InChiaro Life DAC

Solvency and Financial Condition Report in respect of year ended 31 December 2017

April 2018

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1 Summary

The EU wide Solvency II regulatory regime for Insurance Companies came into force with effect from 1 January 2016. The Solvency II regime requires public disclosure arrangements to be put in place by all insurers which need to be published on the Company's public website. This document is the second version of the Solvency and Financial Condition Report ("SFCR") that is required to be published by InChiaro Life DAC ('the Company') as part of the recently introduced Solvency II regime. This report relates to the year ended 31 December 2017.

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.

InChiaro Life DAC is an insurance undertaking, incorporated in Ireland, which sells single premium unit-linked products. InChiaro Life DAC has one product type called "Sella Personal Life". This is a single premium product which is sold in Italy. The policy term is open-ended and policies are available on a single life basis only. InChiaro Life DAC is a wholly owned subsidiary of HDI Assicurazioni SpA which is part of the global insurance group Talanx AG. InChiaro Life DAC was previously a wholly owned subsidiary of CBA Vita SpA which in turn is was a subsidiary of HDI Assicurazioni SpA. During 2017 CBA Vita SpA was merged into HDI Assicurazioni SpA.

Its products are primarily distributed through the Banca Sella Group Network. InChiaro Life DAC has not established a branch in Italy, choosing instead to transact its business under the freedom of services provisions of the Third EU Life Directive.

No material changes have been made to the business, system of governance, risk profile, valuation for solvency purposes or capital management over the reporting period.

The Company's financial year runs to 31 December each year and it reports its results in Euro.

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A Business and Performance

A.1 Business

A.1.1 Name and Legal form of the undertaking

InChiaro Life DAC ("the Company", "InChiaro") is an insurance undertaking, incorporated in Ireland, which sells single premium unit-linked products. The Company's operating address and registered office is:

Pavilion House
31/32 Fitzwilliam Square
Dublin 2
Ireland

A.1.2 Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

The supervisory authority responsible for InChiaro Life is Central Bank of Ireland (CBI). The CBI can be contacted at:

Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin1

The supervisory authority responsible for HDI Assicurazioni Spa is IVASS and can be contacted at:

IVASS Istituto per la Vigilanza sulle Assicurazioni
via del Quirinale 21
00187 Roma
Italy

The supervisory authority responsible for Talanx AG Group is BaFin and can be contacted at:

Bundesanstalt für Finanzdienstleistungsaufsicht
(Federal Supervisory Authority for the Financial Services Sector)
Graurheindorfer Str. 108
53117 Bonn
Germany

A.1.3 Name and contact details of the external auditor of the undertaking

The external auditor is Deloitte. The address of the external auditor is:

Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte and Touche House
Earlsfort Terrace
Dublin 2
Ireland
D02 AY28

A.1.4 Description of the holders of qualifying holdings in the undertaking

InChiaro Life DAC is a wholly owned subsidiary of HDI Assicurazioni SpA which is part of the global insurance group Talanx AG.

HDI Assicurazioni Group is based in Italy and provides life and non-life insurance products and services. HDI Assicurazioni is part of a large German insurance, internationally renowned group, the Talanx Group of Hannover.

Talanx AG is the third largest insurer in Germany and operates in 150 countries.

A.1.5 Legal structure of the group

InChiaro Life DAC is 100% owned by the Talanx AG Group. The largest shareholder of Talanx AG, with a stake of 79%, is HDI VaG a mutual insurance company. The remaining 21% of shares are in the free float.

A.1.6 Material lines of business and material geographical areas where it carries out business

InChiaro Life DAC is a life assurance company writing long term insurance business. The principle activity of the Company is the promotion and sale of unit-linked assurance policies in the Italian market. The Company is also authorised to transact business in Germany, Austria and Luxembourg.

For Solvency II purposes, the Company's line of business is classified as life indexed-linked and unit-linked insurance. Currently all of the Company's business is transacted in Italy.

A.1.7 Significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

No significant events occurred in year 2017 that have had a material impact on InChiaro Life.

A.2 Underwriting Performance

The Company prepares its financial statements on an IFRS basis. Therefore the underwriting performance information provided in this section is on an IFRS basis.

The IFRS profit after tax for the financial year ended 31 December 2017 amounted to €602k (2016: €570K).

Gross written premiums for the financial year were €59.8m (2016: €50.3m), representing an increase of 18.9% on the prior financial year. This figure included €46.1 (2016: €29.5m as new business and €13.7m (2016: €20.8m) as top up premiums. Claims paid to policyholders and beneficiaries amounted to €93.5m (2016: €55.6m), representing an increase of 68.2% on the prior financial year.

The total number of contracts in force as at 31 December 2017 was 375 (2016: 347).

A.3 Investment Performance

A.3.1 Income and expenses arising from investments by asset class

The assets invested in by the company fall into the following categories:

Unit Linked Assets €594m (2016: €616m)

The assets held in respect of unit-linked contracts represent the policyholder unit funds. The unit-linked assets are invested in accordance with the investment strategy chosen by each individual policyholder. The assets in which policyholder invest include direct investment in corporate bonds, government bonds, cash, equities and collective investment undertakings.

The unit linked policies are valued by reference to the value of the unit linked assets held within the unit linked funds. The performance of the policies is therefore directly linked to the performance of the underlying unit linked assets.

The net investment gains earned on the unit linked assets in 2017 was €18m (€13.4m in 2016). The fund management fees per annum range from 0.1% to 0.75% of funds under management, after allowing for the deduction of investment related fees.

Cash and cash equivalents €9.8m (2016: €9.5m)

Bank deposits are held with Banca Patrimoni and Bank of Ireland and represent the majority of shareholder assets. The investment return on these short term deposit holdings was close to zero for the full year. The income arising from deposit accounts in 2017 was €5k (2016: €39k).

Other

The company does not invest in securitisation security or instruments.

A.4 Performance of Other activities

A.4.1 Other material income and expenses

The Company's only activity is that of unit-linked life assurer.

Income for the Company is in respect of fees which are charged to investment-linked contracts for contract administration services, investment management services, payment of benefits and other services related to the administration of investment-linked contracts. Fees are recognised as revenue for the services provided.

Operating costs of the Company are charged through the technical account of the profit and loss statement and in 2017 amounted to €1.5m (€1.5m in 2016). Commissions and fees paid in respect of the unit linked business in 2017 amounted to €4.5m (€3.7m in 2016).

Included within the income and expenses are the reinsurance related costs and reinsurance income. These items are in respect of the reinsurance treaty that InChiaro Life DAC has in place to mitigate the majority of its mortality risk. The net amount of reinsurance payments in 2017 was €283k (€261k in 2016).

A.5 Any other information

HDI Assicurazioni Spa acquired the entire share capital of CBA Vita Spa on 1 July 2016 and thus indirectly, also its subsidiary InChiaro Life DAC (formerly Sella Life Limited). The Company changed its name from Sella Life limited to InChiaro Life DAC following the change of ownership. During 2017 CBA Vita SpA was merged into HDI Assicurazioni SpA which is part of the global insurance group Talanx AG.

There is no other material information to include in this section concerning the business and its performance.

B System of Governance

B.1 General Information on the system of governance

The company operates a System of Governance that is commensurate with the scale and activities of the company, such that all the key risks for the business are identified, monitored and mitigated as appropriate so as to ensure that the company complies with all legal and regulatory requirements.

InChiaro Life DAC is rated 'Low' under the Central Bank of Ireland's risk based framework of supervision of regulated firms, referred to as the PRISM system.

B.1.1 Structure of the administrative, management or supervisory body, and the main roles and responsibilities

The Board of Directors carry the main responsibility for the oversight of the company, its business and its strategy. It is supported in doing this by the various subcommittees of the Board and the various control functions that are in place within the Company. This Section sets out the structure of the organisation in terms of the various control functions.

Board of Directors

The Board of the company is responsible for the effective, prudent and ethical oversight of the Company, including:

- Setting the business strategy for the company;
- Management of capital requirements;
- Ensuring that an effective internal control framework is in place including risk management, compliance, internal audit and accounting and financial reporting; and
- Ensuring that a robust organisational, remuneration, communication and reporting frameworks are in place.

In order to carry out these duties the Company ensures that the Board has:

- The necessary knowledge, skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out their duties;
- A full understanding of the nature of the company's business, activities and related risks;
- A full understanding of their individual direct and indirect responsibilities and collective responsibilities; and
- An understanding of the company's financial statements.

The Board delegates some authority to Board sub-committees and management.

In addition, as InChiaro Life DAC is part of a larger Group, the Board when applying Group policies or where it uses Group functions must ensure that they are appropriate for the Company and that they take account of Irish laws and regulations.

Audit Committee

The Audit Committee is a subcommittee of the Board. The responsibilities of the Audit Committee include:

- Monitoring the effectiveness and adequacy of the company's internal control, internal audit and IT systems;
- Liaising with the external auditor;
- Reviewing the Financial Statements and any financial announcements; and
- Assessing auditor independence and the effectiveness of the audit process.

Risk Function

The Chief Risk Officer (CRO) is responsible for the risk management function and for maintaining and monitoring the effectiveness of the institution's risk management system including;

- Processes to identify and manage risks;
- Maintaining effective process to monitor and report risks;
- Promoting sound and effective risk management;
- Facilitate the setting of the risk appetite; and
- Providing sufficient information to the Board on the overall risk profile of the institution.

The role of Chief Risk Officer is outsourced to Towers Watson (Ireland) limited (trading as Willis Towers Watson) and the CRO is supported in this role by the management of the Company.

Compliance Function

The Compliance Officer is responsible for all compliance matters and reports to the Audit Committee. As well as reporting to the Audit Committee the Compliance Officer raises issues as they arise with the CEO. The responsibilities of the Compliance officer are as follows:

- Fostering and encouraging a culture of compliance;
- Ensuring that all statutory and regulatory requirements and guidance are in place;
- Advising the board on new and impending statutory and regulatory requirements and guidance;
- Developing and implementing an annual compliance plan;
- Reporting compliance exceptions and breaches to the board and management;
- Maintaining and updating the Compliance manual;
- Supporting the board and management in meeting their compliance requirements, including appropriate training;

- Monitoring systems and controls;

Actuarial Function

The Head of Actuarial Function is outsourced to Towers Watson (Ireland) Limited (trading as Willis Towers Watson). Responsibilities of the Actuarial Function are set out in Regulation and in guidance issued by the Central Bank if Ireland. The Actuarial Function is responsible for the following tasks:

- Calculate the technical provisions (best estimate liability and risk margin) on a quarterly basis;
- 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 data used in the calculation of technical provisions and provide recommendations, where appropriate to improve data quality. This will involve a review of an annual Data Adequacy Report produced by the company;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
- Comment on the change in technical provisions since the previous valuation date;
- Express an opinion on the overall underwriting policy:
  - The opinion will consider the underwriting process and supporting documentation;
  - Consistency of business written (gross and net of reinsurance) with the risk appetite statement will be assessed;
  - Comment on the principal risks to future profitability;
- Express an opinion on the adequacy of reinsurance arrangements:
  - The efficiency of the reinsurance programme in stabilising results and reducing capital;
  - Reinsurance strategy will be assessed for consistency with risk appetite statement;
  - Carry out stress tests to analyse how outwards reinsurance protections would respond under a variety of stress scenarios;
- Contribute to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the MCR, SCR and the ORSA process;
- Preparation of an annual Actuarial Function Report to the Board of Directors;

  In addition, under the ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’, which are Guidelines issued by the CBI, the Head of Actuarial Function must also carry out the following tasks:

- Provide an Actuarial Opinion on the Technical Provisions (the AOTPs) to the CBI on an annual basis;

- The opinion addresses the technical provisions reported in the annual quantitative reporting templates;

- Provide an Actuarial Report on the Technical Provisions (the ARTPs) to the Board on annual basis, which supports the AOTPs;

- Provide an actuarial opinion to the Board in respect of the ORSA process at the same time as the results of the ORSA process addressing:

  - The range of risks and the adequacy of stress scenarios considered;

  - The appropriateness of the financial projections included;

  - Whether the undertaking is continuously complying with the requirements regarding the calculation of technical provisions and potential risks arising from the uncertainties connected to this calculation.

Internal Audit Function

The Head of Internal Audit Function is outsourced to HDI Assicurazioni Spa a Group company based in Italy. The Internal Audit Function is responsible for the following tasks:

- Independently and critically evaluate and report on the effectiveness and efficiency on the internal controls, and;

- Evaluate the organisation's compliance with policies, procedures and best practice.

- The preparation of a risk-based audit plan, which is approved annually by the Audit Committee, covering InChiaro Life DAC's activities and related internal control environment, including IT systems and infrastructure;

- Completing individual audits of the activities identified in the audit plan in accordance with best practice professional standards;

- Reporting on a regular basis to senior management and the Audit Committee on the adequacy of risk management and internal controls identified in the course of the audits;

- Monitoring and reporting on the implementation of recommendations accepted by management;

- Evaluating and assessing the impact on internal controls of significant new or changing processes or systems;

- Liaising with external auditors to avoid duplication and achieve the most effective use of resources.

Management and Operations Team

The management team is responsible for the day to day management and execution of the company's strategic plan under the direction of the Board of Directors.

B.1.2 Material changes in the system of governance that have taken place over the reporting period

The key change that took place in 2017 was the resignation of two Non-Executive directors, Eamon Walsh for retirement with effective date 31/12/2016 and Francesca Rosso for relocation reasons with effective date 24/05/2017.

The Company is subject to the Corporate Governance Requirements issued by the Central Bank of Ireland and in 2017 after a review of the returns by the CBI the Prism impact rating of InChiaro Life was reduced to Low from Medium-Low rating.

There were no other material changes made to the system of governance in 2017.

B.1.3 Remuneration policy for the administrative, management or supervisory body and employees

B.1.3.1 Principles of the remuneration policy

The principles of the remuneration policy are as follows:

- The remuneration of InChiaro Life management and employees is based on their performance and results achieved and on terms at par with comparable companies.
- The aim of the remuneration is to contribute to attracting, retaining and motivating management and employees and to ensure an appropriate balance between the interests of employees and shareholders.
- Members of the Board of Directors receive a fixed annual fee which is set in relation to the scope and complexity of their work.
- The remuneration of management and employees consists of a fixed salary and variable component.
- The fixed salary is reviewed annually and the variable component consists of a bonus scheme based on the achievement of specific performance criteria as approved by the Board of Directors.

B.1.3.2 Performance criteria on which any entitlement to share options, shares or variable components of remuneration is based

The specific performance criteria set for the variable component of remuneration include:

- Earnings before interest and tax
- Premium income
- Total operating costs

B.1.3.3 Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

The company contributes to individual pension plans (PRSA) for management and employees. The Board of Directors is not covered by the pension plan.

B.1.4 Material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body

No material transactions occurred in 2017.

B.2 Fit and Proper requirements

B.2.1 Requirements for skills, knowledge and expertise

All persons performing a Controlled Function must be competent and capable, act honestly, ethically and with integrity and be financially sound.

B.2.2 Fitness and probity of persons

The company has adopted a Fitness and Probity policy. Under this policy the company performs a due diligence review on certain persons in accordance with the CBI Guidance on Fitness and Probity Standards 2014. In particular, in recruiting persons for key control functions the company must first ensure that approval of the Central Bank of Ireland is sought before such appointments are made.

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

B.3.1 Risk management system

Risk strategy

In accordance with InChiaro Life's business model, plans and outlook, InChiaro Life DAC pursues a low risk strategy in all its business dealings and seeks to mitigate risks through a combination of controls, both quantitative and qualitative, and by ensuring that a robust review and monitoring process, both external and internal, is followed at all times.

InChiaro Life DAC is a relatively small regulated insurance firm, and consistent with the risk based approach taken by the Central Bank of Ireland towards such entities, it has taken a similar proportionate based approach to risk management. InChiaro Life DAC is authorised to write life unit-linked insurance business and its strategy is to take on only risks directly associated with the business.

The Board of Directors has overall responsibility for the Risk Management function, as it was agreed by the Board of Directors, with the approval of the Central Bank of Ireland, that due to the nature and size of the business, it was not necessary to have a separate Risk Committee. The day to day operation of the Risk Management function is coordinated by the Compliance Officer who reports to the CRO.

- The Board of Directors is responsible for the overall strategy, management and direction of InChiaro Life DAC.
- The Audit Committee is responsible for the management and direction of the internal audit process, external audit process, statutory and regulatory reporting, compliance process and reports to the Board of Directors.

- The CEO is responsible for the overall management of InChiaro Life DAC and reports to the Board of Directors.
- The Head of Actuarial Function is responsible for the coordination of the calculation of the technical provisions and reports to the Board of Directors.
- The Risk Management Function is responsible for calculating the SCR and associated Risk Margin and reporting these to Management and the Board.
- The Compliance Officer is responsible for the compliance function and reports to the Audit Committee.
- The CRO is responsible for providing independent risk oversight and is responsible for risk management and reports to the Board of Directors.
- The Internal Audit Provider is responsible for the provision of internal audit services as set out in the approved Internal Audit Plan and reports to Audit Committee.
- The Group Risk Management Function is responsible for monitoring the approved risk management framework

B.3.2 Implementation of risk management system

Risk appetite, tolerances and limits

In order to manage and maintain its low risk strategy, InChiaro Life has defined its risk appetite and tolerances in respect of all the key risks impacting the business.

The Risk Appetite Statement is reviewed at least on an annual basis by the Board of Directors as well as whenever there is a significant change to the risk strategy of InChiaro Life. InChiaro Life maintains a Risk Register which includes all the key risks identified as part of its Risk Appetite Statement preparation.

InChiaro Life actively monitors its risk appetite and risk register, and a quarterly CRO monitoring report is submitted to the Board of Directors. The Company sets hard targets and soft targets within its risk appetite statement. The hard target for solvency coverage is defined as 135% i.e. InChiaro Life must keep its solvency level above 135% of the calculated SCR or MCR if greater. The soft target for solvency coverage is defined as 175%. In the event of any breach in the approved Hard Target tolerance levels, InChiaro Life will also notify the Central Bank of Ireland.

Risk identification process

The process for identifying the key risks facing InChiaro Life is as follows:

- Under the coordination of the Chief Risk Officer, the Senior Management Team identify and select the key risks facing the business, having regard to InChiaro Life's risk strategy and appetite. Based on this process a draft Risk Register is prepared and submitted to the Board of Directors. The Risk Register is reviewed at least on an annual basis by Senior Management and on every occasion there is a significant change to the risk strategy of InChiaro Life.
- The Board of Directors review and approve the Risk Register presented by the Senior Management and initiate any required action following the submission of the quarterly report by the CRO.

- The Chief Risk Officer is responsible for the risk identification process and the ongoing monitoring of risks identified in the approved Risk Register, and reports to the Board of Directors on a quarterly basis.

- The reports issued by the Internal Audit provider are considered in the preparation of the Compliance Officer's reports.

Risk policies in place

The risk management policy of InChiaro Life is to manage the key risks in accordance with the Risk Appetite Statement. The management process is as follows:

- Risk identification

- Risk assessment

- Risk mitigation and control

- Risk monitoring

- Risk reporting

InChiaro Life has a formal Product Approval process in place as follows:

- The Commercial Manager is responsible for the research, development and design of any new products and enhancements to existing products, including legal, compliance and regulatory implications.

- The proposed new or enhanced product is then assessed and reviewed by the CEO and Finance Manager.

- Following the internal review process, the proposed new or enhanced product is reviewed and approved by the CRO and Head of Actuarial Function.

- The final step in the product approval process, is the formal approval by the Board of Directors

Links to Group risk management systems

InChiaro Life is part of a financial services Group and participates in the Group risk management process. The Company has adopted Group risk policies and guidelines where applicable and having regard to the principle of proportionality given the scale and Regulatory Risk Rating of the Company.

Roles and responsibilities

The risk owners are noted in the Risk Register and are as follows:

- The Finance and Compliance Manager is responsible for the entire finance and compliance functions and reports to both the CEO and Audit Committee.

- The Operations Manager is responsible for the Portfolio Administration function and IT services, and reports to the CEO.

- The CEO is responsible for the overall management of InChiaro Life and reports to the Board of Directors.

- The Chief Risk Officer is responsible for the risk management within InChiaro Life and reports to the Board of Directors.
- The Compliance function is responsible for all compliance matters and reports to the Audit Committee.
- Internal Audit services are provided by the Group Internal Audit Function in accordance with an agreed 3 year rolling plan and reports to the Audit Committee.

Accountability for the different risk areas

The Risk Register details all the key risks faced by InChiaro Life and notes the persons and departments accountable for each task.

Controls in place

The Risk Register details the controls (actions) to be performed in respect of each identified risk. The Risk Register is maintained and monitored by the Compliance Officer and regularly reviewed by the Chief Risk Officer. InChiaro Life also maintains a Compliance Manual which covers all its Statutory, Regulatory and Legal requirements and the Compliance Officer presents a Compliance Checklist Report which maps the Compliance Manual, to the Audit Committee each quarter.

The Chief Risk Officer also reports to the Board of Directors quarterly.

Commentary on ability to monitor risks

InChiaro Life actively monitors its key risks and reports as follows:

- The Chief Risk Officer holds a risk meeting with InChiaro Life senior management on a monthly basis to discuss and review risk management activities. The meetings and actions are recorded and shared with the CEO.
- The monthly management report produced by InChiaro Life includes a section for controls and any risk on controls.
- Chief Risk Officer's Report: Quarterly to the Board of Directors

B.3.3 Own risk and solvency assessment

B.3.3.1 Process including how the own risk and solvency assessment is integrated into the organisational structure and decision making processes of the undertaking

Each year the company carries out an Own Risk and Solvency Assessment (ORSA) process. The objective of the ORSA process is to enable the Board to assess its capital adequacy and its capital requirements in the context of the risks within the business and its risk appetite. As part of the ORSA process the Board determine its overall solvency capital requirements having assessed the risks within the business, the external environment that the business operates within and the Company's risk appetite. The ORSA process is a key tool within the risk management framework of the Company.

The ORSA process is managed by the Chief Risk Officer, with input from the Chief Executive Officer, Vice General Manager, the Finance and Compliance Manager and the Operations

Manager, collectively the Senior Management Team. The ORSA is produced by the Senior Management Team and reviewed, challenged and approved by the Board of Directors.

Preparation of the ORSA report falls under the requirements of the InChiaro Life Risk Management Function. Willis Towers Watson, in its capacity as Risk Function Holder, was engaged by InChiaro Life to co-ordinate the preparation of the ORSA report, including the financial projections included within this ORSA which are based on a set of stresses discussed by and agreed with the InChiaro Life Board. Willis Towers Watson, in its capacity of Actuarial Function Holder, provided input into the ORSA process particularly relating to the actuarial methodology, assumptions and preparation of the ORSA scenario financial projections.

B.3.3.2 Review and approval of the own risk and solvency assessment by the undertaking's administrative, management or supervisory body

To initiate the ORSA process, the CRO and Company Management reassess the risks within the business and the external environment within which the business operates. Following these discussions the CRO presents a paper to the Board to facilitate discussion in relation to the ORSA and ORSA process and in particular to facilitate a discussion regarding the scenarios that the Board wish to consider as part of the ORSA process. The key discussion points typically include:

- Feedback to Industry from the Central Bank of Ireland regarding the ORSA process
- The key risks to be considered in the ORSA
- The proposed stress scenarios to be covered in the ORSA
- Scenarios considered in determining the overall solvency needs of the company

Once agreed the Actuarial Function prepare projected future balance sheets under the various scenarios. A draft ORSA report is prepared for the Board’s review prior to finalising the ORSA report.

B.3.3.3 Own solvency needs and how capital management activities and risk management system interact with each other

The overall solvency needs (OSN) represents the additional capital that InChiaro Life wishes to hold, over and above its regulatory capital requirement of the Solvency Capital Requirement (SCR), so as to continue to meet its SCR if a number of adverse, but plausible, events were to occur. This OSN helps insulate InChiaro Life against sudden movements in its SCR and own funds. Own funds represents the excess of InChiaro Life’s assets over liabilities. The SCR capital value is a statutory level of solvency which must not be breached. The level of OSN provides a higher threshold.

The determination of the OSN forms part of the ORSA process and takes account of the key risks to the Company. The risks and scenarios considered in the calculation of the OSN are proposed to and challenged by the Board. Having considered a number of scenarios as part of the 2017 ORSA process it was determined the hard target coverage of the SCR be set at 135% and the soft target coverage be set at 175%. This is reflected in the risk appetite statement and is reviewed on an annual basis.

B.4 Internal control system

B.4.1 Internal control system

The company has implemented an internal control environment consistent with the scope and scale of activities undertaken. The environment is comprised as follows:

- Procedures Manuals: Operations; Finance; Solvency II; Compliance; Governance;
- Control Checks: Monthly “controlli di linea” reporting;
- Management control: The Company operates a checklist approval process for all key activities;
- Board level controls: The Board of Directors review and approve all company procedures and the Audit Committee monitors and approves the internal audit activities; and
- Audit: Regular Internal Audit reviews based on a 3 year rolling plan.

B.4.2 Implementation of compliance function

The compliance function is guided by the Compliance Manual and the Compliance Manager is responsible for the day to day operation of the function and reports directly to the Audit Committee on all compliance matters. The key requirements of the Compliance Function under Article 46 of the Solvency II Directive are as follows:

- Monitoring and controlling compliance with and application of laws and regulations from an internal perspective, with particular attention to the management of operational risk;
- Monitoring and supervising the internal control system;
- Identification, assessment, monitoring and reporting of compliance risks;
- Advise the board of directors and management on laws and regulations;

B.5 Internal audit system

B.5.1 Implementation of the internal audit function

The internal audit function operates in accordance with an agreed Internal Audit Policy and Charter and the Head of Internal Audit Function reports directly to the Audit Committee. The key requirements of the Internal Audit Function under Article 47 of the Solvency II Directive are as follows:

- Preparation of a risk based audit plan that ensures that all significant activities are audited at regular intervals;
- Evaluation of the adequacy and effectiveness of the internal control system and system of governance;
- Conduct audits in accordance with best practice and prepare a written report on each audit which sets out the findings and recommendations;

B.5.2 Independence of the internal audit function

The internal audit function is outsourced to the Group Internal Function and reports directly to the Audit Committee thus maintaining independence at all times.

B.6 Actuarial Function

The company outsources the Actuarial Function to Willis Towers Watson. The Head of Actuarial Function and Chief Risk Officer are the same person. This has been permitted by the Central Bank of Ireland on the grounds of proportionality. To prevent potential conflicts of interest, Willis Towers Watson has an internal peer review system whereby the work carried out under each role is peer reviewed.

The Solvency II requirements of the Actuarial Function as specified in Article 48 of the Solvency II Directive are as follows:

- Coordinate the calculation of the Technical Provisions;
- Ensure appropriateness of the methodologies, underlying models and assumptions used in calculation of Technical Provisions;
- Assess the sufficiency and quality of data used in calculation of Technical Provisions;
- Compare best estimates against experience;
- Inform on the reliability and adequacy of the calculation of Technical Provisions;
- 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.

The additional major tasks carried out by the InChiaro Life Actuarial Function are:

- Calculation of the SCR; and
- Carrying out the projections for the ORSA.

B.7 Outsourcing

Outsourcing is an arrangement of any form between InChiaro Life and a service provider by which that service provider performs a process, a service or activity which would otherwise be performed by InChiaro itself. At present, InChiaro has outsourced some activities to a number of service providers.

The Company's Outsourcing Policy outlines the policy with regard to the outsourcing of critical or important activities which are fundamental to the carrying out of the material business of InChiaro. The policy outlines the roles and responsibilities, procedures, approval requirements and reporting requirements applicable to the Outsourced Activities of InChiaro.

The company's outsourcing policy is to follow the process below:

- Determine whether the outsourcing activity is material or not based on the outsourcing policy definition of material activities.
- The CEO appoints a relationship manager to the outsourcing activity.
- The relationship manager is responsible for documenting a business case setting out the rationale for outsourcing the Activity and setting out a written assessment of the proposed outsourcing. The business case should contain details of the outsourcing activity such as the outsourcing owner, the outcome of the business contingency planning process, the projected costs and the anticipated benefits of the outsourcing arrangement.
- Due diligence is conducted on the proposed service provider and documented in the business case. Appropriate due diligence shall include an assessment of the service provider's financial and technical ability and its control framework (including whether there are any conflicts of interest).
- If the outsourcing arrangement is material, the business case is presented to the Board for approval. Otherwise, the business case is presented to the Audit Committee for approval. The approval of the outsourcing arrangement must be appropriately recorded in the minutes of the approval committee or Board.
- If the outsourcing arrangement is approved, InChiaro shall enter into a written agreement with the service provider of the Outsourced Activity which clearly sets out the respective rights and obligations of the Company and the service provider.
- InChiaro includes in its system of governance a process for monitoring and reviewing the quality of the Outsourcing service provided.

In line with the company's business model and structure, a number of key activities are outsourced in accordance with the Outsourcing Policy as follows:

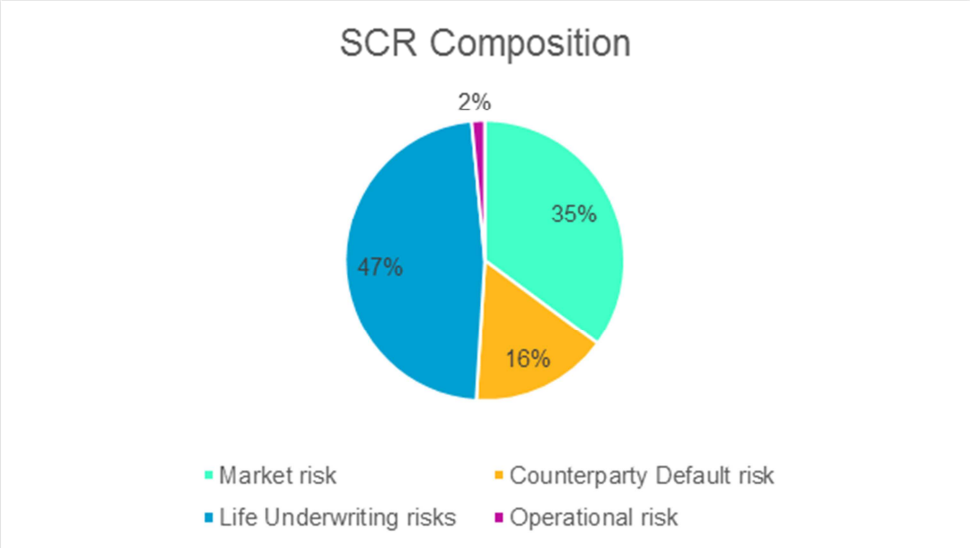
Activity	Jurisdiction
Internal Audit	Italy
Actuarial	Ireland
Risk	Ireland
Fund Management	Italy
Provision of detailed asset data	Ireland
IT Services	Italy

B. 8 Any other information

There are no other material items to include under this section.

C Risk Profile

InChiaro Life uses the Standard Formula to assess the Company's solvency capital requirements (SCR). The standard formula for SCR aims to capture the material quantifiable risks that most undertakings are exposed to. The SCR is broken down into four risk components; Life Underwriting risk, Market risk, Counterparty Default risk and Operational Risk. The composition of the SCR for InChiaro Life as at end December 2017 is shown in the chart below:



C.1 Underwriting risk

C.1.1 Material underwriting risks

Lapse risk

This is the risk of a policyholder encashing a policy at a date earlier than expected. InChiaro Life is directly exposed to lapse rates as it relies on the annual management charges (AMCs) from the unit-linked policies as a key source of income to the Company. An increase in perceived lapse rates results in lower future management charges being received.

InChiaro is also exposed to mass lapse events, which are an instantaneous one off shock lapse event. The main component of the underwriting risk capital requirement relates to lapse risk, specifically a mass lapse event.

Expense risk

InChiaro Life is directly exposed to its expenses base in that the vast majority of expenses are fixed while the level of income (mainly AMCs) earned are variable.

Mortality risk

InChiaro Life is exposed to changes in mortality arising from a 0.1% to 0.5% death benefit on insurance policies subject to a cap of €10,000. Mortality also affects the expected future profits of the company in that higher mortality reduces the level of the expected future margins.

C.1.2 Assessment and risk mitigation techniques used for underwriting risks

InChiaro Life produces a risk report on a monthly basis. Anomalies in the underwriting risk over the month are disclosed in the report. The CRO also presents a quarterly risk report to the Board which includes the impact of the underwriting risk sensitivities on own funds.

Lapse rates are monitored regularly with the reasons for individual lapses being investigated. Possible mitigation actions include planning for a reduction in expenses if lapse rates increase.

Income is regularly monitored with expected expense outgo to ensure that sufficient funds are available. The Company sets an expense budget at the start of each year and compares actual expenses incurred against this budget on a monthly basis. InChiaro Life has the ability to vary the level of AMC's in the policy as a possible mitigation action to increased expenses.

InChiaro Life has a reinsurance treaty in place whereby InChiaro Life cedes 95% of the death strain to the reinsurer. This mitigates mortality risk.

C.1.3 Risk sensitivity for underwriting risks

The main component of the underwriting risk capital requirement relates to lapse risk. Under Solvency II the lapse risk capital requirement is the more onerous of:

- an increase in lapses for policies where there is a strain to InChiaro Life on surrender;
- a decrease in lapses for policies where there is no strain to InChiaro Life on surrender; and
- a mass lapse at the valuation date for policies where there is a strain to InChiaro Life on surrender.

Having examined these stresses the results showed that the company is most exposed to a mass lapse event.

The expense risk capital requirement within the SCR is calculated based on an increase in future renewal expenses of 10% and an increase in expense inflation of 1% per annum. The ORSA process carried out additional stress and scenario testing regarding expenses such as assessing the impact of increasing all expenses by 25%.

The standard formula mortality stress carried out is a 15% instantaneous and permanent increase to mortality rates. The mortality stress is not material in the context of InChiaro Life’s business as the vast majority of the risk is reinsured.

C.2 Market risk

C.2.1 Material market risks

Equity risk

InChiaro Life is indirectly exposed to equity falls as it relies on the AMC income from the unit linked policies. A reduction in unit linked fund values leads to lower future income through fund related charges and hence lower profits for InChiaro Life.

Foreign Exchange risk

InChiaro Life is indirectly exposed to currency movements as it relies on the AMC from the unit linked policies. As at 31 December 2017 non-Euro holdings accounted for 37% of the total funds under management. Therefore adverse currency movement in the underlying unit linked assets will directly impact on the Company's income.

C.2.2 Investment assets and prudent person principle as applied to market risks

Solvency II regulations have brought in the 'Prudent Person Principle' in relation to investing in assets. The Company is required to apply this principle, and has ensured that its investment approach is aligned with this Principle.

C.2.3 Assessment and risk mitigation techniques used for market risks

InChiaro Life produces a risk report on a monthly basis. Anomalies in market risks over the month are disclosed in the report. The CRO also presents a quarterly risk report to the Board which includes the impact of the market risk sensitivities on own funds.

C.2.4 Risk sensitivity for market risks

The main component of the SCR market risk capital requirement for the Company relates to equity risk. The standard formula specified equity shock ranged from approximately 41% to 51% depending on the type of equity held. The currency risk was assessed using prescribed standard formula shocks of 25%.

The Company also carried out additional stress and scenario testing as part of the ORSA process which includes the stress testing of the material market risks. This included assessing the impact of the fund values falling by 25% following a market crash scenario.

C.3 Credit risk

C.3.1 Material credit risks

Counterparty risk

InChiaro Life invests the majority of shareholder assets in short term bank deposits. InChiaro Life is exposed to counterparty risk in respect of these deposit holdings with Banca Patrimoni and Bank of Ireland.

Concentration risk

InChiaro Life has a material exposure to Italy in its shareholder assets. As at 31 December 2017 InChiaro Life held €7.5m in deposits with Banca Patrimoni and €8.7m (valued at face value) as an Italian tax prepayment asset. The Italian tax prepayment is based on the IFRS mathematical reserves held in respect of unit-linked policies and is a prepayment of policyholder taxes levied by the Italian fiscal authority

Spread risk

InChiaro Life is exposed to the sensitivity of the value of unit-linked assets to changes in the level or volatility of credit spreads over the risk free interest rate term structure. The spread

risk stress affects only the corporate bond holdings within the unit-linked funds. As at end December 2017 corporate bonds accounted for 23% of the total funds under management in calculating the spread risk SCR.

C.3.2 Investment assets and prudent person principle as applied to credit risks

Solvency II regulations have brought in the 'Prudent Person Principle' in relation to investing in assets. The Company is required to apply this principle, and has ensured that its investment approach is aligned with this Principle.

C.3.3 Assessment and risk mitigation techniques used for credit risks

Credit risk is monitored and reported to the Board on a quarterly basis.

C.3.4 Risk sensitivity for credit risks

The prescribed standard formula stresses are used to determine the counterparty default risk and credit risk capital requirements of the Company. The counterparty default charge also allows for InChiaro Life's exposure to insurance and intermediary receivables.

The Company also carried out additional stress and scenario testing as part of the ORSA process which includes the stress testing of the material credit risks. This included assessing the impact of downgrading the shareholder bank deposits.

C.4 Liquidity risk

C.4.1 Material liquidity risks

Liquidity risk is defined as the risk deriving from the inability to meet one's payment commitments, which may be caused by an inability to find the funds required to meet cash outflows (funding liquidity risk) or by the presence of limits to the disinvestment of assets (market liquidity risk). All InChiaro Life products are such that the market risk and consequent liquidity risk are borne by the customer and are reflected in the current value of the policy. The Company does not guarantee returns or capital for customers from these securities.

InChiaro Life has liquidity risks in that the Italian tax asset and the allowance for future profits on the Solvency II balance sheet may not be liquid. These illiquid assets could be significantly impaired in times of stress.

C.4.2 Prudent person principle as applied to liquidity risks

Solvency II regulations have brought in the 'Prudent Person Principle' in relation to investing in assets. The Company is required to apply this principle, and has ensured that its investment approach is aligned with this Principle.

C.4.3 Assessment and risk mitigation techniques used for liquidity risks

A liquidity risk measure is used to monitor liquidity risk closely at each quarter. The liquidity risk coverage is reported to the Board on a quarterly basis.

InChiaro Life's Liquidity Risk Policy sets out the Company's definition of liquidity risk, the approach used to monitor liquidity risk and potential contingency plans in the event of a liquidity risk event. InChiaro Life's definition of liquidity risk is the risk of having insufficient internal liquid resources to meet cashflow requirements as they fall due. Given the nature of the InChiaro Life unit linked business all liquidity risks in respect of policyholder funds are taken on by policyholders.

The Company seeks to hold all shareholder assets in liquid funds with the exception of the Italian Tax Asset which arises from the prepayment of Italian tax. InChiaro Life can potentially source additional liquidity through raising capital through its parent. Other potential sources of liquidity are obtaining a loan, securitising future profits and\or increasing annual management charges payable by policyholders.

C.4.4 Expected profit included in future premiums ("EPIFP")

The solvency II valuation does not assume any future premiums will be received as the business is single premium business.

C.4.5 Risk sensitivity for liquidity risks

The Company carried out stress and scenario testing as part of the ORSA process which includes the stress testing of the liquidity risks. The Company's ability to meet future outflows was assessed by measuring the liquidity coverage for the next 3 years. The stress testing included assessing the impact of increasing the Italian tax prepayment rate and increasing the Company's future outgo.

C.5 Operational risk

C.5.1 Material operational risks

The operational risk is defined as the risk of suffering losses deriving from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from outside events. Among these are losses deriving from fraud, human errors, interruptions of operations, non-availability of systems, contractual breaches and natural catastrophes.

InChiaro Life's operational risk exposure stem from having small staff numbers with a concentration of knowledge. A departure of one or more key staff may lead to disruption to the Company.

Operational risk also has a number of concentration risks. These arise due to having a single source of future capital from Group, a limited product range and single country of distribution.

Other operational risks to InChiaro include:

IT Infrastructure & Processing - InChiaro Life relies heavily on its IT Platform and processing routines to deliver the business. Any problems may lead to disruption.

IT Security – There is a risk that various information assets are affected by a cyber-attack such as hardware, systems, laptops, customer data and intellectual property.

Concentration of Policies - InChiaro Life has a small book of policies. There are also some large policies within the book. Should these policyholders lapse InChiaro Life could lose a large portion of its income.

Legal and Compliance - Non-compliance with legal requirements could lead to increased costs.

Regulatory - Non-compliance with regulatory requirements could lead to fines and damage the reputation of the Company.

Reputation – An operational event may damage the company's and group's reputation.

C.5.2 Measures used to assess operational risk

Operational risk is monitored continuously and reported on a monthly basis in the management report. Identified errors and breaches are notified to risk and compliance functions immediately on discovery. Operational risks are listed in the Company's risk register which is reviewed on a monthly basis.

C.5.3 Investment assets and prudent person principle as applied to operational risks

Solvency II regulations have brought in the 'Prudent Person Principle' in relation to investing in assets. The Company is required to apply this principle, and has ensured that its investment approach is aligned with this Principle.

C.5.4 Risk mitigation techniques used for operational risks

Material new operational risk events and updates on all open events are reported to the Board on a quarterly basis in the CRO quarterly report. A root cause analysis of the operational risk error or breach is carried out to ensure appropriate action has been taken.

C.5.6 Risk sensitivity for operational risks

The standard formula operational risk capital is calculated as 25% of total renewal expenses from the previous year. Large scale operational risk events are considered in the ORSA and in determining the overall solvency needs of the Company.

C.6 Other material risks

There are no other material risks.

C.7 Any other information

There are no other material items to include under this section.

The SFCR is required to include comment on the risks exposure arising from off-balance sheet positions. InChiaro Life does not have risk exposures arising from off-balance sheet positions.

D Valuation for Solvency purposes

D.1 Assets

The following table analyses the Company's assets at fair value at 31 December 2017:

€000	2017	2016
Deferred tax assets	205	291
Property, plant and equipment	4	7
Assets held for index-linked and unit-linked contracts	593,614	615,953
Reinsurance recoverables*	(844)	(999)
Insurance and intermediaries receivables	1,889	1,449
Receivables (trade, not insurance)	9,199	9,134
Cash and cash equivalents	9,842	9,461
Total assets	**613,909**	**635,296**

**There was a reclassification of the reinsurance recoverables from liabilities to assets in 2017. The 2016 result was updated for this reclassification for the purposes of this report.*

D.1.1 Solvency II valuation for each material class of asset

This section presents for each assets caption, the principles, methods and main assumptions used to determine the fair value of the assets in Solvency II Balance Sheet. When there are material, differences between Solvency II balance sheet values and the statutory balance sheet, values are explained in more detail.

Deferred tax assets

A deferred tax asset is recognised for an unused tax loss carry forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry forward can be utilised.

The deferred tax asset of €205k represents unused tax losses capitalised and it is expected that the losses will be fully utilised against future profits.

Property, plant & equipment held for own use

Property, plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on straight line basis over the useful lives of the assets. The assets residual values, and useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end. The carrying value does not materially differ from the fair value of the assets and the assets are regularly assessed for impairment to determine that the carrying value remains appropriate.

Assets held for index-linked and unit-linked contracts

The assets held in respect of unit-linked contracts represent the policyholder unit funds. The unit-linked assets are invested in accordance to the investment strategy chosen by each policyholder. The assets invested in include direct investment in corporate bonds, government bonds, cash, equities, derivatives and indirect investments in collective investment undertakings.

Financial assets are recognised initially at cost plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs that are directly attributable to acquisition. The classification depends on the purpose for which the investments were acquired or originated. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gains and losses are recognised in the Statement of Comprehensive Income.

The fair value of financial instruments with offsetting market risk, that are actively traded in organised financial markets, is determined by reference to quoted mid-market price, at the close of business on the reporting date, without any deduction for transaction costs. Shareholder financial instruments are valued at closing price.

The fair value used to value a financial instrument is initially the price quoted if the financial instrument is listed on an active market. If there is no active market, fair value is determined using valuation techniques.

A financial instrument is deemed to be listed on an active market if prices are readily and regularly available from a stock exchange, a broker, a dealer, a business sector, pricing agencies or regulatory agencies, and if those prices represent actual and regularly occurring market transactions carried out on an arm’s length basis.

A market is considered to be inactive on the basis of indicators such as a significant fall in trading volumes and the level of activity on the market, broad dispersion of prices available over time, and between the various market operators mentioned above, or the length transactions took place on the market on an arm's length basis.

Reinsurance recoverables

A reinsurance asset is held on the Solvency II balance sheet. It is calculated as the present value of expected future reinsurance recoveries less the present value of expected future reinsurance premiums.

Insurance and intermediaries receivables

Insurance receivables represent the annual management charges owed from policyholder unit funds. Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Receivables (trade, not insurance)

InChiaro Life holds an Italian tax prepayment asset of €8.7m as at 31 December 2017 and classifies this asset as a receivable. The Italian tax prepayment is based on the IFRS mathematical reserves held in respect of unit-linked policies and is a prepayment of policyholder taxes levied by the Italian fiscal authority. It is classified as a 'Receivables (trade, not insurance)' and valued at face value. The Italian policyholders' tax liability is calculated and retained by the Company until the amount of the prepayment is fully recovered. Any amount not recovered after 5 years from the date of the prepayment can be set against future liabilities for the Italian tax prepayment or can, upon agreement, be surrendered to an Italian group company to be recovered from is tax liabilities. Any amounts which have no future prospect of recovery from policyholders or a group company can be reclaimed from the Italian fiscal authority.

Cash and cash equivalents

The cash and cash equivalents comprise of the shareholder bank deposits. The bank deposits are short term and held in Euro. The deposits are valued at market value in the Solvency II valuation. The deposits are made up of Banca Patrimoni and Bank of Ireland holdings.

Intangible assets

The company has no intangible assets on the Solvency II balance sheet.

D.1.2 Solvency II and IFRS valuation differences by material class of asset

There are no differences between the Solvency II valuation and IFRS valuation of the assets listed above other than the value of reinsurance recoverables from life index-linked and unit-linked business. The IFRS technical provisions stated in the financial statements is net of reinsurance recoverables and so does not value this item separately.

In addition, the IFRS balance sheet values other assets not included in the Solvency II valuation such as intangible assets (€62k) and deferred acquisition costs (€33k). Deferred acquisition costs under Solvency II framework should not be deferred so they are immediately and totally cancelled from own funds.

D.2 Technical Provisions

D.2.1 Technical provisions for each material line of business

€000	2017	2016
Technical provisions – best estimate - unit liabilities	593,614	615,953
Technical provisions – best estimate - future profits*	(6,932)	(9,333)
Technical provisions – risk margin	2,747	3,070
Total technical provisions gross of reinsurance	**589,429**	**609,690**
Reinsurance Recoverable*	(844)	(999)
Total technical provisions net of reinsurance	**590,273**	**610,689**

**Gross of tax*

D.2.2 Methodology for valuation of technical provisions

The technical provisions are composed of the best estimate liability plus the risk margin. The best estimate liability is made up of two components:

- the policyholder value of best estimate liabilities (i.e. the unit liabilities)
- the value of future profits (shareholder charges less expenses)

Best estimate liabilities – policyholder

The best estimate of the policyholder liabilities is the sum of the bid value of the unit liabilities for each policy.

Best estimate liabilities – value of future profits

The present value of future profits is calculated as the shareholder income less outgo. The income is the annual management charge plus investment costs incurred by the policyholder. The outgo comprises management expenses plus investment costs that are met by the shareholder.

Risk margin

The risk margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.

The risk margin component of technical provisions is calculated using a cost of capital approach where the cost of capital each year is set at 6% of the capital requirement. The risk margin is equal to the sum of the discounted costs of capital. There are no risks excluded from SCR for the purposes of the risk margin calculation.

Reinsurance Recoverable

A reinsurance asset is held on the Solvency II balance sheet. It is calculated as the present value of expected future reinsurance recoveries less the present value of expected future reinsurance premiums.

D.2.3 Assumptions

1.1 The key assumptions influencing the technical provisions are

- Expenses and expense inflation
- Lapses/partial encashments

The assumptions have been derived as follows:

Expenses and expense inflation

Expense assumptions are set according to the Company's expense budget and are split into maintenance related and acquisition related expenses. Maintenance expenses are divided by the number of policies in force at the valuation date to determine the per policy expense assumption used in the calculation of technical provisions.

Expense inflation takes into account the market forecast for inflation based on the spread between fixed interest and index linked bonds with a margin for salary inflation.

Lapses/partial encashments

The lapse and partial surrender experience over the previous five years is analysed by the Actuarial Function and the results of this analysis are used in determining best estimate future assumptions.

D.2.4 Uncertainty associated with the value of technical provisions

Uncertainty relates primarily to how actual experience will differ from best estimate assumptions used to calculate technical provisions. The key assumptions for InChiaro Life are lapse and expense assumptions. The assumptions are regularly monitored to ensure the assumptions are appropriate and the uncertainty is understood.

D.2.5 Solvency II and IFRS valuation differences of technical provisions

The IFRS technical provisions differ from the Solvency II technical provisions for the purposes of the returns to the Central Bank of Ireland. The key points of difference are the following:

- Solvency II assumptions are best estimate assumptions whereas IFRS assumptions have some margins for adverse deviation.
- Solvency II recognises all expected future profits on the balance sheet whereas under IFRS where the reserve is negative, i.e. for 'profitable' policies where the future income expected from the policy exceeds the expected expense outgo, then this negative reserve is set to zero for the purpose of calculating the technical provisions included within the financial statements.
- There is no requirement to hold a risk margin within the financial statements.

D.2.6 Recoverables from reinsurance contracts and special purpose vehicles

InChiaro Life has a reinsurance treaty in place whereby InChiaro cedes 95% of the death strain to the reinsurer. This limits the retention on any one life to a max of 0.5% (i.e. 5% of 10%) of fund value with a cap of €10k. The value of the reinsurance recoverables is calculated as the future recoveries less future premiums.

D.3 Other Liabilities

€000	2017	2016
Deferred tax liabilities	435	1,042
Insurance and intermediaries payables	1,344	881
Reinsurance payables*	66	67
Payables (trade, not insurance)	2,825	2,987
Total Other Liabilities	**4,670**	**4,977**

**There was a reclassification of the reinsurance recoverables from liabilities to assets in 2017. The 2016 result was updated for this reclassification for the purposes of this report.*

D.3.1 Solvency II valuation for each material class of other liabilities

Deferred tax liabilities

The best estimate liability and reinsurance recoverables are shown gross of corporation tax in the Solvency II balance sheet. The deferred corporation tax on future profits and reinsurance recoveries is represented in the deferred tax liabilities.

Insurance & intermediaries payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measure at amortised cost using the effective interest rate method.

Reinsurance Payables

Reinsurance payables represent the premiums owed to the reinsurer.

Payables (trade, not insurance)

The most material component of the Other Payables relates to the Italian tax prepayment calculated as at 31 December 2017 and payable in June 2018 (€2.2m).

D.3.2 Solvency II and IFRS valuation differences by material class of other liabilities

There is no deferred tax liability held in the IFRS balance sheet because future profits on unit-linked policies are not allowed for in the IFRS basis.

In addition, the IFRS balance sheet values other liabilities not included in the Solvency II valuation such as deferred income liability (€132k). Deferred income liabilities under Solvency II framework should not be deferred so they are immediately and totally cancelled from own funds.

D.4 Alternative methods for valuation

No alternative methods are used for the valuation of assets and liabilities.

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E Capital Management

E.1 Own funds

E.1.1 Objectives, policies and processes for managing own funds

The own funds for InChiaro Life represent the excess assets over liabilities in the Solvency II balance sheet. The company manages its own funds in accordance with the Investment and ALM Risk Management Policy. The company has a low risk tolerance in the management of its own funds and invests only in cash or government bonds over a medium term time horizon.

E.1.2 Own funds classified by tiers

All of InChiaro Life's current capital is equity capital and value of future profits which is considered Tier 1 under Solvency II.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement and Minimum Capital requirement classified by tiers

All Tier 1 capital is eligible to cover the Solvency Capital Requirement and the Minimum Capital Requirement. The solvency coverage as at end December 2016 and 2017 is shown below:

€m	2017	2016
Own Funds	19.8	20.6
SCR	6.5	6.5
MCR	3.7	3.7
SCR Coverage	303%	319%
MCR Coverage	535%	558%

E.1.5 Differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for solvency purposes

The reconciliation of Solvency II Technical Provisions to the financial statements is in the table below:

	€000
Net Assets as per the financial statements as at end Dec 2017	**16,766**
Adjustments for Solvency II	
Removal of Intangible Assets	(62)
Removal of Deferred Acquisition Costs	(33)
Removal of Deferred Income Liability	132
Difference in Technical Provisions net of tax and reinsurance	3,444
Deferred tax Liabilities on SII Adjustments	(435)
Solvency II Own Funds as at end Dec 2017	**19,811**

E.2 Solvency and Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement and the Minimum Capital Requirement

The table below shows the total SCR and MCR at end December 2016 and 2017.

€000	2017	2016
SCR	6,534	6,467
MCR	3,700	3,700

E.2.2 Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up the total SCR at end December 2016 and 2017.

€000	2017	2016
Life Underwriting	4,482	4,903
Market Risk	3,308	3,529
Counterparty Default Risk	1,506	1,335
Undiversified BSCR	9,296	9,767
Diversification	(2,470)	(2,517)
BSCR	6,826	7,250
Operational Risk	143	141
Loss Absorbing Capacity of Deferred Taxes	(435)	(924)
SCR	6,534	6,467

E.2.3 Risk modules and sub-modules of the standard formula using simplified calculations

Simplified calculations are not used for any of the risk modules or sub modules.

E.2.4 Inputs used by the undertaking to calculate the Minimum Capital Requirement

€000	2017	2016
MCR absolute floor	3,700	3,700
Linear MCR	4,117	4,266
SCR	6,534	6,467
Combined MCR	2,940	2,910
MCR	**3,700**	**3,700**

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

InChiaro Life does not use a duration-based sub-module in the calculation of the SCR.

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

InChiaro Life does not use an internal model.

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

There was no breach in terms of meeting capital requirements for InChiaro Life.

E.6 other material information

There is no other material information regarding the capital management of the insurance or reinsurance undertaking.

F Templates

F.1 Quantitative reporting templates required for the SFCR

The following QRTs are included in the appendix:

S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses
S.05.02	Premiums, claims and expenses by country
S.12.01	Life and Health Technical provisions
S.23.01	Own funds
S.25.01	Solvency Capital Requirement
S.28.01	Minimum Capital Requirement

S.02.01 Balance Sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	205
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	4
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	593.614
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**-844**
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	-844
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	1.889
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	9.199
Own shares (held directly)	R0390	
paid in	R0400	
Cash and cash equivalents	R0410	9.841
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**613.909**

Liabilities

Technical provisions - non-life	**R0510**	
Technical provisions - non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	**589.429**
TP calculated as a whole	R0700	593.614
Best estimate	R0710	-6.932
Risk margin	R0720	2.747
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	435
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	1.344
Reinsurance payables	R0830	66
Payables (trade, not insurance)	R0840	2.825
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**594.098**

Excess of assets over liabilities	**R1000**	**19.811**

S.05.01 Premiums, Claims and Expenses

		Line of Business for: life insurance obligations	Total
		Index-linked and unit-linked insurance	
		C0230	C0300
Premiums written			
Gross	R1410	59.761	**59.761**
Reinsurers' share	R1420		**0**
Net	**R1500**	**59.761**	**59.761**
Premiums earned			
Gross	R1510	59.761	**59.761**
Reinsurers' share	R1520		**0**
Net	**R1600**	**59.761**	**59.761**
Claims incurred			
Gross	R1610	93.458	**93.458**
Reinsurers' share	R1620		**0**
Net	**R1700**	**93.458**	**93.458**
Changes in other technical provisions			
Gross	R1710	-133	**-133**
Reinsurers' share	R1720		**0**
Net	**R1800**	**-133**	**-133**
Expenses incurred	**R1900**	**5.998**	**5.998**
Other expenses	**R2500**		
Total expenses	**R2600**		**5.998**

S.05.02 Premiums, Claims and Expenses by country

		Home Country	Top 5 countries (by amount of gross	Total Top 5 and home country
		C0150	C0160	C0210
	R01400		IT	
		C0220	C0230	C0280
Premium written				
Gross	R1410		59.761	59.761
Reinsurers' share	R1420			0
Net	**R1500**		**59.761**	**59.761**
Premium earned				
Gross	R1510		59.761	59.761
Reinsurers' share	R1520			0
Net	**R1600**		**59.761**	**59.761**
Claims incurred				
Gross	R1610		93.458	93.458
Reinsurers' share	R1620			0
Net	**R1700**		**93.458**	**93.458**
Changes in other technical provisions				
Gross	R1710	-133		-133
Reinsurers' share	R1720			0
Net	**R1800**	**-133**		**-133**
Expenses incurred	**R1900**	1.311	4.687	5.998
Other expenses	**R2500**			
Total expenses	**R2600**			**5.998**

S.12.01 Life and Health Technical Provisions

		Index-linked and unit-linked insurance		Total (Lifeother thanhealth insur-ance, includingUnit-Linked)
			Contracts without options and guarantees	
		C0030	C0040	C0150
Technical provisions calculated as a whole	**R0010**	593.614		**593.614**
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	0		**0**
Technical provisions calculated as a sum of BE and RM				
Best Estimate				
Gross Best Estimate	**R0030**		-6.932	**-6.932**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		-844	**-844**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090		**-6.088**	**-6.088**
Risk Margin	**R0100**	2.747		**2.747**
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	R0110			**0**
Best estimate	R0120			**0**
Risk margin	R0130			**0**
Technical provisions - total	**R0200**	**589.429**		**589.429**

S.23.01 Own funds

		Total	Tier 1 - unrestricted
		C0010	C0020
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35			
Ordinary share capital (gross of own shares)	R0010	**20.100**	20.100
Share premium account related to ordinary share capital	R0030		
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040		
Subordinated mutual member accounts	R0050		
Surplus funds	R0070		
Preference shares	R0090		
Share premium account related to preference shares	R0110		
Reconciliation reserve	R0130	**-289**	-289
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		
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220		
Deductions			
Deductions for participations in financial and credit institutions	R0230		
Total basic own funds after deductions	**R0290**	**19.811**	**19.811**

Ancillary own funds			
Unpaid and uncalled ordinary share capital callable on demand	R0300		
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310		
Unpaid and uncalled preference shares callable on demand	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 2009/138/EC	R0360		
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370		
Other ancillary own funds	R0390		
Total ancillary own funds	**R0400**		

Available and eligible own funds			
Total available own funds to meet the SCR	**R0500**	**19.811**	**19.811**
Total available own funds to meet the MCR	**R0510**	**19.811**	**19.811**
Total eligible own funds to meet the SCR	**R0540**	**19.811**	**19.811**
Total eligible own funds to meet the MCR	**R0550**	**19.811**	**19.811**
SCR	**R0580**	**6.534**	
MCR	**R0600**	**3.700**	
Ratio of Eligible own funds to SCR	**R0620**	**303,21%**	
Ratio of Eligible own funds to MCR	**R0640**	**535,43%**	

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**19.811**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**20.100**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**-289**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	

S.25.01 Solvency Capital Requirement

		Gross solvency capital requirement
		C0110
Market risk	R0010	3.308
Counterparty default risk	R0020	1.507
Life underwriting risk	R0030	4.482
Health underwriting risk	R0040	
Non-life underwriting risk	R0050	
Diversification	R0060	-2.472
Intangible asset risk	R0070	
Basic Solvency Capital Requirement	**R0100**	**6.826**

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	143
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-435
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	6.534
Capital add-on already set	**R0210**	**0**
Solvency capital requirement	R0220	6.534
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.28.01 Minimum Capital Requirement

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		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	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	587.526	
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		6.737

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		4.117

Overall MCR calculation		C0070
Linear MCR	R0300	4.117
SCR	R0310	6.534
MCR cap	R0320	2.940
MCR floor	R0330	1.633
Combined MCR	R0340	2.940
Absolute floor of the MCR	R0350	3.700
		C0070
Minimum Capital Requirement	**R0400**	**3.700**