CATTOLICA LIFE DAC

SOLVENCY AND FINANCIAL CONDITION REPORT

31ST DECEMBER 2018

April 5, 2019

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EXECUTIVE SUMMARY

Business and Performance

Cattolica Life dac ("the Company") is an insurance undertaking, incorporated in Ireland and authorised to carry on Class III life assurance business. It is a subsidiary of Cattolica Assicurazioni. Cattolica Assicurazioni owns a shareholding of 60% of Cattolica Life. The remainder of the company is owned by Banca Popolare di Vicenza S.p.A. in L.C.A

In June 2017 the ECB deemed Banca Popolare di Vicenza S.p.A. ("BPV") "failing or likely to fail" and the Italian government issued a Decree by which BPV was put into liquidation according to the provisions of Italian law. The liquidators sold a part of the bank to Banca Intesa. BPV was the primary distribution channel for Cattolica Life DAC and following the loss of this distribution channel the Company closed to new business and no longer writes new insurance policies. In light of the closure to new business and these recent developments the Company is assessing the options for the business.

The underwriting loss has decreased compared to the prior year, from a loss of €3.0 million in 2017 to a loss of €1.9 million in 2018. This reduction is a result of reduced expenses and the removal of commission payments. The losses are caused by the reduction in funds under management during recent years and the closure to new business as well as a significant write down of the DAC asset. Claims remained at a significant level of €219 million, compared to €235 million in the previous year. Premium income during 2018 amounted to €0.18m, reducing from €27 million in 2017.

System of Governance

The Board of Directors ("the Board") has the overall responsibility for business decisions and for compliance with the regulatory system. The Board is responsible for the effective, prudent and ethical oversight of the Company, setting its business strategy and ensuring that risk and compliance are properly managed.

The Company's Risk Management System includes:

1) Risk Management Strategy, including risk appetite
2) Written policies for all key risk areas
3) Processes and procedures to:
    a. Identify risks
    b. Assess risks
    c. Manage or respond to risks
    d. Monitor risks
    e. Report on risks

The Company seeks to manage its capital and risk exposures so that it is able to meet all financial commitments to policyholders in full after an extreme shock. This appetite is expressed quantitatively as seeking to maintain sufficient assets to cover its best estimate liabilities in 99.5% of all outcomes over a one year time horizon. The Company also wishes to maintain a buffer of 25% in excess of this amount of capital.

The Company also wishes to manage its liquidity alongside the capital and risk appetite and monitors this on an ongoing basis.

The ORSA is a very important tool for the Board, providing it with a comprehensive picture of the risks the undertaking is exposed to or could face in the future. It enables the Board to understand these risks and how they translate into capital needs or alternatively require mitigation actions.

Risk Profile

In the past, the Company's strategy was to sell investment and insurance policies which might have significant insurance risk when assessed at an individual policy level but which don't present significant insurance risk to the Company. The Company did not write any products with investment guarantees. The Company closed to new business during 2017.

The unit-linked nature of the business means that the majority of risks arising for the Company are in relation to secondary risks, which impact on the value of management charges arising on the business or the loss of the business. The most significant risks are equity and lapse risk and both of these reflect the risk of loss of future profits. A prudent approach is adopted in relation to shareholder investments, with a particular focus on liquidity, and relatively little market risk arises from the direct investments.

Valuation for Solvency Purposes

The following table summarises the valuation of assets and liabilities as at 31 December 2018 and the own funds of the Company.

Asset Category	€million	Liability Category	€million
Financial Assets at fair value	258.2	Unit Liability	257.5
Cash and cash equivalents	22.4	Best Estimate Liability	0.5
Receivables & Other assets	6.6	Risk Margin	0.6
Reinsurance Asset	0.0	Deferred Tax Liability	0.7
		Insurance Payables	4.6
		Trade Payables	0.6
Total Assets	**287.2**	**Total Liabilities**	**264.4**
		Own Funds	**22.8**

The valuation of assets is the same as the valuation for IFRS purposes, except for the removal of the Deferred Acquisition Cost (DAC) and intangible assets.

There are significant differences between the Solvency II technical provisions and those included in the financial statements. Solvency II BEL reflects all future profits and can be negative, whereas the technical provisions included in the financial statements are floored at zero on a policy by policy basis. The positive liabilities held in the financial statements primarily reflect individual policies where the future income is not sufficient to cover the future per-policy expenses associated with that policy. No risk margin is held within the financial statements.

Capital Management

The following table summarises the Company's capital position as at 31 December 2018 and 31 December 2017 in €millions:

€million	31/12/2018	31/12/2017	Change
Own Funds	22.8	23.8	(1.0)
SCR	5.7	8.8	(3.1)
Solvency Coverage Ratio	**401%**	**271%**	**130%**

Own funds have fallen over the year due to the reducing funds under management and revised assumptions associated with the changed situation. The SCR has also fallen in line with the reduction in future profits embedded in the Company's Best Estimate Liability.

The Company monitors its capital position on an ongoing basis, both retrospectively and prospectively. The ORSA is a key tool for ensuring that the Company has sufficient confidence and visibility of the potential development of its own funds position over time. The ORSA examines the potential development of the capital position over a five year period.

A. BUSINESS AND PERFORMANCE

A.1 Business

BACKGROUND

Cattolica Life dac is an insurance undertaking, incorporated in Ireland and authorised to carry on Class III life assurance business.

Cattolica Life is supervised by the Central Bank of Ireland ("**CBI**"). Contact details for the CBI are as follows:

Central Bank of Ireland,

New Wapping Street,

North Wall Quay,

Dublin 1.

Ireland

The external auditor for the Cattolica Life is Deloitte (**"Deloitte"**). Contact details for Deloitte are as follows:

Deloitte

Chartered Accountants and Statutory Auditor,

Deloitte & Touche House,

Earlsfort Terrace,

Dublin 2,

Ireland

GROUP STRUCTURE

Cattolica Life is a subsidiary of Cattolica Assicurazioni. Cattolica Assicurazioni owns a shareholding of 60% of Cattolica Life. The remainder of the company is owned by Banca Popolare di Vicenza S.p.A. in L.C.A.

In June 2017 the ECB deemed Banca Popolare di Vicenza S.p.A. ("BPV") "failing or likely to fail" and the Italian government issued a Decree by which BPV was put into liquidation according to the provisions of Italian law. The liquidators sold a part of the bank to Banca Intesa. BPV was the primary distribution channel for Cattolica Life DAC and following the loss of this distribution channel the Company closed to new business and no longer writes new insurance policies. In light of the closure to new business and these recent developments the Company is assessing the options for the business.

LINES OF BUSINESS

Cattolica Life wrote conventional unit-linked (single premium and regular premium) business on a freedom of services basis in Italy but closed to new business during 2017.

The vast majority of unit-linked products sold by the Company are single premium products. The main product lines are described briefly below:

- **Free Selection** is a single premium unit linked investment policy issued on a single life basis.
- **Ensemble** is a single premium unit linked investment policy issued on a single life basis.
- **Portfolio Bonds** are whole of life unit-linked single premium contracts.

The Company is currently closed to new business.

SIGNIFICANT EVENTS DURING THE PERIOD

As noted above, in June 2017 the ECB deemed Banca Popolare di Vicenza S.p.A. ("BPV") "failing or likely to fail" and the Italian government issued a Decree by which BPV was put into liquidation according to the provisions of Italian law. The liquidators sold a part of the bank to Banca Intesa. BPV was the primary distribution channel for Cattolica Life DAC and following the loss of this distribution channel the Company closed to new business and no longer writes new insurance policies.

There has been no change to the Company's situation during 2018.

A.2 Underwriting Performance

The Company wrote one line of business only, conventional unit-linked policies and operates in one geographical area, Italy. The underwriting performance on an IFRS basis for the year-end 2018 is shown in the table below, with year-end 2017 figures included for comparison.

The underwriting loss has decreased compared to the prior year, from a loss of €3.0 million in 2017 to a loss of €1.9 million in 2018. This reduction is a result of the reduction in funds under management during the year. Claims remained at a significant level of €219 million, compared to €235 million in the previous year. Premium income during 2018 amount to €0.18 million, reducing from €27 million in 2017.

Underwriting Performance (€000's)	31st Dec 2018	31st Dec 2017
Premium	54	958
Investment returns	(8,623)	24,452
Claims	(83,812)	(91,257)
Expenses	(4,828)	(17,740)
Change in Technical Provisions	85,635	80,543
Underwriting Profit	**(1,919)**	**(3,044)**

A.3 Investment Performance

The investment performance during the year, with the prior year included for comparison, is shown in the following table (figures in €'000s):

Investment Performance (€000's)	31st Dec 2018	31st Dec 2017
Investment Return unit-linked	(9,132)	23,149
Investment Return Shareholder assets	(254)	16

The investment return primarily reflects the return on the unit-linked assets held by the policyholders and does not directly impact upon the Company's profit. Similarly, the investment expenses primarily arise in relation to the investment of unit-linked assets and don't impact directly upon profit. Only the investment return on the shareholder assets has a direct impact upon profitability.

Investment performance has an indirect impact on profitability through its impact on management charges, which are a percentage of fund value. However, the Company is directly impacted by the investment return on shareholder assets.

A split of income and expenses by asset class is shown below (figures in €'000s).

Asset Class	Government bonds	Corporate bonds	Equity	Investment Funds	Cash and Deposits
Income	14	28	-	-	11
Expenses	149	287	-	-	113

There were no gains or losses recognised directly in equity and there are no investments in securitisations.

A.4 Performance of other activities

There are no other material income or expenses for Cattolica Life.

A.5 Any other information

There is no other relevant information of note relating to business or performance.

B. SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

STRUCTURE OF BOARD

The Board of Directors ("the Board") has the overall responsibility for business decisions and for compliance with the regulatory system. The Board is responsible for the effective, prudent and ethical oversight of the Company, setting its business strategy and ensuring that risk and compliance are properly managed. The Board's responsibilities include but are not limited to:

a) Setting the direction, strategies and financial objectives of the Company;

b) Oversight of the Company, including its control and accountability systems;

c) Monitoring compliance with statutory and regulatory requirements;

d) Reviewing and ratifying systems of risk management and internal control;

e) Approval of Financial Statements and Report of the Directors;

f) Approval of key strategic decisions.

The Board may delegate authority to sub-committees or management to act on behalf of the Board in respect of certain matters but, where the Board does so, it has mechanisms in place for documenting the delegation and monitoring the exercise of delegated functions. The Board cannot abrogate its responsibility for functions delegated.

The Board comprises six directors as of 11 April 2019, four independent non-executive directors, one non-executive director and one executive director. The Audit and Risk Committees report to the Board of Directors.

Audit Committee

The principal role of the Audit Committee is to support the Board in its oversight activities. In particular, the Committee will assist in oversight of:

a) Financial reporting

b) Internal Controls

c) Internal Audit

d) External Audit

e) Compliance

In order to assert its independence, the Committee is comprised solely of Non-Executive Directors, with the majority being independent non-executive directors. The chair of the audit committee is also an independent non-executive director ("INED").

Risk Committee

The Risk Committee is responsible for providing oversight and advice to the Board on the risk exposures of the Company and future risk strategy. They also provide direction and oversight in relation to risk identification, assessment, management and monitoring and oversee the risk management function.

The Committee has three or more members, with the majority being independent non-executive directors. The chair of the committee is also an independent non-executive director ("INED").

REMUNERATION

The remuneration policy of Cattolica Life is based on conditions that are market competitive and at the same time aligned with shareholders' interests. Remuneration of staff may contain some or all of the following elements: fixed and variable salary and participation in a pension scheme.

The fixed salary component is competitive and based on the individual manager's responsibilities and performance. The contracted variable remuneration will not generally exceed a maximum of 30% of the fixed annual salary.

Staff may receive variable remuneration in addition to fixed salaries. This element of remuneration is typically higher for more senior staff.

Bonus is determined based on a combination of:

- Achievement of personal objectives
- Group performance

It is intended that the achievement of personal objectives will reflect the Company's strict compliance and strong ethical culture. It is also intended that this measure will reflect the long term interests of the Company, will be in line with the Company's risk management strategy and shall avoid excessive risk taking.

The measurement of performance of the Company, as a basis for variable remuneration, shall include a downwards adjustment for exposure to current and future risks, taking into account the Company's risk profile and cost of capital. Shares and stock options are not granted.

Given the closure to new business, retention bonuses were introduced to ensure adequate staffing levels and retention of key knowledge within the Company.

Staff are entitled to pension commitments based on those that are customary in Ireland. Pension commitments will be secured through premiums paid by the Company.

The design of this remuneration policy is such that it is not intended to have an adverse effect on the long-term interests of the undertaking and aligns the objectives of the undertaking and its personnel with a view to the long term. Hence, the remuneration structure is based on a combination of a long-term view of the undertaking's financial performance and on short-term financial performance.

The remuneration policy should not contain any incentives that detract from the obligation of the Company to promote the interests of its policyholders and shareholders, or from other duties of care to which it is subject.

There have been no material transactions during the reporting period with shareholders, with persons who exercise a significant influence, or with members of the Board.

GENERAL INFORMATION ON THE KEY FUNCTIONS

Information on the authority, resources and operational independence of the key functions are outlined below:

Compliance Function

The Compliance function is responsible for identifying the key compliance risks to Cattolica Life and monitoring the activities of the business to ensure compliance with the requirements of the Central Bank and with the requirements of the regulatory authorities in other jurisdictions where Cattolica Life operates. The Compliance function contributes to the integrity and performance of Cattolica Life and plays a major role in ensuring that Cattolica Life meets the required standard of compliance.

The Compliance function is responsible for ensuring compliance with relevant legislation and external regulatory requirements and reports to the Audit committee on an ongoing basis. External legal advice is sought as required.

The Compliance function identifies, develops and coordinates the establishment and maintenance of appropriate Cattolica Life policies, procedures and systems required to comply with applicable legislative and regulatory provisions and manages corporate risks.

Risk Management Function

The Risk Management Function is responsible for developing and monitoring the risk management system of Cattolica Life. The function is outsourced to Milliman and a team within Milliman supports the Chief Risk Officer in his work. The Chief Risk Officer also acts as the Head of the Actuarial Function but does not have any first line responsibilities.

The risk management function reports to the Risk committee on an ongoing basis.

It is responsible for:

- Advising the Board in relation to risk management strategy
- Developing and maintaining risk management policies and procedures

- Advising the Board regarding risk appetite
- Leading the identification of risks within the Company
- Risk assessment and monitoring (both quantitative and qualitative)
- Designing, implementing and monitoring appropriate Risk Mitigation
- Ensuring appropriate risk reporting within the Company
- Leading Pillar II development under Solvency II

Actuarial Function

The actuarial function is outsourced to Milliman. The actuarial function has responsibilities in relation to the coordination of the technical provisions, data quality, monitoring experience, reviewing underwriting and reinsurance and contributing to the effective implementation of the risk management system. The actuarial function reports to the Audit Committee and Board and the Actuarial Function report is presented on an annual basis. The Head of the Actuarial Function also acts as the Chief Risk Officer but does not have any first line responsibilities. He is supported by a team within Milliman, which provides the depth of expertise and capacity to ensure sufficient resources for any activities.

Internal Audit Function

The Company has established an internal audit function which forms the third line of defence in the "Three Lines of Defence" model. The internal audit function is provided through a secondment arrangement from a sister Company within the Group. It is responsible for providing independent assurance to the Audit Committee and the Board. It reviews the effectiveness of the first and second lines of defence and suggests improvements to be implemented.

B.2 Fit and proper requirements

The Company has a Fit and Proper policy in place, to ensure that the persons who run the Company collectively possess appropriate qualifications, experience and knowledge, where relevant to the role in question.

The Company ensures that all persons filling Control Functions ("CFs"), including PCFs ("Pre-approved Control Functions"), in the Company or have other key functions as decided by the Company are:

- competent and capable (fit);
- honest, ethical and act with integrity (proper); and
- financially sound.

The above requirements also apply to persons performing CFs who work for outsourced service providers.

POLICIES AND PROCEDURES

In order to ensure fitness and probity, due diligence is conducted for new appointments to CFs and for existing CF holders. CF holders are required to agree to comply with the CBI's standards and with the Company's fitness and probity policy and to notify the Company of any issues that may be viewed as having an impact on their ability to meet the fit and proper requirements.

The Company maintains a record of all persons filling CFs and of the due diligence carried out in respect of these persons.

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

RISK MANAGEMENT SYSTEM

The Risk Management System includes:

1) Risk Management Strategy, including risk appetite
2) Written policies for all key risk areas

3) Processes and procedures to:
    a. Identify risks
    b. Assess risks
    c. Manage or respond to risks
    d. Monitor risks
    e. Report on risks

The Board's Risk Management Strategy includes the following:

a) Objectives and key principles

b) Risk appetite

c) Assignment of responsibilities

It is intended that the Board Risk Management Strategy will outline the strategy that applies in relation to risk management and the overall principles dictating the level of risk to be taken. It also outlines the total aggregate level of risk that the company wishes to run.

RISK APPETITE

Cattolica Life seeks to manage its capital and risk exposures so that it is able to meet all financial commitments to policyholders in full after an extreme shock. This appetite is expressed quantitatively as seeking to maintain sufficient assets to cover its best estimate liabilities in 99.5% of all outcomes over a one year time horizon. The Company also wishes to maintain a buffer of 25% in excess of this amount of capital.

Cattolica Life's strategy was to sell investment and insurance policies which might have significant insurance risk when assessed at an individual policy level but which don't present significant insurance risk to the Company. The Company closed to new business during 2017 which has led to losses for the Company and reductions in the level of own funds. The Company monitors the amount of own funds remaining and available to meet liabilities.

RISK MANAGEMENT RESPONSIBILITIES

Cattolica Life has adopted a 3 level structure to its risk management governance. The 3 levels are:

- Risk Management
- Risk Oversight
- Independent Assurance

The first level, Risk Management, is the responsibility of the business unit managers. These are the people with the responsibility for making the primary decisions in relation to risk. They are the people deciding which products to sell, what controls to put in place etc. and they have the initial responsibility for managing risk. The Risk Management level is responsible for carrying out the procedures put in place by the Risk Oversight level.

The second level is the Risk Oversight level which is the responsibility of the risk management and actuarial function and the Risk Committee. This level is responsible for overseeing the management of risk within the Company. The risk management function is responsible for designing and implementing the procedures to identify, assess, manage, monitor and report risks. It is also responsible for the production of regular reports to the Board.

The third level is Independent Assurance and includes the Audit Committee and Internal Audit. They are responsible for ensuring that the various first level and second level processes are functioning in the manner desired.

The Board of the Company has responsibility across all three levels. It sets the Company's strategy, outlines the desired risk appetite and the business unit managers are charged with implementing its vision. The Board also has responsibility in relation to risk oversight and should act as an intermediary between the business units and the risk management function. The Board needs to be capable of seeing both sides of the argument and weighing up the relative merits. It is also responsible for ensuring that appropriate independent assurance is in place.

ORSA

Cattolica Life defines the ORSA as “the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks an insurer faces or may face and to determine the own funds necessary to ensure that the insurer’s overall solvency needs are met at all times”.

The ORSA is intended to provide the Company’s view of its risks and capital needs. Therefore, the Company has significant flexibility to define the processes and procedures used to assess risk and capital needs. The processes used should be proportionate to the extent of risk and solvency needs with less complex approaches justified for risks that do not present significant risk to the Company.

There are a number of specific objectives that the ORSA must achieve. The ORSA must:

- Assess the Company’s overall solvency needs
- Demonstrate continuous compliance by the Company with its capital requirements
- Assess deviations from the assumptions of the SCR

The ORSA is a very important tool for the Board, providing it with a comprehensive picture of the risks the undertaking is exposed to or could face in the future. It enables the Board to understand these risks and how they translate into capital needs or alternatively require mitigation actions.

The Board is responsible for approving the ORSA policy and ensuring that the ORSA is appropriately designed and implemented.

It is also the Board’s responsibility, taking into account the insights gained from the ORSA to approve the long and short term capital planning, whilst considering the business and risk strategies it has decided upon for the undertaking. This plan includes alternatives to ensure that capital requirements can be met even under unexpectedly adverse circumstances.

The ORSA policy is reviewed, at least, annually and also following any significant change to business plan, capital position or risk profile.

After each ORSA process a supervisory report is prepared in order to communicate the key results and conclusions to the regulator. The supervisory report also serves as the internal report and is communicated to all key staff.

The ORSA process is used to ensure that the Company’s business planning will be connected to its solvency needs. The financial projections produced are intended to ensure that the Company is aware of the potential development of its risk profile and capital requirements in various scenarios.

The results of the ORSA are used to influence, at least, product development, capital management and company strategy. The ORSA process is undertaken following the production of the Company’s annual business plan and the insights from the previous ORSA are used to influence the business plan adopted by the Board.

The Company has defined risk tolerances in the Board approved risk appetite. The risk tolerances are designed to ensure that the Company’s risk profile remains within the stated risk appetite and that the Company has sufficient capital to meet its overall solvency needs.

The Company has also defined specific risk limits for certain key risks, which are designed to ensure that the risk tolerances specified are not exceeded. The risk limits are intended to be used by the various business departments and it is intended that observation of the risk limits by the business units will ensure that the risk tolerances don’t exceed the levels specified. Therefore, the business units’ processes should include processes and procedures to ensure that the relevant risk limits are not specified.

B.4 Internal control system

INTERNAL CONTROL SYSTEM

The Company adopts the internal control framework set out by the Committee of Sponsoring Organizations of the Tread way Commission (“ERM COSO”). The integrated components of the ERM COSO framework are as follows:

1. Internal environment
2. Objective setting
3. Event identification
4. Risk assessment

5. Risk response
6. Control activities
7. Information and communication
8. Monitoring

The Compliance function is a key part of the Company's internal control system.

COMPLIANCE FUNCTION

The Compliance function is responsible for ensuring compliance with relevant legislation and external regulatory requirements.

The Compliance function identifies, develops and coordinates the establishment and maintenance of appropriate Cattolica Life policies, procedures and systems required to comply with applicable legislative and regulatory provisions and manages corporate risks.

The Compliance function is implemented through the Compliance officer, who is a Company employee. External legal advice is also sought as required.

A key objective of an effective internal control system is to ensure compliance with the applicable laws and regulations. In this regard the Compliance Function will play a key role in the internal control system. The duties of the Compliance Function include the following:

a) Identifying, assessing, monitoring and reporting compliance risk.

b) Assessing the possible impact of any changes in the legal environment on the operations of the Company.

c) Advising the Board on compliance with the laws, regulations and administrative provisions to which the Company is subject and to promptly report any major compliance problems it identifies to the Board.

d) Assessing the appropriateness of the undertaking's compliance procedures and guidelines, following up identified deficiencies promptly and making suggestions for improvements as necessary.

e) To set out the intended compliance activities in a compliance plan that ensures that all relevant areas of the Company are appropriately covered, taking into account their susceptibility to compliance risk.

B.5 Internal Audit Function

IMPLEMENTATION OF THE INTERNAL AUDIT FUNCTION

The Internal Audit Function is part of the third line of defence of the Company and is independent of Cattolica Life's business operations; it supports the Board of Directors in the necessary monitoring of all the other elements of the internal control system.

The Internal Audit Function of Cattolica Life is provided on a secondment basis using resource from a sister Company within the same Group.

The Internal Audit function reports to the Audit Committee, including findings from:

- completed reviews
- audits in progress
- special projects
- overdue actions.

It examines and evaluates the adequacy and effectiveness of the internal control system and other elements of the system of governance.

INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDIT

As the internal audit function is provided by a secondment resource, it is completely independent of other business activities and has no other responsibilities that could conflict with its independence and objectivity.

B.6 Actuarial function

IMPLEMENTATION OF THE ACTUARIAL FUNCTION

The Actuarial Function is outsourced to Milliman and the Pre-approval Control Function PCF48 position of “the Head of the Actuarial Function” is held by a senior actuary within Milliman.

The actuarial function is required to:

- coordinate the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- compare best estimates against experience;
- inform the Board of the reliability and adequacy of the calculation of technical provisions;
- oversee the calculation of technical provisions in cases where there is insufficient data quality;
- express an opinion on the overall underwriting policy;
- express an opinion on the adequacy of reinsurance arrangements; and,
- contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements and to the Own Risk and Solvency Assessment.

B.7 Outsourcing

OUTSOURCING POLICY

Cattolica Life has adopted, what can be defined as an “outsourcing model” in which functions and activities are delegated to third party service providers as opposed to performed directly through internal resources.

The Company distinguishes between commercial contracts and outsourcing and also identifies outsourcing contracts that relate to critical or important functions or activities.

Outsourcing will not absolve the Board of its responsibility for discharging its obligations. Outsourced activities and service providers will fall within the scope of the Company’s risk management, compliance and internal audit functions.

Outsourcing will not be allowed to:

- Materially impair the governance system
- Unduly increase operational risk
- Impair the ability of the Central Bank of Ireland to monitor compliance
- Undermine service to policyholders

OUTSOURCED FUNCTIONS AND ACTIVITIES

The Actuarial Function and Risk Management function are outsourced to Milliman in Ireland.

The Company outsources policy administration and financial reporting activities to Irish Progressive Services International (“IPSI”), in Ireland.

The Internal Audit Function is provided by a seconded resource from a sister Company within the Group.

B.8 Any other information

The Board assesses the appropriateness of the Company’s system of governance annually and is satisfied that it is appropriate for the nature, scale, and complexity of the business.

C. RISK PROFILE

Cattolica Life's strategy was to sell investment and insurance policies which might have significant insurance risk when assessed at an individual policy level but which don't present significant insurance risk to the Company when considered at a portfolio level. The Company closed to new business during 2017.

C.1 Underwriting risk

C.1.1 RISK EXPOSURE

The Company is exposed to the following life underwriting risks:

- Lapse risk
- Expense risk
- Mortality risk, including catastrophe risk

The following table summarises the capital requirements in respect of these risks, at year-end 2018 and year-end 2017.

Life Underwriting Risk (€m)	2018	2017	Change
Lapse Risk	2.5	2.3	0.1
Mortality Risk	0.0	0.1	0.0
Expense Risk	0.8	1.7	(0.9)
Catastrophe Risk	0.0	0.0	0.0
Diversification	(0.4)	(0.6)	0.9
Total Life Underwriting Risk	**3.0**	**3.5**	**(0.6)**

Life underwriting risk has decreased over the year, primarily driven by the reduction in the size of the business and changes to assumptions which reduced the future profits embedded in the Best Estimate Liability.

Lapse risk has remained relatively stable over the year. Lapse risk represents the risk that policyholders surrender their policies and the anticipated future income does not materialise. This is the most significant underwriting risk for the Company.

Expense risk represents the risk that expenses are higher than expected and that expense inflation increases more than projected. The impact of this shock is lower overall as less expenses are projected in future years as a result of the reduction in the size of the business. This is a relatively material risk for the Company.

Mortality risk represents the risk that mortality rates are higher than expected and catastrophe risk represents the risk of a sudden increase in mortality over a one year period. Neither of these risks are very material for the Company given the scale of the sums assured provided to individual lives.

Underwriting risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Capital Requirements and own solvency needs assessments
- Scenario testing
- Likelihood / severity mapping, including assessment of controls and residual risk

C.1.2 RISK CONCENTRATION

The Company does not have any material underwriting risk concentrations, with risk being spread across a large number of lives.

C.1.3 RISK MITIGATION

Lapse risk is mitigated through product design, including the use of surrender penalties, commission clawback, policyholder bonuses, and through ongoing review and modification of the investments to ensure that policyholder objectives are met.

Mortality underwriting risk is mitigated through the use of reinsurance for any policies where the sum assured can be significant on an individual life basis.

The effectiveness of risk mitigation is monitored by the risk function and Risk Committee on an ongoing basis.

C.1.4 RISK SENSITIVITY

The sensitivity of the life underwriting risks can be seen in the results of the SCR shocks, the results of which are detailed in section C1.1 above. Lapse risk is the most significant life underwriting risk and an increase in lapses (as per the standard formula shock) would result in the future profits embedded in the inforce business falling by almost €2.5 million.

The assumptions and methodology used for these risk sensitivities are consistent with those outlined in Section D2.

C.1.5 ANY OTHER DISCLOSURE

The Company has closed to new business and lapse rates have increased significantly. In light of the closure to new business the Company is assessing the options for the business.

C.2 Market risk

C.2.1 RISK EXPOSURE

The Company is primarily exposed to market risks through the secondary impact of market falls on the value of management charges accruing on the unit-linked investments. A prudent approach is adopted in relation to shareholder investments and relatively little market risk arises from the direct investments.

The Company is exposed to the following market risks:

- Interest Rate risk
- Equity risk
- Spread risk
- Currency risk
- Concentration risk

The following table summarises the capital requirements in respect of these risks, at year-end 2018 and year-end 2017.

Market Risk (€m)	2018	2017	Change
Interest Rate Risk	0.3	0.4	(0.1)
Equity Risk	1.8	3.6	(1.9)
Spread Risk	0.2	0.3	(0.1)
Currency Risk	1.0	1.6	(0.6)
Concentration Risk	-	-	0.0
Diversification	(0.8)	(1.3)	0.5
Total Market Risk	**2.4**	**4.6**	**(2.1)**

Market risk has decreased significantly over the year. This decrease was primarily driven by the reduction in the amount of assets under management.

- Interest rate risk primarily represents the risk the impact of growth and discounting on the future management charges of the Company.
- Equity risk primarily represents the risk that a fall in equity values will result in a fall in unit-linked values and a reduction in future management charges for the Company.
- Spread risk represents risk that an increase in spreads will result in a fall in unit-linked values and a reduction in future management charges for the company.
- Currency risk primarily represents the risk that adverse currency movements will result in a fall in unit-linked values and a reduction in future management charges for the company.
- Concentration risk represents the risk that the Company's directly held assets are overly concentrated with any one provider.

Market risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Capital Requirements and own solvency needs assessments
- Scenario testing
- Likelihood / severity mapping, including assessment of controls and residual risk

C.2.2 RISK CONCENTRATION

The Company does not have any material risk concentrations in relation to market risk.

C.2.3 RISK MITIGATION

Market risks are generally mitigated through product design and ongoing monitoring of the underlying investments. The Board is responsible for monitoring the investment performance and the Risk Committee is responsible for monitoring the associated risks arising from investments.

Assets are invested in accordance with the prudent person principle, based on the Company's Investment policy.

C.2.4 RISK SENSITIVITY

The sensitivity of the market risks can be seen in the results of the SCR shocks, the results of which are detailed in section C.2.1 above. Equity risk is the most significant market risk and a significant fall in equity values would result in the future value of profits reducing by €1.8 million.

The assumptions and methodology used in the risk sensitivities are consistent with those outlined in Section D2.

C.2.5 ANY OTHER DISCLOSURE

The Company does not have any other market risk disclosures.

C.3 Credit risk

C.3.1 RISK EXPOSURE

Credit risk primarily arises in relation to the investment of the shareholder assets, noting that spread risk has been included under the market risk heading in the previous section.

The Company is exposed to the following credit risks:

- Counterparty risk on large individual counterparties, which cannot be diversified and are likely to be rated (Type 1)

- Counterparty risk on exposures which are usually diversified and are not rated (Type 2)

The following table summarises the capital requirements in respect of these risks, at year-end 2018 and 2017.

Counterparty Risk €m	2018	2017	Change
Type 1	1.5	1.2	0.3
Type 2	0.1	0.2	(0.1)
Diversification	(0.0)	(0.0)	0.0
Total Counterparty Risk	**1.5**	**1.4**	**0.2**

Credit risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Capital Requirements and own solvency needs assessments
- Scenario testing
- Likelihood / severity mapping, including assessment of controls and residual risk

C.3.2 RISK CONCENTRATION

The Company does not have material risk concentrations in relation to investments but it has a significant exposure to one bank counterparty, noting that it can reduce this exposure at short notice. The counterparty has a high credit rating and this is monitored on an on-going basis.

C.3.3 RISK MITIGATION

The Risk Committee is responsible for monitoring the associated counterparty risks arising from investments or exposures through distributors.

C.3.4 RISK SENSITIVITY

The counterparty default SCR illustrates the low level of risk arising from counterparty risk.

C.3.5 ANY OTHER DISCLOSURE

The Company does not have any other credit risk disclosures.

C.4 Liquidity risk

C.4.1 RISK EXPOSURE

Liquidity risk refers to the risk that undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due. The Company views liquid assets as those that can be realised in a reasonable timeframe of less than 6 months without suffering significant deterioration in the value realised.

The Company is exposed to the following liquidity risks:

- Italian Withholding Tax Asset, which is recovered through future recoveries (either through policyholder claims or recoveries from tax authorities).
- An illiquid asset arises in relation to the negative BEL, which represents future profits arising within the Company.

There has been no material change in the liquidity exposure of the company over the past year other than the scale of the BEL has reduced significantly associated with the closure to new business.

Liquidity risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Scenario testing
- Likelihood / severity mapping, including assessment of controls and residual risk

C.4.2 RISK CONCENTRATION

The Italian tax asset and negative BEL are the key areas of liquidity risk but the Company does not rely on these illiquid assets to back any liabilities.

C.4.3 RISK MITIGATION

The Risk Committee is responsible for monitoring the liquidity risk exposures on a regular basis. The Board also reviews the liquidity policy annually and receives regular liquidity monitoring reports.

Liquidity risks are also mitigated through product design, the nature of the unit-linked business written by the Company and ongoing monitoring of the underlying investments.

The Company does not have any Expected Profits in Future Premiums (EPIFP).

C.4.4 RISK SENSITIVITY

As part of the ORSA process, the Company considers scenarios that could potentially result in liquidity difficulties. These scenarios have never resulted in any funding difficulties for the Company.

C.4.5 ANY OTHER DISCLOSURE

The Company does not have any other liquidity risk disclosures.

C.5 Operational risk

C.5.1 RISK EXPOSURE

The Company defines operational risks as the risk of losses resulting from inadequate or failed internal processes, people, or systems or from external events.

Methods used to identify operational risk include top-down annual risk identification workshops with senior staff and the production of bottom-up quarterly risk control self-assessments by all departments.

Once a significant operational risk has been identified, it will be added to the risk register.

The Company is exposed to the following operational risks, amongst others:

- Outsourcing Risk
- Key Person Risk
- Customer Relations
- Fraud
- IT Risk
- Data Security/Cyber Risk
- Unit pricing and policy administration
- Compliance and Legal Risk

Cattolica Life has adopted, what can be defined as an “outsourcing model” in which functions and activities are delegated to third-party service providers as opposed to performed directly through internal resources.

Whilst there are advantages to this strategy such as access to expertise and managing costs, outsourcing also entails risk.

The Company has a strong appetite for outsourcing as it is central to the business strategy. However, the Company intends to maintain strong control over key outsourcing relationships and will ensure that there is strong governance and reporting to the Audit Committee and Board on the performance of the outsourcer and any issues arising.

The following table summarises the capital requirements in respect of these risks, at year-end 2018 and 2017.

Operational Risk €m	2018	2017	Change
Total Operational Risk	1.4	2.4	(1.0)

Operational risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Capital Requirements and own solvency needs assessments
- Scenario testing
- Likelihood / severity mapping, including assessment of controls and residual risk

C.5.2 RISK CONCENTRATION

The Company does not have any material operational risk concentrations but it is noted that the Company outsources a number of key functions to third parties.

C.5.3 RISK MITIGATION

There are a number of different operational risk mitigation processes used by the Company. These include control activities such as policies and procedures, segregation of duties, approvals, authorisations, reconciliations, verifications, security over assets and performance planning and evaluations.

C.5.4 RISK SENSITIVITY

Given the nature of operational risks, the Company does not calculate any quantitative risk sensitivities. However operational risk is considered qualitatively in both the ORSA and the regular Risk Updates provided to the Risk Committee.

C.5.5 ANY OTHER DISCLOSURE

The Company does not have any other operational risk disclosures.

C.6 Other material risks

The key risk exposures for the Company have been discussed above. The Company is exposed to many other risks, to a lesser extent. This includes;

- Regulatory risk; this includes risks relating to the existing statutory position and the Company’s compliance with the existing legislation. It also includes potential changes to the regulatory framework, both in Ireland and in Italy, which could impact upon the Company’s business model. The Company is exposed to potential changes in the regulatory framework which might impact upon its business model. The Company takes all the appropriate steps to ensure that it is in compliance with all relevant legislation.
- Tax risk; the Company is exposed to some risks regarding tax rulings. The Company takes all appropriate actions to ensure that it is in compliance with revenue requirements.

- Strategic Risk; this refers to the risk to earnings/capital arising from adverse business decisions. The closure introduces new strategic risks, associated with the future of the company and the longer-term viability of the business as the funds under management run off.

The Company is not exposed to other material risks, other than those discussed above.

C.7 Any other information

The Company does not have any other material information regarding risk profile to disclose.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

VALUE OF ASSETS

The following table outlines the main categories of assets and their value as at 31 December 2018 and 31 December 2017 in €millions:

Asset Category	31/12/2018	31/12/2017	Change
Financial Assets at fair value	258.2	499.5	(241.3)
Cash and cash equivalents	22.4	14.5	7.9
Receivables & Other assets	6.6	9.8	(3.1)
Reinsurance Asset	0.0	0.0	0.0
Total Assets	**287.2**	**523.7**	**(236.5)**

Financial assets measured at fair value are valued based on market prices at the valuation date, where a market price is available. Where a market price is not available then these assets are valued using observable inputs. The Company does not have any financial assets in this category that are valued using significant unobservable inputs.

The Company considers whether a market can be considered active taking into consideration a number of factors including:

- quoted prices readily and regularly available
- those prices represent actual and regularly occurring market transactions on an arm's length basis
- Whether it is possible to trade without affecting the price
- Size of the bid/ask spread.

For the financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/ or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Cash is valued at face value and represents cash held in bank accounts.

Receivables and Other assets are generally valued at face value but this category also includes an amount in respect of tax prepayments that are due to be recovered from policyholders and this amount is discounted to reflect the time value of money and uncertainty attaching to the recovery date.

There are no material differences between the valuation bases, methods or assumptions used to value assets on a Solvency II basis and those used for IFRS purposes. However, as per Solvency II regulations, the following items have been excluded from the Solvency II balance sheet:

- Intangible assets
- Deferred acquisition costs

Additionally, as per the Solvency II regulations, the reinsurance asset/liability is shown separately on the Solvency II balance sheet on the asset side of the balance sheet but the value of this is immaterial. The Company has a liability in respect of reinsurance because the projected premiums are greater than the projected recoveries.

There are no leasing arrangements or investments in related undertakings.

The Company does not have any deferred tax assets that are dependent upon future profits but it does have an asset related to tax prepayments that are recovered upon taxation arising from policyholder gains. Some limited assumptions are required in order to reflect the period to the recovery date and the discounting to be applied in valuing this asset.

No changes were made to the recognition and valuation bases or estimations used during the period.

D.2 Technical Provisions

VALUE OF TECHNICAL PROVISIONS

The table below outlines the technical provisions as at 31 December 2018 and 31 December 2017 in €millions:

Technical Provisions (€millions)	31/12/2018	31/12/2017	Change
Unit Liability	257.5	493.0	(235.6)
Best Estimate Liability	0.5	(2.5)	3.1
Risk Margin	0.6	0.9	(0.4)
Gross Technical Provisions	**258.6**	**491.4**	**(232.8)**

In the valuation of technical provisions, unit-linked liabilities are unbundled and the unit liability is calculated as "technical provisions calculated as a whole". The value of the unit-linked liability is set equal to the value of the matching assets. All liabilities are within the one line of business, unit-linked insurance.

The Best Estimate Liability ("BEL") is calculated by projecting forward the future income and outgo on the unit-linked policies and discounting the cashflows back to the valuation date. A deterministic projection is used given the absence of guarantees in the portfolio.

The risk margin is calculated using the cost of capital approach set out in the Directive. The steps involved in this calculation are set out below.

- Firstly, the Solvency II capital requirement relating to non-hedgeable risks is projected for each future year (until the expiry of all contracts).
- The SCR in each future year is then multiplied by the prescribed cost of capital rate (6% p.a.) to get the cost of holding the Solvency II capital requirement in each future year.
- These cost-of-capital figures are then discounted to a single present value using the risk-free yield curve to determine the overall risk margin.

This projection involves the use of risk drivers to estimate the SCR for different risk sub-modules at each future time period rather than performing a full recalculation of the SCR for each sub-module at each point.

The main assumptions required to calculate the BEL are those relating to policyholder lapses and Company maintenance expenses. The per-policy expense assumption is determined based on the assumption from the prior year increased for inflation, which is considered a market consistent expense level. An expense overrun reserve has been established to allow for additional costs in the short term until the business will be expected to be able to achieve this long term maintenance expense. Lapse assumptions are determined based on investigations of the Company's surrender experience over the past five years and also giving consideration to exceptional recent experience. The lapse assumptions have increased over the course of the year reflecting experience during the year.

No assumptions regarding future management actions are made in the calculation of the technical provisions.

The Company does not apply the matching adjustment, volatility adjustment or any transitional provisions.

UNCERTAINTY OF TECHNICAL PROVISIONS

Uncertainty arises primarily in relation to the key assumptions specified above and the development of experience against these assumptions. This uncertainty can be seen in the SCR amounts required in respect of lapse and expense risk.

There is uncertainty regarding the assumptions underpinning the expense overrun reserve. This reserve has been introduced to allow for the period of time required for the Company achieve that marginal expense assumption. The period of time assumed to achieve this is eighteen months.

MATERIAL DIFFERENCES WITH THE FINANCIAL STATEMENTS

The table below outlines the technical provisions included in the Solvency II balance sheet relative to those included in the financial statements as at 31 December 2018 in €millions:

Solvency II		Financial Statements	
Unit Liability	257.5	Unit Liability	257.5
Best Estimate Liability	0.5	Technical Provisions	7.5
Risk Margin	0.6		
Total Technical Provisions	**258.6**	**Total Technical Provisions**	**265.0**

There are significant differences between the Solvency II technical provisions and those included in the financial statements. Solvency II BEL reflects all future profits and can be negative, whereas the technical provisions included in the financial statements are floored at zero on a policy by policy basis. The positive liabilities held in the financial statements primarily reflect individual policies where the future income is not sufficient to cover the future per-policy expenses associated with that policy and an expense overrun reserve to cover the period until the portfolio can achieve a marginal level of expenses. No risk margin is held within the financial statements.

The assumptions are generally consistent between financial statements and Solvency II, with the financial statement assumptions containing some additional margins for prudence that are not included in the Solvency II best estimate assumptions.

D.3 Other liabilities

VALUE OF OTHER LIABILITIES

The other liabilities of the Company, excluding technical provisions, are shown in the following table as at 31 December 2018 in €millions. The table also shows the value of other liabilities shown in the financial statements.

Solvency II		Financial Statements	
Deferred Tax Liability	0.7	Deferred Income Liability	0.1
Insurance & intermediaries payables	4.5	Insurance & intermediaries payables	4.5
Payables (trade, not insurance)	0.6	Payables (trade, not insurance)	0.6
Total Other Liabilities	**5.8**	**Total Other Liabilities**	**5.2**

Insurance and trade payables represent the face value of the amount owed to creditors and the amount shown differs compared to the values in the financial statements.

The Deferred Tax Liability (“DTL”) arises in respect of the differences in the valuation of assets and technical provisions under Solvency II compared to the financial statements. The Solvency II own funds are higher than the shareholder equity shown in the financial statements and therefore a tax liability needs to be recognised in respect of these additional profits, which does not arise in the financial statements. The DTL is therefore linked, in particular, to the BEL calculation and any movement or uncertainty in the BEL will result in movement in the DTL. The timing of unwind of the DTL is also linked to the timing of unwind of the BEL. There is limited uncertainty or deviation risk in relation to the calculation of the DTL given that it is a consequence of other calculations and doesn’t require additional assumptions, other than the tax rate to apply.

There is no Deferred Income Liability held on the Solvency II balance sheet, given that this represents a deferral of profits earned in the past.

There are no liabilities in respect of leasing arrangements or employee benefits.

There were no changes to the recognition and valuation bases used or on estimations during the reporting period.

There are not any material assumptions or judgements made in relation to the recognition or valuation of the Other liabilities.

D.4 Alternative methods for valuation

The Company uses alternative methods for the valuation of some assets, which are not traded on an active market. These assets include over-the-counter options and bonds, which are not traded on an active market. These assets are valued using observable market inputs.

D.5 Any other information

The Company does not have any other material assets or liabilities.

E. CAPITAL MANAGEMENT

E.1 Own funds

VALUE OF OWN FUNDS

The following table outlines the Company's own funds as at 31 December 2018 and 31 December 2017 in €millions:

Own Fund Item	31/12/2018	31/12/2017	Change
Ordinary Share Capital	0.6	0.6	0.0
Reconciliation Reserve	10.1	11.1	(1.0)
Other items approved by Supervisor	12.1	12.1	0.0
Total Own Funds	**22.8**	**23.8**	**(1.0)**

The Company only holds Tier 1 basic own funds. Therefore, the eligible amount of own funds to cover the SCR and MCR is €22.8 million. The Other item approved by the Supervisory authorities was a number of capital contributions. There are no own fund items subject to transitional arrangements and no deductions from own funds or restrictions affecting the availability of own funds.

The reconciliation reserve reduced by €1.0 million in 2018 and there were no changes to other capital items. No dividend was paid in the year.

The Company's key capital management objectives are to:

- Ensure that all capital management actions are consistent with the Company's Risk Appetite.
- Ensure that the Company has sufficient capital to ensure that all policyholder liabilities are met to the extent outlined in the Risk Appetite Statement
- Ensure the timely identification of any non-adherence to the policy.
- Ensure at all times that the Company's Own Funds are correctly classified and remain within established guidelines and limits as laid down by the CBI/Solvency II.
- Ensure that the terms and conditions of any Own Funds item are clear and unambiguous.
- Ensure that any statement in respect of dividends takes the Company's capital position into account.
- Identify instances when distributions of own funds are expected to be deferred or cancelled.
- Preserve capital and, where prudent, contribute to the growth of surplus for the benefit of the shareholder.

The Company monitors its capital position on an ongoing basis, both retrospectively and prospectively. The ORSA is a key tool for ensuring that the Company has sufficient confidence and visibility of the potential development of its own funds position over time. The ORSA examines potential development over a five year period.

The following table reconciles the Solvency II own funds to the shareholder equity shown in the financial statements:

Reconciliation	**€millions**
Share Capital	0.6
Capital Contribution	12.1
Retained Earnings	5.5
Shareholder Equity Financial Statements	**18.2**
Remove DAC asset	(1.2)
Remove Intangible asset	(0.0)

Remove DIL	0.1
Remove FS technical provisions	7.5
Add SII BEL	(0.5)
Add Risk Margin	(0.6)
Add DTL	(0.7)
Solvency II Own Funds	22.8

The reconciliation reserve is effectively equal to the retained earnings in the financial statements plus all of the adjustments outlined above in moving from financial statements to own funds under Solvency II.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SOLVENCY CAPITAL REQUIREMENT

The SCR and MCR figures at year-end 2018 and 2017 in €millions are as follows:

Capital requirements	31-Dec-18	31-Dec-17	Change
SCR	5.7	8.8	(3.1)
MCR	3.7	3.7	0.0

The SCR is calculated using the standard formula and the split of the SCR by risk module is as follows:

Capital Requirement (€millions)	31st Dec 2018	31st Dec 2017	Change
Market risk	2.4	4.6	(2.1)
Underwriting risk	3.0	3.5	(0.6)
Counterparty risk	1.5	1.4	0.2
Operational	1.4	2.4	(1.0)
Diversification	(1.9)	(2.5)	0.5
Loss Adjusting Capacity Deferred Tax	(0.7)	(0.5)	(0.2)
Solvency Capital Requirement	**5.7**	**8.8**	**(3.1)**

The Company uses a simplified calculation for the calculation of life catastrophe risk, as permitted by article 96 of the delegated regulations.

The Company does not use any other simplified calculations or any company specific parameters in the calculation of the SCR. There are currently no capital add-ons applied by the regulator.

Loss absorbing capacity of deferred tax reflects the fact that the Company's deferred tax liability will reduce in the event of any of the events reflected in the SCR. The loss absorbing capacity is limited to the extent of the existing deferred tax liability.

MCR INPUTS

The inputs used in the calculation of the MCR are as follows:

- The technical provisions (excluding the risk margin) equal to €258 million.
- The total capital at risk equal to €4.5 million.

- SCR amount as calculated for the Company. Details of the SCR amounts are set out above. The MCR is capped and floored at 25% and 45% of the SCR.

At end 2018 the calculated MCR was below the Absolute Minimum Capital Requirement level and therefore the MCR was floored at €3.7m.

MATERIAL MOVEMENTS IN MCR AND SCR OVER THE YEAR

The SCR decreased from €8.8 million at end 2017 to €5.7 million at end 2018. The SCR decreased primarily because of the reduction in the size of the business and future profits arising. Market risk reduced from €4.6 million to €2.4 million given the reduction in funds under management. Underwriting risk reduced from €3.5 million to €3.0 million as a result of the lower levels of profits projected in the future.

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

The company does not use the duration-based equity risk approach in the calculation of the Solvency Capital Requirement.

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

The company does not use an internal model to calculate the SCR.

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

There has been no non-compliance with the MCR or SCR during the year ending 31/12/2018.

E.6 Any other information

There are no other material disclosures under capital management.

Appendix A: Public Disclosure Templates (Monetary amounts in EUR thousands)

General information

Undertaking name	Cattolica Life
Undertaking identification code	6354007PIZYILKCCBZ91
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	IE
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	EUR
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	338
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	5
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	5
R0130	*Bonds*	292
R0140	*Government Bonds*	34
R0150	*Corporate Bonds*	259
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	42
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	257,830
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-1
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	-1
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	5,672
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	22,448
R0420	Any other assets, not elsewhere shown	956
R0500	**Total assets**	287,243

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	258,602
R0700	*TP calculated as a whole*	257,479
R0710	*Best Estimate*	544
R0720	*Risk margin*	579
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	664
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	4,544
R0830	Reinsurance payables	13
R0840	Payables (trade, not insurance)	582
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	264,405
R1000	**Excess of assets over liabilities**	22,838

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross			186						186
R1420	Reinsurers' share			4						4
R1500	Net			183						183
	Premiums earned									
R1510	Gross			186						186
R1520	Reinsurers' share			4						4
R1600	Net			183						183
	Claims incurred									
R1610	Gross			219,404						219,404
R1620	Reinsurers' share									0
R1700	Net			219,404						219,404
	Changes in other technical provisions									
R1710	Gross			-2						-2
R1720	Reinsurers' share									0
R1800	Net			-2						-2
R1900	**Expenses incurred**			9,607						9,607
R2500	**Other expenses**									
R2600	**Total expenses**									9,607

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			IT					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross		186					186
R1420	Reinsurers' share		4					4
R1500	Net	0	183	0	0	0	0	183
	Premiums earned							
R1510	Gross		186					186
R1520	Reinsurers' share		4					4
R1600	Net	0	183	0	0	0	0	183
	Claims incurred							
R1610	Gross		219,404					219,404
R1620	Reinsurers' share							0
R1700	Net	0	219,404	0	0	0	0	219,404
	Changes in other technical provisions							
R1710	Gross		-2					-2
R1720	Reinsurers' share							0
R1800	Net	0	-2	0	0	0	0	-2
R1900	**Expenses incurred**		9,607					9,607
R2500	**Other expenses**							
R2600	**Total expenses**							9,607

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	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		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	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**		257,479								257,479						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**			544							544						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			-1							-1						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			545	0						545						
R0100	**Risk margin**		579								579						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin										0						
R0200	**Technical provisions - total**		258,602								258,602						

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	635	635		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	10,141	10,141			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	12,062	12,062	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	22,838	22,838	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	22,838	22,838	0	0	0
R0510	Total available own funds to meet the MCR	22,838	22,838	0	0	
R0540	Total eligible own funds to meet the SCR	22,838	22,838	0	0	0
R0550	Total eligible own funds to meet the MCR	22,838	22,838	0	0	

R0580	**SCR**	5,695
R0600	**MCR**	3,700
R0620	**Ratio of Eligible own funds to SCR**	400.99%
R0640	**Ratio of Eligible own funds to MCR**	617.24%

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	22,838
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	12,697
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	10,141
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	2,410		
R0020	Counterparty default risk	1,544		
R0030	Life underwriting risk	2,959		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-1,947		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	4,965		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,394
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-664
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	5,695
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	5,695

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

For life underwriting risk:
1- Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1- Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	1,811

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations	258,024	
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		6,625

	Overall MCR calculation	C0070
R0300	Linear MCR	1,811
R0310	SCR	5,695
R0320	MCR cap	2,563
R0330	MCR floor	1,424
R0340	Combined MCR	1,811
R0350	Absolute floor of the MCR	3,700
R0400	**Minimum Capital Requirement**	3,700