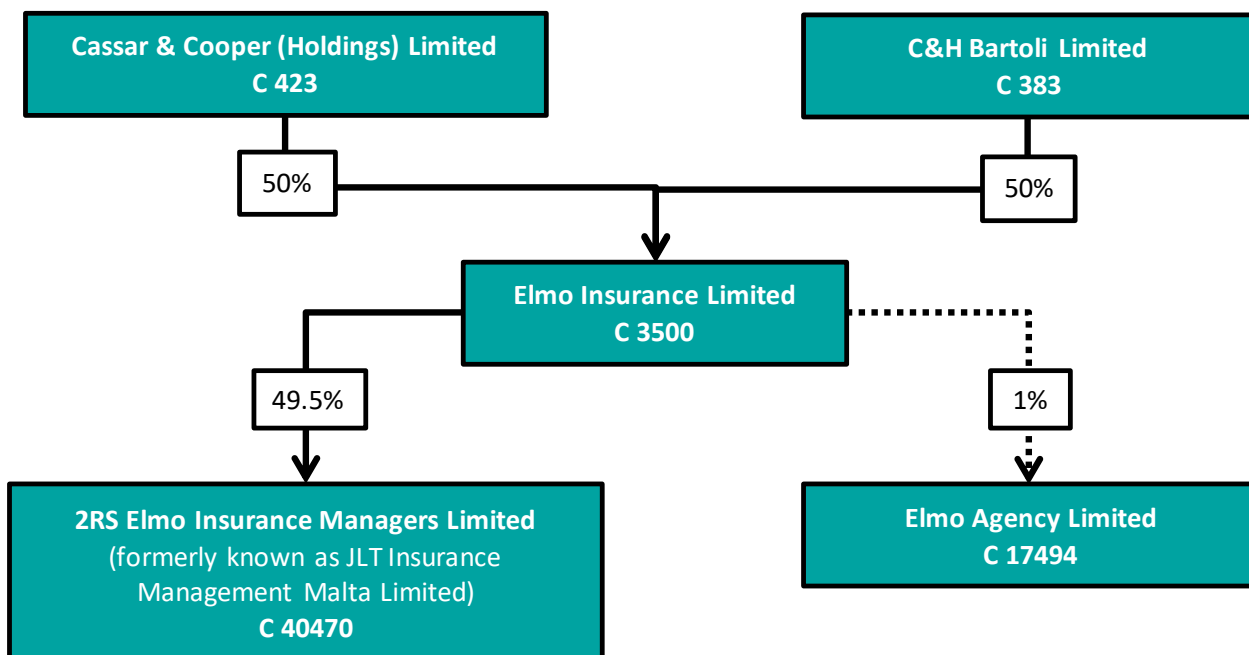
### **Material Lines of Business**

Elmo Insurance Limited is authorised to write most classes of non-life business, including health insurance and is regulated by the MFSA. The following are the material lines of business which the Company writes within the classes of Solvency II:

- ♦ Fire and other damage to property insurance
- ♦ Medical expense insurance
- ♦ Other motor insurance
- ♦ Motor liability insurance
- ♦ Workers' compensation insurance

### **Ownership structure**

EIL is owned on a 50%-50% basis by C & H Bartoli Ltd and Cassar and Cooper (Holdings) Ltd respectively as represented in the structure hereunder:



### Material Transactions with Shareholders and Members of the Board of Directors

Trading transactions with related parties and year end balances arising from these transactions are disclosed in Note 25 to the Company's financial statements.

## A.2 Underwriting Performance

Malta's economy continued to power ahead, reflected by GDP growth estimated to be 4.4% over the year. This in turn is reflected in our own gross premium figures. Gross written premiums in respect of risks situated in Malta increased from €20,085K in 2018 to €22,778K in 2019, an increase of 13.4%, achieved after registering a 11.7% increase in 2018. During the first quarter of 2020, the positive trend in premiums experienced in recent years understandably slowed down in view of the impact of the Covid-19 pandemic.

The Company is authorised by the MFSA to carry on business of insurance under the EU's provisions of freedom of services in several states forming part of the EU and EEA for Class 1 - Accident and Class 2 - Sickness. In 2018, premium amounting to €4,151K was transacted and this was increased to €7,887K in 2019, an increase of 90%. As a result, the Company's total gross written premium for the year increased by 26.5% from €24,236K in 2018 to €30,664K in 2019.

The Company's overall net loss ratio decreased from 66.4% in 2018 to 62.1% in 2019.

The Company's net operating expenses increased from €2,775K in 2018, to €3,232K in 2019, this increase corresponds to the growth in business volumes and reflects increased acquisition expenses. The Company's combined operating ratio remained static at 81% for both 2018 and 2019.

The tables below show a breakdown of the Company's underwriting performance for all material lines of business for the year ending 31 December 2019:

	Gross premiums written		Gross premiums earned	
	2019	2018	2019	2018
	€ '000s	€ '000s	€ '000s	€ '000s
Fire and other damage to property insurance	6,171	5,057	5,669	4,795
Medical expense insurance	8,257	4,390	8,196	3,696
Other motor insurance	4,822	4,379	4,632	4,150
Motor vehicle liability insurance	8,470	7,813	8,172	7,467
Workers' compensation insurance	890	746	847	708
Other lines of business	2,054	1,851	1,988	1,770
<b>Total</b>	<b>30,664</b>	<b>24,236</b>	<b>29,505</b>	<b>22,586</b>

	Gross claims incurred		Gross operating expenses		Reinsurance balances	
	2019	2018	2019	2018	2019	2018
	€ '000s	€ '000s	€ '000s	€ '000s	€ '000s	€ '000s
Fire and other damage to property insurance	5,724	1,619	1,667	1,345	(1,771)	1,075
Medical expense insurance	3,610	546	2,925	1,592	1,465	1,398
Other motor insurance	2,561	2,554	1,103	1,032	228	215
Motor vehicle liability insurance	4,991	5,488	1,947	1,846	193	(80)
Workers' compensation insurance	282	223	216	177	193	156
Other lines of business	875	780	516	471	282	312
<b>Total</b>	<b>18,044</b>	<b>11,211</b>	<b>8,375</b>	<b>6,463</b>	<b>590</b>	<b>3,075</b>

Included with medical expense insurance is €7,887K of premium written under the provisions of freedom to provide services in other EU and EEA jurisdictions. All remaining gross premiums written emanate from contracts concluded in or from Malta. Other than the home country, the most material geographical location is Germany where 85% of the foreign business is written. Business written in Malta and in Germany represents 96% of the total premium written by the Company in 2019.

The reinsurance balance represents a charge or credit to the technical account arising from the aggregate of all items relating to reinsurance outwards.

### **A.3 Investment Performance**

The Company registered an average net return on its investment portfolio of 14.2% in 2019 compared to a 5.5% loss in 2018. Whilst 2018 proved to be one of the worst years on record in terms of investment returns, 2019 in contrast was one of the best, with all stock markets registering significant gains.

The table below shows a breakdown of the Company's investment performance for the year ending 31 December 2019:

	2019 € '000s	2018 € '000s
Dividends received from investments at fair value through profit or loss	365	349
Net gains from financial investments at fair value through profit or loss	2,579	(1,596)
Interest receivable in relation to other loans and receivables	16	(4)
Share of gains of associated undertaking	90	71
Income from investment property	72	28
Net surplus arising on revaluation of investment property	428	-
	3,549	(1,152)
Investment expenses and charges	(88)	(80)
Interest and finance charges paid for lease liabilities	(19)	-
<b>Total investment return</b>	<b>3,443</b>	<b>(1,232)</b>

### **A.4 Performance of other activities**

The Company has no material leasing arrangements.

### **A.5 Other material information**

On the 5<sup>th</sup> of March 2019, EIL sought for the MFSA's no objection in order for the Company to cease from carrying on the business of insurance under the provisions of freedom to provide services in Denmark for Class 1 – Accident and Class 2 – Sickness.

On the 26<sup>th</sup> March 2019, EIL obtained passporting rights to Cyprus for the following Lines of Business:

Class 8	Fire and Natural Forces
Class 9	Other damage to Property
Class 13	General Liability

On the 1<sup>st</sup> October 2019, MFSA also granted an extension of authorisation to EIL to carry on business of reinsurance in the following classes:

Class 8	Fire and Natural Forces
Class 9	Other damage to Property
Class 16	Miscellaneous Financial Loss of general business

On the 11<sup>th</sup> November 2019, the MFSA granted EIL authorisation to carry out business of insurance under freedom of service in Cyprus in Class 16 – Miscellaneous financial loss.

During 2019 EIL increased its shareholding in 2RS Elmo Insurance Managers Limited (formerly known as JLT Insurance Management Malta Limited) from 33% to 49.5%.

### COVID- 19 Pandemic Outbreak

Due to the rapidly evolving nature of the COVID-19 pandemic outbreak, a considerable amount of uncertainty remains around the impacts of this event. In this regard, EIL continues to monitor closely the current situation to assess the impact COVID-19 could have on both its customers, employees, distribution partners and the Company's business plans. COVID-19 is likely to cause some short-term disruption to EIL's business, reduce growth expectations in the short-term, and causing increased volatility and declines in investment returns. However, the Company is sufficiently capitalised to withstand this shock and foresees future growth opportunities as the operating environment improves. Furthermore, the Company's pandemic response plan and business continuity measures put in place to contain the impact of COVID-19 is expected to mitigate the impact of the pandemic on EIL's business, its customers and its employees.

The safety of EIL's employees, suppliers, customers and distribution partners is the Company's priority and ensures to continue to provide the best possible insurance products and efficient service to customers. Following recommendations by the Maltese government authorities, EIL decided to work behind closed doors and in order to reduce the risk of spread of COVID-19 among employees, a number of employees are also working from home.

EIL will continue to closely monitor the COVID-19 situation in Malta to assess the potential impact and will respond to the changing external environment to ensure that the business is in a position to continue to provide the insurance products and services to our customers and distribution partners while also protecting EIL's financial position during this outbreak. Based on the information available at the end of March, the Board believes that the impact that the pandemic outbreak has on the Company is being managed effectively and EIL can effectively withstand its effects. As a result, the Company continues to maintain strong solvency levels and expects to continue to be compliant with the regulatory Solvency Capital Requirement. In addition, the Company has in place a comprehensive reinsurance programme placed with leading international reinsurers, the majority of which are rated 'AA', and which significantly mitigates the potential exposure on COVID-19 risks.

## B. System of Governance

This section of the report sets out details regarding the Company's Board of Directors and Board sub-committees and the roles, responsibilities and governance of the Company's key functions, namely Risk, Compliance, Internal Audit and Actuarial functions. Other components and processes within the system of governance are also outlined, including the risk management system, fit and proper and outsourcing arrangements and the internal control system implemented by the Company.

### B.1 General Information on the system of governance

#### B.1.1 Governance Structure

As part of its corporate governance, the Company has over the past several years implemented numerous formal board policies, the majority of which are reviewed on a yearly basis, systems and processes which are followed by the management team to provide reasonable assurance regarding:

1. Achievement of the Company's objectives
2. Effectiveness and efficiency of operations
3. Reliability of financial and non-financial reporting
4. Adequate control of risks
5. A prudent approach to business
6. Compliance with applicable legislation.

#### The Board of Directors

The Company's corporate governance starts with the Board of Directors ("the Board") which has overall responsibility for the oversight of the management of EIL through providing leadership of the Company within a framework of prudent and effective controls which enables the effective management and assessment of the risks faced by the Company.

The Board is appointed to act on behalf of the shareholders and to appoint a management team to run the day to day affairs of the business. The Board is directly accountable to the shareholders and is responsible for holding regular Board meetings including a statutory annual general meeting during which the directors must provide a report to the shareholders on the performance of the Company, including what its future plans and strategies are.

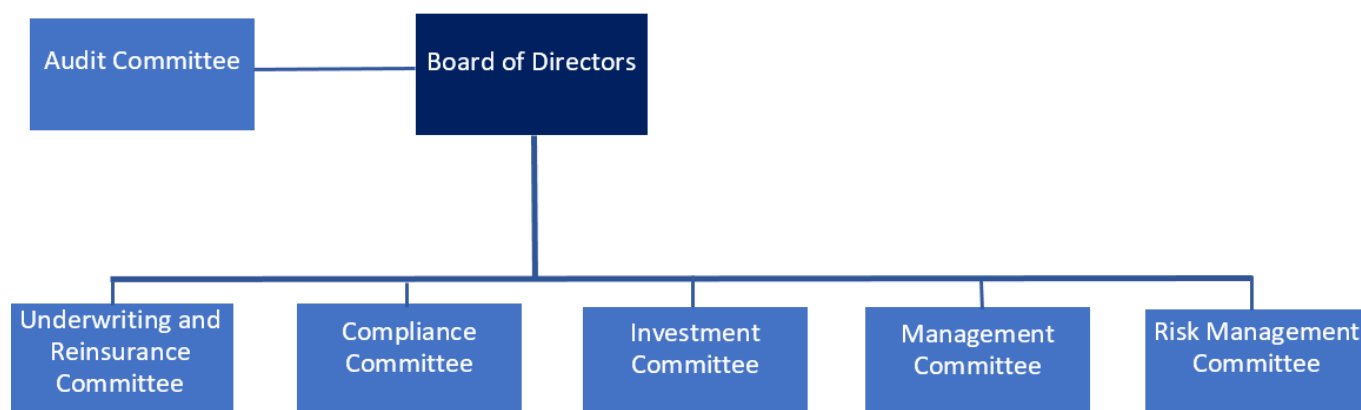
The primary objective of the Board is to ensure the company's prosperity by collectively directing the Company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders. In addition to business and financial issues, the Board deals with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics. In this respect the Board has to ensure strict adherence to all relevant laws and regulations.

The Board comprises a mix of executive, non-executive directors and an independent non-executive director in order to allow it to be objective in its decision making. Furthermore, all members of the Board satisfy the fitness and properness criteria as required by the Company.

The Board is responsible for ensuring the effectiveness of the risk management system, setting risk appetite and overall tolerance limits as well as approving the main risk management strategies and policies. The Board has appointed an independent non-executive Director to oversee the risk management system on the Board's behalf.

### Board Committees

The Company has established a number of Board Committees and drawn Terms of Reference for each including clear reporting lines. The Company's governance and corporate structure is laid out below:



#### Audit Committee

The Audit Committee is performed by the Board of Directors and is responsible for the effectiveness of the systems of internal control and for monitoring the effectiveness and objectivity of the internal auditors.

The main responsibilities of the Audit Committee are twofold:

- ◆ Financial Reporting responsibilities, including reviewing and challenging the actions and judgements of management in relation to the Company's financial statements and monitoring the statutory audit of the Company's annual financial statements; and
- ◆ Internal Audit responsibilities; including reviewing the internal audit plan and internal audit reports and ensure the internal audit function maintains independence and is adequately resourced and has the appropriate standing within the Company, receiving a report on the results of the internal auditor's work on a periodic basis and monitoring management's responsiveness to the internal auditor's findings and recommendations.



### Underwriting and Reinsurance Committee

The Underwriting and Reinsurance Committee was set up since the commencement of the Company's Insurance operations. Membership comprises of two executive directors, a non-executive director and various underwriting and reinsurance managers. The committee's responsibilities are to ensure that the Company complies with all underwriting and reinsurance policies and advise/monitor/instruct all members of staff in the insurance technical issues of the Company.

### Compliance Committee

The role of the Compliance Committee is to assist the Board in fulfilling their governance and oversight responsibilities for monitoring business conduct and compliance with laws, regulations, relevant codes of conduct and related corporate governance issues.

The responsibilities include:

- ♦ providing recommendations to the Board on the Company's attitude towards regulatory compliance;
- ♦ maintaining oversight of the Company's regulatory compliance processes and procedures and monitoring their effectiveness;
- ♦ ensuring that the Compliance Function is adequately resourced and that it has appropriate standing within the Company;
- ♦ keeping up-to-date with developments and prospective changes in the regulatory environment;
- ♦ monitoring the activities of all Tied Insurance Intermediaries and ensuring that these comply and conduct business in accordance with the respective appointment agreement and relevant rules and regulations; and
- ♦ considering other topics, as referred to it from time to time by the Board.

### Investment Committee

The function of the Investment Committee is to secure the safety, yield and marketability of the Company's investments, ensuring that the investments are diversified and adequately spread in accordance with good risk management practise.

The Investment Committee is responsible to formulate the investment policy and guidelines and ensure that systems are in place to ensure that the agreed investment strategy is implemented including monitoring the work carried out by the investment manager and the credit-worthiness of investment exposures.

### Management Committee

The Management Committee offers the right forum for the Senior Management Team to report to the Board on matters such as insurance market developments, staff developments and sales initiatives.

### Risk Management Committee

The Board set up a Risk Management Committee to assist the Board in discharging its responsibilities for the management and controlling of the significant risks to which the Company may be exposed. This Committee is responsible for:

- ♦ assisting the Board in setting a strategy for risk management which includes risk management objectives, key risk management principles, risk appetite and tolerance limits and assignment of responsibilities across all the activities of the company which is consistent with the company's overall business strategy;
- ♦ developing adequate risk management policies that include a definition and categorisation of the material risks faced by the company;
- ♦ building a culture that is aware of the risks and encouraging risk management ideologies throughout the company;
- ♦ designing and reviewing formal processes for risk management including the Own Risk and Solvency Assessment ("ORSA");
- ♦ supporting the development of risk response processes including contingency and business continuity plans; and
- ♦ preparing reports on significant risk issues for the Board.

### Technology Committee

This is an informal committee whose role is to discuss the operational technology requirements of the Company. The committee is responsible to:

- ♦ identify the core operational technology requirements of every business function which support the business strategy of the Company;
- ♦ identify internal controls to be incorporated into the systems;
- ♦ draft IT policies supporting these internal controls;
- ♦ review current and future technologies to identify opportunities to increase the efficiency of IT resources;
- ♦ monitor and evaluate technology projects; and
- ♦ provide advice and recommendations to the Board of Directors on technology strategies and investments.

### **Key Functions**

As part of the Company's system of governance, EIL has established the four key functions as required by the Solvency II Directive and Chapter 6 of the Insurance Rules. The Company's four key functions, namely the risk management function, the compliance function, the actuarial function and the internal audit function are held by four separate individuals to allow an appropriate segregation of duties, in order to operate objectively and independently of each other and of other functions within the Company. Furthermore, the four key functions are sufficiently resourced and staffed, have full access to information that is relevant to perform their duties and have direct reporting lines to the Board of Directors.

The information below outline the main roles and responsibilities of the four key functions:

#### Risk Management Function

Implements the Company's Risk Management Framework by coordinating and supporting the identification, measurement, mitigation, monitoring and reporting of the Company's material risks and assisting the Board of Directors in the effective operation of the risk management system.

#### Compliance function

Identifying and assessing compliance risks; advising the Board of Directors on compliance matters; assessing the impact of any changes in legislation; establishing a compliance plan; and ensuring that the Company adheres to all applicable laws, rules and regulations.

#### Actuarial function

Coordinating and monitoring the calculation of technical provisions, express an opinion on the underwriting policy and the Company's reinsurance arrangements and contribute to the effective implementation of the risk management system.

#### Internal Audit function

Taking a risk-based approach by providing an independent and objective assurance to EIL's Board of Directors and senior management. This assurance covers, inter alia, an assessment of: the main components of the system of governance; the risk management system, including the risk management function and the ORSA process; the compliance function; the actuarial function; and the reinsurance management process.

### **B.1.2 Material Changes in the System of Governance**

There have been no material changes in the system of governance during the year.

### **B.1.3 Remuneration Policy**

The Company has a remuneration policy in place to ensure that the remuneration awards do not threaten the Company's ability to maintain an adequate capital base; and that the remuneration arrangements do not encourage excessive risk-taking. Remuneration practices for Persons subject to the Remuneration Policy are established, implemented and maintained in line with the business and risk management strategy of the Company, its risk profile, objectives and risk management practices as well as the long-term interests and performance of the Company whilst avoiding conflicts of interest.

### Principles of the remuneration policy

The following are EIL's principles of the remuneration policy:

- ◆ Where remuneration schemes include both fixed and variable components, such components shall be balanced so that the fixed or guaranteed component represents a sufficiently high proportion of the total remuneration to avoid staff being overly dependent on the variable components and to allow the Company to operate a fully flexible bonus policy, including the possibility of paying no variable component.
- ◆ Where variable remuneration is performance-related, the total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall result of the Company.
- ◆ The payment of a substantial portion of the variable remuneration component, irrespective of the form in which it is to be paid, shall contain a flexible, deferred component that takes account of the nature and time horizon of the EIL's business: that deferral period shall not be less than three years and the period shall be correctly aligned with the nature of the business, its risks, and the activities of the respective employees.
- ◆ The financial and non-financial criteria shall be considered when assessing an individual's performance. The measurement of performance, as a basis for variable remuneration, shall include a downward adjustment for exposure to current and future risks, considering the EIL's risk profile and the cost of capital.
- ◆ Termination payments shall be related to performance achieved over the whole period of activity and be designed in a way that does not reward failure.
- ◆ Persons subject to the Remuneration Policy shall commit to not using any personal hedging strategies or remuneration and liability-related insurance which would undermine the risk alignment effects embedded in their remuneration arrangement.

### Variable Remuneration Performance Criteria

The variable part of remuneration of the staff engaged as key function holders referred to in Articles 269 to 272 of the Commission Delegated Regulation shall be independent from the performance of the operational units and areas that are submitted to their control.

### Supplementary pension or early retirement schemes

EIL does not provide any supplementary pensions or early retirement schemes for the members of the Board and other Key Function holders.

#### **B.1.4 Material Transactions during the period**

On the 11<sup>th</sup> November 2019, the MFSA gave its no objection to the increase in shareholding of EIL in 2RS Elmo Insurance Managers Limited (formerly known as JLT Insurance Management Malta Limited) from 33% to 49.5%. There were no other material transactions with EIL's shareholders, with persons who exercise a significant influence on the undertaking, and with members of the Board.

#### **B.2. Fit and proper requirements**

The Company has in place a fit and proper policy which sets out the procedure for assessing the fitness and propriety of the persons who effectively run the undertaking or have other key functions, both when being considered for the specific position and on an on-going basis.

##### **B.2.1 Policy framework for fit and proper requirements**

EIL shall ensure that all persons who effectively run the undertaking or have other key functions are at all times fit and proper persons.

The Company shall assess fitness and propriety against four criteria:

- a. competence;
- b. reputation (comprising integrity and financial soundness);
- c. conflicts of interest and independence of mind; and
- d. time commitment.

In deciding whether a person is fit and proper, the Company shall be satisfied that the person:

- a. has the personal characteristics, including that of being of good repute and integrity (proper);
- b. has the professional qualifications, and possesses the adequate level of competence, knowledge and experience (fit), required to enable such person to carry out his duties and perform his or her key function effectively and to enable sound and prudent management of the undertaking.

In accordance with the Company's Outsourcing Policy, where the Company outsources key functions, fit and proper procedures are to be applied in assessing persons employed by the service providers or sub-service providers to perform the outsourced key function.

### B.2.2 Process for assessing fitness and propriety

Prior to the appointment of a Director, a General Manager or a Group Financial Controller (Leadership), a Head of Department, a Senior Manager, a Key Function Holder or a Person Responsible for a Branch of the Company, the individual will be required to provide to the Company the following documentation:

- a. a duly completed Personal Questionnaire (if role is subject to notification requirements to the MFSA);
- b. a duly completed Conflict of Interest Questionnaire;
- c. Curriculum Vitae;
- d. copies of major qualification certificates;
- e. copies of reference letters; and
- f. copy of Police Conduct Certificate (In accordance with article 10 of the GDPR, the Police Conduct Certificate shall not be retained by the Company; and shall be duly returned to the employee).

The Board of Directors will consider whether the individual is 'fit and proper' for the role in question and subsequently notify the MFSA accordingly if required to, in terms of para 2.5.1 of Chapter 2 of the Insurance Rules

The Company shall not merely base its assessment of a candidate's fitness on information provided to it by the candidate, but it shall adopt a proactive approach to the assessment by:

- a. Confirming that the applicant does possess the qualifications claimed by requesting a copy of the qualification certificates, updated licences or certificates to practice in cases where the licence or certificate is renewed from time to time and if the applicant is a member of a professional body, the Company shall request evidence of that membership;
- b. Requesting, when available, references regarding the applicant's previous employment;
- c. If the applicant has other involvements in other entities, the Company shall seek confirmation from the applicant that such involvements will not adversely impact the applicant's ability to perform the key function, and shall ensure that such involvements do not conflict with the performance of the key function;
- d. Assessing how the applicant's previous experience equips the applicant with the expertise and experience required for the performance of the key function.

The assessment of the fitness of individuals shall not be restricted to the recruitment stage. After employing the person, the Company shall ensure that the person maintains his/her qualifications or licences. Thus, in cases where the maintenance of a person's qualifications is dependent on completing continuing professional development (CPD), the Company may request the employee, on an annual basis to self-certify that he/she is compliant with the particular CPD requirements.

On annual basis the Board of Directors shall carry out a self-assessment and an assessment of General Managers, Group Financial Controller, Heads of Departments, Senior Managers and Key Function Holders in order to confirm that these are still 'fit and proper and that individuals with multiple appointments are able to dedicate enough time and resources to carry out their roles effectively.

### **B.3 Risk Management System including the Own Risk and Solvency Assessment**

#### **B.3.1 Description of the risk management system**

The Board has taken active steps to implement an embedded risk management system in the Company. Implementing the risk management system was not viewed as a tick-box exercise to satisfy regulation requirements arising from Solvency II and the Insurance Business Act, but as a structure for effective risk management, which will result in numerous benefits to the Company, including, but not limited to, reduction of exposure to certain hazard risks and an increased ability to achieve the Company's strategic and business objectives.

For EIL's risk management system to be effective, the risk management system covers all significant risks of the Company and requires an appropriate risk management strategy which includes the risk management objectives and adequate risk management processes and reporting procedures.

#### **Risk Management Strategy**

EIL's risk management strategy includes the risk management objectives, key risk management principles, risk appetite framework and the assignment of responsibilities to risk owners across all the activities of the Company. Critical to an effective risk management strategy is its alignment to the Company's overall business strategy.

#### **Processes and reporting procedures**

The Company has in place processes and procedures to enable the Company to identify, measure, mitigate, monitor and report the material risks it is exposed to. Furthermore, internal reporting procedures and processes have been set up to ensure that the information on the effectiveness of the risk management system and the material risks faced by EIL are actively monitored and managed by all relevant staff and the Board. This includes reports submitted to the Risk Management Committee and to the Board on a regular basis.

The mission of the Risk Management Function is to promptly identify, measure, mitigate, monitor and report risks potentially affecting the achievement of strategic, operational and/or financial objectives. The Enterprise Risk Management (ERM) approach provides a platform for managing current and emerging risks and reporting early warning indicators, in order to support the long-term stability and growth of the Company.

### Risk Identification

Risk identification is a key component of EIL's risk management process. As part of the annual risk assessment exercise, senior management and risk owners are requested to fill in a comprehensive risk assessment questionnaire as a first step to identify the material risks (current and emerging) which if materialised may have a direct or indirect impact on the achievement of the objectives and operations of their department and/or the Company. A risk assessment workshop and brainstorming exercise is also carried out to enable participants identify significant internal and external risks, through the sharing of information and active participation and discussion during the workshop. The risk assessment workshop facilitates the process of risk identification including the interdependencies and interrelationships between risks and the threats (negative impact) and opportunities (positive impact) on the achievement of EIL's strategic and operational objectives if the risk materialises.

All significant risks which are identified through the risk management process are documented within the risk register which is maintained by the Risk Management Function. The risk register should have the following information which links together the steps of the risk management process:

- ◆ Risk name;
- ◆ Risk description;
- ◆ Risk Category;
- ◆ Risk Consequences;
- ◆ Risk Owner;
- ◆ Inherent impact and likelihood score and overall inherent risk score;
- ◆ Mitigation strategy and Controls in place to mitigate the risk;
- ◆ Type of Control;
- ◆ Control effectiveness rating;
- ◆ Residual impact and likelihood score and overall residual risk score;
- ◆ Key risk indicator; and
- ◆ Risk Tolerance limit.

A formal risk identification process is carried out at least on a yearly basis and regular updates are held during the year.

### Risk Measurement

Risks are measured as it provides the Company with a greater understanding of each risk. In particular, this step of the process allows the Company to:

- ◆ assess the impact and likelihood of a risk occurring;
- ◆ compare risks and prioritise them in terms of focus and attention that should be given to individual risks; and
- ◆ compare current level of risks with the risk appetite framework to determine whether any remedial action is necessary.



Determining the inherent impact and likelihood of a risk occurring is carried out through discussion with Risk Owners and ultimately the Board and should consider factors such as past internal and external events, threats and vulnerabilities, the impact on other risks, personal experience and literature, without taking into account the controls in place. Residual impact and likelihood risk scores are determined by also taking into consideration the mitigations and controls in place and the effectiveness of those controls.

#### Risk Mitigation

A mitigation strategy must be determined to manage each material risk EIL is exposed to. Depending on the criticality of the risk and management's tolerance for risk, EIL must decide whether to *accept the risk*; *avoid the risk*; *reduce or control the risk*; *share the risk*; or *transfer the risk*. Risk owners must determine the list of controls/mitigations in place where management decided to *reduce or control* the likelihood and/or impact of the risk.

#### Risk Monitoring

The development of key risk indicators ('KRIs') and monitoring of risks is an integral part of EIL's risk management process. Risk owners measure risks on a quarterly basis to comprehensively assess whether a risk exceeds its tolerance limit. The development of KRIs serve as warning signals to the management and the Board of EIL on any increasing risk exposures in the different areas of the Company.

#### Risk Reporting

This step of the risk management process involves the provision of timely and accurate management information to assist Management and the Board to:

- ◆ understand the risk profile of the Company and how it has changed over time;
- ◆ determine whether risk exposures are being managed in accordance with the risk appetite framework set by the Board;
- ◆ where risks are within the set tolerance limits, whether the controls in place are effective and, if not, how to manage the risks; and
- ◆ take action to mitigate unacceptable exposures to risk.

### **B.3.2 Implementation and integration of the Risk Management System in the organizational structure and in the decision-making process**

The Company has adopted an effective framework for Enterprise Risk Management ("ERM") where enterprise risk is defined as all the risks, both internal and external affecting EIL's strategic objectives. EIL adopted an ERM framework, assessing all the risks which may affect its different operations, activities and objectives, by also addressing the interdependencies and interrelationships between risks. With EIL's ERM approach, the relationship

between risks is identified by the fact that two or more risks can have an impact on the same activity or objective or the materialisation of a risk in one business area may increase the impact of risks in another business area.

The Company has adopted the new COSO ERM framework published in September 2017, which includes five interrelated components essential for the development and execution of the business strategy that begins with the mission, vision and core values of the Company with the aim of creating an enhanced value. Furthermore, the risk management system comprises of the risk strategy, risk appetite framework and processes and procedures, which are determined in line with the overall business strategy. A “feedback loop” system is in place as business continually evolves and requires that both strategy and risks are monitored, reviewed and re-evaluated. EIL’s ERM facilitates the process of obtaining and sharing relevant information, from both internal and external sources, which flows up, down and across the Company.

The ERM Framework adopted by the Company comprises of the COSO’s five components:

- ◆ **Risk Governance and Culture**

Risk governance and culture together form a strong foundation for the ERM and basis for all other components of ERM. Risk governance sets the Company’s tone at the top, reinforcing the importance of ERM, and establishing oversight responsibilities for it. Culture pertains to ethical values, desired behaviours, and understanding of risk in the Company. Culture is reflected in decision-making.

The primary responsibility for ERM lies with the Board that is ultimately accountable for reviewing the risk appetite and tolerance levels of EIL and for ensuring that management defines the roles and responsibilities, standards and guidance for employees. Risk Governance and culture is also achieved by holding employees at all levels responsible and accountable to the ERM and are motivated to escalate and report any risk events they may become aware of. Furthermore, the Board is responsible for overseeing the ERM framework and efforts are also being undertaken by EIL to align human resource development and retention to the core values of the Company.

- ◆ **Business Strategy**

The Company’s ERM is integrated into the strategic planning exercise through the identification of the strengths, weaknesses, opportunities and threats (‘SWOT’) and the setting of the business strategy, strategic themes and objectives. The SWOT analysis gives EIL an insight into the internal and external factors and their impact on EIL’s risks. Articulating risk appetite and tolerance limits is key and these are established and aligned with the business strategy. Business objectives allow strategy to be put into practice and shape the entity’s day-to-day operations and priorities. Furthermore, EIL’s business strategy is a key input during EIL’s risk assessment process to ensure that the Company appropriately identifies, assesses and measures the key risks that may affect the achievement of EIL’s strategic themes and objectives.

- ◆ **Performance**

Performance focuses on ERM practices that support EIL's decision making and the achievement of its strategic and business objectives. This component includes risk identification and assessment, risk response and interrelationship of risks.

Furthermore, the Annual Own Risk and Solvency Assessment ('ORSA') process continues to strengthen EIL's ERM framework, by assessing the Company's risk management processes, risk exposures and ensure that the Company can withstand financial and economic stresses. The output from the risk management system, and the ORSA process, is used across the Company in business decisions such as underwriting, reinsurance arrangements and investment decisions.

- ◆ **Review and Revision**

Review and Revision includes the monitoring enterprise risk management performance, and analysing how well the enterprise risk management components are functioning over time and in light of substantial changes.

Monitoring provides insight into how well the Company has implemented ERM within the entity. The business objectives and the components of ERM may change over time as the entity adapts to shifting internal and external environments. In addition, current practices and processes may no longer apply, or may be deemed insufficient to support the achievement of new or updated business objectives.

The Company's Risk Management Function and Risk Management Committee is responsible to review EIL's Risk Management Framework on an annual basis to ensure that the framework, process and procedures are still fit for purpose. Furthermore, the ORSA report enhances monitoring efforts, the ability to make changes to the ERM framework and is also a benefit that allows ERM to achieve its goals and objectives.

- ◆ **Information, Communication and Reporting**

The Company's risk management framework is designed to support decision-making by providing consistent, reliable and timely risk information, thereby protecting the business from undesired deviations from its risk appetite and tolerance limits. Senior management uses relevant information from both internal and external sources to support ERM. To ascertain the achievement of strategic and business objectives, the management of EIL is also required to prepare and present to the Board a list of Key Performance Indicators ('KPIs') on a regular basis. Furthermore, the Risk Management Function of EIL communicates the Company's risk data and relevant information to the Board and senior management through regular emails and written reports during the quarterly Board meetings, risk management committee and monthly management meetings.

### B.3.3 Own Risk and Solvency Assessment (ORSA)

The Own risk and Solvency Assessment (ORSA) process forms an integral part of EIL's Risk Management System. The Company conducts and prepares an ORSA document on an annual basis, or immediately following the identification of any significant change to Company's risk profile, whichever is the earlier.

The ultimate responsibility for carrying out the ORSA rests with the Board of Directors, hence it needs to ensure that the Company has an adequate Risk Management framework to identify, manage and monitor on an ongoing basis any risks facing the Company. The Board is also responsible to identify any changes to the risk environment in which the Company operates and ensure that any new/emerging risks are identified, mitigated and the impact assessed as early as possible.

In order for the Board to carry out the ORSA it needs to consider EIL's exposure to short term risks (one year) and medium term risks (three years) and project its capital needs taking into account medium term risks. Consideration must be taken of the likely changes to the risk profile and business strategy over the projected period.

The ORSA document, which is drafted following the input of all key functions and senior management, provides a description of:

- ◆ all material risks from all assets and liabilities identified by the Company;
- ◆ management practices, systems and controls, including risk mitigation for these risks;
- ◆ the quality of processes and inputs, and in particular the related governance issues in place;
- ◆ the link between business planning and the overall solvency needs;
- ◆ explicit identification of possible emerging risk scenarios; and
- ◆ assessment of potential stresses.

The Company conducts its own assessment of overall solvency needs and expresses the overall solvency needs in quantitative terms, while complementing the quantification by a qualitative description of the material risks. The Company's own assessment of overall solvency needs enables the Company to calculate the amount of capital required by taking into consideration all the material risks EIL is exposed to including reputational risks, strategic risks, cyber/IT risks, legal risks and liquidity risks to ensure that the Company holds the appropriate levels of capital.

The assessment of the Company's own risks forms an important part in the development and monitoring of EIL's business strategy and in the decision-making process of the Company. The determination of the overall solvency needs contributes to assessments of whether to retain or transfer risk and how best to optimise the Company's capital management. In this respect, the ORSA allows the Company to assess its overall solvency needs to match its exposure to risk. In light of the above, the overall solvency needs bring together the Company's risk profile and its approved risk appetite and tolerance limits.

Stress tests and Scenario analysis are also carried out to assess EIL resilience to certain events. Stress tests and scenario analysis are selected by the Board with the input of the Risk Management Committee and senior management, taking into account EIL's strategic plan and objectives. A reverse stress test is also carried out to

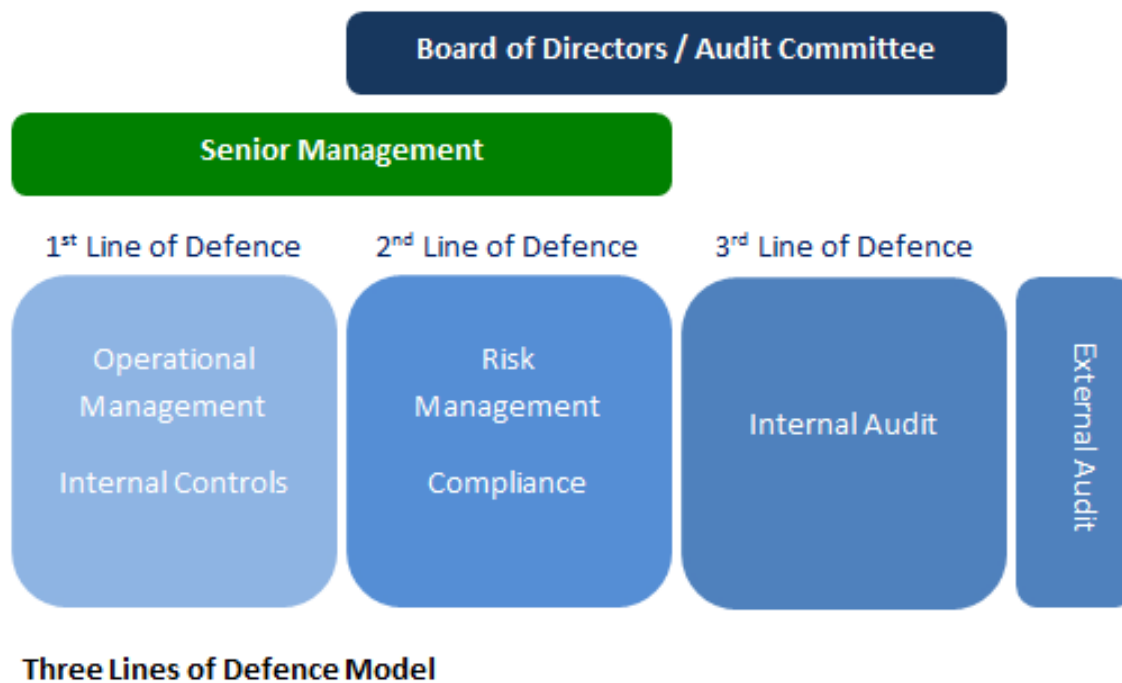
determine which adverse events may reduce EIL's SCR ratio below the Company's tolerance limit or cause significant financial distress. The results are reviewed by senior management and challenged by the Board and where necessary, management actions are established.

The ORSA is reviewed and approved by the Board of Directors, following which its results and conclusions are communicated to all relevant staff.

## B.4 Internal Control System

### B.4.1. Description of the Internal Control Framework

An effective risk management system also requires to be supported by a suitable internal control system. To this effect, the Board of Directors has adopted the Three Lines of Defence Model which provides a simple and effective way to enhance communications on risk management and internal control by clarifying essential roles and responsibilities and this is depicted in the following diagram:



The Senior Management team is responsible to set the tone at the top and provide foundation and create discipline and structure for an effective control environment. Control environment factors include the integrity, ethical values and competence of the Company's people; management's philosophy and operating style; the way management assigns authority and responsibility and organises and develops people; and the attention and direction provided by the Board.

Primary responsibility for the application of the Risk Management Function lies with Operational Management – the first line of defence. Operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks together with maintaining effective internal controls.

Support for and challenge on the risk management activities including the identification, measurement, monitoring, management and reporting of risk are performed by the Risk Management Function, the Compliance Officer and the respective Board Committees set up by the Board, each having their own separate terms of reference – the second line of defence.

Independent and objective assurance on the robustness of the Risk Management Function and the appropriateness and effectiveness of internal control is provided by the Internal Auditors. In order to maintain complete independence, the Company outsources the Internal Audit Function to a third-party service provider.

An external line of defence is found through the work performed by the external auditors, who annually audit and provide the shareholders with reasonable assurance that the financial statements are free from material misstatement due to fraud and error.

Through the internal control system implemented by the Board above, it is able to provide to its stakeholders' reasonable assurance regarding the achievement of objectives in the following categories:

- ♦ effectiveness and efficiency of operations;
- ♦ reliability of financial reporting; and
- ♦ compliance with applicable laws and regulations.

#### **B.4.2 Compliance Function**

EIL's Compliance function is established in house and is an independent control function at the second line of defence. The Compliance function ensures that the Company and employees comply with the laws, regulations, insurance rules, and internal policies; continuously monitor any amendments to the applicable legislation and regulations and assessing the potential impact of proposed legislation on the Company; monitor the Company's distribution network in order to ensure adherence with the applicable Insurance Distribution Rules including prudential requirements and continuous professional development requirements and the Rules contained in the Conduct of Business Rulebook relating to disclosures, product oversight and governance and sales processes and selling practices; and provides independent information and objective advice to the Board on regulatory issues and developments applicable to EIL.

The Company has established a Compliance Policy which identifies all areas of EIL's business activities that are susceptible to compliance risk and to implement the necessary controls to ensure that the Company complies with the applicable legislation and regulatory requirements. The Compliance Policy is reviewed on an annual basis and was last updated and approved by the Board on the 18<sup>th</sup> February 2020.

## B.5 Internal Audit Function

### B.5.1 Implementation of the Internal Audit Function

The Internal Audit Function's role is to provide independent, objective assurance and consulting activity designated to add value and improve to the Company whilst ensuring effectiveness of the systems of internal control. The Internal Audit Function helps the Company to accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes. EIL's Internal Audit key function is outsourced, and the list of responsibilities are included within the Terms of Reference of the Internal Audit Function and the Internal Audit Policy. The Internal Audit Policy is reviewed on an annual basis and was last updated and approved by the Board on the 19<sup>th</sup> November 2019.

The Internal Audit activity's responsibilities are defined by the Audit Committee as part of their oversight role. The key responsibility of the Internal Audit is to the Board of Directors in discharging its governance responsibilities and to perform the following functions:

- ♦ evaluating the Company's governance processes including ethics;
- ♦ performing an objective assessment of the effectiveness of risk management and the internal control framework; and
- ♦ systematically analysing and evaluating business processes and associated control.

### B.5.2 Independence and Objectivity of the Internal Audit Function

The Internal Audit Function shall be objective and independent from the operational functions and free from undue influence by any other functions including key functions. The persons carrying out the Internal Audit Function shall not assume responsibility for any other function.

Internal Audit does not assume any operational responsibility or authority over any of the activities audited, unless it can be reasonably established that such operational involvement will not impair the independence of the Internal Audit Function. Consequently, Internal Audit does not implement controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgement.

Internal Audit demonstrates the highest level of professional objectivity in obtaining, evaluating and communicating information and findings about the activity or process under review.

## B.6 Actuarial Function

The role of the Actuarial Function is to assist the Board of Directors in discharging its responsibilities for the management and controlling the significant risks to which the company may be exposed.

The Actuarial Function is responsible to:

- ♦ coordinate the calculation of technical provisions;
- ♦ ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- ♦ assess the sufficiency and quality of the data used in the calculation of technical provisions;
- ♦ compare best estimates against experience;
- ♦ inform the Board of Directors on the reliability and adequacy of the calculation of technical provisions;
- ♦ oversee the calculation of technical provisions in the cases set out in Article 82 of Directive 2009/138/EC;
- ♦ express an opinion on the overall underwriting policy;
- ♦ express an opinion on the adequacy of reinsurance arrangements; and
- ♦ 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 the ORSA.

The Company has outsourced the Actuarial Function and the Actuarial Function holder coordinates the calculation of the technical provisions ensuring that the calculation is compliant with the requirements regarding the calculation of technical provisions and reported on those calculations to EIL, including whether there are any uncertainties connected to this calculation in the Actuarial Function Report for 2019 as published during December 2019.

## B.7 Outsourcing

To conduct operations as effectively and efficiently as possible, the Company finds it advantageous to outsource certain functions. The Company has in place an outsourcing policy to ensure that the development and implementation of any proposal to outsource operational functions are carried out in a rigorous, transparent and a consultative manner that ensures the Company's best interests are served.

Notwithstanding the processes and procedures in place, effort is made to maintain several activities or key functions in-house and only outsource them in case of situations wherein finding suitable replacement would be cumbersome and would result in the interruption of internal Company processes.



The Company may also decide to outsource a critical or important function. The Company considers a critical or important function or activity as being “a function or activity that is fundamental to carrying out the core business as it would be unable to deliver its services to policyholders without the function or activity”. The Company shall not undertake the outsourcing of a critical or important operational function or activity in such a way as to lead to any of the following:

- ♦ Materially impairing the quality of the undertaking’s system of governance;
- ♦ Unduly increasing the operational risk;
- ♦ Impairing the ability of the competent authority to monitor the undertaking’s compliance with its obligations; or
- ♦ Undermining the continuous and satisfactory service to policyholders.

Before outsourcing a key or a critical/important function, the Company should obtain a number of quotations from different service providers and carry out a proper due diligence process prior to any final decision being made as to whether to outsource a material business activity to ensure that the potential service provider has the ability, the capacity and the authorisation required at law to perform the required functions or activities satisfactorily, taking into account the Company’s objectives and needs, as per Article 274(3)(a) of the Commission Delegated Regulation (EU) 2015/35. This due diligence process should address all material factors that would impact on the potential service provider’s ability to perform the activity, including an assessment of the technical ability and capacity of the service provider to deliver as well as its reputation, experience with the proposed outsourced function and potential conflict of interest where the service provider is related to the Company or has arrangements with competitors. The Company shall also ensure that the service provider’s risk management and internal control systems are adequate, that the service provider has the necessary financial resources to perform the additional tasks in a fit and proper way and that all their staff who will be involved in providing the outsourced function are sufficiently qualified and reliable. Regulatory compliance is also considered at every stage of the outsourcing process.

Furthermore, for all outsourcing arrangements, a legally binding agreement is established and documented, to clearly define the respective rights and obligations of the Company and the service provider. Outsourcing arrangement agreements must document all components of the outsourcing arrangement between the parties as per Article 274(4) of the Commission Delegated Regulation (EU) 2015/35. The full requirements of Article 274(4) are also included in Annex I to EIL’s outsourcing policy. Furthermore, the agreement shall also include start and finish dates, service levels, frequency of payments, invoicing and payment procedures, dispute resolutions and confidentiality. Decisions to outsource a material business activity and to select the relevant service provider should be approved by the Board. The Board shall also authorise the terms and conditions within the outsourcing agreement.

The Company currently outsources a number of operational activities, which are considered to be critical, and two of its key functions, namely internal audit and actuarial function. The Company has outsourced the Internal Audit Function to KPMG in Malta and the Actuarial Function to KPMG in Ireland. EIL has designated two Board members responsible for the oversight of these two outsourced functions which are fit and proper to be able to challenge the performance and results of the service providers.

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

### **B.8.1 Evaluating the appropriateness of the system of governance**

An internal review of EIL's System of Governance is carried out on an annual basis. This exercise was carried out in November 2019. The system of governance is considered to be adequate for the Company, taking into account the nature, scale and complexity of the risks inherent in EIL's business.

### **B.8.2 Other material information**

There have been no specific changes to the System of Governance as the result of the COVID-19 pandemic. The Company's strong governance structure, overarching risk management and internal control system is responding well to the current situation. During the COVID-19 pandemic, there has been continued involvement and input from senior management and the Board. Regular updates of the financial and operational impacts on the Company are being provided to the Board and senior management. Regular communication to employees in relation to health and safety and company procedures and operations is also being provided. The Company's investment in IT and the ability of employees to work remotely, enabled EIL to continue providing an uninterrupted service to clients and mitigating operational risks including business continuity risks.

## C. Risk Profile

The objective of the risk management strategy employed by the Company is primarily to:

- ♦ fully integrate risk management into the culture of the Company;
- ♦ ensure that the risk management framework is understood and implemented by staff with an operational responsibility for risk;
- ♦ ensure the benefits of risk management are realised through maximising opportunities and minimising threats; and
- ♦ ensure consistency throughout the Company in the management of risk.

The Board determined that the risk management system of the Company covers the following areas of risk:

1. *Underwriting and reserving risk* – the risk of loss, or of adverse change in the value of insurance liabilities, due to inadequate pricing and reserving assumptions. It includes fluctuations in the timing, frequency and severity of insured events/claims settlements;
2. *Reinsurance risk* – the risk of being unable to obtain insurance from a reinsurer at the right time and at an appropriate cost;
3. *Market and Investment risk* – the risk of loss in value of the investment portfolio due to market volatility;
4. *Liquidity risk* – the risk that undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due;
5. *Asset-liability management risk* – the management of a business in such a way that decisions on assets and liabilities are coordinated in order to manage the exposure to the risk associated with the variation of their economic values. The Board decided to consider this risk within the same category of Liquidity Risk;
6. *Credit risk* – the risk of loss resulting from fluctuations in credit standing of counterparties; and
7. *Operational risks* – the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.
8. *Reputational risks* – the risk that adverse publicity regarding EIL's business practices, whether accurate or not, will cause a loss of consumer confidence in the integrity of the Company which may result in significant financial losses.

9. *Strategic risks* – the risk of loss arising from the pursuit of an unsuccessful business plan, adverse business decisions, the improper implementation of those decisions, inadequate resource allocation or failure to respond well to changes in the business environment.

The Board considers the accumulation and interaction of policies it writes and how these are to be managed within the underwriting and reinsurance risk categories. Concentration risks with respect to credit counterparties and investment risks are considered within the respective risk categories as well. Interaction between risk categories are considered during the risk assessment exercises when determining the impact and likelihood of each risk.

## C.1 Underwriting and reserving Risk

### Risk Exposure

Underwriting and reserving risks may arise from the following sub-categories:

**Insufficient Premium:** The risk of earning lower premiums compared to previous periods due to inadequate or inappropriate (lower) product pricing, bad reputation, insurance policy not meeting the demands and needs of target market, lack of marketing, and an economic slowdown.

**Product Design risk:** Product defects due to inadequate product design, variation, delivery or maintenance.

**Underwriting risk:** Inadequate or inappropriate underwriting. For example, failure to comply with the underwriting guidelines, including staff operating outside of their delegated authority.

**Reserving risk:** Inadequate or inappropriate reserving techniques including unforeseen, unknown or unintended liabilities that may occur.

**Higher than estimated frequency and severity of losses:** The risk of insured losses being more frequent and higher than our expectations, such as increasing traffic accidents and more fatalities, increased rates of construction accidents, changes in legislation. This may also be due to inadequate or inappropriate claims management including overpayment, failure to collect recoveries, fraudulent misrepresentation or staff operating outside of their delegated authority.

**Insurance concentration risk:** Adverse concentration exposure. For example, location exposure, catastrophe exposure, underwriting segment factor, industry or distribution channel.

The Company writes all classes of general insurance business (excluding Classes 5 – Aircraft; 14 – Credit; 15 – Suretyship and 18 - Assistance) in relation to risks situated in Malta, with business generated through the following channels: in-house sales and branches, tied insurance intermediaries and insurance brokers, and aims at attaining a good balance between motor and non-motor classes. The Company has a strong share in the engineering – construction insurance classes. The Company has also availed itself of passporting rights by way of the freedom of

services for the following lines of business: Classes 1 – Accident and Class 2 – Sickness for risks situated outside of Malta; and for the following lines of business: Class 8 – Fire and natural forces, Class 9 – other damage to property, and Class 13 – General liability, in Greece.

Every quarter, EIL measures and assesses its exposure to underwriting risks using the Solvency II SCR calculation which is used to measure the regulatory capital requirement for non-life and health underwriting risks. Additionally, on an annual basis as part of the ORSA process, the Company also measures and assesses its exposure to Underwriting risks using its own risk assessment methods to assess its overall solvency needs. The Company also measures and monitors underwriting and reserving risk exposures through the assessment of Key Risk indicators (KRIs) and Key Performance Indicators (KPIs) against the Company's risk appetite. This exercise is carried out and reported to the Risk Management Committee and the Board on a quarterly basis. There were no material changes in the value of Underwriting risk exposure in 2019.

### **Risk Concentration**

Underwriting risk concentration may occur due to geographical exposure, catastrophe exposure, underwriting segment factor, industry or distribution channel. EIL has a well diversified insurance portfolio, however the largest concentration of underwriting risk relate to the geographical area since a large proportion of EIL's risks are situated in Malta.

### **Risk Mitigation**

The directors manage exposure to insurance risk through an Underwriting and Reinsurance Committee that considers aggregation of risk and establishes risk retention levels. The underwriting strategy attempts to ensure that the risks underwritten are well diversified in terms of type and amount of risk and industry. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the company's success.

The goal is for underwriters to be in a position to:

- ◆ Understand and assess each risk,
- ◆ Make appropriate decisions within their area of competence and authority limits,
- ◆ Differentiate between risks,
- ◆ Apply suitable terms and conditions in order to manage the portfolio,
- ◆ Control exposure,
- ◆ Improve the predictability of the loss experience and make appropriate use of the company's technical capacity.

Each of the company's underwriters has a specific license that sets clear parameters for the business that they can underwrite, based on the competence of the individual underwriter. The Underwriting and Reinsurance Committee looks at company underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate, and limits on the overall retention of risk that the company carries. The company's

management of the underwriting and claims risks restricts underwriting of specific high-risk classes of business to underwriters with appropriate technical competence and includes reviewing the performance and management of selected individual insurance portfolios throughout the company.

Pricing is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and trended forward. While claims remain the company's principal cost, allowance is also made in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance, and for a profit loading that adequately covers the cost of the capital exposed to risk.

The company has the right not to renew individual policies or to reprice on renewal, it can impose deductibles and it has the right to reject the payment of a fraudulent claim.

The Company also has in place several reinsurance arrangements to limit its exposure to single or multiple large risks, including catastrophes. The Company reinsures that portion of the underwritten risks above its risk appetite to control exposure to losses, to reduce volatility, and to protect capital. The type of reinsurance cover and the level of retention are based on the Company's risk management assessment which takes into consideration the risk being covered and sums insured.

Claims handling - risks surrounding known claims are mitigated through the Company's in-house teams of skilled claims technicians who apply their experience and knowledge to the circumstances of individual claims. These teams are responsible for investigating and adjusting claims, together with specialist independent loss adjustors that might be engaged depending on exigencies. Claim estimates are reviewed periodically and adjusted on the basis of information that becomes available specific to the claim as well as changes in external factors such as judicial decisions and legislation. The Company generally pursues early settlement of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments - claims on contracts are accounted for on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company. Certain classes of business can take several years to develop, in particular claims involving casualty, and are therefore subject to a greater degree of uncertainty than other classes of business that are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR in the Company's technical accounts.

In calculating the estimated cost of unpaid claims, the Company uses a combination of estimation techniques, based partly on known information and partly on statistical analyses of a historical experience.

Reserves are analysed by line of business. Case reserves are established on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which claims data (e.g. paid claims and case reserves) emerge over a long period of time are referred to as long tail lines of

business. Lines of business for which claims data emerge more quickly are referred to as short tail lines of business. Risks underwritten by the Company are typically short tail, although certain lines of business may take longer to develop, including, for example, personal accident and employers' liability.

The Company's claims managers regularly review reserves for both current and prior accident years using the most recent claims data. These reserve reviews incorporate a variety of judgments and involve extensive analysis. The ultimate cost of outstanding claims, including claims incurred but not reported, is subsequently estimated through statistical analyses of historical claims trends, which are projected forward giving greater weighting to recent years. Additional qualitative judgment is applied to assess the extent to which past trends may not apply in the future.

On an annual basis during the annual risk assessment exercise, the risk management function in conjunction with the risk owners assesses the effectiveness of all underwriting and reserving risk mitigation techniques and controls in place. Furthermore, the risk mitigations and controls in place are reviewed and assessed by the Internal Audit function during its Internal Audit cycle. The Risk Management Committee also monitors the effectiveness of the underwriting and reserving risk mitigations through the monitoring of the KRIs and KPIs.

### Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## C.2 Market Risk

### Risk Exposure

Market and Investment risk is split into three main risk categories:

**Interest Rate Risk:** In general, the company is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets issued at variable rates expose the company to cash flow interest rate risk. Assets issued at fixed rates expose the company to fair value interest rate risk.

**Equity Price risk:** The company's financial assets are also susceptible to the risk of changes in value due to changes in the prices of equities in respect of investments held and classified on the balance sheet as fair value through profit or loss.

**Currency risk:** Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact on the amounts that are paid to settle liabilities and on the amounts that are realised from the company's assets.

Every quarter, EIL measures and assesses its exposure to market risks using the Solvency II SCR calculation which is used to measure the regulatory capital requirement for market risk. Additionally, on an annual basis as part of the ORSA process, the Company also measures and assesses its exposure to market and investment risks using its own risk assessment methods to assess its overall solvency needs. The Company also measures and monitors investment risk exposures through the assessment of KRIs and KPIs against the Company's risk appetite. This exercise is carried out and reported to the Risk Management Committee and the Board on a quarterly basis. Additionally, on a monthly

basis during the Investment Committee meetings, the Investment Committee members review and assess the composition of the investment portfolio to ensure that it continues to be adequately diversified and spread in line with the regulatory requirements and with the Company's investment policy guidelines and thresholds.

### **Prudent person principle**

The Company's investment policy ensures its continued compliance with the Prudent Person Principle (PPP) as laid down in Article 132 of the Directive 2009/138/EC. The Prudent Person Principle requires companies to invest in a manner ensuring security, quality, liquidity and profitability of the investment portfolio.

The Company's current investment portfolio is prudent and consistent with the portfolio guidelines and criteria established in the Investment policy guidelines approved by the Board of Directors. The investment portfolio of EIL provides an optimal asset allocation allowing the maximisation of the levels of security, quality, liquidity and profitability. This is achieved through the well-diversified investment portfolio given the Company's investments in property; equities; bonds; and cash and deposits, as well as setting sectoral limits and exposure limits with regards to investment in any one counterparty. Furthermore, the Company avoids investments in derivatives and similar commitments as it has no appetite for such complex investment instruments.

### **Risk Concentration**

Market risk concentration may occur due to lack of diversification in the investment portfolio, which may lead to a large exposure in a foreign currency, asset class or issuer. EIL holds a well-diversified investment portfolio in line with the established Investment Policy guidelines, and there were no material market risk concentrations as at 31 December 2019.

### **Risk Mitigation**

Market and Investment risks are managed through the Company's Investment Committee which sets out investment guidelines which are approved by the Board of Directors and regularly reviewed. The investment guidelines set out the parameters for investment.

Interest rate risk is principally managed through the investment in debt securities having a wide range of maturity dates. Moreover, investment parameters exist to limit exposure to any one particular issuer and any one particular debt security.

The risk of price volatility is managed by entering into a diverse range of investments including equities and collective investment schemes. EIL has an active Investment Committee that has established a set of investment guidelines that is also approved by the Board of Directors. These guidelines provide parameters for investment management, including contracts with external portfolio managers. The directors review market value fluctuations arising on the Company's investments on a regular basis. Investment parameters and diversification procedures also consider solvency restrictions.



The Company's exposure to foreign exchange risk arises primarily from investments that are denominated in currencies other than the Euro. The investment guidelines set allowable thresholds with regards to the Company's exposure to foreign exchange risk.

On an annual basis during the annual risk assessment exercise, the risk management function in conjunction with the risk owners assesses the effectiveness of market and investment risk mitigation techniques and controls in place. Furthermore, the risk mitigations and controls in place are reviewed and assessed by the Internal Audit function during its Internal Audit cycle. The Risk Management Committee also monitors the effectiveness of the market risk mitigations through the monitoring of the KRIs and KPIs.

### Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## C.3 Credit Risk

### Risk Exposure

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit and counterparty default risks may arise from the following sub-categories:

**Reinsurance credit risk:** Default of a reinsurer which results in exposure to claims and loss of recoverable balances.

**Intermediaries, policyholders and co-insurers credit risk:** Default of a counterparty resulting in loss of premium receivables or recoverable balances.

**Investment credit risk:** Default of fixed income counterparties due to macro-economic environment resulting in loss of nominal holdings, in particular to excess exposure to geographic region, industry, or a single counterparty.

**Banks credit risk:** Default of a bank due to macro-economic environment resulting in loss of cash and cash equivalents, in particular to excess exposure to geographic region or a single counterparty.

Every quarter, EIL measures and assesses its exposure to credit risks using the Solvency II SCR calculation which is used to measure the regulatory capital requirement for counterparty default risk. Additionally, on an annual basis as part of the ORSA process, the Company also measures and assesses its exposure to credit risks using its own risk assessment methods to assess its overall solvency needs. The Company also measures and monitors credit risk exposures through the assessment of KRIs and KPIs against the Company's risk appetite. This exercise is carried out and reported to the Risk Management Committee and the Board on a quarterly basis.

## Risk Concentration

Credit Risk concentration is associated with any single exposure or group of exposures with the potential to produce large losses to threaten the Company's core operations. It may arise either from a single counterparty concentration or industry concentration. The directors consider that the company is not exposed to material concentration of credit risk in respect of trade debtors due to the large number of customers comprising the company's debtor base.

The Company's most material Credit Risk concentration relates to reinsurance arrangements. The reinsurer's credit rating and amount of exposure is monitored on a regular basis and a report is presented to the Underwriting and Reinsurance Committee and the Compliance Committee on a quarterly basis.

## Risk Mitigation

The company places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the company considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

The company structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparty. Limits on the level of credit risk are approved by the directors, and the credit terms allowed depend on the distribution channel through which business is secured. Frequent meetings are held, attended by directors, in order to monitor the overall credit situation, and to take remedial measures as appropriate.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a regular basis by reviewing their financial strength and prior to finalisation of any contract. The company's policy is to only contract reinsurers with a minimum rating of A-.

The Credit risk in relation to default from policyholder and intermediaries is managed through the Company's Debtor Policy which sets out the credit terms which may be given. Furthermore, the Company's credit control function constantly monitors debtor balances and follows up long-outstanding balances. The Company also closely monitors debtors who exceed credit terms and consider revoking credit terms when transacting new business.

The company is also exposed to credit risk for its cash at bank and investments. The company's cash is placed with quality financial institutions.

On an annual basis during the annual risk assessment exercise, the risk management function in conjunction with the risk owners assesses the effectiveness of credit risk mitigation techniques and controls in place. Furthermore, the risk mitigations and controls in place are reviewed and assessed by the Internal Audit function during its Internal Audit cycle. The Risk Management Committee also monitors the effectiveness of credit risk mitigations through the monitoring of the KRIs and KPIs.

## Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## C.4 Liquidity Risk

### Risk Exposure

The company's exposure to liquidity risk arises from the eventuality that the frequency or severity of losses are greater than estimated and cash may not be available to pay claims obligations when due at a reasonable cost.

The directors do not consider these risks to be significant given the nature of the company's financial assets and liabilities. The company's financial assets are considered to be readily realisable as they consist of local and foreign securities listed on recognised stock markets. There have been no material changes in exposure to liquidity risk over the reporting period.

On an annual basis, EIL measures and assesses its exposure to liquidity risks as part of the ORSA process, using its own risk assessment methods to assess its overall solvency needs. The Company also monitors net cash flows on a daily basis.

### Risk Concentration

There were no material liquidity risk concentrations as at 31<sup>st</sup> December 2019.

### Risk Mitigation

The company ensures that a reasonable level of funds is available at any point in time for unexpected large claims and the company may also resort to overdraft facilities which provide a short-term means of finance. Furthermore, the investment policy provides parameters for investments, requiring a high percentage of cash and cash equivalents to be held in the investment portfolio, and regular monitoring of cash accounts is carried out to maintain an adequate level of liquidity in line with average claim payments.

On an annual basis during the annual risk assessment exercise, the risk management function in conjunction with the risk owners assesses the effectiveness of liquidity risk mitigation techniques and controls in place. Furthermore, the risk mitigations and controls in place are reviewed and assessed by the Internal Audit function during its Internal Audit cycle.

### Expected profit included in future premiums (EPIFP)

As at 31 December 2019, the Company had no future premiums cash-flows on existing unexpired policies and therefore there is no expected profit included in future premiums.

## Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## C.5 Operational Risk

### Risk Exposure

Operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems risk, or external events. EIL's operational risks may arise from the following sub-categories:

**People's Risks:** Lack of succession planning and recruitment, individual's goals not aligned with Company's goals and workplace safety.

**IT Risks:** Inadequate system design or capability to maintain business functionality, information security (exposure to loss of records and data leakage).

**Cyber Risks:** The risk of financial loss, disruption to operations or reputational loss resulting from a cyber-attack leading to a data breach, damage to EIL's software or hardware, malicious disruption and/or denial of service.

**Internal Control Failure including Fraud:** Failure of internal control processes due to incorrect design and implementation or management override.

**Project and Change Management:** Failure to deliver the expected benefit of an initiative or costs exceeding benefits, inadequate implementation of a project initiative.

**Regulatory and Compliance Risks:** Breach of applicable law/regulations, including adherence to regulatory timeframes; Frequent changes in legislation and lack of staff awareness of compliance requirements resulting in misconduct.

**Conduct risk:** The risk of not ensuring fair customer outcomes through the product life cycle, both from internal or external (outsourced) processes.

**Business Continuity Management:** Any event that disrupts the business operations of the Company and/or its performance and lack of planning ahead of managing the aftermath of such event.

**Outsourcing:** Excessive reliance on outsourced service, inadequate level of service obtained from the provider and/or breach of data confidentiality.

**Distribution vulnerability:** Loss of business to a distribution channel and over-reliance on a particular distribution channel.

**Capital Management:** Failure to maintain adequate capital to meet the SCR and MCR requirements under the Standard Formula.

Every quarter, EIL measures and assesses its exposure to operational risks using the Solvency II SCR calculation which is used to measure the regulatory capital requirement for operational risk. Additionally, on an annual basis, EIL measures and assesses its exposure to operational risks as part of the ORSA process, using its own risk assessment methods to assess its overall solvency needs. The Company also measures and monitors operational risk exposures through the assessment of KRIs and KPIs against the Company's risk appetite. This exercise is carried out and reported to the Risk Management Committee and the Board on a quarterly basis.

### Risk Concentration

There were no material operational risk concentrations as at 31<sup>st</sup> December 2019.

### Risk Mitigation

The Company manages people's risk through its Human Resource Manager who is supported by members of Senior Management. This includes regular communication with staff, regular in-house and outsourced training for staff and executives and the focus on retention through employee engagement.

IT has been the major investment by the Company in the past years. The Company has also built an IT team in order to ensure that IT satisfies business requirements. The IT department is also responsible for the management of IT safety, including information security and cyber risks. A number of IT policies are in place in order to mitigate IT risks and information security risks.

All departmental managers are responsible to establish all relevant internal controls within their area of responsibility in line with the Internal Control Policy. The Company outsources the internal audit function to a third-party firm in order to provide additional assurance to the Board of Directors on the adequacy of internal controls. A Fraud Policy has also been set up with respect to the procedures necessary to combat and report fraud.

The compliance officer is responsible to manage compliance risks. Laws and regulations are reviewed when introduced, deadlines are monitored actively and compliance updates are rolled-out to staff and the Board to bring their attention to the matter. A complaints register is maintained by the compliance officer to keep record of all formal complaints.

The Company constantly reviews the market to determine any trends which are arising in pricing and policy covers. Staff have been appointed to handle customer care, which includes carrying out regular surveys and reviewing comments on social media and other sources. The results of the trends are then discussed at Committee level and during strategic planning.

The Company have established a Business Continuity Policy, which is reviewed and approved by the Board of Directors on an annual basis. The Company frequently considers the events which may impact business continuity and has established and formalised a Business Continuity Plan, including a Disaster Recovery Plan which prescribes preparedness procedures to deal with disasters and their aftermath. The plan is tested on an annual basis by the

Disaster Recovery Team and presentations and memos are distributed to Senior Management and staff to raise awareness on the risks and actions to be carried out.

Certain distributors are considered key for the generation of good premiums. Good relations are maintained with all distribution channels, including invitations to Company social events. The Company controls its reliance on a particular distribution channel by reviewing statistics on a monthly basis at Underwriting and Reinsurance Committee level.

The Company strives to maintain adequate capital levels through portfolio diversification to reduce market risk exposure, a well-balanced underwriting portfolio to reduce underwriting risk exposure and retaining an amount of profits within the Company to build up capital.

### **Risk Sensitivity**

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## **C.6 Other Material Risks**

### **C.6.1 Reinsurance Risk**

#### **Risk Exposure**

The company reinsures a portion of the risks underwritten to control exposure to losses, to reduce volatility, and to protect capital. The type of reinsurance cover, and the level of retention, are based on the company's internal risk management assessment, which takes into account the risk being covered and the sums assured. The reinsurance strategy and programme are set and agreed by the Underwriting and Reinsurance Committee on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional cover, which limit the liability of the company to any one individual claim or event.

The company's exposure to reinsurance risk arises from the risk of being unable to obtain reinsurance cover at the right time and at an appropriate cost and the risk of buying inadequate reinsurance covers including the risk of exceeding the reinsurance surplus facility limit and the risk that insurance policies issued by EIL are not aligned to the reinsurance agreement terms and conditions.

On an annual basis, EIL measures and assesses its exposure to reinsurance risks as part of the ORSA process, using its own risk assessment methods to assess its overall solvency needs.

#### **Risk Concentration**

There were no material reinsurance risk concentrations as at 31<sup>st</sup> December 2019.

## Risk Mitigation

Monthly reviews of aggregates are carried out to ensure that adequate reinsurance is in place. Periodical meetings are held with the company's reinsurance brokers, the purpose of which is to systematically agree the renewal process of the company's reinsurance requirements, and to ensure a formalised means of communication between Elmo and its reinsurance brokers. Good "ad hoc" contact with reinsurance brokers is maintained during the year when dealing with risks that are not catered for by standard reinsurance treaties.

The Company also performs technical audits periodically in order to ensure that EIL's policy wordings being issued by the underwriting teams do not conflict with the reinsurance terms, which would effectively render the reinsurance taken out null and void in case of a claim.

The company monitors the financial condition of reinsurers on an ongoing basis, and reviews its reinsurance arrangements regularly to ensure that its counterparty exposure to individual reinsurance groups is within the parameters set by the Underwriting and Reinsurance Committee. The company does not place reinsurance with reinsurers having a credit rating lower than 'A-'.

## Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

## C.6.2 Reputational risk

### Risk Exposure

Reputational risk is the risk of financial loss due to significant market, operational and strategic failures, including failures in EIL's related entities, leading to loss of reputation and possibly litigation and regulatory action. This risk is interrelated to other risks, including cyber risks, conduct risks, strategic risks, regulatory compliance risk, GDPR compliance risk, fraud risk and outsourcing risk.

On an annual basis, EIL measures and assesses its exposure to reputational risks as part of the ORSA process, using its own risk assessment methods to assess its overall solvency needs.

### Risk Concentration

There were no material reputational risk concentrations as at 31<sup>st</sup> December 2019.

### Risk Mitigation

EIL manages reputational risk through ongoing customer care and providing product training to EIL employees and tied insurance intermediaries; focusing on legislative and regulatory requirements and ensuring proper adherence, update and review complaints register on a regular basis.

### Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.

### C.6.3 Strategic risk

#### Risk Exposure

The company's exposure to strategic risk arises from lack of strategic planning and clear business objectives, poor business decisions, improper implementation of decisions, lack of monitoring and responsiveness to changes in the business environment, loss in reputation and competition.

On an annual basis, EIL measures and assesses its exposure to strategic risks as part of the ORSA process, using its own risk assessment methods to assess its overall solvency needs. The Company also measures and monitors strategic risk exposures through the assessment of KPIs against the Company's risk appetite. This exercise is carried out and reported to the Risk Management Committee and the Board on a quarterly basis.

#### Risk Concentration

There were no material strategic risk concentrations as at 31<sup>st</sup> December 2019.

#### Risk Mitigation

On a yearly basis, the Board, together with the Senior Management Team, enter into strategic thinking exercise in order to devise a short to medium term strategy for the Company. EIL's strategic thinking exercise takes into account the key requirements of all stakeholders, including shareholders, customers and staff. During the strategic planning exercise, the Board of Directors and the Senior Management team also identify the Company's strengths, weaknesses, opportunities and threats ("SWOT") to help determine where the Company is now and where it wants to go. The exercise sets out KPIs which should be reached in order to ensure maximum value to stakeholders. Furthermore, on a yearly basis, the Directors of the Company determine premium targets and set the overall tone for the business plan of the forthcoming year.

#### Risk Sensitivity

See section C.7 for information on stress testing and sensitivity analysis for all the risk categories.



## C.7. Any Other Information

### Stress testing and scenario analysis

Once a year, the Company performs stress and scenario testing aimed at quantifying the impact certain risk events will have on own-funds and the solvency capital requirement of several scenarios. The Company also conducts reverse stress tests on an annual basis that examine the conditions that would push the SCR ratio below 100% and which would completely deplete the Company's equities. These stress tests and scenarios help EIL to understand potential losses to ensure that the Company is prepared to withstand projected losses from the selected events, including ensuring that there is adequate capital to withstand the event. The selection of the stress and scenario tests are agreed by senior management and the Risk Management Committee and approved by the Board as part of the ORSA process.

The scenarios which the Company considered for stress testing and scenario analysis, as reported in the 2019 ORSA report are as follows:

- ◆ Scenario 1: Earthquake impacting on EIL's entire portfolio of PDBI, Motor and Marine risks (subject to a PML computation).
- ◆ Scenario 2: Investment portfolio shock resulting from market instability.
- ◆ Scenario 3: Loss in reputation resulting in a decrease in Gross Premiums Written and an increase in Loss Ratios.

The above stress tests were performed using the 3-year business plan and the 3-year financial projections that were based on 2018 actual year-end figures.

The results of the above stress tests and scenarios undertaken have shown that under the three risk events, the Company manages to keep the SCR ratio above 100%. This implies that EIL is well capitalised and able to withstand the impact of the three selected plausible events. The results of the stress tests and scenario are also reported to the Board in the ORSA report.

The results of sensitivity analysis with respect to financial risks can be found in note 3 to the financial statements.

### COVID- 19 Pandemic Outbreak

Following the outbreak of the COVID-19 pandemic in Malta in March 2020, the Directors are continuously monitoring the developments as the situation evolves. The Company has in place a contingency plan which includes

various measures to safeguard the wellbeing of both employees and clients and to minimise the impact on operations, results and capital.

Although it might be premature to draw a conclusion on the impact of COVID-19 as there are many uncertainties, the Company has carried out a preliminary assessment on the basis of the current outlook, across six key dimensions: insurance risk, credit and liquidity risk, reinsurers' financial standing, market risk, operational risk and solvency position.

The Board is confident that the COVID-19 pandemic will not have a material adverse impact on the company's capital and solvency margin. The Company is strongly capitalised, with a Solvency Capital Requirement ratio of 277% as at 31 December 2019, which equates to surplus capital of €16,820K above a regulatory requirement of €9,506K. In addition, the Company has in place a comprehensive reinsurance programme placed with leading international reinsurers, the majority of which are rated 'AA', and which significantly mitigates the potential exposure on COVID-19 related risks.

As at 31<sup>st</sup> March 2020, the main impact was on the Company's portfolio of listed investments which declined by 11% in value. International and local investment markets are expected to improve once the crisis starts to ease. The effects of the pandemic on the core insurance operations is more complex to project. Premium income is forecasted to decrease in line with the reduction in economic activity, but the impact on the Company's overall net loss ratio is anticipated to be neutral. The Board will continue to closely monitor the developments around the impact of COVID-19 situation and any potential increase in risk exposures.

## D. Valuation for Solvency Purposes

Assets and liabilities under Solvency II are valued in accordance to the Solvency II Directive. *“The primary objective of valuation as set out in Article 75 of Directive 2009/138/EC requires an economic, market-consistent approach to the valuation of assets and liabilities. According to the risk-based approach of Solvency II, when valuing balance sheet items on an economic basis, undertakings need to consider the risks that arise from a particular balance sheet item, using assumptions that market participants would use in valuing the asset or the liability.”*

The values of the assets and liabilities in the IFRS financial statements have been used with some adjustments as outlined in the following sections. These adjustments are in line with the recommendations in the Technical Specifications. A comparison of asset figures under both Solvency II and IFRS is set out below:

Balance Sheet - as at 31 December	SII € '000s	2019 IFRS € '000s	Difference € '000s	2018 SII € '000s
<b>ASSETS</b>				
Intangible assets - goodwill	-	167	(167)	-
Intangible assets - computer software	-	65	(65)	-
Tangible assets:				
- land and buildings	12,757	12,757	-	7,975
- plant and equipment	375	375	-	114
Investments:				
- investment in associated undertaking	151	151	-	76
- investment property	1,615	1,615	-	1,188
- other investments:				
▪ equities	13,329	13,329	-	12,980
▪ bonds	5,550	5,468	83	2,660
▪ loans and receivables	62	62	-	62
Subordinated loan receivable	200	200	-	200
Deferred taxation	217	217	-	586
Reinsurers' share of technical provisions	5,742	7,551	(1,808)	4,526
Deferred acquisition costs	-	1,633	(1,633)	-
Debtors:				
- arising out of direct operations	6,969	6,969	-	7,197
- other debtors	218	218	-	314
Prepayments and accrued income	77	159	(83)	45
Cash at bank and in hand	6,370	6,370	-	7,289
<b>TOTAL ASSETS</b>	<b>53,632</b>	<b>57,306</b>		<b>45,212</b>

Balance Sheet - as at 31 December				2018
	SII	2019	Difference	SII
	€ '000s	IFRS	€ '000s	€ '000s
<b>CAPITAL AND RESERVES</b>				
Called up share capital	5,000	5,000	-	5,000
Revaluation reserve	7,052	7,052	-	3,036
Profit and loss account	13,080	13,080	-	10,590
Reconciliation reserve	1,595		1,595	661
<b>TOTAL EQUITY</b>	<b>26,727</b>	<b>25,132</b>		<b>19,287</b>
<b>LIABILITIES</b>				
Technical Provisions		26,064	(26,064)	
- best estimate	20,896		20,896	20,584
- risk margin	675		675	580
Deferred taxation	2,425	1,687	738	919
Creditors:				
- interest-bearing borrowings	370	370	-	185
- creditors arising out of direct insurance operations	1,681	1,681	-	2,922
- accruals	529	529	-	420
- deferred reinsurance commissions	-	1,512	(1,512)	-
- lease liabilities	243	243	-	-
Current taxation	86	86	-	315
<b>TOTA LIABILITIES</b>	<b>26,905</b>	<b>32,174</b>		<b>25,925</b>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>53,632</b>	<b>57,306</b>		<b>45,212</b>

## D.1 Assets

### Intangible assets

The value of intangible assets has been removed from the Solvency II Balance Sheet in accordance with Article 12 of the Regulation.

### Land and buildings and Investment Property

Land and buildings and investment property were valued in accordance with Article 8 of the Regulation and is consistent with the valuation approach under IFRS. These have been stressed under the property risk module within the market risk module.

***Tangible assets – plant and equipment***

Plant and equipment were valued in accordance with Article 8 of the Regulation and is consistent with the valuation approach under IFRS. These assets have been stressed as an Equity Type 2 within the equity risk module in line with clarifications issued by EIOPA.

***Investments in associated undertaking***

Investments in associated undertaking were valued in accordance with Article 8 of the Regulation by using the equity method of accounting as per IFRS. This has been classified as other equity in the SCR calculation and stressed under the equity risk module.

***Equities***

Equities were valued in accordance with Article 8 of the Regulation by using the last available quoted active market prices which is consistent with the valuation approach under IFRS. Equities were classified under “EEA or OECD Equities” and “Other Equities” and then stressed according to their classification under the equity risk module. Equities also include exposures in foreign currencies which were stressed under the currency risk module.

***Bonds, Loans and receivables, and Subordinated loans receivable***

Bonds, loans and receivables, and subordinated loans receivable were valued in accordance with Article 8 of the Regulations. Bonds and loans and receivables were valued using the last available quoted active market price and includes the value of accrued interest. Subordinated loans were valued using the cost approach and includes the value of accrued interest. This is consistent with the valuation approach under IFRS, with the exception that accrued interest is shown as a separate line item under IFRS.

These assets were stressed under the interest rate, spread and concentration risk modules under market risk. Bonds also include exposures in foreign currencies which were stressed under the currency risk module within market risk.

***Deferred tax asset***

Deferred tax asset was valued in accordance with Article 15 of the Regulation and is consistent with the valuation approach under IFRS.

***Reinsurers' share of technical provisions***

Reinsurers' share of technical provisions have been stressed under counterparty default risk. The calculation of the Solvency II reinsurers' share of technical provisions is explained in section D.2.

***Deferred acquisition costs***

Deferred acquisition costs have been removed from the Solvency II Balance Sheet as they are included as part of the calculations to arrive to the Best Estimate Technical Provisions figure.

***Debtors and Cash at bank and in hand***

Trade and other receivables and cash at bank and in hand were valued in accordance with Article 8 of the Regulation and is consistent with the valuation approach under IFRS. These have been stressed under the counterparty default risk module. Cash at bank also includes exposures in foreign currencies which are stressed under the currency risk module within market risk.

***Prepayments and accrued income***

Prepayments were valued in accordance with Article 8 of the Regulation and is consistent with the valuation approach under IFRS. These have not been stressed in the SCR computation. Accrued interest on bonds, loans and receivables and subordinated loan receivables have been removed from this line item and added to the respective line item under the Solvency II balance sheet to arrive to the Solvency II valuation of the respective line item. Accrued interest has therefore been stressed under the modules of the above items.

## D.2 Technical Provisions

The table below shows the change in technical provisions from the financial statement to Solvency II by line of business:

SII Line of Business	Financial Statements			1	2	Gross SII Technical Provisions
	Gross claims reserving including IBNR	UPR	Total	Adjustments to determine the Best Estimate	Risk Margin	
	€ '000s	€ '000s	€ '000s	€ '000s	€ '000s	
Fire and other damage to property insurance	4,105	2,820	6,925	(1,656)	32	5,301
Medical expense insurance	271	858	1,129	342	10	1,481
Other motor insurance	1,936	2,237	4,173	(1,427)	153	2,899
Motor vehicle liability insurance	5,989	3,989	9,978	(2,046)	344	8,276
Workers' compensation insurance	983	368	1,351	(5)	67	1,419
Other lines of business	1,627	881	2,508	(376)	70	2,195
<b>Total</b>	14,911	11,153	26,064	(5,168)	675	21,570

SII Line of Business	Gross SII Technical Provisions	3	4	Net SII Technical Provisions
		Reinsurers share of SII technical provisions	Counterparty default adjustment	
		€ '000s	€ '000s	
Fire and other damage to property insurance	5,301	4,372	(10)	939
Medical expense insurance	1,481	1,362	(3)	123
Other motor insurance	2,899	(171)	1	3,069
Motor vehicle liability insurance	8,276	(231)	1	8,506
Workers' compensation insurance	1,419	(23)	0	1,442
Other lines of business	2,195	445	(1)	1,751
<b>Total</b>	21,570	5,755	(12)	15,828

Below is a description of each step of the change in technical provisions:

### **1. Adjustments to determine the Best Estimate Technical Provisions**

#### **1A. Margin over best estimate for outstanding claims and allowance for Solvency II expenses**

The following standard actuarial methods were used to calculate the best estimate of claims reserves including expenses (i.e. booked reserves in the financial statements less the margin over the best estimate and allowance for expenses):

- ♦ Paid Claim Chain Ladder Method
- ♦ Incurred Claim Chain Ladder Method
- ♦ Paid Bornhuetter Ferguson Method
- ♦ Incurred Bornhuetter-Ferguson Method
- ♦ Loss Ratio Method

In determining the best estimate using these methods, we have relied on:

- ♦ Claims triangles (constructed to include allocated and unallocated claims expenses) from 2000 – 2019
- ♦ Tail factors on the liability lines to allow for longer reporting and settlement delays associated with liability lines of business
- ♦ Expert Actuarial judgement where necessary particular in respect of:
  - Emerging trends or events which will not be present in the historic claim data used to project ultimate losses i.e. the additional allowances made for Events not in Data (“ENID’s”)/ Binary Events; and
  - Selection of development patterns, Initial Expected Loss ratios and method selections.

Note that allocated and unallocated expenses associated with settling claims are implicitly included in the claims projections due to the construction of the claims triangles, claims triangles used in the projections include paid and incurred Allocated Loss Adjustment Expenses (“ALAE”) amounts and therefore the claims projections implicitly include costs associated with future claims expenses. The ALAE triangles are constructed based on an analysis carried out such that the claims department salaries and overheads such as property costs, claims management etc. are aggregated to a global Paid ALAE figure. This amount is divided by the total Gross Claims Paid figure to obtain the percentage to be applied to the pure paid claims triangles resulting in an expense allowance by line of business.

#### **1B. Release of expected profits in UPR**

In calculating the premium provision, a loss ratio based on loss history (claims triangles as mentioned above) and the performance of the current accident year to date was applied. In all cases, the loss ratio calculated for the accident year 2019 was applied to the UPR to estimate claims arising from unexpired risks. This loss ratio makes an implicit allowance for claims expenses as they are incorporated in the triangulated data as discussed above.

An allowance for binary events and expenses associated with servicing of in force policies has been made for within the premium provision.



### **1C. Discounting**

Both claims and premium provisions cashflows were projected based on claims payment pattern history and premium income history. These were discounted by the year end 2019 yield curves as published by EIOPA.

### **2. Risk Margin**

The risk margin was calculated without simplification. Each component of the SCR was calculated at each future date assuming no future business was written. This was then discounted using the year end 2019 yield curve and a 6% cost of capital was applied.

The calculation of the risk margin relies on the cashflow assumptions used to calculate the technical provisions.

Non-Life Underwriting Risk and Health Underwriting Risk was calculated individually for each line of business. The risk margin was allocated to each line of business based on the underwriting risk used to determine it.

### **3. Reinsurers' share of SII Technical Provisions**

This was calculated by first determining the net technical provisions. To derive the net results, we primarily used net to gross paid, ultimate claims, reserve and premium ratios (mostly the incurred or premium ratios were selected) which we applied to the gross ultimate claims. Net premium provisions were determined by using the net loss ratio for underwriting year 2019 as implied from the net claims methodology above.

### **4. Counterparty default adjustment**

Counterparty default risk was calculated in line with the technical specifications using the assumptions outlined in the assumptions table below.

### **Uncertainty regarding technical provisions**

- ♦ The choice of loss ratio for the premium provision is informed by historic and current year's to date accident year loss ratios. The unearned portion of the 2019 underwriting year may develop adversely or more favourable than the loss ratios selected.
- ♦ The development patterns used to calculate the best estimate of claims provisions are based on historical claims settlement patterns. Future claims development may not reflect historic development.
- ♦ The reinsurers' share of technical provisions is based on historic net loss ratios. The number of claims and relative size of each claim could have an impact on the net technical provision not captured in the loss ratio.
- ♦ The payment patterns used in determining the cashflows may not be reflected in reality, particularly with respect to claims payments. They are however based on historic claims settlement patterns and can be considered a best estimate.

- ♦ Future claims payments will be impacted by future claims inflation. An allowance for claims inflation is implicit within the projection methods we have used and we have not made any additional explicit adjustments to our selected development patterns.
- ♦ Direct claims handling expenses can be expected to impact future claim payments. Our estimates are intended to allow fully for future direct expenses by using the rate implicit within the historical claims development. Therefore, no explicit adjustment has been made for future direct expenses.
- ♦ The counterparty default adjustment is estimated and no analysis has been carried out on the actual probability of default or loss given default of the reinsurers.
- ♦ Other sources of uncertainty include but are not limited to:
  - Change in future claims / regulatory environment
  - Actual future claims inflation, whether from economic or non-economic drivers, may differ from that implied by historic data or explicit inflation assumptions where these have been made;
  - Latent claims emergence;
  - Changes in mix of business over time, for example due to underwriting action; and
  - Some long tailed segments that are material in reserve terms have limited / low volumes of historic data which may reduce reliability of historic claims experience.

The tables below show the assumptions used to determine the Solvency II technical provisions:

	Past Claims Settlement Pattern											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fire and other damage to property insurance	68%	20%	7%	3%	0%	1%	0%	0%	0%	0%	0%	0%
Medical expense insurance	64%	27%	3%	3%	2%	1%	0%	0%	0%	0%	0%	0%
Other motor insurance	74%	6%	4%	4%	3%	2%	2%	3%	2%	1%	0%	0%
Motor vehicle liability insurance	49%	18%	9%	8%	5%	5%	1%	2%	2%	1%	0%	0%
Workers' compensation insurance	37%	23%	17%	6%	6%	3%	2%	2%	1%	1%	1%	1%

	Future Claims Settlement Pattern											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Fire and other damage to property insurance	51%	33%	10%	4%	2%	0%	0%	0%	0%	0%	0%	0%
Medical expense insurance	51%	28%	20%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other motor insurance	65%	32%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Motor vehicle liability insurance	47%	33%	7%	4%	3%	0%	4%	0%	0%	1%	1%	0%
Workers' compensation insurance	6%	36%	24%	23%	0%	6%	2%	2%	0%	0%	0%	1%

	Commission Rate	Gross Loss Ratio	Net Loss Ratio	Probability of Default	Loss Given Default
Fire and other damage to property insurance	9%	34%	66%	0.24%	60%
Medical expense insurance	34%	49%	46%	0.24%	60%
Other motor insurance	6%	64%	72%	0.24%	60%
Motor vehicle liability insurance	6%	69%	75%	0.24%	60%
Workers' compensation insurance	8%	36%	58%	0.24%	60%

### D.3 Other Liabilities

#### *Deferred tax liability*

The deferred tax liability has increased to reflect the movement from IFRS to Solvency II. The increase in own funds, as outlined by a positive Reconciliation Reserve in the Solvency II Balance Sheet, has been taxed at an estimated effective rate of 31.6% and a related deferred tax liability has been created on the Balance Sheet.

#### *Deferred reinsurance commissions*

Deferred reinsurance commissions have been removed from the Solvency II Balance Sheet as they are included as part of the calculations to arrive to the Best Estimate Technical Provisions figure.

#### *Other liabilities*

All other liabilities have been valued in accordance with Article 8 of the Regulation and is consistent with the value approach taken under IFRS.

### D.4 Alternative Methods for Valuation

EIL does not make use of alternative methods of valuation.

## D.5 Any other information

### COVID- 19 Pandemic Outbreak

Although it might be premature to draw a conclusion on the impact of Covid-19 and there are many uncertainties, the company has carried out a preliminary assessment on the basis of the current outlook, across six key dimensions: insurance risk, credit and liquidity risk, reinsurers' financial standing, market risk, operational risk and solvency position.

There have been no changes to the valuation methods as the result of the COVID-19 pandemic. As at 31<sup>st</sup> March 2020, the main impact on the Company's Balance Sheet was in respect of the portfolio of listed investments which declined by 11% in value. Up until the time of publication of this report, international and local investment markets have improved slightly and are expected to recover further once the crisis starts to ease.

Apart from the above mentioned, there is no other material information regarding the valuation of assets and liabilities for solvency purposes that has not already been disclosed above.

## E. Capital Management

The Company has implemented a Capital Management Policy in order to be able to comply with future requirements relating to own funds and capital management. Under Solvency II, sound and prudent management of the Company is implemented in the first instance through a Capital Management Policy. The policy describes the policies and practices to support the Company's business strategy and to ensure that it is sufficiently capitalised to withstand even severe macroeconomic recessions.

### E.1 Own Funds

The Company's own funds are made up as follows:

	Tier 1 2019 € '000s	Tier 1 2018 € '000s
Called up share capital	5,000	5,000
Revaluation reserve	7,052	3,036
Profit and loss account	13,080	10,590
Reconciliation reserve	1,195	661
<b>Total Own Funds</b>	<b>26,327</b>	<b>19,287</b>

The Company has assessed the composition of its own fund items as at 31st December 2019 and considers that it is of the highest quality and comprises solely of Tier 1 Capital. The main movement from prior year relates to an increase in revaluation reserve following a property revaluation exercise carried out during the year and the profits for the year. Processes and procedures have been put in place so that any additional share capital is analysed prior to its injection. The analysis shall include the impact the classification will have on the Minimum and Solvency Capital Requirements and be presented to the Executive Directors for their review.

The Board of Directors take due care that the dividend distributions of the Company provide an adequate return on capital employed and also do not disrupt the operations or impact its ability to meet regulatory capital requirements. During the year under review, the Company paid net dividend of €1,800K. The Board approved a net interim dividend of €400K in February 2020. Such payment is considered a foreseeable dividend under the Solvency II regime and as such was deducted from the Company's Own Funds.

Based on the calculations within the 2019 ORSA, the Directors have determined that the Company has sufficient eligible own funds to:

- ♦ continue its business on a going concern basis over the business planning time horizon
- ♦ meet its regulatory solvency target (100% SCR) for its current and projected business activities over the business planning time horizon

The following table provides a reconciliation between the Solvency II Own Funds and the Total Equity as per IFRS:

Reconciliation of Own Funds to Equity in the Financial Statements as at 31 December 2019		
	€ '000s	€ '000s
<b>Solvency II Own Funds</b>		<b>26,327</b>
<b>Items not recognised in the Financial Statements:</b>		
- Risk Margin	675	
- Foreseeable dividends, distributions and charges	400	
		<b>1,075</b>
<b>Items not recognised in the Solvency II Balance Sheet:</b>		
- Goodwill	167	
- Intangible assets	65	
- Deferred acquisition costs	1,633	
- Deferred reinsurance commissions	(1,512)	
		<b>352</b>
<b>Change in valuation of Technical Provisions from Best Estimate calculation</b>		<b>(3,360)</b>
<b>Deferred tax movements</b>		<b>738</b>
<b>Resulting figure</b>		<b>25,132</b>
<b>Total Equity as per IFRS</b>		<b>25,132</b>
<b>Difference</b>		<b>-</b>

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

The amount of the Company's Solvency Capital Requirement and Minimum Capital Requirement at the end of the reporting period are €9,506K and €3,700K respectively.

The table below shows the components of the SCR (using the Standard Formula) at 31 December 2019 and 2018:

Sub-modules SCR	2019 € '000s	2018 € '000s
Market	9,645	6,900
Default	2,508	2,900
Health	657	651
Non-life	4,407	4,267
Diversification Benefit	(4,273)	(3,997)
<b>Basic SCR</b>	<b>12,945</b>	<b>10,720</b>

SCR	2019 € '000s	2018 € '000s
Basic SCR	12,945	10,720
Operational	957	745
LACDT	(4,396)	(3,508)
<b>Total</b>	<b>9,506</b>	<b>7,957</b>

The Company uses EIOPA's Solvency II Standard Formula. It does not use Company specific parameters and does not use simplified calculations in its computation.

The basic SCR increased to €12,945K in 2019. The increase was mainly driven by an increase in market risk primarily due to an increase in property value following the property revaluation exercise carried out by the Company during the year. The value of the SCR has been reduced to allow for the loss absorbing capacity of deferred taxes ("LACDT"). This adjustment has been calculated in accordance with Article 207 of the Regulation and is equal to the change in value of deferred taxes that would result from an instantaneous loss of an amount that is equal to the Basic SCR plus Operational risk.

The MCR was calculated in accordance with the Commission Delegated Regulation. The table below shows the net best estimates and net written premiums for the year 2019 per line of business utilised in the calculation of the Linear MCR.

SII Line of Business	Net best estimate € '000s	Net written premiums in past 12 months € '000s
Fire and other damage to property insurance	907	638
Medical expense insurance	113	183
Other motor insurance	2,916	4,594
Motor vehicle liability insurance	8,162	8,049
Workers' compensation insurance	1,375	697
Other lines of business	1,680	1,210
<b>Total</b>	<b>15,153</b>	<b>15,372</b>

The following table summarises the calculation of the linear MCR, MCR cap and MCR floor:

Overall MCR calculation	2019 € '000s	2018 € '000s
Linear MCR	2,688	2,639
MCR cap	4,278	3,581
MCR floor	2,377	1,989
Combined MCR	2,688	2,639
Absolute floor of the MCR	3,700	3,700
<b>Minimum Capital Requirement</b>	<b>3,700</b>	<b>3,700</b>

The absolute floor of the MCR of €3,700K applies for the Company and as at 31 December 2019, the Company had an MCR cover of 712%.

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

The Company did not make use of the duration-based equity risk sub-module in the calculation of the SCR.



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

The Company applies the Standard formula model and does not use an internal model to calculate the Solvency Capital Requirement.

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

There was no breach of the Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

#### **E.6 Any Other Information**

##### **COVID- 19 Pandemic Outbreak**

Although it might be premature to draw a conclusion on the impact of Covid-19 and there are many uncertainties, the company has carried out a preliminary assessment on the basis of the current outlook, across six key dimensions including the solvency position.

The Directors are confident that the Covid-19 pandemic will not have a material adverse impact on the Company's capital and solvency margin. The company is strongly capitalised, with a Solvency Capital Requirement ratio of 277% as at 31 December 2019, which equates to surplus capital of €16,820K above the regulatory requirement of €9,506K. In addition, the Company has in place a comprehensive reinsurance programme placed with leading international reinsurers, the majority of which are rated 'AA', and which significantly mitigates the potential exposure on Covid-19 risks.

At the time of publication of this report, EIL has finalised the Q1 2020 Solvency Capital Requirement calculations. Notwithstanding the economic slowdown and substantial downturn in international markets due to the ongoing Covid-19 pandemic, the Company's SCR margin has improved in Q1 2020 and stands at 287%, up from 277% as at 31 December 2019. As anticipated, the main impact of Covid-19 was on the Company's investment portfolio which declined in value, however this also resulted in a reduction in the solvency capital charge for the respective financial assets. The reported improvement in SCR margin is a validation of the Company's diversified business model and its robust financial position.

Apart from the above mentioned, there is no other material information regarding capital management which has not already been disclosed in the sections above.

## Appendix I: Annual Quantitative Reporting Templates

**Annex I**  
**S.02.01.02**  
**Balance sheet**

**Assets**

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)

    Property (other than for own use)

    Holdings in related undertakings, including participations

Equities

    Equities - listed

    Equities - unlisted

Bonds

    Government Bonds

    Corporate Bonds

    Structured notes

    Collateralised securities

Collective Investments Undertakings

Derivatives

Deposits other than cash equivalents

Other investments

Assets held for index-linked and unit-linked contracts

Loans and mortgages

    Loans on policies

    Loans and mortgages to individuals

Other loans and mortgages

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

        Health similar to life

        Life excluding health and index-linked and unit-linked

        Life index-linked and unit-linked

Deposits to cedants

Insurance and intermediaries receivables

Reinsurance receivables

Receivables (trade, not insurance)

Own shares (held directly)

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

**Total assets**

	Solvency II value
	C0010
<b>R0030</b>	0
<b>R0040</b>	217
<b>R0050</b>	0
<b>R0060</b>	13,131
<b>R0070</b>	20,707
<b>R0080</b>	1,615
<b>R0090</b>	151
<b>R0100</b>	11,322
<b>R0110</b>	11,322
<b>R0120</b>	0
<b>R0130</b>	5,550
<b>R0140</b>	398
<b>R0150</b>	5,152
<b>R0160</b>	0
<b>R0170</b>	0
<b>R0180</b>	2,008
<b>R0190</b>	0
<b>R0200</b>	62
<b>R0210</b>	0
<b>R0220</b>	0
<b>R0230</b>	200
<b>R0240</b>	0
<b>R0250</b>	0
<b>R0260</b>	200
<b>R0270</b>	5,742
<b>R0280</b>	5,742
<b>R0290</b>	4,410
<b>R0300</b>	1,332
<b>R0310</b>	0
<b>R0320</b>	0
<b>R0330</b>	0
<b>R0340</b>	0
<b>R0350</b>	0
<b>R0360</b>	6,969
<b>R0370</b>	0
<b>R0380</b>	218
<b>R0390</b>	0
<b>R0400</b>	0
<b>R0410</b>	6,370
<b>R0420</b>	77
<b>R0500</b>	53,632

**Annex I**  
**S.02.01.02**  
**Balance sheet**

**Liabilities**

Technical provisions – non-life

Technical provisions – non-life (excluding health)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – life (excluding health and index-linked and unit-linked)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – index-linked and unit-linked

TP calculated as a whole

Best Estimate

Risk margin

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance & intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in Basic Own Funds

Subordinated liabilities in Basic Own Funds

Any other liabilities, not elsewhere shown

**Total liabilities**

**Excess of assets over liabilities**

	Solvency II value
	C0010
<b>R0510</b>	21,570
<b>R0520</b>	18,484
<b>R0530</b>	0
<b>R0540</b>	17,900
<b>R0550</b>	584
<b>R0560</b>	3,086
<b>R0570</b>	0
<b>R0580</b>	2,996
<b>R0590</b>	90
<b>R0600</b>	0
<b>R0610</b>	0
<b>R0620</b>	0
<b>R0630</b>	0
<b>R0640</b>	0
<b>R0650</b>	0
<b>R0660</b>	0
<b>R0670</b>	0
<b>R0680</b>	0
<b>R0690</b>	0
<b>R0700</b>	0
<b>R0710</b>	0
<b>R0720</b>	0
<b>R0740</b>	0
<b>R0750</b>	0
<b>R0760</b>	0
<b>R0770</b>	0
<b>R0780</b>	2,425
<b>R0790</b>	0
<b>R0800</b>	370
<b>R0810</b>	0
<b>R0820</b>	530
<b>R0830</b>	1,151
<b>R0840</b>	616
<b>R0850</b>	0
<b>R0860</b>	0
<b>R0870</b>	0
<b>R0880</b>	243
<b>R0900</b>	26,905
<b>R1000</b>	26,727

[illegible]

Annex I  
S.05.02.01  
Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations						Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	
		DE	0	0	0	0			
		C0080	C0090	C0100	C0110	C0120	C0130	C0140	
Premiums written									
Gross - Direct Business	R0110	22,778	6,704	0	0	0	0	29,482	
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0130								
Reinsurers' share	R0140	7,406	6,704	0	0	0	0	14,110	
Net	R0200	15,372	0	0	0	0	0	15,372	
Premiums earned									
Gross - Direct Business	R0210	21,608	6,713	0	0	0	0	28,321	
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0230								
Reinsurers' share	R0240	6,922	6,713	0	0	0	0	13,635	
Net	R0300	14,686	0	0	0	0	0	14,686	
Claims incurred									
Gross - Direct Business	R0310	13,798	2,770	0	0	0	0	16,568	
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0330								
Reinsurers' share	R0340	5,660	2,770	0	0	0	0	8,430	
Net	R0400	8,138	0	0	0	0	0	8,138	
Changes in other technical provisions									
Gross - Direct Business	R0410	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	
Gross - Non- proportional reinsurance accepted	R0430								
Reinsurers' share	R0440	0	0	0	0	0	0	0	
Net	R0500	0	0	0	0	0	0	0	
Expenses incurred	R0550	4,237	-105	0	0	0	0	4,132	
Other expenses	R1200							0	
Total expenses	R1300							4,132	

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations						Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140	
Premiums written									
Gross - Direct Business	R0110	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0130								
Reinsurers' share	R0140	0	0	0	0	0	0	0	
Net	R0200	0	0	0	0	0	0	0	
Premiums earned									
Gross - Direct Business	R0210	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0230								
Reinsurers' share	R0240	0	0	0	0	0	0	0	
Net	R0300	0	0	0	0	0	0	0	
Claims incurred									
Gross - Direct Business	R0310	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0330								
Reinsurers' share	R0340	0	0	0	0	0	0	0	
Net	R0400	0	0	0	0	0	0	0	
Changes in other technical provisions									
Gross - Direct Business	R0410	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0430								
Reinsurers' share	R0440	0	0	0	0	0	0	0	
Net	R0500	0	0	0	0	0	0	0	
Expenses incurred	R0550	0	0	0	0	0	0	0	
Other expenses	R1200							0	
Total expenses	R1300							0	

**Annex I**  
**S.17.01.02**  
**Non-life Technical Provisions**

**Technical provisions calculated as a whole**

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

**Technical provisions calculated as a sum of BE and RM**

**Best estimate**

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

**Claims provisions**

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

**Total Best estimate - gross**

**Total Best estimate - net**

**Risk margin**

**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

**Technical provisions - total**

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

Direct business and accepted proportional reinsurance										Total Non-Life obligation
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0120	C0130	C0180
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
22	43	282	2,846	1,455	211	975	65	28	6	5,933
65	-9	-22	-221	-170	-7	682	-14	-6	-3	295
-43	52	305	3,067	1,625	218	293	79	34	9	5,638
1,449	129	1,071	5,086	1,291	677	4,294	929	25	13	14,963
1,293	5	0	-9	0	329	3,680	140	0	9	5,448
156	124	1,071	5,094	1,291	347	614	789	25	4	9,515
1,471	172	1,353	7,932	2,746	887	5,269	993	54	19	20,896
113	176	1,375	8,162	2,916	565	907	868	59	13	15,153
10	14	67	344	153	17	32	34	4	1	675
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
1,481	185	1,419	8,276	2,899	904	5,301	1,028	58	20	21,570
1,359	-4	-22	-230	-170	322	4,362	126	-6	6	5,742
123	189	1,442	8,506	3,069	582	939	902	64	14	15,828

## Annex I

### S.19.01.21

#### Non-life Insurance Claims Information

**Total Non-Life Business**

Accident year / Underwriting year	<b>Z0020</b>	Accident year [AY]
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**Gross Claims Paid (non-cumulative)**

(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											1,766	R0100	1,766
N-9	R0160	3,351	1,994	232	88	43	120	20	-33	129	265		R0160	265
N-8	R0170	3,354	1,601	201	81	62	-2	219	26	30			R0170	30
N-7	R0180	3,472	1,932	556	109	170	140	1,419	-15				R0180	-15
N-6	R0190	3,169	2,165	369	224	23	40	127					R0190	127
N-5	R0200	3,183	2,024	274	85	138	50						R0200	50
N-4	R0210	3,288	2,171	295	608	973							R0210	973
N-3	R0220	3,352	2,033	432	153								R0220	153
N-2	R0230	4,009	2,344	684									R0230	684
N-1	R0240	4,352	4,519										R0240	4,519
N	R0250	7,133											R0250	7,133
Total												R0260	15,686	69,546



## Annex I

### S.19.01.21

#### Non-life Insurance Claims Information

### Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

		Development year											Year end (discounted data)		
Year		0	1	2	3	4	5	6	7	8	9	10 & +			
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360	
Prior	R0100											424	R0100	426	
N-9	R0160	0	0	0	0	0	0	619	594	269	31		R0160	31	
N-8	R0170	0	0	0	0	0	585	262	213	190			R0170	191	
N-7	R0180	0	0	0	0	1,572	1,525	485	447				R0180	450	
N-6	R0190	0	0	0	290	335	276	197					R0190	198	
N-5	R0200	0	0	632	516	341	237						R0200	238	
N-4	R0210	0	1,961	1,793	1,253	377							R0210	379	
N-3	R0220	4,192	1,112	724	227								R0220	229	
N-2	R0230	5,451	2,275	907									R0230	911	
N-1	R0240	7,703	2,026										R0240	2,035	
N	R0250	9,832											R0250	9,875	
													Total	R0260	14,963

**Annex I**  
**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**

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 undertak
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**

Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
R0010	5,000	5,000	0	
R0030	0	0	0	
R0040	0	0	0	
R0050	0	0	0	0
R0070	0	0		
R0090	0	0	0	0
R0110	0	0	0	0
R0130	21,327	21,327		
R0140	0	0	0	0
R0160	0			0
R0180	0	0	0	0
R0220	0			
R0230	0	0	0	0
R0290	26,327	26,327	0	0
R0300	0		0	
R0310	0		0	
R0320	0		0	0
R0330	0		0	0
R0340	0		0	
R0350	0		0	0
R0360	0		0	
R0370	0		0	0
R0390	0		0	0
R0400	0		0	0

**Annex I**  
**S.23.01.01**  
**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
<b>R0500</b>	26,327	26,327	0	0	0
<b>R0510</b>	26,327	26,327	0	0	
<b>R0540</b>	26,327	26,327	0	0	0
<b>R0550</b>	26,327	26,327	0	0	
<b>R0580</b>	9,506				
<b>R0600</b>	3,700				
<b>R0620</b>	2.77				
<b>R0640</b>	7.12				

	C0060
<b>R0700</b>	26,727
<b>R0710</b>	0
<b>R0720</b>	400
<b>R0730</b>	5,000
<b>R0740</b>	0
<b>R0760</b>	21,327
<b>R0770</b>	0
<b>R0780</b>	0
<b>R0790</b>	0

**Annex I**  
**S.25.01.21**

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

Market risk  
Counterparty default risk  
Life underwriting risk  
Health underwriting risk  
Non-life underwriting risk  
Diversification  
Intangible asset risk

**Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

Operational risk  
Loss-absorbing capacity of technical provisions  
Loss-absorbing capacity of deferred taxes  
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

**Solvency capital requirement excluding capital add-on**

Capital add-on already set

**Solvency capital requirement**

**Other information on SCR**

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

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
R0010 9,645		
R0020 2,508		
R0030 0		
R0040 657		
R0050 4,407		
R0060 -4,273		
R0070 0		
R0100 12,945		

	C0100
R0130	957
R0140	0
R0150	-4,396
R0160	0
R0200	9,506
R0210	0
R0220	9,506
R0400	0
R0410	0
R0420	0
R0430	0
R0440	0

**Annex I**  
**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**

MCRNL Result			<b>C0010</b>
	<b>R0010</b>	2,688	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		<b>C0020</b>	<b>C0030</b>
Medical expenses insurance and proportional reinsurance	<b>R0020</b>	113	183
Income protection insurance and proportional reinsurance	<b>R0030</b>	176	241
Workers' compensation insurance and proportional reinsurance	<b>R0040</b>	1,375	697
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b>	8,162	8,049
Other motor insurance and proportional reinsurance	<b>R0060</b>	2,916	4,594
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b>	565	308
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b>	907	638
General liability insurance and proportional reinsurance	<b>R0090</b>	868	506
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b>	0	0
Legal expenses insurance and proportional reinsurance	<b>R0110</b>	0	0
Assistance and proportional reinsurance	<b>R0120</b>	59	134
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b>	13	21
Non-proportional health reinsurance	<b>R0140</b>	0	0
Non-proportional casualty reinsurance	<b>R0150</b>	0	0
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b>	0	0
Non-proportional property reinsurance	<b>R0170</b>	0	0

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

MCRL Result			<b>C0040</b>
	<b>R0200</b>	0	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		<b>C0050</b>	<b>C0060</b>
Obligations with profit participation - guaranteed benefits	<b>R0210</b>	0	
Obligations with profit participation - future discretionary benefits	<b>R0220</b>	0	
Index-linked and unit-linked insurance obligations	<b>R0230</b>	0	
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b>	0	
Total capital at risk for all life (re)insurance obligations	<b>R0250</b>		0

**Overall MCR calculation**

Linear MCR			<b>C0070</b>
	<b>R0300</b>	2,688	
SCR	<b>R0310</b>	9,506	
MCR cap	<b>R0320</b>	4,278	
MCR floor	<b>R0330</b>	2,377	
Combined MCR	<b>R0340</b>	2,688	
Absolute floor of the MCR	<b>R0350</b>	3,700	
		<b>C0070</b>	
<b>Minimum Capital Requirement</b>	<b>R0400</b>	3,700	