# Solvency and Financial Condition Report (SFCR)

## 31 December 2017

# Area Life International Assurance Designated Activity Company

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# A. Business and Performance

The new, harmonised EU-wide regulatory regime for Insurance Companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure arrangements to be put in place by insurers and some of that is required to be published on the Company's public website.

This report covers the Business and Performance of the Company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The ultimate Administrative Body that has the responsibility for all of these matters is the Company's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

ALI is a life insurance undertaking, incorporated in Ireland, which is closed to new business (other than increments on existing policies) and which sold a range of savings and protection products to Italian residents through bancassurance and intermediary channels. The Company's financial year runs to 31 December each year and it reports its results in Euro.

The principal activity carried out by the Company continues to be life assurance and this is transacted under the Freedom of Establishment provisions of the EU Third Life Directive in Italy. The Company has a permanent establishment of a Branch in Italy based in Milan. Branch accounts are prepared with local taxes paid based on the profitability reported in the Branch. The Branch tax is used to offset against local Irish taxes due.

The Company entered into run-off in 2007 with the intention to complete a portfolio transfer to Aviva Italy by the end of 2017. A project plan was executed during 2017 to reach this goal. However, during September 2017 the Company was notified that the Italian Regulator, IVASS, had declined to support the proposed transfer.

Consequently, a revised business plan has been prepared on the basis of finding an alternative company within the Aviva Group into which The Company portfolio can be transferred. Given that ALI's is currently regulated in Ireland, the proposal is that, following regulatory consent, the receiving entity would be an Aviva Ireland regulated entity. The business has revised the assumed transfer date to 31 December 2019.

The Company is required to hold sufficient assets to match its policyholder liabilities at all times and a primary responsibility of the Board is to ensure that the Company's capital is adequate to cover the required solvency for the nature and scale of the business, and the expected operational requirements of the business. A number of mechanisms are in place to evaluate those levels and the outcome of those assessments indicate that the Company's capital is adequate at this time and for the expected requirements in the short to medium term.

**A.1. Business**

ALI is a regulated life assurance private company limited by shares. The Company's operating address / registered office, is:

One Park Place
Hatch Street
Dublin D02 E651
Ireland

The Central Bank of Ireland ("CBI") is responsible for financial supervision of the Company. The CBI's address is:

Central Bank of Ireland,
PO Box 559
Dublin 1,
Ireland

The Company's external auditor is PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm. Their address is:

Spencer Dock
North Wall Quay, North Wall,
Dublin 1,
Ireland

The Company's financial year end is 31 December each year. The Company is closed to new business and continues to exist, administering its existing policies in line with their contract terms and conditions. ALI outsources its administration services to AIH and Aviva Spa. Service Level Agreements which set out the roles and responsibilities, policies and procedures along with relevant KPIs, performance review procedures etc. are in place in respect of these outsourced arrangements.

**A.2. Underwriting Performance**

The Company has been authorised to write class I and class III business by the Central Bank of Ireland. All business is written on a Freedom of Establishment basis into Italy.

The following class I products have been written by the Company:

- Rendita Classica: Regular premium deferred annuities;
- Capitale Classica: Regular premium deferred capital policies;
- Mista Classica: Regular premium endowment assurance;
- Vita Moderna: Regular premium deposit administration savings plans;
- Vita Classica: Level Term assurance business; and
- Mutuo Sicuro: Decreasing Term Assurance.

There are investment guarantees on the first four products in terms of minimum levels of yield applied to the revaluation of benefits based on book yields. Guaranteed annuity conversion terms are available at maturity for Rendita, and for the Capitale and Mista business written with a 4% Technical Rate. Historically take up rates have been very low in practice. From a Solvency II perspective the first four products fall under the "insurance with profit participation" category while the last two are categorised as "other life insurance".

The following class III products types have been written by the Company:

- Single premium unit-linked whole of life assurance;
- Regular premium unit-linked endowment assurance;
- Recurrent premium unit-linked whole of life contracts;
- Regular premium unit-linked endowment assurance; and
- Single premium unit-linked endowment assurance contracts.

The death benefits generally range from 100.1% to 101.5% of unit value. A number of the products also offer annuity conversion options at non-guaranteed rates. Surrender penalties are used on most product types.

From a Solvency II perspective all class III business falls under the "index-linked and unit-linked insurance" category.

New premiums received during the year, relate to regular premiums on existing regular premium policies, and a small amount of top-up premiums.

*A.2.3 Underwriting Result*

Set out below is ALI's underwriting performance, as measured in the financial statements, for 2017 and 2016 respectively:

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | €000's | €000's |
| **Earned Premiums on insurance contracts, net of reinsurance** | | | |
| - Gross premiums written | **3** | 2,547 | 3,055 |
| - Outward reinsurance premiums | | (599) | (885) |
| **Premiums on insurance contracts, net of reinsurance** | | **1,948** | **2,170** |
| **Investment income and realised gains** | **4** | 1,347 | 2,549 |
| **Unrealised gain (loss) on investments** | | 1,770 | (791) |
| **Other Technical Income, net of reinsurance** | | 15 | 18 |
| **Claims Incurred on insurance contracts, net of reinsurance** | | | |
| Claims Paid: | | | |
| - Gross amount | | (16,610) | (11,660) |
| - Less Reinsurers' share | | 5,558 | 1,775 |
| **Claims on insurance contracts net of reinsurance** | | **(11,052)** | **(9,885)** |
| **Change in the provision for claims on insurance contracts:** | | | |
| - Gross amount net of Reinsurer`s share | **16** | (406) | 605 |
| **Total Claims incurred on insurance contracts net of reinsurance** | | **(11,458)** | **(9,280)** |
| **Change in other technical provisions, net of reinsurance** | | | |
| Life assurance provision, net of reinsurance | | | |
| - Gross Amount | | 16,103 | 8,650 |
| - Less Reinsurer`s share | | (6,679) | (802) |
| **Technical provision for insurance business** | **16** | **9,424** | **7,848** |
| **Change in investment contract liabilities** | **13** | (577) | 160 |
| **Total** | | **8,847** | **8,008** |
| **Other Charges:** | | | |
| - Net operating expenses | **5** | (1,942) | (1,652) |
| - Investment expenses and charges | | (170) | (230) |
| - Other Technical Charges, net of reinsurance | | (1,372) | (1,075) |
| - Deferred acquisition cost movement | | (20) | (27) |
| - Tax attributable to the life assurance business | **7** | - | (239) |
| **Total** | | **(3,504)** | **(3,223)** |
| **Balance on the Technical Account – Life Assurance Business** | | **(1,035)** | **(549)** |

*A.2.3 Comaprison of Key Metrics Against Plan*

*A.2.3.1 Premiums*

# Premiums Receivable

(Insurance and Investment)

| Summary | Year to Date | | |
|---|---|---|---|
| | Actual | Plan | Variance |
| Traditional | 1,889,837 | 1,785,181 | 104,656 |
| Linked | 925,661 | 829,620 | 96,041 |
| **Total premiums** | **2,815,498** | **2,614,801** | **200,697** |
| Reinsurance | (599,323) | (636,529) | 37,206 |
| **Total Net Premiums** | **2,216,175** | **1,978,272** | **237,903** |

A.2.3.1 Claims

# ClaimsIncurred

(Insurance and Investment)

| Summary | Year to Date | | |
|---|---|---|---|
| | Actual | Plan | Variance |
| Traditional | 13,105,686 | 17,646,989 | 4,541,303 |
| Index-linked | 1,724 | - | (1,724) |
| Unit-linked | 5,182,887 | 5,886,541 | 703,653 |
| **Total Claims** | **18,290,298** | **23,533,530** | **5,243,232** |
| Reinsurance recovery | (5,558,442) | (6,875,134) | (1,316,692) |
| **Total Net Claims** | **12,731,856** | **16,658,396** | **3,926,540** |

*A.2.3.1 Expenses*

# Expenses Incurred

| ALI company | Year to Date Actual | Plan | Variance Plan |
|---|---|---|---|
| Consultancy fees | 114,390 | 147,960 | 33,570 |
| Professional Services | 168,869 | 114,053 | (54,816) |
| Computer Services | - | - | 0 |
| Salaries & Directors Fees | 391,872 | 331,883 | (59,989) |
| Inter-Group Services | 113,641 | 101,723 | (11,918) |
| Administration | 29,076 | 29,798 | 722 |
| Miscellaneous | - | - | 0 |
| **Total ALI company expenses (Net)** | **817,847** | **725,415** | **(92,432)** |
| | | | |
| **ALI branch** | | | |
| Consultancy fees | 89,624 | 442,853 | 353,229 |
| Professional Services | 480,499 | 22,605 | (457,894) |
| Computer Services | - | - | 0 |
| Salaries & Directors Fees | - | - | 0 |
| Inter-Group Services | 366,000 | 293,865 | (72,135) |
| Administration | 83,807 | 61,650 | (22,157) |
| Miscellaneous | - | - | 0 |
| **Total ALI branch expenses** | **1,019,929** | **820,973** | **(198,957)** |
| | | | |
| **ALI Total Expenses** | **1,837,776** | **1,546,388** | **(291,389)** |
| | | | |
| Commission (Net) | 104,509 | | |
| | | | |
| **TOTAL** | **1,942,285** | | |

### A.3. Investment Performance

The Company invests in the following portfolios of assets supporting its linked and non-linked business:

(i) Linked Investment Portfolio:

| | 2017 €000s | 2016 €000s |
|---|---|---|
| Collective Investment Undertakings | 44,421 | 48,250 |
| Cash | 253 | 88 |
| **Total** | **44,674** | **48,338** |

The linked investment portfolio returned net unrealised gains for the year to 31 December 2017 of €1,807k and a net realised gain of €499k. Rebates from investment managers of the collective investment undertakings amounted to €124k for the year.

Linked products were designed with internal funds that invested in one or more predetermined collective undertakings so that the Company was not required to provide any investment advice.

(ii) Non-Linked Portfolio

| | 2017 | 2016 |
|---|---|---|

| | €000s | €000s |
|---|---|---|
| Government Bonds | 58,321 | 66,689 |
| Supranational Bonds | 5,015 | 13,117 |
| Corporate Bonds | 9,580 | 6,067 |
| **Total** | **72,916** | **85,873** |

Net unrealised losses of €466k arose on the non-linked investment portfolio. Realised losses of €1,072k arose during the year to 31 December 2017. The portfolio generated €1,932k of fixed interest income for the year

All investment income movements are recognised in the profit and loss account in the period in which they arise. Coupons are accrued from the last coupon date.

### A.4. Performance of Other Activities

The company's only activity is that of a life assurer with portfolios of both linked and non-linked products. The Company has been closed to new business since 2007 and is currently in run-off. The main company operational focus continues to be the servicing of existing policyholders, payments of claims and the protection of customer reasonable expectations.

Net operating expenses of €1,942k ( 2016: €1,652k) include the costs associated with the design and implementation of a framework to secure compliance with continuing developments in the regulatory environment including Solvency II.

The Company has entered into reinsurance treaties for quota share and surplus risk on a funds withheld basis. The cost of servicing the reinsurance deposit was €1,372k for the year (2016 : €1,075k)

The Company operates in the Italian market on a permanent establishment basis. The Italian branch incurs Italian tax on the Italian GAAP profits arising in the Italian branch. The Italian tax charge for the Branch was nil for 2017 (2016 : €239k)

The loss, per the financial statements, after tax for the year to 31 December 2017 was €1,035k (2016: 549k). No dividends were paid during the year (2016: €nil)

### A.5. Any Other Information

ALI entered into run-off in 2007 with the intention to complete a portfolio transfer to Aviva Italy by the end of 2017. A project plan was executed during 2017 to reach this goal. However, during September 2017 the Company was notified that the Italian Regulator, IVASS, had declined to support the proposed transfer.

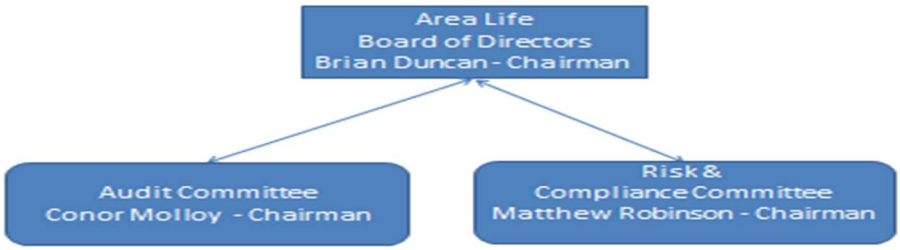
Consequently, a revised business plan has been prepared on the basis of finding an alternative company within the Aviva Group into which The Company portfolio can be transferred. Given that ALI is currently regulated in Ireland, the proposal is that, following regulatory consent, the receiving entity would be an Aviva Ireland regulated entity. The business has revised the assumed transfer date to 31 December 2019

# B. System of Governnance

## B.1. General Information on the System of Governance

The Company is classified as a Low Risk firm under the Central Bank of Ireland's risk-based framework for the supervision of regulated firms, known as PRISM or Probability Risk and Impact SysteM and is subject to the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015.

Board & Committees at 31 December 2017




Board of Directors at 31 December 2017

| Name | Status on Board | Membership of Sub Committees |
|---|---|---|
| Brian Duncan* | Independent Non Executive | Risk |
| Conor Molloy | Independent Non Executive | Risk & Audit* |
| Matthew Robinson | Non Executive | Risk* & Audit |
| Alberto Vacca | Non Executive | Risk & Audit |
| Matthew Coffey | Managing Director | Risk |

Chairman*

Matthew Coffey (CEO) resigned from the Board effective 31 December 2017. Conor Molloy (Audit Committee Chairman) resigned from the Board effective 31 January 2018. Martin Cosgrove and Paul Raleigh were appointed to the Board on 21 March 2018 as CEO and Audit Committee Chairman respectively.

Company Secretary
Tudor Trust Limited

The Board
The Board is responsible for directing the affairs of the Company in a manner that promotes the success of the Company for the benefit of its shareholder and in a way which is consistent with its Articles of

Association, applicable regulatory and current corporate governance requirements. The Company is in run-off and the Board's strategy was to portfolio transfer the business to a sister company within Aviva Group. After the the Italian regulator IVASS's decision not to support the transfer to Aviva Life, and given that ALI is currently regulated in Ireland, the likelihood is now that the receiving entity would be an Aviva Ireland regulated entity.

The Board is assisted in its duties by the Audit and Risk Committees who operate under Board approved Terms of Reference. By delegating certain functions to the Committees, the Board does not absolve themselves of their own responsibility for the Company.

It is the Board's responsibility to:

- Challenge constructively on issues presented to them or for which they are responsible under the Board terms of reference or otherwise, and contributing to the development of the Group's strategy;
- Scrutinise the performance of Management in meeting agreed goals and objectives and monitoring the reporting of performance;
- Satisfy themselves that financial controls and systems of risk management are robust and defensible and that on that basis they may rely on the accuracy of financial information presented to them;
- Ensure a satisfactory dialogue with shareholders on strategy and other relevant matters; and
- Have an appropriate role in the performance review and remuneration decisions of executive Directors and Key Function Holders in accordance with Solvency II remuneration requirements.

Board Risk Committee

The Risk Committee is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile in relation to capital and liquidity, reviewing the effectiveness of the Company's risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company's regulatory requirements.

The Company has appointed an independent Head of Actuarial Function (HoAF) via a formal outsourcing arrangement with KPMG (Ireland). As part of the annual reporting cycle, ALI's HoAF will provide reports to support his opinion on the level of adequacy of technical provisions, the Company's underwriting and reinsurance practices, views on risk management practices and his contribution to them, and also his views on the adequacy of the scenarios supporting the Own Risk and Solvency Assessment (ORSA).

It is the Risk Committee's responsibility to:

- Review and monitor the Company's future risk strategy and its risk appetite, in particular in relation to capital and liquidity, franchise value, conduct, reputational and operational risk with respect to the Company and recommend the approval of, and any material changes to such risk appetite to the Board;
- Review and challenge the Company's methodology for creating its forward-looking risk profile at both an individual and aggregate level (subject to materiality); review and challenge the forward-looking risk profile against its risk strategy and capital and liquidity risk appetite; to review the drivers of the changes, if any, in the Company's risk profile and their implications for capital, liquidity and franchise value;
- Review Management's view of emerging and potential risks; review and challenge proposed Management actions when the Company's position against risk appetite reaches the trigger point for escalation to the Risk Committee;

- Review and robustly assess (i) the design, completeness and effectiveness of the Company's risk management framework relative to its activities including those that would threaten its business model, future performance, solvency or liquidity, (ii) the adequacy and quality of the Company's risk management function, and (iii) the effectiveness of risk reporting (including timeliness and risk events);
- Review the methodology and assumptions used in the Group's model for determining its economic and regulatory capital requirements; satisfy itself that the assumptions and calibrations used reflect Aviva's forward-looking risk profile and that the potential impact of un-modelled and unquantifiable risks have been in taken into consideration in determining economic and, where appropriate, regulatory capital; to receive independent internal and/or external reports on the methodologies and assumptions, and satisfy itself that the models are fit for purpose; to review the overall outcomes and implications of these models; and, with input from the Audit Committee as appropriate, to review the adequacy of the Group's processes and the effectiveness of controls over the determination of its economic and regulatory capita, and to make recommendations where appropriate;
- Review and recommend to the Board for approval, risk policies and material changes to these; review relevant Aviva Business Standards which require Board ownership or which support the Board in meeting its responsibilities. Monitor compliance with risk policies and Business Standards and Management's actions to remedy any breaches;
- Review the scenarios (covering both economic and other future risk outlooks over the business plan horizon) and stress tests which the Company uses to assess the adequacy of its economic and regulatory capital and liquidity; and review and challenge the outcome of these tests and the proposed actions which might need to be taken in light of the outcomes;
- Satisfy itself that risks to the business plan are adequately identified and assessed as part of the business planning process through an own risk and solvency assessment, including stress-testing and scenario analysis, and that appropriate mitigants, management actions and contingency plans are in place in relation to risks to the business plan, or arising as a result of the business plan and monitor the Company's medium-term capital management plan and recommend it to the Board for approval;
- Satisfy itself that risk-based information (including own risk and solvency requirements, returns on economic capital, capital and liquidity reports, stress testing and contingency planning) is appropriately considered and used effectively by management in making business decisions;
- If a significant transaction is due to be proposed to the Board, to ensure that a due diligence appraisal of the proposition is undertaken before the Board takes a decision whether to proceed, focusing in particular on the capital, regulatory and liquidity risk appetite of the Company and Group and ensuring that the implications of the transactions on the capital, liquidity and franchise value risk appetite in respect of current and future capital requirements is taken into account;
- Review periodic reports from the risk function on significant risk exposures and monitor management's mitigating actions. To assess the adequacy and effectiveness of the Company's risk management approach;
- Review and recommend to the Board for approval any material regulatory filings;
- Review material, pending or prospective legal actions involving the Company and whether any lesson learned from them about risks and controls are being applied where appropriate within the Company;
- Regularly receive reports on the performance and oversight of important outsourced functions and supplier arrangements that support a business critical function;
- Review, on behalf of the Board, the terms of any new important outsourced functions or supplier arrangements that support a business critical function; and
- Annually review the Company's fit and proper framework.

Regulatory

- Monitor the relationships with the Company's regulatory authorities, developments and prospective changes in the regulatory environment, and the Company's plans to influence future regulatory policies. Oversee the regulatory landscape in respect of conduct matters and review the actions taken in relation to any regulatory developments which may have a material impact on the Company;
- Review whether the Company has satisfactory controls in place to ensure that its customers are treated in accordance with both the Aviva plc Group's Policies and regulatory requirements; and to review any risk mitigation plans arising from regulatory reviews, and the Company's response to such plans;
- Review significant breaches or potential breaches of regulations and the steps taken to ensure that the underlying root causes of any regulatory control failures are being addressed;
- Review the Company's procedures - and compliance with them - relating to prevention of financial malpractice and crime, including but not limited to fraud, money laundering, breach of sanctions, bribery & corruption, and to note any material issues which arise and monitor their resolution; and
- Review the adequacy and quality of the Company's compliance and risk functions.

Audit Committee

The Audit Committee, working closely with the Company's Risk Committee, is responsible for monitoring the integrity of the Company's financial statements and the effectiveness of the systems of internal control including having comfort in respect of Group whistleblowing provisions and for monitoring the effectiveness, performance, independence and objectivity of the internal and external auditors.

It is the Audit Committee's responsibility to:

- Investigate, or cause to be investigated, any activity within its terms of reference;
- Seek any information that it requires from any employee / advisor of the Company in order to perform its duties may require all such employees / Advisors to co-operate with any request made by the Committee;
- Obtain at the Company's expense, with the approval of the Chairman of the Board, external legal or independent professional advice from such advisers as the Audit Committee shall select, who may at the invitation of the Audit Committee attend meetings as necessary;
- Meet for despatch of its business, adjourn and otherwise regulate its business as it shall see fit, including approving items of business by the written consent of its members in accordance with the procedure set out in the Company's Articles of association;
- Cause the Company to pay (to the extent it has not already done so) all:
    - professional fees to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company entities;
    - professional fees to any advisors employed by the Audit Committee under its Terms of Reference; and
    - ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.
- Delegate any of its duties as is appropriate to such persons or person as it thinks fit.

B.1.1: Chief Risk Officer ("CRO")

A Chief Risk Officer is appointed, via a formal outsourcing arrangement with KPMG (Ireland) to oversee the implementation of the Company's Risk Management Policy, reporting to the Risk Committee and the Company's Managing Director.

The responsibilities of the CRO include:

- The oversight of the Company's Enterprise Risk Management framework (ERM);
- Identification of risk events and reporting new and emerging risks, such that these can be assessed and material issues reported to the Board Risk Committee, who will determine whether the issue is of such significance that it needs to be reported to the Company's regulator; and
- To ensure that the annual 'Own Risk and Solvency Assessment' (ORSA) is prepared and submitted to the Risk Committee who engage with the process and recommend outputs to the Board for strategic consideration.

B.1.2: Compliance Officer

A Compliance Officer is appointed, via a formal outsourcing arrangement with Aviva (Ireland), with responsibility for the implementation of the Company's Compliance Policy and effective processes. The Compliance Officer reports to the Risk Committee and the Board, and raises issues as they arise, to the Company's Managing Director.

The responsibilities of the Compliance Officer include:

- To report on significant instances of non-compliance to the Risk Committee and the Company's management;
- To monitor Compliance within the Company and its service providers, making recommendations where change is required, and to maintain the Company's Breach Register; and
- To monitor legal and regulatory change and to inform the Company and its service providers where such changes have implications for the Company's processes.

B.1.3: Head of Actuarial Function ("HoAF"):

The function of the HoAF is outsourced to KPMG (Ireland); this adds an independent oversight of the Company's Actuarial Function. The responsibilities of the HoAF and the Actuarial Function, in line with guidance from the Central Bank of Ireland and the Society of Actuaries in Ireland, include, but are not limited to the following matters:

- Calculation of the firm's technical provisions;
- Assessing the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set out in Solvency II;
- Continuous monitoring of the solvency position of the Company and the required level of statutory reserves;
- Reporting on the solvency position of the Company; and
- The provision of advice and support to the Company on the ORSA process, including the financial consequences of stresses and scenarios and the impact of management actions.

**B2. Fitness and Probity Requirements**

The company places a high value on appointing persons who are fit and proper and has adopted a fitness and probity policy (the policy).

The policy is aligned to the Central Bank of Ireland's Guidance on Fitness and Probity Standards 2014. The Board is responsible for reviewing and adapting the policy on an annual basis.

The policy sets out the due diligence checks which are performed when appointing Controlled Functions (CF) or Pre Approved Controlled Functions (PCF). All PCFs and CF's are required to have the

necessary knowledge, skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out their duties. In addition, all PCFs are required to:

1. Be competent and capable;
2. Act honestly, ethically and with integrity; and
3. Be financially sound.

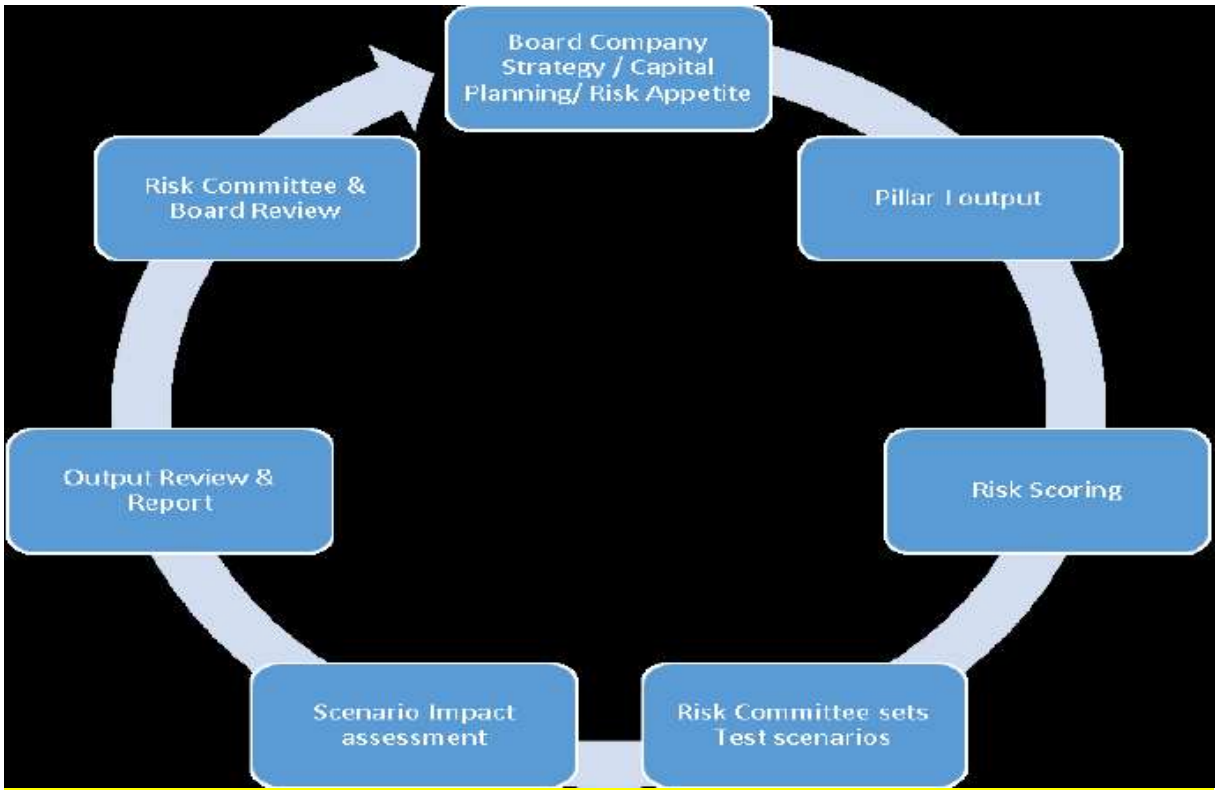
All PCF holders must receive approval from the Central Bank of Ireland prior to their appointment.
All CF and PCF holders are subject to an ongoing annual attestation that they comply with the company's policy and the CBI Fitness and Probity Standards.

**B.3. Risk management system including the own risk and solvency assessment**

Own Risk Solvency Assessment ("ORSA")
Annually and on an ad-hoc basis, if circumstances materially change, the Company prepares an ORSA. The objective of the ORSA process is to enable the Board to assess its capital adequacy in the light of its assessments of its risks and the potential impacts of its risk environment, and enable it to make appropriate strategic decisions. The Board requires that the ORSA process produces meaningful reports on the adequacy of the Company's capital and risk sensitivities that can be used in shaping strategy and risk appetite.

The ORSA process is a circular process that relies on key elements of the business:

- Board strategy, policies and plans;
- The Solvency II Pillar I Balance Sheet standard model results, and base assumptions used;
- The ERM process and its outputs, which identifies the key risks;
- The Risk Committee who review, challenge and approve the test scenarios including the ORSA output;
- The Actuarial Function who run the tests on the Balance Sheet, for capital adequacy and produce the resultant output;
- The Risk Function, Actuarial Function and management who assess the outputs and prepare the reports;
- The Risk Committee and Board's assessment of the output and resultant capital, strategy and risk appetite review;
- ORSA Reporting to the Company's regulator, the Central Bank of Ireland.




The Board has determined that the Solvency II standard formula should be used to calculate the required solvency capital and to assess the overall solvency needs. A base case projection of the Solvency II Balance Sheets and Solvency Capital Requirements ('SCR') position is produced using the standard formula, as well as actuarial and key run-off assumptions. The results are subjected to a range of scenario testing that is reviewed by management and challenged by the Board and, where appropriate, potential management actions are noted and conclusions drawn.

Based on the output of the scenario testing performed, all of the scenarios tested would lead to an immediate breach of risk appetite in the event of recognition of a delay to the portfolio transfer requiring further capital support, i.e. if the assumed transfer date was to change the net asset position of the Company would fall. In the absence of cost reduction or asset rebalancing measures, which should be immediately investigated, additional capital is required to withstand foreseeable shocks as outlined above. The amount of capital required would be substantially higher if the transfer was to be further delayed and that amount of capital increases significantly with time.

The key risks identified in the ORSA that the Company faces, and key observations drawn from the ORSA are:

| **Risk Type** | **Within Company Control** | **Comment** |
|---|---|---|
| Timing of Portfolio Transfer | Partly | Implementation of a closely monitored and detailed plan would help make the transfer achievable. Ability to transfer and timing thereof is dependent on timing of authorisation of an Aviva Ireland entity which is outside of ALI's control. |
| Expense | Yes | In the event of increased expenses pre transfer or if running off the business in Ireland it is likely that expenses would be closely reviewed with a restructuring plan put in place to reduce the ongoing expense base which would reduce the capital requirement somewhat. A reduction in ALI's current expense base would improve the financial position of the Company. Support from Aviva Group would be required to manage this better. |

| | | |
|---|---|---|
| Interest Rate | Partly | This is a market risk which the company would have significant difficulties mitigating against. Notwithstanding some of the portfolio could be rebalanced in theory so this should be looked at in further detail to see if any options are available to the Company. |
| Spread | Partly | As above. |
| Taxation | No | Increased taxation is likely to erode the Company's net asset position over time. |

A number of remedial actions were implemented by the Company following the completion of the ORSA report to improve the overall solvency position of the Company and to reduce the level of exposure to the key risks faced by the Company.

**B.4. Internal Control System**

ALI's Internal Control System comprises robust and efficient control activities at all levels of the organisation. Strategies, business plans and company-wide objectives are set in line with the wider strategic requirements of Aviva Group.

The Internal Control System comprises five interrelated components:

- Control environment;
- Risk assessment;
- Control activities;
- Monitoring; and
- Information and communication ("Reporting").

B.4.1 Monitoring

Monitoring of ALI's Internal Control System is performed using the three lines of defence model as follows:

**Level 1: Business Operations**

ALI Management is responsible for the implementation, effectiveness and enforcement of internal controls. Daily control activities are embedded within the procedures of each business operation to facilitate management in monitoring and overseeing its internal control systems such as approvals, authorisations, verifications, reconciliations and management reviews.

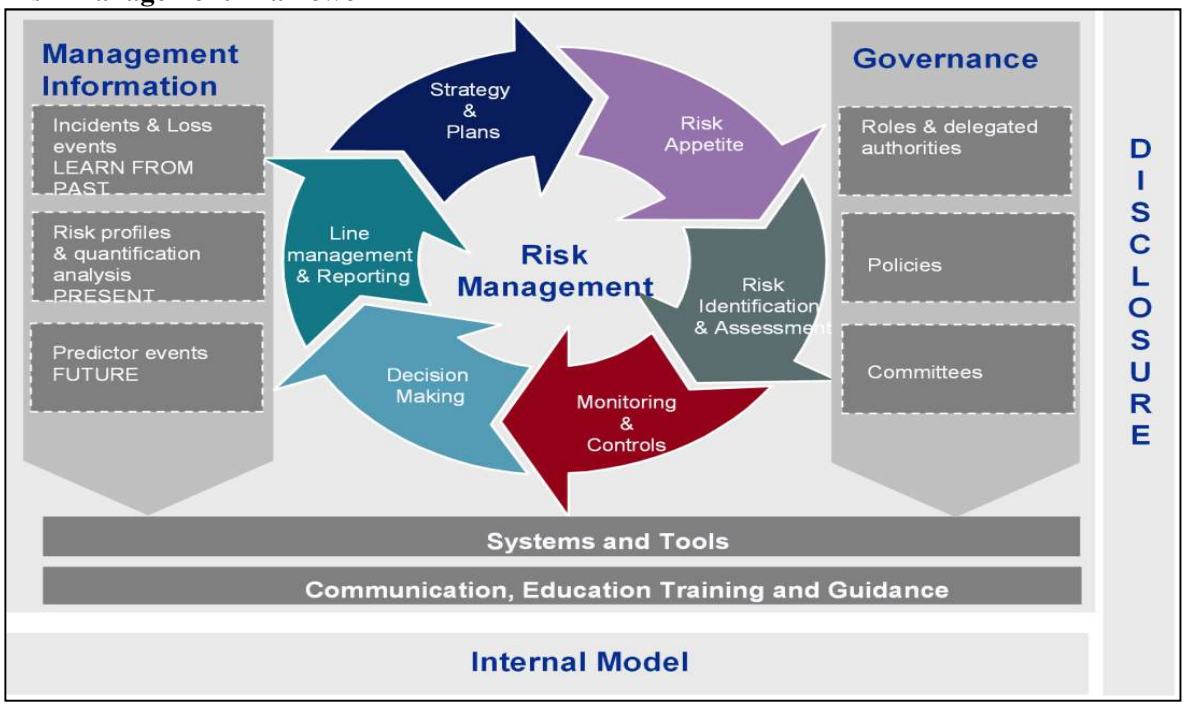
ALI's Internal Control System comprises efficient control activities across all levels of the organisation. Strategies, business plans and company-wide objectives are set in line with the wider strategic requirements of Aviva Groups.

**Level 2: Oversight and Challenge**

The Audit Committee, Risk Committee and Control Functions oversee the activities and controls in ALI's business operations and challenge the completeness, accuracy and appropriateness of risk identification and risk assessments, and the implementation and adequacy of controls.

**Risk Function**

**Risk Management Framework**




ALI's CRO is charged with oversight and supervision of the identification, assessment, management, monitoring, reporting and communication of risk within ALI. The CRO provides assurance to the Risk Committee on ALI's risk exposure and the adequacy of ALI's internal controls to mitigate such risks.

The CRO shall be able to communicate on his own initiative with any staff member and obtain access to any records necessary to allow him to conduct his duties.

**Compliance Function**

ALI's Compliance function is responsible for implementing, and monitoring the effectiveness of, measures to comply with applicable laws, regulations and administrative provisions. The Compliance function assesses the appropriateness of ALI's compliance procedures and guidelines and follows up with Management on control deficiencies in relation to compliance risks. The Compliance function at ALI has a Compliance Policy, Compliance Plan which sets out the activities performed by the Compliance function in order to fully perform its duties. The Compliance Plan is approved by the Board annually.

The Compliance Officer shall be able to communicate on their own initiative with any staff member and obtain access to any records necessary to allow the Compliance Officer to conduct their duties.

**Actuarial Function**

Actuarial Function's monitoring role includes the calculation and assessment of technical provisions and Solvency capital requirement on a regular basis for the purpose of risk identification and risk assessment. In assessing the sufficiency and quality of data, risks relating to inadequate data are monitored. In expressing opinions relating to underwriting and re-insurance, the risks relating to the writing of insurance business are assessed.

**Level 3: Independent Assurance**

The Internal Audit Function provides independent and objective assurance on the appropriateness and effectiveness of ALI's Internal Control System, and it ensures that controls are in place for identified risks and those controls are designed and operating effectively. The third line of defence also reviews the effectiveness of the first and second lines of defence and suggests improvements as required.

The Internal Audit function shall be able to communicate on its own initiative with any staff member and obtain access to any records necessary to allow it to conduct its duties.

### B.5. Internal Audit Function

The Internal Audit function is outsourced to Aviva (Ireland). Internal Audit plays an important role in evaluating the effectiveness of controls and contributes to ongoing effectiveness through identification of weaknesses and recommendations for improvement. Internal Audit performs reviews based on an annual Internal Audit Plan and reports its findings to the Audit Committee.

### B.6. Actuarial Function

The Actuarial Function has a number of designated roles relevant to ALI's Internal Control System relating to assessing the sufficiency and quality of data used in the calculation of technical provisions, informing and advising management as to the reliability and adequacy of technical provisions, expressing an opinion on the overall underwriting policy and the adequacy of reinsurance arrangements, and expressing an opinion on the suitability of the scenarios tested as part of the ORSA.

The Actuarial Function services to support the business are outsourced to KPMG (Ireland).

Article 48 of the Solvency II Directive requires the Actuarial Function 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 administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of their technical provisions, or use appropriate approximation methods if insufficient data of appropriate quality exists;
- 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.

### B.7. Outsourcing

Outsourcing is an arrangement of any form between ALI and a service provider by which that service provider performs a process, a service or activity which would otherwise be performed by ALI itself.

The key activities which are outsourced by ALI are:

- IT services outsourced to Aviva Italy under an Intra Group Agreement;
- Policy administration is outsourced to Aviva Italy under an Intra Group Agreement;
- Fund management and administration is outsourced to Aviva Italy under an Intra Group Agreement;
- The HoAF role is outsourced by consultancy agreement to KPMG (Ireland);
- The Internal Audit Function is outsourced to Aviva Ireland; and
- The Compliance Function is outsourced to Aviva Ireland.

In outsourcing any activity, ALI must ensure that any outsourcing:

- Does not unduly increase operational risk; and
- Does not negatively affect service to customer.

ALI determines for each outsourcing arrangement whether the arrangement is material or not. Material activities are defined as:

- Activities of such importance that any weakness or failure in the provision of these activities could have a significant effect on ALI's ability to meet its regulatory responsibilities, deliver services to policyholders and/or to continue in business;
- Any other activities requiring a licence from a relevant supervisory authority;
- Any activities having a significant impact on ALI's risk management; and
- The management of risks related to these activities.

Typically an outsourcing arrangement will be material if it involves any of the following activities:

- The investment of assets or portfolio management;
- Claims handling;
- The provision of regular or constant compliance, internal audit, accounting, risk management or actuarial support;
- The provision of data storage; and
- The provision of on-going, day-to-day systems maintenance or support.

**B.8. Any Other Information**

The Company has assessed its corporate governance systems and internal controls and has concluded that it provides effective and prudent management of the business which is proportionate to the nature, scale and complexity of a company in run-off.

# C. Risk Profile

## C.1. ORSA Process

*C.1.1 Risk Profile of the Company*

To enable a consistent, systematic and disciplined approach towards risk management, ALI categorises its main risks as follows:

- Market – where ALI's balance sheet position depends on financial markets;
- Business – risks associated with carrying out life insurance business, such as expense risk, persistency risk and new business risk;
- Insurance – risks associated with the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities;
- Operational – risks associated with ALI's processes and systems, and external events such as outsourcing, catastrophes, legislation, or external fraud;
- Credit – risks associated with a loss or potential loss from counterparties failing to fulfil their financial obligations;
- Financial Risks – risks associated with ALI's finance function including Financial Reporting, Capital Management, Liquidity and Tax;
- Strategic – unintended risks that can result as a by-product of planning or executing a strategy;
- Reputational – the risk's ALI's business suffers through loss of reputation, due to issues such as mis-selling, conduct and consumer related issues; and
- Legal, Regulatory and Compliance Risks – the risk of sanction and fines through breaches of legal, regulatory and compliance obligations.

*C.1.2 Risk assessment*

The CRO and management (ALI and AIH) consider and assess the full range of risks that affect ALI on an annual basis. This is discussed with the Risk Committee and ultimately recommended to the Board for approval. This process enables new, emerging and evolving risks, including strategic and reputational, to be identified and understood should they arise.

Risks are assessed quantitatively through ALI's Risk Appetite Framework. Risk appetite is monitored against pre-defined tolerance levels, documented in ALI's Risk Appetite Framework, approved by the Board, monitored by the Risk function, and reported to the Risk Committee.

The existing Risk Appetite Statement considers risks from a Solvency II perspective primarily in terms of impact on capital. Risks are assessed on a quarterly basis through the Company's risk reporting.

*C.1.3 Governance around ORSA Scenario Setting and Review of Results*

The risk profile of the Company has been reviewed to help inform (a) the selection of scenarios in Section 6.3 below and (b) to form a view on the appropriateness of the standard formula for SCR calculation purposes. The process used to decide the scenarios is as follows:

- The scenarios used in the YE 2016 ORSA were considered in the first instance;

- The proposed scenarios were determined based on events that may have a materially negative impact on the business in terms of changes to the level of own funds, which is the key concern for ALI given the low level of own funds at the Company's disposal;
- The level of solvency capital identified within each sub risk module of the 30 September 2017 SCR (adjusted to reflect the revised business plan) was also used to identify potential risks which could materially impact on the financial strength of the Company;
- Consideration was given to reverse testing;
- An analysis of the change in the Solvency II balance sheet during 2017 was performed to determine the key drivers, which in turn helped inform whether new risks should be considered for ORSA purposes; and
- The scenarios were presented and agreed by the Risk Committee and the Board.

The results of the scenario testing and the methodologies used were discussed with Group Risk Function in AIH and faced Board challenge in December 2017 before being finalised for submission to the CBI.

| Scenario | Description of Scenario |
|---|---|
| Base Case | Base Scenario |
| 1 | 50% Decrease in Lapse and PUP Rates |
| 2 | Expenses increase by 25% |
| 3 | Yield curve increases by 100bps |
| 4 | 2016 Group Scenario: Extreme European Recession |
| 5 | Increase in Branch tax rate from 30.8% to 40% |
| 6 | Downgrade of ALI's Bank Accounts by 1 credit step |
| 7 | Expenses Decrease by €500k p.a. from 1 July 2018 |

Given the delicate solvency position the ORSA scenarios be run for each of the above assuming:
- A base transfer assumption of 31 December 2019 as agreed by the Board;
- A further delay of 18 months beyond this transfer date; and
- Assuming that ALI is run off in Ireland.

Based on the output of the scenario testing performance, all of the above scenarios would lead to an immediate breach of risk appetite in the event of recognition of a delay to the portfolio transfer requiring further capital support, i.e. if the assumed transfer date was to change the net asset position of the Company would fall.

The key risks identified in the ORSA that the Company faces, and key observations drawn from the ORSA are:

| Risk Type | Within Company Control | Comment |
|---|---|---|
| Timing of Portfolio Transfer | Partly | Implementation of a closely monitored and detailed plan would help make the transfer achievable. Ability to transfer and timing thereof is dependent on timing of authorisation of an Aviva Ireland entity which is outside of ALI's control. |
| Expense | Yes | In the event of increased expenses pre transfer or if running off the business in Ireland it is likely that expenses would be closely reviewed with a restructuring plan put in place to reduce the ongoing expense base which would reduce the capital requirement somewhat. A reduction in ALI's current expense base would improve the financial position of the Company. Support from Aviva Group would be required to manage this better. |
| Interest Rate | Partly | This is a market risk which the company would have significant difficulties mitigating against. Notwithstanding some of the portfolio could be rebalanced in theory so this should be looked at in further detail to see if any options are available to the Company. |

| | | |
|---|---|---|
| Spread | Partly | As above. |
| Taxation | No | Increased taxation is likely to erode the Company's net asset position over time. |

A number of remedial actions were implemented by the Company following the completion of the ORSA report to improve the overall solvency position of the Company and to reduce the level of exposure to the key risks faced by the Company.

**C.2. Underwriting Risk**

The key risk drivers resulting in life underwriting risk for ALI are:

*Expense risk*
ALI is exposed to expense risk both in terms of the level of expenses incurred in administering the business and in the timing of the portfolio transfer as this drives the level of expense reserves required to be held by the Company.

With respect to expense inflation, the main mitigating actions available are to continue to analyse and monitor expenses and to remain efficient by achieving ongoing improvements to processes across the business. Expenses are closely monitored by the Company on a monthly basis to early address any potential overruns.

*Lapse Risk*
This is the risk that policyholders' behaviour in discontinuing and reducing premiums or withdrawing benefits prior to the maturity of the contract is worse than expected. The lapse SCR under Solvency II arises from the maximum reduction in Own Funds arising from three predefined shocks (an increase in lapse rates of 50%, a decrease in lapse rates of 50%, and the immediate surrender of 40% of the business which would lead to a surrender strain). ALI's products have been designed to withstand adverse developments in lapse or paid up experience through the use of surrender penalties or benefit reductions on policies becoming paid up. Notwithstanding lapse risk is one of the key risks facing the business and therefore is a large component of the overall SCR requirements.

*Mortality Risk*
Mortality risk is the risk that actual policyholder death experience on life insurance policies is higher than expected. For unit linked business the exposure is limited due to the low levels of sum assured on the products. For Mista and Term business the death benefits are linked to the sum assured assigned to the policy at inception. For Rendita and Capitale business the death benefits are linked to the maximum of the surrender value and level of premiums paid which reduces the overall level of exposure. For traditional business the level of exposure is reduced through the use of reinsurance. Additionally the business has generally been targeted at pre-retirement lives where mortality rates are lower. Thus the level of sensitivity to mortality risk is low.

*Longevity Risk*
Longevity risk is the risk that policyholders and annuitants live longer than expected. ALI's traditional business has been written with various guaranteed annuity options available to policyholders. Historically take up rates on these options have been very low and guarantees in respect of all Rendita policies and Mista and Capital polcieis with technical rate 4 were internally reinsured to AIH for policies maturing from 1 January 2009, which significantly reduces the exposure for the Company. There are a small number of policies with annuities in payment not covered by reinsurance but the level of reserves are small at c. €1.5m. Thus the level of sensitivity to longevity risk is low.

*Catastrophe risk*

This is similar to Mortality risk but assumes a severe mortality stress that applies for a short period e.g. a pandemic type event. Given the nature of the benefits and the level of reinsurance in place the sensitivity to catastrophe risk is low.

**C.3. Market Risk**

The key risk drivers resulting in market risk for ALI are:

*Interest Rate Risk*
ALI is exposed to fluctuations in interest rates in so far as they impact the amount of fee income earned, the level of benefits paid out, the valuation of the Best Estimate Liabilities (BEL) and the value of the assets backing those liabilities.

The bonds backing ALI's traditional liabilities provide a good duration match to the corresponding liabilities. The asset liability position is actively managed by the ALI Investment Committee, which reports to the Risk Committee.

There are investment guarantees on the traditional business in terms of minimum levels of yield applied to the revaluation of benefits these are based on book yields and thus are not impacted by fluctuations in market yields, unless of course the bonds backing the liabilities are sold. Additionally the negative BEL on the unit linked business provides a natural hedge against changes in interest rates on the traditional business. Thus the overall level of sensitivity to interest rates is low.

*Equity Risk*
ALI is exposed to market movements from unit-linked contracts both with respect to earnings and with respect to economic capital. The value of in-force business for unit-linked business can be negatively impacted by adverse movements in equity markets. For ALI one of the key drivers of the Market Risk SCR is the equity risk module.

*Currency Movements*
The value of in-force business for unit-linked business can be negatively impacted by adverse currency movements. However based on the initial look through assessment there appears to be limited exposure to currency fluctuations in respect of this business.

For the traditional business ALI has no exposure to currency movements as the liabilities and backing assets are all Euro denominated.

*Property Risk*
Only very limited policyholder assets are invested in property. Thus the level of risk capital held by the Company is minimal.

*Spread Risk*
ALI is exposed to spread risk on its bond portfolio, either those backing the traditional liabilities or those contained within unit linked funds.

Risk capital is held in respect of ALI's corporate bond portfolio which represents c. 13% of ALI's traditional assets. The remainder of ALI's traditional portfolio is backed by Italian government and other EU debt. As the standard formula assumes a zero risk charge on EU member state's issued debt no additional risk capital is held in respect of this sovereign debt.

*Concentration Risk*
Similar to spread risk, risk capital is held in respect of ALI's corporate bond portfolio.

ALI is also exposed to concentrations in terms of reinsurance exposure and cash held at bank although these are allowed for in the counterparty default risk module.

## C.4. Credit Risk

Credit risk is the risk that the Company is exposed to lower returns or loss if another party fails to perform its financial obligations to the Company. Credit risk can be sub-divided as follows:

**Counterparty Default Risk**
This is the risk of losses due to the unexpected default of the counterparties and debtors of the Company e.g. default on a reinsurance arrangement. The counterparty risk charge is driven off the Company's exposure to different banks and reinsurance counterparties.

*Bank Exposure*
ALI maintains deposits with a number of banks, the key ones being Banca Populare di Cremona (rated BBB by Fitch) and Allfunds Bank (rated Ba2 by Moody's). The Company has placed upper limits on the level of exposure it is willing to accept.

*Reinsurance Exposure*
The counterparty exposure on the quota share treaty is mitigated by the reinsurance deposit held removing the need for additional risk capital to be held. The level of exposure on the internal reinsurance treaty with AIH is low due to the low levels of take up on the guaranteed annuity options.

A Reinsurance Strategy appropriate to the Company's overall risk profile to manage, control, supervise and be responsible for entering into reinsurance arrangements has been drafted. The Reinsurance Strategy sets out exposure limits per reinsurer linked to credit rating.

**Asset default risk**
Approximately 87% of ALI's traditional liabilities are backed by Italian government and other EU debt. ALI is potentially exposed to the risk of partial or full default of these investments. As the standard formula assumes a zero risk charge on EU member state's issued debt no additional risk capital is held in respect of this exposure.

The Company holds additional capital in respect of its soverign bond exposure from an Own Solvency Needs Assessment perspective.

## C.5. Liquidity Risk

The risk that ALI does not have sufficient liquidity to meet its obligations when they fall due, or would have to incur excessive costs to do so.

ALI's liquidity position is robust. ALI's Liquidity Policy outlines the processes in place for liquidity management. These include:

- CRO and Investment Committee oversight of liquidity management;
- Monitoring of short- and medium-term liquidity needs; and
- Liquidity management processes e.g. match policyholder liabilities having regard to the nature, term and currency of the liabilities.

The expected profit included in future premiums ("EPIFP") means the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. For the purposes of calculating the technical provisions premiums are

assumed in respect of the traditional portfolio (categorised as "insurance with profit participation") and term assurance business (categorised as "other life insurance").

There are no future profits expected from the term assurance business due to the duration of the inforce business. The traditional business produces have also been designed to protect the profitability of the business against deviations in experience through the use of surrender penalties and reduced benefits in the event of policies being made paid up. The net impact of not including future premiums is a reduction in ALI's net asset position of €0.5m, i.e. the EPIFP is €0.5m.

## C.6. Operational Risk

ALI defines Operational risk as the risk of loss resulting from processes, people and systems. Key operational risks to the Company include those related to data security, IT systems, reserving, process failure, and loss of key staff.

*Outsourcing and Process Risk*
ALI outsources its administration to AIH. ALI mitigates its outsourcing risk by monitoring the service providers adherence to the requirements of the outsourcing SLA which sets out the roles and responsibilities, policies and procedures along with relevant KPIs, performance review procedures etc.

*Other Operational Risks*
Independent challenge of the business functions is provided through the CRO, Internal Audit and Compliance functions. The CRO in AIH is responsible for providing independent challenge of the business functions within the Branch and provides additional assurance to management.

## C.7. Other Material Risks

**Branch Tax Risk**
Historically the amount of Branch tax paid has been volatile and difficult to predict for the Company. The level of Branch tax payable is material for ALI and variations in the result can significantly affect ALIs' net asset position. Models have been developed, following discussions on the reserving methodologies and accounting principles used by AIH for Italian GAAP reporting purposes, to project forward the Italian GAAP balance sheet and P&L in order to estimate the future amount of Branch tax payable.

**Strategic Risk**
The Company entered into run-off in 2007 with the intention to complete a portfolio transfer to Aviva Life by the end of 2017. On 26 September 2017 ALI received correspondence from the CBI noting the Italian regulator IVASS's decision not to support the transfer. On the basis of IVASS's decision, the ability to transfer the business to an Italian life company is questionable.

A revised business plan has been prepared on the basis of finding an alternative company within the Aviva Group to transfer the business to. Given that ALI's is currently regulated in Ireland, the likelihood is that the receiving entity would be an Aviva Ireland regulated entity. Notwithstanding that there is no Aviva subsidiary in Ireland at the moment, the acquisition of Friends First and the transfer of the Irish branch business to Ireland means that such an option should be feasible.

Consequently the business has revised the assumed transfer date to 31 December 2019, based on analysis performed by ALI and AIH. Based on the work performed to date with respect to the transfer, this timeline appears to be achievable.

**Reputational Risk**
Every risk type mentioned above has potential consequences for ALI's reputation; therefore, effectively managing each type of risk helps ALI reduce threats to its reputation.

ALI endeavours to preserve its reputation by adhering to applicable laws and regulations, and by adhering to Company policies, to the CBI's Fitness & Probity regime and to Group principles of integrity and good business practices. The Company is required to comply with consumer legislation in Italy. The service level agreement between ALI and AIH has been written to ensure adherence to IVASS / CONSOB consumer protection rules.

**Legal, Regulatory and Compliance Risks**
The Company has no material litigation risks. In line with the CBI Fitness and Probity regime the Company has in place PCFs for all key control function roles to provide challenge to Management in addition to Board and Risk Committee challenge.

# D. Valuation for Solvency Purposes

## D.1. Assets

The following table summarises the company's financial assets at 31st December 2017:

| | 31-Dec-17<br>€000 | 31-Dec-16<br>€000 |
|---|---|---|
| Assets held for index-linked and unit-linked contracts | 44,674 | 48,338 |
| Government Bonds | 63,697 | 80,933 |
| Corporate Bonds | 9,659 | 6,070 |
| Reinsurance recoverables from:<br>Life and health similar to life, excluding health and index-linked and unit-linked | 23,662 | 26,040 |
| Insurance and intermediaries receivables | 431 | 581 |
| Cash and cash equivalents | 5,112 | 2,698 |
| Any other assets, not elsewhere shown | 3,514 | 4,111 |
| **Total** | **150,749** | **168,772** |

Linked investments are invested in collective investment undertakings which are externally managed funds and are valued at fair value under Solvency II based on market prices at the reporting date. No significant estimates or judgements are used in the valuation of these investments.

Fixed income securities are quoted instruments in active markets and therefore the market price at 31st December 2017 has been applied. No significant estimates or judgements are used in the valuation of these investments.

Debtors comprise of insurance recoverables valued based on best estimate of the recoverable value. This category contains a tax asset recoverable from the Italian government of €2.50m (2016: €2.79m) arising from the advance payment of Italian policyholder Italian tax obligations which is expected to be recovered either by a deduction from tax withheld from policyholder payments or by offset against taxes payable to the Italian revenue authorities within a period of five years. This asset is carried at its full recoverable value without discounting it for the time value of money.

Cash at bank is valued at fair value in respect of bank accounts held in Italy and Ireland.

Accrued interest is valued based on the coupons receivable on fixed income securities based on the fixed coupon rates applied to the nominal holding of the securities accrued daily since the last coupon payment date.

## D.2. Technical Provisions

The Technical Provisions have been calculated as the sum of a best estimate plus a risk margin. The calculations have been performed on a best estimate basis margin in accordance with Articles 75 to 86 of the Solvency II Directive. They represent a realistic estimate of the Company's future obligations with an

allowance for some deviation for plausible changes in estimation in the form of the risk margin. They are not expected to be sufficient to meet the Company's obligations in all scenarios.

The breakdown of the technical provisions (net of reinsurance) as at 31 December 2017 is outlined below:

| €m's | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Insurance With Profit Participation | 43.7 | 51.1 |
| Index Linked and Unit Linked Assurance | 43.5 | 46.3 |
| Other Life Insurance | 2.7 | 2.6 |
| **Total** | **89.9** | **99.9** |

The key source of uncertainty for the Company is the timing of the portfolio transfer, as any extension to the transfer date equates directly to additional expense overruns and Branch taxes being incurred while the Company remains a regulated entity in Ireland.

*D.2.1.1 Policy Reserves*

The best estimate liabilities have been calculated on a deterministic basis using best estimate assumptions. Best estimate liabilities have been calculated to allow for all material cashflows. The cashflows have been projected over a sufficiently long time period to allow for all material cashflows.

*D2.2 Risk Margin*

The risk margin is a part of technical provisions necessary to ensure that the value of technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The risk margin is calculated by determining the cost of capital to support elements of the SCR over the lifetime of the business. For the purposes of the calculation the following elements of the SCR are captured:

- Underwriting risk with respect to the transferred business;
- Credit risk with respect to reinsurance contracts; and
- Operational Risk.

Assets are assumed to be chosen such that they would minimise the SCR and thus are ignored for the purposes of the calculation. Additionally the Company has assumed the Level 3 simplification, i.e. the SCR is assumed to run off in proportion to the run off of the total net of reinsurance Best Estimate Liabilities for the business as a whole. For the purposes of the projections the net of reinsurance Best Estimate Liabilities are run off over a 30 year period at which point they are virtually extinguished.

*D.2.3 Contract Boundaries*

The boundary of a contract is defined such that obligations which relate to insurance or reinsurance cover which might be provided by the undertaking after any of the following dates do not belong to the contract, unless the undertaking can compel the policy holder to pay the premium for those obligations:

- the future date where the insurance or reinsurance undertaking has a unilateral right to terminate the contract;
- the future date where the insurance or reinsurance undertaking has a unilateral right to reject premiums payable under the contract; or

– the future date where the insurance or reinsurance undertaking has a unilateral right to amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks.

The technical provisions assume the following:

- For Mista, Capitale and Rendita business the projections assume that premiums will be receivable until maturity of the policy, or the projected surrender or paid up date if sooner. Thus the projections assume all future cashflows fall within the boundaries of the contract;
- For annuities in payment the projections assume all future cashflows fall within the boundaries of the contract;
- For term assurance business the projections assume that premiums will be receivable until maturity of the policy or the projected surrender date if sooner. Thus the projections assume all future cashflows fall within the boundaries of the contract; and
- For unit linked business the projections assume that all policies are immediately made paid up.

*D.2.4 Loss Absorbing Features of Technical Provisions*

For Mista, Capitale and Rendita business, the Company revalue benefits annually where the assigned yield on the relevant fund exceeds the technical rate assigned to the policy (either 4%, 3% or 0%). The assigned yield is equal to the yield on the fund multiplied by the participation rate.

The participation rate is determined by the Board. The minimum participation rate is 80% and has been used as the basis for determining the level of technical provisions.

In theory future bonuses could be reduced to allow for reductions in yield in a shocked interest rate environment. The nature of the yield declaration means that this would only happen for reinvested assets as yields are known in advance for the existing bond portfolio, assuming they are held to maturity.

As part of the 31 December 2016 valuation, the HoAF tested the impact of not declaring any future bonuses. In such a scenario the change in BEL due to interest rate shocks is minimal at c. €10k, i.e. the SCR effect is minimal. The result would not expected to materially differ if the exercise was re-performed at 31 December 2017. Thus for materiality reasons no adjustments for loss absorbing capacity of technical provisions has been used. As a consequence, gross and net calculations of the SCR are identical and thus the adjustment to the SCR is zero.

*D.2.5 Transitional Measures*

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

*D.2.6 Assumptions*

Details of the key assumptions used for the purposes of calculating the best estimate liabilities are set out below.

*D.2.6.1 Risk Discount Rate*

The projected cash flows are discounted to the valuation date using a risk-free yield curve, i.e. the annual zero coupon spot rates published by EIOPA for Solvency II purposes.

*D.2.6.2 Fund Growth Rate*

Unit growth rates have been derived from the same EIOPA risk free yield curve noted in Section D.2.6.1 above.

*D.2.6.3 Bonus Rates*

For Mista, Capitale and Rendita business, the company revalue benefits annually where the assigned yield on the relevant fund exceeds the technical rate assigned to the policy (either 4%, 3% or 0%). The assigned yield is equal to the book yield on the fund multiplied by the participation rate. The minimum participation rate is 80%. No specific reserve is held for future revaluations, however the yield curve is adjusted to allow for expected future bonuses implied by the book yields up to 2024 (implied by the asset valuations backing the AreaGest fund) and the technical rates of the individual policies. After 2024 revaluations are assumed to be driven by yields available in the marketplace.

The projected annual level of book yields on the AreaGest fund and the corresponding exposure each year based on the run off of the existing assets backing the AreaGest fund are set out below. As the existing portfolio is replaced the assumed projected annual levels of book yields are assumed in line with risk free market yields, i.e. the EIOPA risk free yield curve.

| **Year** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
|---|---|---|---|---|---|---|
| Annual Book Yield | 1.61% | 0.77% | 0.78% | 0.67% | 0.66% | 0.70% |
| | | | | | | |
| Opening Market Value €m's | 72.9 | 67.0 | 45.4 | 41.2 | 41.2 | 32.0 |
| Opening ABV Exposure €m's | 70.9 | 66.5 | 45.3 | 41.2 | 41.2 | 32.0 |
| Average ABV Exposure €m's | 68.8 | 53.5 | 43.5 | 41.2 | 34.1 | 25.9 |

In order for future revaluations TR4, TR3 and TR0 yields would need to exceed 5%, 3.75% and 0% respectively, i.e. technical rate divided by 80%, so if the respective yields do not exceed these amounts the policy returns will equal the technical rate which are embedded into the sum assured levels set at policy inception.

*D.2.6.4 Expenses*

*Per Policy Expenses*

ALI entered into run-off in 2007. As the business has never reached scale in terms of business volumes long term expense assumptions as set out below have been used for the purposes of calculating the individual per policy long term best estimate liabilities.

| Product | Inforce | | Paid Up | | Annuity Expense | | Claim Expense | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Mista Classica | 102.20 | 104.76 | 51.10 | 52.38 | 41.21 | 42.24 | n/a | n/a |
| Rendita & Capitale Classica | 81.60 | 83.64 | 40.81 | 41.83 | 41.21 | 42.24 | n/a | n/a |
| Term Assurance | 32.48 | 33.29 | n/a | n/a | n/a | n/a | n/a | n/a |
| Regular Premium Unit Linked | 161.62 | 165.66 | 87.95 | 90.15 | n/a | n/a | n/a | n/a |
| Single Premium Unit Linked | 89.52 | 91.76 | n/a | n/a | n/a | n/a | n/a | n/a |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Recurrent Premium Unit Linked | 134.69 | 138.06 | 73.68 | 75.52 | n/a | n/a | n/a | n/a |
| Savings Unit | 93.26 | 95.59 | 53.87 | 55.22 | n/a | n/a | 237.69 | 243.63 |

*Total Expenses*

A separate expense reserve is held to allow for expected additional business expenses until the business is transferred. For the purposes of the valuation this is assumed to happen in December 2019.

Actual incurred expenses for 2017 were used to estimate 2018 expense levels, adjusted for the removal of the above mentioned bonus, legal costs incurred in respect of the portfolio transfer project and the transfer of actuarial and CRO related services to Aviva Italy by HY 2018. The total expected reduction in expenses as a result of these actions is €0.4m. The 2019 expenses are assumed to inflate by 2.5% over the 2018 levels and have also been increased to allow for €0.1m of legal costs in respect of the portfolio transfer project.

The total expenses are split between those expected to be incurred by the Company and Branch respectively. This split has been performed based on analysis performed by the Company. The expense split is important as it is one of the key drivers behind the tax charge incurred within the Italian Branch. Details of the expected expenses to be incurred in 2018 and 2019 are set out below:

| **Expense Category €000's** | **2017 Actual** | | | **2018 Estimate** | | | **2019 Estimate** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Comp.** | **Branch** | **Total** | **Total** | **Branch** | **Total** | **Comp.** | **Branch** | **Total** |
| Consultancy fees | 114 | 89 | 203 | 114 | 89 | 203 | 117 | 90 | 207 |
| Professional Services | 169 | 480 | 649 | 169 | 200 | 369 | 173 | 100 | 273 |
| Computer Services | - | - | - | - | - | - | - | - | - |
| Salaries/Directors Fees | 392 | - | 392 | 271 | - | 271 | 278 | - | 278 |
| Inter-Group Services | 114 | 366 | 480 | 114 | 366 | 480 | 117 | 375 | 492 |
| Administration | 29 | 84 | 113 | 29 | 84 | 113 | 30 | 86 | 116 |
| **Total** | **818** | **1,019** | **1,837** | **697** | **739** | **1,436** | **715** | **651** | **1,366** |
| **Salary Related** | **675** | **569** | **1,244** | **554** | **288** | **842** | **568** | **190** | **758** |

The final budgeted figure for 2018 and 2019 are €1,436k and €1,366k respectively.

For the purposes of the expense overrun reserve calculation total expenses expected to be incurred up to the portfolio transfer date less modelled expense allowances in the per policy reserve calculations are taken into account.

*Expense Inflation*

The expense inflation assumption has been set by reference to the long term market view of inflation plus an addition in respect of long term salary inflation. The expense inflation assumption used by the Company is 2.5%. The assumption has remained unchanged from 31 December 2016.

*D.2.6.5 Persistency*

ALI's products have been designed to withstand adverse developments in lapse or paid up experience through the use of surrender penalties or benefit reductions on policies becoming paid up. The lapse assumptions used for the purposes of calculating the technical provision are set out below:

| Line of Business | Lapse Rate | | Paid Up Rate | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| Unit Linked* | 10% - 30% | 10% - 30% | 5% | 5% |
| Traditional | 6% | 2% | 3% | 0% |

** Lapse rate varies at a product level. Full details of the individual lapse rates at a product level are outlined in Appendix 1.*

*D.2.6.6 Mortality*

| Product | 2017 | |
|---|---|---|
| | Male Mortality | Female Mortality |
| Mista Classica | 86% SIM91 | 103% SIF91 |
| Rendita & Capitale Classica | 64% SIM91 | 85% SIF91 |
| Annuities in Payment | 100% IPS55 | 100% IPS55 |
| Vita Classica – Non Smoker | 78% SIM91 | 95% SIF91 |
| Vita Classica –Smoker | 108% SIM91 | 140% SIF91 |
| Mutuo Sicuro | 80% SIM91 | 80% SIF91 |
| Unit Linked Business | 100% SIM91 | 100% SIF91 |

The assumptions are unchanged from 31 December 2016.

*D.2.6.7 Guaranteed Annuity Take Up Rates*

For Mista and Capitale business, policyholders are allowed to convert their lump sum policy proceeds to annuities at maturity at guaranteed rates. For the Rendita Classica, there is an option to convert the annuity to a lump sum on guaranteed terms. The assumption is not a material assumption for the purposes of calculating the technical provisions as all Rendita policies, and Mista and Capitale policies with technical rate 4, converting to guaranteed annuities with maturity dates from 1 January 2009 are fully reinsured to Aviva SpA (Italy). Historically the rates observed by the Company have been very low. This is consistent with observed experience on the wider book of business administered by AIH.

Take up rates of 2% have been used for the purposes of determining the level of technical provisions. The assumption is unchanged from 31 December 2016.

*D.2.6.8 Participation Rate*

For Mista, Capitale and Rendita business, the Company revalue benefits annually where the assigned yield on the relevant fund exceeds the technical rate assigned to the policy (either 4%, 3% or 0%). The assigned yield is equal to the yield on the fund multiplied by the participation rate. The participation rate is determined by the Board.

The minimum participation rate is 80% and has been used as the basis for determining the level of technical provisions.

*D.2.6.9 Tax*

Tax is assumed to be incurred at the Italian corporation tax rate of 30.8% (IRES or Corporate Income Tax of 24.0%, IRAP or Regional Income Tax of 6.8%).

*D.2.7 Reinsurance Recoverables*

Reinsurance Treaties are in place covering the Mista Classica, Rendita Classica and Capitale Classica products on a quota share and surplus basis. Reinsurance premiums are paid to the reinsurers and the reinsured element of claims are recovered annually. The reinsurers have deposited their share of the technical provisions for the policies covered by the treaties and the Company pays an annual interest on the outstanding balance. The deposit reduces in line with policies being claimed from the portfolio.

*D.2.8 Comparison with Financial Statements*

The financial statements are prepared in accordance with the Companies Act 2014 and in accordance with FRS 102 and 103 (effective for all accounting periods beginning on or after 1 January 2015) issued by the

Financial Reporting Council, together with the provisions of Statutory Instrument No. 262/2015 European Union (Insurance Undertakings: Financial Statements) Regulations 2015 (effective from 17 June 2015).

The table below shows the differences between the technical provisions for financial statement and solvency II purposes :

| €m's | Financial Statements | Solvency II |
|---|---|---|
| Insurance With Profit Participation | 43.9 | 43.7 |
| Index Linked and Unit Linked Assurance | 45.7 | 43.5 |
| Other Life Insurance | 3.6 | 2.7 |
| **Total** | **93.2** | **89.9** |

The main difference between the two sets of figures is that the Solvency II figures are calculated using best estimate assumptions compared to more prudent assumptions for financial statements purposes. As experience emerges over time the additional prudence in the financial statements will be released.

## D.3. Other Liabilities

*D.3.1 Deferred Tax Liability*

The conversion to Solvency II sees a substantial increase in the level of own funds relative to the current regulatory position. A deferred tax liability (DTL) at a rate of 33.4% has been established in respect of the change in free assets from the transition to Solvency II from the Italian regulatory balance sheet, which has been used as taxes are currently not payable in Ireland and are unlikely to be payable in the future given the expected level of taxes in the Branch.

In order to arrive at the net asset position of the Branch it is assumed it is reflective of the net asset position post transfer, whereby the starting point is the net asset position the Irish Company balance sheet adjusted to reflect differences in Irish and Italian GAAP positions, namely:

- Tax asset haircut removed and held at face value;
- Liabilities adjusted to reflect Italian liabilities;
- Bonds valued based on book value principles; and
- The net effect of this is to assume a net asset position in the Branch of €1.9m at 31 December 2017 as set out in the table below:

| | €m's |
|---|---|
| Net Assets Company | 6.9 |
| Liabilities adjusted to reflect Italian liabilities | (3.0) |
| Bonds valued based on book value principles | (2.0) |
| Net Assets Branch Post Transfer | 1.9 |

Additionally the Solvency II valuation assumes certain cashflows which are incurred in the Company, but not in the Branch ahead of the transfer date, These cashflows relate to Company specific expenses and reinsurance interest on the reinsurance deposit held in respect of the reinsured element of the Mista, Capitale and Rendita business. Details of the DTL calculation as at 31 December 2017 are set out below:

| | €m's |
|---|---|
| Net Assets Branch for DTL calculation purposes (A) | 1.9 |
| Solvency II Net Assets | 10.1 |
| Adjustment for Company Expenses and Reinsurance Interest | 2.5 |
| Solvency II Net Assets adjusted for DTL calculation purposes (B) | 12.6 |

| | |
|---|---|
| Deferred Tax Liability [(A – B) * Branch Tax Rate] | 3.3 |

As the level of free assets in a stressed scenario would reduce, with a consequent reduction in the DTL, the DTL been used to reduce the overall level of SCR required by the Company. The level of reduction to the SCR has been capped at the minimum of the DTL and 24% of the initial SCR.

### D.4 Alternative methods for valuation

The Company does not use any alternative methods for valuation.

# E. Capital Management

### E.1. Own Funds

This Capital Management Policy sets out the principles, the division of roles and responsibilities and the approaches to capital management employed by ALI to manage and monitor its solvency and capital requirements.

The strategic objectives of capital management within ALI are:

- **Regulatory compliance**: To ensure compliance with ALI's regulatory capital requirements;
- **Efficient capital allocation**: To manage and allocate capital efficiently to achieve sustainable returns and facilitate growth objectives; and

ALI strives to ensure that it maintains capital levels which are consistent with the ALI Risk Appetite Framework, the ALI Corporate strategy, as well as statutory minimum requirements at both a point in time and on a forward looking basis.

*E.1.1 Characteristics of Own Funds*

Own funds are comprised of paid-in ordinary share capital, a paid up irrevocable capital contribution, retained earnings and a reconciliation reserve. The Company has adequate available assets to meet the capital requirements for the SCR and MCR. The Company has set an internal target to maintain in excess of 140% of the calculated SCR and MCR.

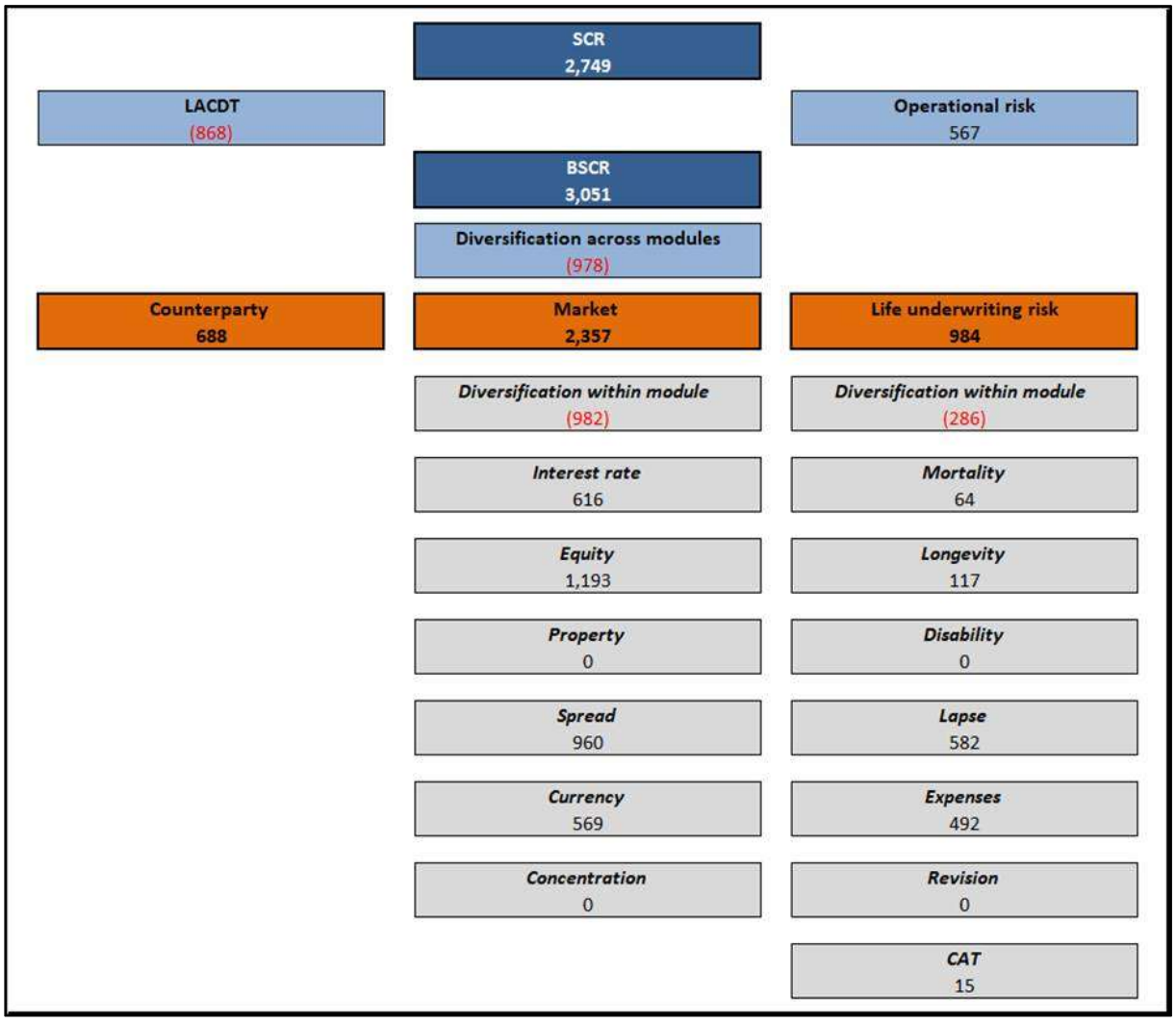
The breakdown of the Company's own funds and capital coverage ratios are set out below (figures are in €m's):

| **Capital and Reserves:** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Ordinary share capital | 26.5 | 26.5 |
| Other own fund items approved by the supervisory authority as basic own funds | 2.3 | 2.3 |
| Subordinated Loan | 0 | 0 |
| Reconciliation Reserve | (22.0) | (21.0) |
| **Solvency II Net Assets** | **6.8** | **7.8** |

| | | |
|---|---|---|
| Less 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 | 1.9 | 1.9 |
| **Solvency II Basic Own Funds** | **4.9** | **5.9** |
| *Of which: Unrestricted Tier 1* | *4.9* | *5.9* |
| | | |
| Eligible Own Funds to cover SCR | 4.9 | 5.9 |
| Solvency Capital Requirement | 2.7 | 2.6 |
| Solvency Capital Requirement Ratio | 178% | 224% |
| Eligible Own Funds to cover SCR | 4.9 | 5.9 |
| Minimum Capital Requirement | 3.7 | 3.7 |
| Minimum Capital Requirement Ratio | 133% | 159% |

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

The amount of the Company's Solvency Capital Requirement and Minimum Capital Requirement at 31 December 2017 are €2.7m and €3.7m respectively. The chart below shows the components of the SCR (using the Standard Formula) at 31 December 2017.




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 Minimum Capital requirement at 31 December 2017 is €3.7m which is the absolute minimum prescribed by legistation.

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

The Company has not opted to use the duration-based equity risk sub-module, of the Solvency II regulations.

### 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.

# Appendix: Annual Quantitative Reporting Templates

Annex 1
S.02.01.02
Balance Sheet

| | | | Solvency II value |
|---|---|---|---|
| | | | C0010 |
| | **Assets** | | |
| R0010 | Goodwill | R0010 | |
| R0020 | Deferred acquisition costs | R0020 | |
| R0030 | Intangible assets | R0030 | |
| R0040 | Deferred tax assets | R0040 | |
| R0050 | Pension benefit surplus | R0050 | |
| R0060 | Property, plant & equipment held for own use | R0060 | |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 73,356,226 |
| R0080 | Property (other than for own use) | R0080 | |
| R0090 | Holdings in related undertakings, including participations | R0090 | |
| R0100 | Equities | R0100 | |
| R0110 | Equities - listed | R0110 | |
| R0120 | Equities - unlisted | R0120 | |
| R0130 | Bonds | R0130 | 73,356,226 |
| R0140 | Government Bonds | R0140 | 63,697,008 |
| R0150 | Corporate Bonds | R0150 | 9,659,218 |
| R0160 | Structured notes | R0160 | |
| R0170 | Collateralised securities | R0170 | |
| R0180 | Collective Investments Undertakings | R0180 | |
| R0190 | Derivatives | R0190 | |
| R0200 | Deposits other than cash equivalents | R0200 | |
| R0210 | Other investments | R0210 | |
| R0220 | Assets held for index-linked and unit-linked contracts | R0220 | 44,674,110 |
| R0230 | Loans and mortgages | R0230 | |
| R0240 | Loans on policies | R0240 | |
| R0250 | Loans and mortgages to individuals | R0250 | |
| R0260 | Other loans and mortgages | R0260 | |
| R0270 | Reinsurance recoverables from: | R0270 | 23,661,523 |
| R0280 | Non-life and health similar to non-life | R0280 | |
| R0290 | Non-life excluding health | R0290 | |
| R0300 | Health similar to non-life | R0300 | |
| R0310 | Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | 23,661,523 |
| R0320 | Health similar to life | R0320 | |
| R0330 | Life excluding health and index-linked and unit-linked | R0330 | 23,661,523 |
| R0340 | Life index-linked and unit-linked | R0340 | |
| R0350 | Deposits to cedants | R0350 | |
| R0360 | Insurance and intermediaries receivables | R0360 | 431,147 |
| R0370 | Reinsurance receivables | R0370 | |
| R0380 | Receivables (trade, not insurance) | R0380 | |
| R0390 | Own shares (held directly) | R0390 | |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| R0410 | Cash and cash equivalents | R0410 | 5,112,012 |
| R0420 | Any other assets, not elsewhere shown | R0420 | 3,513,570 |
| R0500 | **Total assets** | R0500 | 150,748,587 |

| | Liabilities | | |
|---|---|---|---|
| R0510 | Technical provisions – non-life | R0510 | |
| R0520 | Technical provisions – non-life (excluding health) | R0520 | |
| R0530 | TP calculated as a whole | R0530 | |
| R0540 | Best Estimate | R0540 | |
| R0550 | Risk margin | R0550 | |
| R0560 | Technical provisions - health (similar to non-life) | R0560 | |
| R0570 | TP calculated as a whole | R0570 | |
| R0580 | Best Estimate | R0580 | |
| R0590 | Risk margin | R0590 | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | R0600 | 70,136,893 |
| R0610 | Technical provisions - health (similar to life) | R0610 | |
| R0620 | TP calculated as a whole | R0620 | |
| R0630 | Best Estimate | R0630 | |
| R0640 | Risk margin | R0640 | |
| R0650 | Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 | 70,136,893 |
| R0660 | TP calculated as a whole | R0660 | |
| R0670 | Best Estimate | R0670 | 70,122,816 |
| R0680 | Risk margin | R0680 | 14,078 |
| R0690 | Technical provisions – index-linked and unit-linked | R0690 | 43,586,713 |
| R0700 | TP calculated as a whole | R0700 | |
| R0710 | Best Estimate | R0710 | 43,353,008 |
| R0720 | Risk margin | R0720 | 233,705 |
| R0730 | Other technical provisions | R0730 | |
| R0740 | Contingent liabilities | R0740 | |
| R0750 | Provisions other than technical provisions | R0750 | 38,239 |
| R0760 | Pension benefit obligations | R0760 | |
| R0770 | Deposits from reinsurers | R0770 | 21,313,796 |
| R0780 | Deferred tax liabilities | R0780 | 3,268,737 |
| R0790 | Derivatives | R0790 | |
| R0800 | Debts owed to credit institutions | R0800 | |
| R0810 | Financial liabilities other than debts owed to credit institutions | R0810 | |
| R0820 | Insurance & intermediaries payables | R0820 | 3,879,734 |
| R0830 | Reinsurance payables | R0830 | 1,323,155 |
| R0840 | Payables (trade, not insurance) | R0840 | 280,120 |
| R0850 | Subordinated liabilities | R0850 | |
| R0860 | Subordinated liabilities not in Basic Own Funds | R0860 | |
| R0870 | Subordinated liabilities in Basic Own Funds | R0870 | |
| R0880 | Any other liabilities, not elsewhere shown | R0880 | 139,715 |
| R0900 | **Total liabilities** | R0900 | 143,967,102 |
| | | | |
| R1000 | **Excess of assets over liabilities** | R1000 | 6,781,486 |

**Annex 1**
**S.05.01.02**
**Premiums, Claims and Expenses by Line of Business**

| | | Line of Business for: life insurance obligations | | | | | | Life reinsurance | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life reinsurance | Total |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| **Premiums written** | | | | | | | | | | |
| Gross | R1410 | | 1,889,837.00 | 925,661.00 | | | | | | 2,815,498.00 |
| Reinsurers' share | R1420 | | 599,323.00 | | | | | | | 599,323.00 |
| Net | R1500 | | 1,290,514.00 | 925,661.00 | | | | | | 2,216,175.00 |
| **Premiums earned** | | | | | | | | | | |
| Gross | R1510 | | 1,889,837.00 | 925,661.00 | | | | | | 2,815,498.00 |
| Reinsurers' share | R1520 | | 599,323.00 | | | | | | | 599,323.00 |
| Net | R1600 | | 1,290,514.00 | 925,661.00 | | | | | | 2,216,175.00 |
| **Claims incurred** | | | | | | | | | | |
| Gross | R1610 | | 13,105,686.00 | 5,184,612.00 | | | | | | 18,290,298.00 |
| Reinsurers' share | R1620 | | 5,558,442.00 | | | | | | | 5,558,442.00 |
| Net | R1700 | | 7,547,244.00 | 5,184,612.00 | | | | | | 12,731,856.00 |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | R1710 | | | | | | | | | |
| Reinsurers' share | R1720 | | | | | | | | | |
| Net | R1800 | | | | | | | | | |
| **Expenses incurred** | R1900 | | 1,303,718.00 | 638,577.00 | | | | | | 1,942,295.00 |
| **Other expenses** | R2500 | | | | | | | | | |
| **Total expenses** | R2600 | | | | | | | | | 1,942,295.00 |

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

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | | | Total Top 5 and |
|---|---|---|---|---|---|---|---|---|
| | | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| | R1400 | | IT | | | | | |
| | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| **Premiums written** | | | | | | | | |
| Gross | R1410 | | 2,815,498 | | | | | |
| Reinsurers' share | R1420 | | 599,323 | | | | | |
| Net | R1500 | | 2,216,175 | | | | | |
| **Premiums earned** | | | | | | | | |
| Gross | R1510 | | 2,815,498 | | | | | |
| Reinsurers' share | R1520 | | 599,323 | | | | | |
| Net | R1600 | | 2,216,175 | | | | | |
| **Claims incurred** | | | | | | | | |
| Gross | R1610 | | 18,290,297 | | | | | |
| Reinsurers' share | R1620 | | 5,558,442 | | | | | |
| Net | R1700 | | 12,731,855 | | | | | |
| **Changes in other technical provisions** | | | | | | | | |
| Gross | R1710 | | | | | | | |
| Reinsurers' share | R1720 | | | | | | | |
| Net | R1800 | | | | | | | |
| **Expenses incurred** | R1900 | | 1,942,285 | | | | | |
| **Other expenses** | R2500 | | | | | | | |
| **Total expenses** | R2600 | | | | | | | |

**Annex I**
**S.12.01.02**
**Life and Health SLT Technical Provisions**

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 |
| **Technical provisions calculated as a whole** | R0010 | | | | | | | | |
| **Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole | R0020 | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | |
| **Best Estimate** | | | | | | | | | |
| **Gross Best Estimate** | R0030 | 67,387,512 | | 43,353,008 | | | 2,735,304 | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | 23,661,523 | | | | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | 43,725,989 | | 43,353,008 | | | 2,735,304 | | |
| **Risk Margin** | R0100 | 13,249 | 233,705 | | | 829 | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | | | |
| Best estimate | R0120 | | | | | | | | |
| Risk margin | R0130 | | | | | | | | |
| **Technical provisions - total** | R0200 | 67,400,761 | 43,586,713 | | | 2,736,132 | | | |

| | | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance | Health reinsurance (reinsurance accepted) | Total (Health similar to life insurance) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | C0100 | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| **Technical provisions calculated as a whole** | R0210 | | | | | | | | |
| **Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole | R0220 | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | |
| **Best Estimate** | | | | | | | | | |
| **Gross Best Estimate** | R0030 | | 113,475,824 | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | | 23,661,523 | | | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | | 89,814,301 | | | | | | |
| **Risk Margin** | R0100 | | 247,783 | | | | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | | | |
| Best estimate | R0120 | | | | | | | | |
| Risk margin | R0130 | | | | | | | | |
| **Technical provisions - total** | R0200 | | 113,723,607 | | | | | | |

**Annex I**
**S.23.01.01**
**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 26,445,400 | 26,445,400 | | | |
| Share premium account related to ordinary share | R0030 | | | | | |
| Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type | R0040 | | | | | |
| Subordinated mutual member accounts | R0050 | | | | | |
| Surplus funds | R0070 | | | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | - 21,957,964 | - 21,957,964 | | | |
| Subordinated liabilities | R0140 | | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | 2,294,050 | 2,294,050 | | | |
| **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 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 | R0220 | 1,876,950 | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit | R0230 | 4,904,536 | 4,904,536 | | | |
| **Total basic own funds after deductions** | R0290 | | | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on | R0300 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on | R0310 | | | | | |
| Unpaid and uncalled preference shares callable on | R0320 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive | R0360 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive | R0370 | | | | | |
| Other ancillary own funds | R0390 | | | | | |

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Total ancillary own funds** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 4,904,536 | 4,904,536 | | | |
| Total available own funds to meet the MCR | R0510 | 4,904,536 | 4,904,536 | | | |
| Total eligible own funds to meet the SCR | R0540 | 4,904,536 | 4,904,536 | | | |
| Total eligible own funds to meet the MCR | R0550 | 4,904,536 | 4,904,536 | | | |
| **SCR** | R0580 | 2,749,482 | | | | |
| **MCR** | R0600 | 3,700,000 | | | | |
| **Ratio of Eligible own funds to SCR** | R0620 | 1.7838 | | | | |
| **Ratio of Eligible own funds to MCR** | R0640 | 1.3256 | | | | |

| | | C0060 |
|---|---|---|
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | R0700 | 6,781,486 |
| Own shares (held directly and indirectly) | R0710 | |
| Foreseeable dividends, distributions and charges | R0720 | |
| Other basic own fund items | R0730 | 28,739,450 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | |
| **Reconciliation reserve** | R0760 | - 21,957,964 |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | 295,885 |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | |
| **Total Expected profits included in future premiums (EPIFP)** | R0790 | 295,885 |

**Annex I**

**S.25.01.21**

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

| | | Gross solvency capital | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0100 |
| Market risk | R0010 | 2,357,038 | | |
| Counterparty default risk | R0020 | 687,851 | | |
| Life underwriting risk | R0030 | 984,231 | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | - 978,454 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | R0100 | 3,050,666 | | |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 567,074 |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | - 868,258 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency Capital Requirement excluding capital add-on** | R0200 | 2,749,482 |
| Capital add-on already set | R0210 | |
| **Solvency capital requirement** | R0220 | 2,749,482 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirements for remaining | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

**Annex I**
**S.28.01.01**
**Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**

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

| | | C0040 |
|---|---|---|
| $MCR_L$ Result | R0200 | 1,388,460 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | 43,725,989 | |
| Obligations with profit participation - future discretionary benefits | R0220 | | |
| Index-linked and unit-linked insurance obligations | R0230 | 43,353,008 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | 2,735,304 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 13,837,133 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 1,388,460 |
| SCR | R0310 | 2,749,482 |
| MCR cap | R0320 | 1,237,267 |
| MCR floor | R0330 | 687,371 |
| Combined MCR | R0340 | 1,237,267 |
| Absolute floor of the MCR | R0350 | 3,700,000 |
| | | C0070 |
| **Minimum Capital Requirement** | R0400 | 3,700,000 |