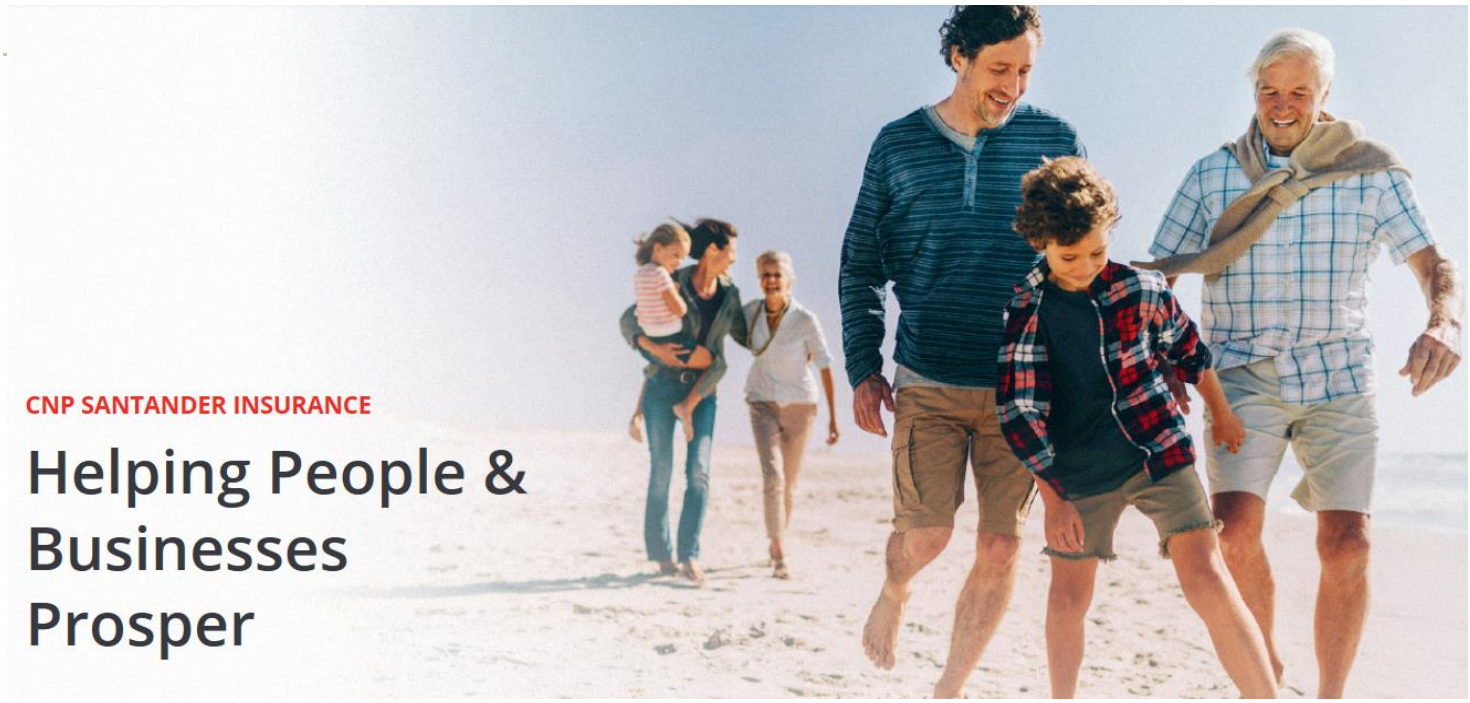
CNP SANTANDER INSURANCE



Solvency and Financial Condition Report

CNP Santander Insurance Europe DAC

FOR THE YEAR ENDING

31st December 2018

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INTRODUCTION

This is the third *Solvency and Financial Condition Report* ("**SFCR**") undertaken by **CNP Santander Insurance Europe DAC,** referred to hereafter as "**the Company**". The report is intended to provide essential information about the solvency and financial position of the Company as at 31st December 2018, including information on the governance of the Company and the management and mitigation of associated risks over the reporting period.

As at 31st December 2018, the Company is rated *medium-low* under the Probability Risk and Impact SysteM ("**PRISM**") risk rating of the Central Bank of Ireland ("**CBI**").

Regulatory background

This report is required by the regulatory regime for European (re)insurance companies, known as Solvency II Directive (**"the Directive"**), and is prepared in accordance with all of the requirements of the Delegated Regulations and the European Insurance and Occupational Pensions Authority ("**EIOPA**") Guidelines. Article 51 of the Directive 2009/138/EC sets out the requirement for undertakings to publicly disclose a "*report on their solvency and financial condition*" on an annual basis - the Solvency and Financial Condition Report.

Submission and Disclosure

The Company is required to submit the SFCR to the CBI not later than the 22nd April 2019. This report is disclosed to the public in accordance with Article 301 of the Delegated Regulation which sets out the requirements with regard to publishing the SFCR. Accordingly, the Company will publish a copy of the latest report on its corporate website and will keep the SFCRs publicly available to any party who requests them for up to 5 years following the disclosure date.

Structure of the report

This document is prepared in accordance with the proposed structure of the SFCR as outlined in Annex XX of the Delegated Regulation. This document is structured as follows:

- *Section A* provides details on the business of the Company and an assessment of the Company's performance over the reporting period;
- *Section B* provides a description of the system of governance of the Company;
- *Section C* provides details on the risk profile of the Company and the management of risk exposures;
- *Section D* describes the valuation of the assets and liabilities of the Company for solvency purposes;
- *Section E* provides details on the calculation of capital requirements, and outlines the Company's approach to capital management; and
- *Appendix A* contains the required Quantitative Reporting Templates ("**QRTs**") for the Year End 2018 for information purposes.

EXECUTIVE SUMMARY

A. Business and performance

The principal activity of the Company is the underwriting of non-life insurance via *Payment Protection Insurance* ("**PPI**") products which offer a range of benefits to Santander's customers where the majority of the products are sold in association with a loan or other credit product. As at December 31st 2018, the Company writes business as direct insurer in 10 countries. The Company also has some reinsurance portfolios which are currently in run-off.

The Company also underwrites some Guaranteed Asset Protection ("**GAP**") products to customers in Germany and Spain and over the last few years it has expanded the distribution of its products by offering simple *Lifestyle Protection Products* not related to a loan which are sold through digital, telemarketing and point of sales channels in Germany, Italy, Spain and Poland.

Lastly, the Company is also accepting a small amount of Extended Warranty ("**EW**") risks as inwards reinsurer from products in Germany.

Gross Written Premium ("**GWP**") in 2018 amounted to €286m (2017: €244m) with Germany representing the biggest market (> 60%). Insurance result - calculated as *net earned risk premium net of incurred claims* - in 2018 amounted to €43m (2017: €29m), with the German business accounting for nearly 80% of the overall underwriting performance. The Net Investment Return in 2018 amounted to €1m (2017: €1m) while General Expenses were €8m (2017: €5m).

B. System of Governance

The Company's system of governance is tailored to the nature, scale and complexity of the Company and has been implemented in accordance with the Corporate Governance Requirements, the CBI guidelines on Systems of Governance and the Pillar II requirements of the Solvency II Directive. The Executive Committee of the Company and its Board consider the System of Governance effectively provides for the sound and prudent management of the business and is adequate in respect of the operations, risk profile and PRISM risk rating of the Company.

The Board of Directors retains primary responsibility for business decisions and corporate governance within the Company at all times. The Board has established two delegated committees: the Risk Committee and the Audit Committee. However, the Board retains oversight of each of the committees and each committee has a documented Terms of Reference which evidences the functions delegated to them. Also, the Board has delegated certain matters to the Chief Executive Officer ("**CEO**") under the Board Terms of Reference and Matters Reserved for the Board's Remit. An Executive Committee was established which is an internal functional committee used to assist the CEO in the execution of the strategy as determined by the Board and to discuss matters of particular significance to the Company. As at December 31st 2018, the Board is comprised of 9 members, 2 of which are Independent Non-Executive Directors.

As at 31st December 2018, the Executive Committee is comprised of the Chief Executive Officer, Deputy Chief Executive Officer, Head of Finance and Investments – internally named as Chief Financial Officer ("**CFO**"), Chief Operating Officer ("**COO**"), Chief Risk Officer ("**CRO**"), Head of Legal & Compliance, Chief Actuary and the Branch Manager.

In relation to the governance structure of the Company, the only change which occurred during 2018 was a change of Deputy CEO.

The key functions are fully implemented and integrated within the Company's internal governance structure which operates at three levels of increasing independence according to the *three lines of defence model.*

C. Risk profile

As at 31st December 2018, the Company is rated *medium-low* under the PRISM risk rating of the CBI. Section C of the report mainly details the measures, exposures, and mitigating actions for each of the following categories of risk: Underwriting Risk, Market Risk, Credit Risk, Liquidity Risk, and Operational Risk. There was no material change in the risk profile of the Company over the reporting period.

D. Valuation for solvency purpose

There are no differences between the Solvency II valuation basis and that used for International Financial Reporting Standards ("**IFRS**") with exception of the Reinsurance Assets.

The technical provisions under Solvency II equal the sum of the *Best Estimate Liability ("**BEL**")* and the *Risk Margin ("**RM**")*. The BEL is the expected present value of the probability-weighted average of future cash-flows, using the relevant risk-free interest rate term structure. The BEL contains two components:

- A claims reserve based on the accounting provisions established for claims *In Course of Payment ("**ICOP**")*, claims *Incurred But Not Reported ("**IBNR**")* and claims *Reported But Not Settled ("**RBNS**")*. This is referred to as the "BEL - claims reserves" in this report; and
- An amount for future claims outgo, which is represented by the Unearned Premium Reserve ("**UPR**") on the Financial Statements. This is referred to as the "BEL – future cashflows" in this report.

The *RM* is the cost of holding sufficient capital to back the Solvency Capital Requirement ("**SCR**") over the lifetime of the obligations. The cost of capital rate is set in the Solvency II Delegated Regulations to be 6% - above risk free. The cashflows are discounted using the relevant risk-free rates for each currency to obtain the BEL. As at 31st December 2018, the Technical Provisions amounted to €210m (2017: €169m), of which €193m of BEL and €17m of Risk Margin.

As is permitted, the Company has chosen not to apply any adjustment to the risk free rates for either the Matching Adjustment or Volatility Adjustment. The Company has also chosen not to make use of any of the Solvency II transitional arrangements permitted in respect of risk-free rates or technical provisions. Any changes to this approach in the future would require the approval of the CBI.

E. Capital management

The main objective of the Company in relation to Capital Management is to ensure that capital is kept adequate at all times in order to, maintain the financial stability of the Company through a sound and effective allocation of capital along the business; sustain the execution of the Company's business plan; protect the best interest of the policyholders; and comply at all times with the regulatory requirements, as set by the CBI and EIOPA respectively at local and European level. This is achieved through a prudent management of the own funds on a continuous basis.

Quality of own funds is continuously monitored to ensure that sufficient eligible own funds are maintained at all times to cover the Solvency Capital Requirement and Minimum Capital Requirement ("**MCR**"). The Company reviews the level and eligibility of own funds at least on quarterly basis, as part of the Quantitative Reporting Templates production.

Own Funds are projected at least on an annual basis as part of the Own Risk and Solvency Assessment ("**ORSA**") process, according to the Company business plan projections, with the aim to assess the capital requirements in the medium to long term and identify any capital management action, where required. The projections are updated quarterly as actual capital requirements are calculated every quarter. These projections provide a forward-looking perspective on the Company's risk profile, solvency needs and level of own funds required over the business plan horizon. The results of projections made in the ORSA will be used by the Company to develop the medium-term capital management plan and define the *Target Solvency Cover* (defined as an internal prudential margin in excess of the SCR), to ensure the capital requirements are met and are aligned to with the underlying risk of the Company.

Capital Management is embedded in the ORSA annual strategic planning process and leads to the production of a medium-term capital management plan, which is revised each year by the Board.

Own Funds amounted to €219m in 2018 (2017: €188m), of which 94% are Tier 1.

The Company has used the Standard Formula for the calculation of the SCR. The SCR for the Company on 31st December 2018 is €147m (2017: €141m). The MCR for the Company on 31st December 2018 is €41m (2017: €35m).

As at 31st December 2018, the SCR coverage ratio is 149% (2017: 133%) and the MCR coverage ratio is 520% (2017: 495%).

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

Name and Legal form

CNP Santander Insurance Europe DAC is a private company limited by shares registered under Part 16 of the Companies Act, 2014 and incorporated in Ireland since 24th August 2010.

The Company was authorised by the CBI to underwrite insurance business - *classes 1, 2, 16 and 18* - on 10th June 2011 and commenced insurance operations on 24th October 2011.

The Company's operating and registered address is: *2nd Floor, Three Park Place, Hatch St, Dublin 2, Ireland* (previously *2nd Floor, Block 8, Harcourt Centre, Dublin 2, Ireland* until 20th February 2018).

The Company's registered number is: 488062.

The Legal Identifier Code of the Company is: 6354001NC5BJ3Z7GSG05.

Supervisory authority

As an insurance undertaking, the Company is regulated by the Central Bank of Ireland.

Company Institution Code is: C85775.

CBI registered address is: *Central Bank of Ireland, PO Box 559, New Wapping Street, North Wall Quay, Dublin 1, Ireland.*

External Auditor

PricewaterhouseCoopers ("**PwC**"), Chartered Accountants and Registered Auditors.

Registered Office: *One Spencer Dock, North Wall Quay, Dublin 1, Ireland*.

Firm Registration Number: AI223671

Shareholders structure

CNP Santander Insurance Europe DAC is part of a joint venture. The current shareholder structure is as follows:

Shareholder structure	
51% Ordinary Shares	**49% Ordinary Shares**
CNP ASSURANCES S.A.	BANCO SANTANDER, S.A.

The Company was fully owned by Santander Insurance Holding, S.L. until 16th December 2014, when Santander Insurance Holding, S.L. sold 51% of its shareholding capital to a French insurance undertaking, CNP Assurances S.A., as part of a long-term strategic partnership creating a powerful alliance of distribution and insurance expertise across Europe. As part of the joint venture, the Company has changed its name from *Santander Insurance Europe Limited* to *CNP Santander Insurance Europe DAC*, in accordance with the rebranding strategy and in compliance with the Companies Act, 2014.

On 28th December 2016, Banco Santander, S.A. acquired 49% of the shares of the Company as a result of a merger by absorption resulting in Santander Insurance Holding, S.L.'s dissolution by operation of law.

If part of a group, details of the position within the legal structure of the group

As a result of the joint venture transaction on 16th December 2014, the Company is classified a subsidiary of CNP Assurances S.A. as part of its Group companies. Under the terms of the agreement, Santander Consumer will distribute, on an exclusive basis and within certain European territories, a range of insurance products to be underwritten by the Company.

Holding company and holder of qualifying holdings

The majority direct shareholder of the Company is CNP Assurances S.A..

- Registered Office: *CNP Assurances S.A., 4 place Raoul Dautry, 75716 Paris Cedex 15, France*

The shareholders of CNP Assurances S.A. are as follows:

- *Caisse des Dépôts et Consignations* (41%);
- *Sopassure* (36%);
- *The French State* (1%); and
- *Individual and Institutional Investors* (22%).

The other direct shareholder of the Company is Banco Santander, S.A.

Voting rights

As at 31st December 2018, the shareholders of the Company collectively hold 53,000,000 ordinary shares €1 each. Voting rights of the shareholders are as follows:

Shareholder	Voting rights %	Number of Shares
CNP Assurances S.A.	**51%**	**27,030,000**
Banco Santander, S.A.	**49%**	**25,970,000**

Material line of Business and geographical areas

The principal activity of the Company is the underwriting of non-life insurance via *Payment Protection Insurance* products which offer a range of benefits to Santander's customers where the majority of the products are sold in association with a loan or other credit product. As at December 31st 2018, the Company writes business as direct insurer in 10 countries: Italy, Germany, Spain, Poland, Norway, Denmark, Sweden, Finland, Austria and Belgium. The Company also has some reinsurance portfolios which are currently in run-off.

The Company also underwrites some *Guaranteed Asset Protection* products to customers in Germany and Spain and over the last few years it has expanded the distribution of its products by offering simple *Lifestyle Protection Products* not related to a loan which are sold through digital, telemarketing and point of sales channels in Germany, Italy, Spain and Poland. Lastly, the Company is also accepting a small amount of *Extended Warranty* risks as inwards reinsurer from products in Germany.

Significant business or external events over the reporting period

In January 2018, the Company became direct insurer in Austria for the distribution of PPI products and has entered into a 20% quota share reinsurance treaty for Extended Warranty products in Germany.

During the first quarter of the year, the Company revised the full set of products in Germany; also, the Company began to underwrite both PPI and *Lifestyle Protection Products* in the polish market.

In the second quarter of the year the Company began distributing PPI policies in Belgium and has also expanded its *Lifestyle Protection Products* business by distributing of products in Spain.

In May 2018, the new General Data Protection Regulation ("**GDPR**") came into effect.

In July 2018, the Company moved to a new custom designed premises.

In September 2018, the Company launched its corporate website.

In October 2018, the Insurance Distribution Directive ("**IDD**") came into effect and was transposed into national law by the various Member States on phased basis.

A.2 UNDERWRITING PERFORMANCE

Underwriting performance by material line of business and geographical area

The Company's main line of business is PPI. These covers account for over 90% of the Company's portfolio. Overall the Company performed well from an underwriting perspective over 2018. The performance of the Company is dependent on two main factors:

- Movements in the *Unearned Premium Reserve* - the UPR regulates the way in which single premiums received upfront are earned over the life of the corresponding insurance policy and the rules for its calculation are designed to broadly reflect the incidence of risk over the policy term, and can vary by product and peril; and
- Trend of *claims experience* - this has been mostly favourable over the reporting period. A significant proportion of policies are still within exclusion or waiting periods.

One of the key performance indicators is sales volumes. Gross Written Premium in 2018 amounted to €286m (2017: €244m); net of cancellations and Insurance Premium Tax, where applicable. The breakdown by country is shown below:

Gross Written Premiums* (by geographical area)	Breakdown (%)	2018 (€/000)	2017 (€/000)
Germany	61.8	176,692	195,624
Poland	17.3	49,412	N/A
Spain	1.2	3,411	4,213
Italy	6.2	17,645	13,418
Nordics - *Norway, Denmark, Sweden, Finland*	5.9	16,895	17,785
Austria	7.2	20,632	13,145
Belgium	0.4	1,276	N/A
TOTAL	**100**	**285,963**	**244,185**

*Note: Gross written premiums are stated net of cancellations and Insurance Premium Tax

The overall gross written premium has increased since 2017 following the launch of products in Poland which has significant new business volumes.

Underwriting performance compared to prior year as per financial statements

The underwriting performance is reflected by the *Insurance Result*, which is calculated as *net earned risk premium net of incurred claims*. The Insurance Result, including a comparison with prior year, is shown below by country:

Insurance Result (by geographical area)	2018 (€/000)	2017 (€/000)	Difference (€/000)
Germany	33,267	25,879	7,388
Poland	1,245	N/A	1,245
Spain	2,162	2,308	(146)
Italy	999	1,008	(9)
Nordics – *Norway, Denmark, Sweden, Finland*	4,287	(605)	4,892
Austria	615	605	10
Belgium	(29)	N/A	(29)
TOTAL	**42,546**	**29,195**	**13,351**

The overall underwriting result has improved as more business has been written and profits have emerged. The most important points to note is that Germany accounts for over 78% of the overall underwriting performance. High retained premiums following the cessation of a previous reinsurance arrangement in 2015, together with low claims contribute to this.

A.3 Investment Performance

Investment performance compared to prior year as per financial statements

The Investment Risk Management Policy, as approved by the Board of Directors, is to hold sufficient assets of appropriate quality, term and liquidity to enable the company to meet its liabilities as they become due. The Company investments are predominantly in Fixed Income assets.

The figures of the investment performance for 2018 and 2017, as reported in the Company's Financial Statements, are as follows:

Investment Return	2018 (€/000)	2017 (€/000)
Net Investment Return	**1,379**	**1,170**

The Net Investment Return, which consists of interest income on the Company's investment portfolio, has increased in line with the underlying expansions of the business.

The following investment return was recorded in the 2018 Company's Profit and Loss account:

- *Portfolio Accounting Yield 0.38% (2017: 0.35%)*

The return on investments has increased compared to the prior year due primarily to the commencement of business written in Polish Zloty upon which a higher rate of return on investment in PLN is obtained.

Overall, the Company's risk appetite for investments is low, assets are highly rated and average asset duration is less than 2 years matching the short term nature of the Company's products.

Investment and expenses by asset class

The following investment income was recorded in the Company's *Statement of Comprehensive Income*:

Net Investment Income by asset class	2018 (€/000)	2017 (€/000)
Net Interest Income from Fixed Income investments	1,280	1,039
Net Income from Mutual Funds Dividends	99	131

Investment income comprises dividends and interest earned net of amortised premium; Income is recognised in the *Statement of Comprehensive Income* in the period in which it arises; Interest is accounted for on a time proportion basis and premium on acquisition of fixed income assets is amortised to the profit and loss on a straight line basis.

Assets are classified as 'Available for Sale' ("**AFS**") and changes in market value are recorded in equity in accordance with International Financial Reporting Standards.

The Company strategy is to hold assets until their maturity unless circumstances prevail that require a disposal.

Gains and losses recognised directly in equity

The following *movements* in investment gains / losses were recorded in the Company's *Statement of Financial Position*:

Gains and losses recognised directly in equity	2018 (€/000)	2017 (€/000)
Gain / (Loss) on Fixed Income Assets	(1,901)	119
Gain / (Loss) on Mutual Funds	(1,563)	1,013
Total unrealised gain / (loss)*	**(3,464)**	**1,132**

*Note: unrealised gains or losses represent the difference between the carrying value at the year end and the amortised cost, less the reversal of previously recognised unrealised gains and losses in respect of disposals.

Investment in securitisation

There are no investments in securitisation.

A.4 PERFORMANCE OF OTHER ACTIVITIES

Description of other material income

There is no other material income to report.

Description of other material expenses

Other Expenses	2018 (€/000)	2017 (€/000)
a. Administration expenses	8,047	5,396
b. Foreign exchange loss	32	197

a. Administration expenses are comprised of expenses recharged from the service company CNP Santander Insurance Service Ireland Limited and directly attributable costs. The allocations basis for expenses is the insurance result of the Company and its sister company CNP Santander Insurance Life DAC. In line with the growth in the business, the administration expenses have increased year-on-year.
b. Exchange rate differences on monetary items are recognised in the profit and loss in the period in which they arise. The Company has operations in Poland, Norway, Denmark and Sweden that give rise to foreign exchange gains and losses.

A.5 ANY OTHER INFORMATION

The Company has met all the regulatory requirements during the financial year 2018. The 2018 Financial Statements of the Company have been prepared in accordance with IFRS and IFRS Interpretations Committee interpretations as adopted by the European Union and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

There is no additional material information relating to business or performance.

B. SYSTEM OF GOVERNANCE

B.1 General information on the System of Governance

Structure of administration, management or supervisory bodies (Board and relevant committees) including description of main roles and responsibilities and description of segregation of responsibilities and committees

The Board of Directors retains primary responsibility for business decisions and corporate governance within the Company at all times. The Board has ultimate responsibility for:

- The effective, prudent and ethical oversight of the Company;
- Setting the business strategy and objectives of the Company;
- The management and control of the Company's operations;
- Ensuring the Company satisfies all regulatory and statutory requirements relating to their operations;
- Ensuring the effectiveness of the Company's risk management system, setting the Company's risk appetite and overall risk tolerance limits as well as approving the main risk management strategies and policies;
- Setting and overseeing:
  - The amount and type of capital of the Company and the level of own funds adequate to cover the risks faced by the Company, including the identification of capital management actions over the course of the business plan where required;
  - A robust and transparent organisational structure;
  - A remuneration framework that is in line with the risk strategies of the Company and doesn't promote excessive risk taking; and
  - An adequate and effective control framework that includes risk management, compliance, actuarial and internal audit functions as well as an appropriate financial reporting and accounting framework.

The Company is subject to the Corporate Governance Requirements for Insurance Undertakings 2015, as issued by the Central Bank of Ireland, under which the Board may delegate authority to sub-committees or management to act on behalf of the Board in respect of certain matters. In this regard, the Board has established two delegated committees: the Risk Committee and the Audit Committee. However, the Board retains oversight of each of the Committees and each Committee has a documented Terms of Reference which evidences the functions delegated to them.

The *Risk Committee* holds responsibility for oversight and advice to the Board on the current risk exposures of the Company and future risk strategy. The role of the Risk Committee is to advise the Board on risk appetite and tolerance for future strategy, taking account of the Board's overall risk appetite, the current financial position of the institution and, drawing on the work of the Audit Committee and the external auditor, the capacity of the Company to manage and control risks within the agreed strategy. The Risk Committee oversees the Risk Management Function, which is managed on a day to day basis by the Chief Risk Officer.

The *Audit Committee* holds responsibility for: monitoring the effectiveness and adequacy of the Company's internal control and internal audit; liaising with the external auditor particularly in relation to their audit findings; reviewing the integrity of the Company's financial statements and ensuring that they give a "true and fair view" of the financial status of the Company; reviewing any financial announcements and reports and recommending to the Board whether to approve the Company's annual accounts; and assessing auditor independence and the effectiveness of the audit process.

Further responsibilities of the Risk Committee and Audit Committee are specified in the Terms of Reference for each Committee as approved by the Board and reviewed at least on an annual basis. As at December 31st 2018, the Board is comprised of 9 members, 2 of which are Independent Non-Executive Directors. For reference, below is the Board and sub-committee structure list at year end 2018:

Board and sub-committees memberships structure				
Committee	Executive Director	Non-Executive Director	INED	**Total**
Board of Directors	1 member	6 members*	2 members	**9**
Risk Committee	1 member	2 members	2 members*	**5**
Audit Committee	n/a	1 member	2 members*	**3**

*Includes Chairman

The Board has delegated certain matters to the Chief Executive Officer under the Board Terms of Reference and Matters Reserved for the Board's Remit. An Executive Committee was established which is an internal functional committee used to assist the CEO in the execution of the strategy as determined by the Board and to discuss matters of particular significance to the Company. The Terms of Reference of the Executive Committee specify the matters which are reviewed and discussed by it.

As at 31st December 2018, the Executive Committee is comprised of the Chief Executive Officer, Deputy Chief Executive Officer, Head of Finance and Investments – internally named as Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Legal & Compliance, Chief Actuary and the Branch Manager.

There are also various functional internal committees established by the CEO within the Company which are not delegated Committees of the Board. The functional committees assist the CEO and senior management in ensuring effective governance, monitoring and oversight of the business in line with the Company's objectives and strategy.

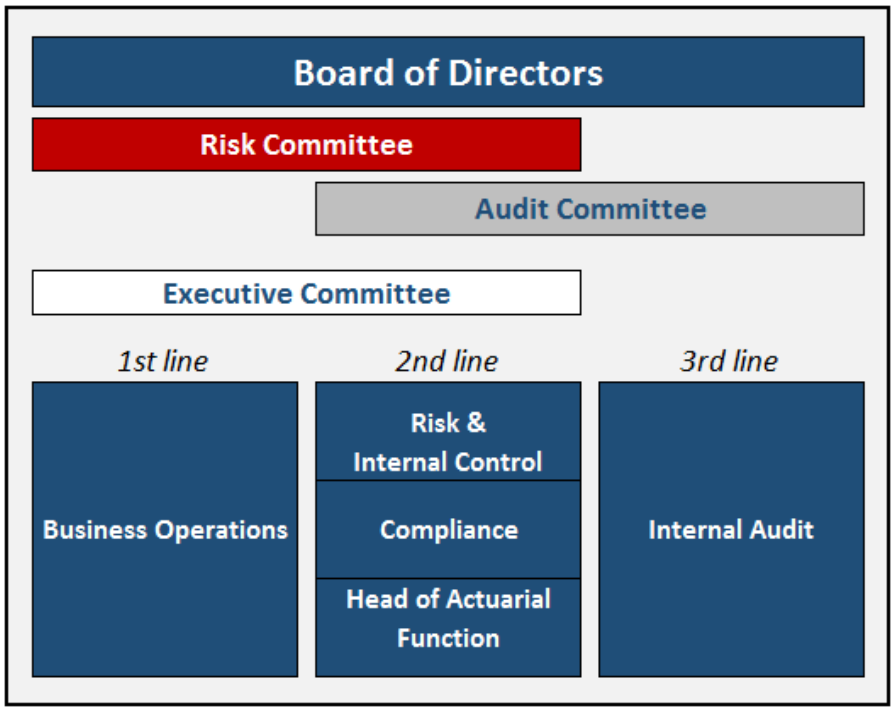
Information explaining how risk management, internal audit, compliance and actuarial functions are implemented and integrated into the organisational structure and decision making processes of the undertaking.

The Company has established the four key functions required under Solvency II and under the Corporate Governance Requirements for Insurance Undertakings 2015. As at 31st December 2018, the positions of the key function holders are as follows:

- **Actuarial:** Head of Actuarial Function ("**HoAF**")
- **Internal Audit:** Head of Internal Audit
- **Risk:** Chief Risk Officer
- **Compliance:** Head of Legal & Compliance

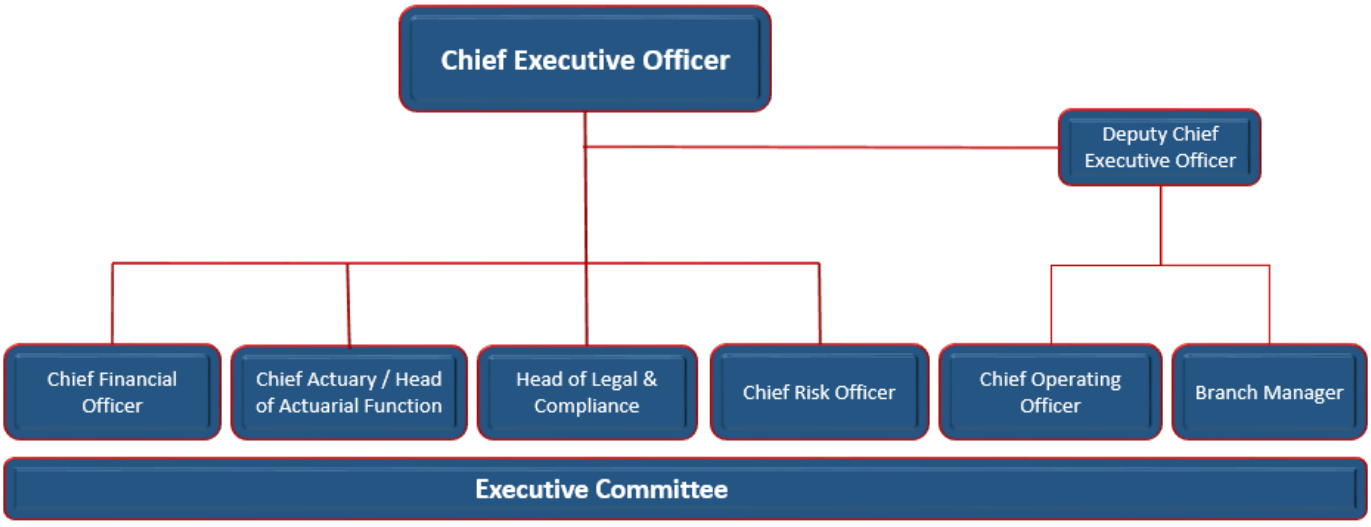
These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board and its sub-committees in relation to the Company's control framework. Please see sections B.3, B.4, B.5 and B.6 for further details on how the key functions are integrated into the Company's structure and decision making process of the Company.

The key functions are fully implemented and integrated within the Company's internal governance structure, which operates at three levels of increasing independence, and can be described through the *three lines of defence model,* as per the following illustration:



The key function holders must comply with the "Fitness and Probity" regime of the CBI, where required. Further details are explained in section B.2.

A simplified internal organisational structure as at 31st December 2018 can be illustrated as follows:



The function holders represented above are all members of the Executive Committee of the Company.

The *Internal Audit Function* was internalised in March 2017 having previously been outsourced to CNP Assurances S.A. The Internal Audit Function has a direct reporting line to the Audit Committee.

Adequacy of the system of governance for the undertaking's risk profile

The Board is responsible for oversight of the System of Governance and considers it to be effectively providing for the sound and prudent management of the business and adequate in respect of the operations, risk profile and PRISM risk rating of the Company. The Board has satisfied itself as to the appropriateness of all policies and that all key functions such as Risk Management, Internal Audit, Compliance and Actuarial maintain their independent roles and have adequate resources and authority to operate effectively.

The Company is subject to the Corporate Governance Requirements for Insurance Undertakings 2015, but does not fall in scope for the additional requirements for major institutions due to its medium low PRISM rating. The Company has complied with all the corporate governance requirements during the year 2018, including continuous compliance with the Pillar 2 requirements of the Solvency II Directive.

The System of Governance is subject to regular internal review, the scope and frequency of which is determined by the Board. Any findings and conclusions of these reviews are reported to the Board.

Material changes in the governance structure since last reporting period

There were no material changes in relation to the governance structure of the Company over the reporting period; however, a new Deputy CEO has joined the Company over the reporting period.

Information on remuneration policy and practices including: Principles of remuneration policy including any fixed or variable proportions; Information on performance criteria on which entitlements to share options or variable remuneration is based; Description of the main characteristics of any supplementary pension or early retirement scheme.

The Company has an approved Remuneration Policy in place which includes the relevant principles regarding how members of staff are remunerated.

The package includes fixed and variable remuneration, and currently includes fringe benefits such as company pension scheme, death in service benefit, medical insurance and permanent health insurance. The local package does not apply to seconded employees and expatriates who will have their own arrangements as negotiated separately with their main employer.

Eligibility to participate in the variable remuneration scheme depends on the individual's job and responsibilities. Variable remuneration is decided separately for each eligible employee and rewards employees based on individual performance and the performance of the Company in relation to a set of objectives. It contributes to the process of rolling down strategic objectives and helps management to motivate and reward the best talents. Also, a specific scheme has been established for "*material risk takers*" in line with the new remuneration rules contained in Solvency II.

Variable remuneration is paid annually, except for the variable remuneration earned by material risk takers, the payment of which is deferred in accordance with Solvency II. Solvency II stipulates that a substantial portion of the variable

remuneration paid to material risk takers should contain a flexible, deferred and modular component that provides scope for *"a downwards adjustment for exposure to current and future risks, taking into account the company's risk profile and cost of capital"*, in order to be aligned with the Company's strategy and with the principles of sound and effective risk management.

Material risk takers are considered to include the persons who effectively run the business, the heads of the four key support and control functions (*internal audit, actuarial, compliance and risk management*) and all other categories of staff whose professional activities have a material impact on the Company's risk profile. Within the Company, the following persons qualify as material risk takers: the CEO, the Deputy CEO and the key function holders (Head of Internal Audit, the Chief Risk Officer, the Head of Legal and Compliance, and the Head of Actuarial Function).

Information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence, and with members of the administrative, management and supervisory bodies.

The Company entered into distribution and cooperation agreements with the Santander Consumer entities in Austria and Belgium over the reporting period.

Material transactions with members of the *administrative, management and supervisory bodies* are only related to the Directors' emoluments as reported in the Financial Statements of the Company.

B.2 Fit and Proper Requirements

Description of specific (minimum) requirements with regards to skills, knowledge and expertise applicable to persons in key functions.

The Company has a Fitness and Probity Policy which sets out the principles by which CNP Santander Insurance Europe DAC shall adhere to in relation to ensuring that individuals who effectively run the Company or have other key functions known as Pre-Approved Control Functions ("**PCFs**") and Controlled Functions ("**CFs**") are fit and proper in order to manage the duties and responsibilities related to the key roles they are appointed to. The Company, as a regulated financial service provider, is obliged, pursuant to Section 21 of the Central Bank Reform Act, 2010, to satisfy itself on reasonable grounds that an individual performing or proposed to be appointed to any of the CFs role is compliant with the Standards. According to the Fitness and Probity Standards (Code issued under *Section 50* of the *Central Bank Reform Act, 2010*), the Company must ensure that all persons who hold or are to hold the position of PCF or CF fulfil the following requirements:

- their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit);
- they are of good repute and integrity (proper); and
- they are financially sound.

Where one of the Key Functions is outsourced, the Company must appoint an individual from within the Company to be responsible for that outsourced function. This designated individual must:

- already be performing a PCF role;
- not be the holder of another key function;
- not be an independent non-executive director; and

- must possess sufficient knowledge and experience regarding the outsourced function to be able to provide adequate oversight and challenge the results of the service provider.

Description of process for assessing fitness and propriety of persons in key functions

In order to ensure compliance with the Fitness and Probity Standards, the Company, in the appointment of individuals and continuing assessment of individuals in PCF or CF positions, must carry out the due diligence set out in the Company's Fitness and Probity Procedure. In relation to proposed individuals to be appointed to a PCF or CF position the following is obtained as part of the due diligence carried out on them:

- Copy of identification documents (e.g. passport);
- Evidence of their professional qualifications, education and continuous professional development where applicable;
- Copy of their curriculum vitae;
- Interview notes and the individuals application (where applicable) for the position;
- References;
- Record of previous experience, knowledge and expertise gained both within Ireland and outside the State; and
- Searches carried out against the individual (judgment, bankruptcy and directorships searches via an external provider, searches against regulatory websites to check if the individual has not been sanctioned or worked for a company which has been sanctioned by a supervisory authority).

Where an individual is being proposed to a PCF role, once the due diligence has been completed they must populate the Individual Questionnaire for submission to the CBI. Once the CBI confirm their approval of the appointment, only then may the individual commence performance of the PCF role within the Company. Any offers of employment issued to the individuals proposed for the performance of a PCF role will be issued subject to the following qualification: *"This shall not be taken to be an offer for the purposes of Section 23 of the Central Bank Reform Act 2010 unless and until approval is granted by the Central Bank of Ireland".*

Reviews of CF and PCF roles are completed at least on an annual basis by the Legal and Compliance Function by requesting CFs and PCFs to confirm whether they are aware of any material developments in relation to their compliance with the Standards of which the Company ought to be aware and completing a review of the information and documentation provided by the individual or outsourced party as part of the Companies' Fitness and Probity Procedure. The Legal and Compliance Function also carries out searches against the individuals identified in the Company as PCF and CF holders. The Legal and Compliance Function report to the Board in respect of the outcomes of the annual review and may also complete ad hoc reviews of the Fitness and Probity Register in accordance with the Company's Compliance Procedures Manual or if so requested by the Board from time to time. Lastly, in accordance with the Regulations and the CBI's procedures, the Company shall notify the CBI immediately if:

- a person ceases to perform a PCF role; or
- a person who performs a PCF role has been replaced because the person no longer complies with any standard of fitness and probity in a code issued by the CBI.

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

Description of the company's risk management system comprising strategies, processes and reporting procedures, and how it can effectively identify, measure, monitor, manage and report the risks

The Company's Risk Management Framework defines the way in which the various components and activities associated with risk management interact across the business ensuring effectiveness in the identification, reporting and continuous monitoring of risks. This framework aims to ensure the business strategy is executed within the defined risk appetite and tolerance levels, according to the risk strategy as documented within the Risk Appetite Statement of the Company.

The Risk Management Framework shall include at least the following elements:

- The strategic decisions and policies on risk management;
- The definition of the Risk appetite and overall risk tolerance limits;
- The integration of Risk Management in the decision-making processes; and
- The identification, assessment, management, monitoring and reporting of risks to enhance the soundness of risk management within the organisation and ensuring financial stability through effective mitigation of the main risks.

The main activities of the Risk Management Framework can be illustrated as follows:

Component	Activity	Minimum frequency
Risk Identification	Universe of Inherent and Residual Risks / Top Risks	Annually
Risk Strategy / Risk Appetite	Risk Appetite Statement	Annually
Risk Management Policies	Documented risk management policies	Annually
Risk Governance	Executive Committee	Monthly
	Risk Committee	Quarterly
	Risk Forum	Quarterly
	Risk, Actuarial & Finance Forum	Quarterly
	Group Risk Technical Committee	Annually
Risk Controlling	Key Control Testing	Ongoing
	Business Process Reviews	Annually
	Data Quality Report	Annually
Risk Monitoring	Key Risk Indicators, Top Residual Risks	Monthly
	Risk Incident Log, Internal Control Deficiencies	Ongoing
Risk Reporting	Group Risk Reporting	Quarterly
	Solvency II: ORSA, SFCR, RSR	Annually

Risks are monitored on a regular basis through the Risk Dashboard. The Company has adopted the macro classification of 'PRISM Risks' of the CBI, as recommended to insurance and reinsurance undertakings. These risks are monitored on a regular basis together with the 'Top Risks' and are classified by the following categories of risk: Claims & Reserving, Pricing & Underwriting, Capital, Counterparty, Investment, Operational, Conduct, Strategic, Governance, and Environmental.

For each category of risk, a number of qualitative and quantitative Key Risk Indicators are identified which are monitored to ensure that risks exposures fall within the risk appetite of the Company. Key risk indicators are reviewed by the Board and developed on an ongoing basis to ensure alignment with the evolution of the business strategy and any changes to the Company's risk profile, risk appetite and policies. Any risk exposure outside tolerance levels of the Risk Appetite Statement is escalated to the Board for review and the implementation of a potential remedial action plan is considered, where required; *material deviation* from tolerance levels shall be reported to the Central Bank of Ireland according to the Corporate Governance Requirements. The Risk Management Function reports the status of the Company's risks which have the highest exposure, monitors the effectiveness of related controls and tracks the corresponding action plans on a regular basis, as part of the Risk Dashboard.

The Risk Management Function is responsible for the Risk incident Log which is a tool used by the Company with the aim of overseeing, tracking and addressing any risk incidents in the business. A specific reporting procedure is in place and is circulated on a monthly basis to all employees of the Company to ensure risk incidents, including near misses, are reported timely.

The Risk Management Function performs risk reporting to the Board/Risk Committee and Group Risk Division on a quarterly basis, to the Executive Committee on a monthly basis, and to the Risk, Actuarial & Finance Forum ("**RAFF**") quarterly. Also, it reports to the Group Risk Technical Committee on an annual basis. Roles and responsibilities are clearly defined within the Company's Risk Management Policies with the aim of ensuring the alignment of policies with the overall business processes and strategy of the Company.

As at 31st December 2018 and in accordance with the Pillar II of the Solvency II Directive, the Company has risk management policies in place in the following areas: Underwriting, Reserving, Reinsurance, Capital Management, Investment, Asset Liability Matching ("**ALM**") and Liquidity, Valuation of Asset and Liability, Operational Risk, Outsourcing, Business Continuity, Reporting and Public Disclosure, ORSA, Risk Management, Data Quality, Internal Control, Internal Audit, Compliance, Remuneration, Fit & Proper.

A description of how the RMS including the risk management function are implemented and integrated into the organisational structure and decision-making processes

The CRO is a member of the Executive Committee and reports directly to the CEO and Risk Committee. The Board has primary responsibility for determining the Company's risk appetite in alignment with the business strategy.

The Risk Management function interacts with other functions as a 'Key Function' - according to the *Solvency II Directive* - and as a '*second line of defence*' - according to the *three lines of defence* model - with the purpose of carrying out its role of providing assurance to the business and, in a broader level, to the stakeholders, enhancing and supporting the decision-making process of the Company at the same time.

The role of the Risk Management Function in particular is to assist the Board and management in the effective operation of the Risk Management Framework. This involves monitoring both the Risk Management Framework and the general risk

profile of the Company as a whole. Other tasks of the Risk Management Function are identifying and assessing emerging risks, reporting on risk exposures, and advising in relation to strategic matters. In fulfilling its role, the Risk Management Function works closely in co-operation with the other *key functions* and operates independently from the operational areas of the business.

The link between business strategy and risk management can be illustrated through the Risk Management Framework of the Company as follows:



The responsible persons and specific committees (if any), their roles, position and scope of responsibilities

The governance of risk management and the integration within the decision making process of the Company is facilitated by the establishment of the following committees.

<u>*Board Risk Committee:*</u> The Risk Committee holds responsibility for oversight and advice to the Board on the current risk exposures of the Company and future risk strategy. The role of the Risk Committee is to advise the Board on risk appetite and tolerance for future strategy, taking account of the Board's overall risk appetite, the current financial position of the institution and, drawing on the work of the Audit Committee and the external auditor, the capacity of the Company to manage and control risks within the agreed strategy. The Risk Committee oversees the Risk Management Function, which is managed on a day to day basis by the CRO.

Further responsibilities of the Risk Committee are specified in the Terms of Reference for each Committee as approved by the Board and reviewed at least on an annual basis. The Risk Committee is held on a quarterly basis or ad-hoc in case of significant risk events.

Executive Risk Forum: This Forum is an internal functional committee of the Company which is held on a quarterly basis with the purpose of providing assurance within the business and in particular assisting the CEO, Executive Committee, Risk Committee and ultimately the Board in taking decisions with regard to the risks faced by the Company. Further responsibilities of the Risk Forum are specified in the Terms of Reference as approved by the CEO. The forum is chaired by the CRO.

Executive Risk, Actuarial and Finance Forum: This Forum is a functional committee of the Company and is a joint meeting between the CRO, the Head of Actuarial Function and the CFO, with participants from the Risk, Actuarial and Finance departments. The main purpose of the "RAFF" is to facilitate the governance required under Solvency II between the Risk, Actuarial and Finance functions. The "RAFF" intends also to enhance the decision making process between those functions and facilitate business decisions having considered the regulatory and capital requirements. Further responsibilities of the RAFF are specified in the Terms of Reference as approved by the CRO and Head of Actuarial Function.

Description of ORSA process, including how it is integrated into the organisational structure and decision making processes

The ORSA report provides the Company's own view of its risks and capital needs and must contain at least an assessment on the link between the ORSA and the strategy of the entity, the business development and the capital management plan. The processes used are developed with appropriate and adequate techniques, are proportionate to the nature, scale and complexity of the risks inherent in the business, and are tailored to fit into the Company's organisational structure and risk management system.

The Board uses the ORSA process in order to gain a comprehensive picture of the risks the Company is exposed to or could face in the future and to understand how these risks could translate into capital needs or alternatively require mitigation actions.

The ORSA is considered to be an integral part of the business strategy and is taken into account on an ongoing basis in the strategic decisions of the Company, especially in relation to the capital management of the Company. The Board has the ultimate responsibility for agreeing the ORSA shocks and has the ultimate responsibility for determining the Target Solvency Cover of the Company and the capital management plan in the short and long horizons, according to the key output of the ORSA process.

The risk management function has the role of overseeing and ensuring the implementation of the ORSA process by the senior management. This includes:

- Ensuring that a document outlining the processes and procedures to be followed in order to conduct the ORSA is maintained and is reviewed at least annually by the Risk Committee;
- Communicating the results and conclusions of the ORSA process to all relevant staff, once the Board has approved the process and the results;
- Coordinating the production of the ORSA reports; and
- Informing the internal audit, compliance and actuarial functions and executive management of any facts arising from the ORSA process or otherwise, relevant for the performance of their duties.

The Actuarial Function will contribute to the effective implementation of the ORSA, in particular with regards to the risk modelling underlying the calculation of the capital requirements as well as inputting into the stress and scenario testing.

As required under CBI Guidelines, the Head of Actuarial Function will provide an Actuarial Opinion to the Board on the ORSA report.

The Risk Management Function is responsible for co-ordination of the annual ORSA process and for supporting the Board in the elaboration and approval of the document, with particular regards to stress testing in the forward-looking assessment of capital requirements. The Board has the ultimate responsibility to drive the ORSA process ensuring alignment with the risk profile, appetite and strategy. The governance and responsibilities around the ORSA can be found in the ORSA Policy of the Company.

Explain how often the ORSA is reviewed and approved by the board

The Board considers it sufficient to perform the ORSA process on an annual basis given the nature, scale and complexity of the business. However, it is possible that an ORSA might also be required outside the regular timescales in case of specific events as set out in the circumstances below:

- There is a significant change to the Company's business plan in terms of the type of business to be written, the volumes to be written, the risks assumed or the capital requirements associated with new business;
- There is a significant reduction in the Company's own funds, such that the conclusions of the previous ORSA might no longer be relevant;
- The CBI or the Board request the Company to undertake an ORSA;
- The Company plans to launch into a new market or launch materially different products that would necessitate a submission to the CBI as a material change of business plan;
- There is an ad-hoc request by CNP Assurances S.A., the Group;
- There is a significant change in the market, regulation or, broadly, in the external environment which may lead to additional risk scenarios; or
- The Board and the Executive Management recognise the need for a partial update to improve the adequacy/completeness of data/processes.

Where the above situations arise, the CEO, supported by the CRO and the Chief Actuary/HoAF, will discuss and make a recommendation to the Board of Directors on how to proceed. The timing of changes, as well as their materiality, will be taken into consideration.

Explain how own solvency needs are determined given the risk profile and how the capital management activities and RMS interact

The evolution of the Company's risk profile and the ability to stay within the defined risk tolerances impact upon the overall solvency needs and capital management of the Company. The results of the ORSA process feed into the review of the "Target Solvency Cover" of the Company, as documented within the ORSA Report and the Risk Appetite Statement of the Company.

The annual identification and assessment of risks is a key activity of the ORSA process for the definition of stress tests and impact analysis. In this regard, the Group ORSA process requires the Company to define its own set of assumptions in relation to stress tests and financial projections according to the risk profile of the Company.

The results of projections made in the ORSA will be used by the Company to develop the medium-term capital management plan and define an additional threshold or tolerance level, internally named "Target Solvency Cover", for the

Solvency II coverage ratio, with the aim of ensuring the capital requirements are met and aligned with the underlying risk of the Company. The Board and executive management are aware that any material changes to the business or deviations from the current Business Plan could lead to a reduction to solvency cover/ratio, in which situation the ORSA figures should be revisited to investigate the impact of such a change on the solvency and capital position of the Companies.

The ORSA process shall demonstrate continuous compliance with the Target Solvency Cover, including recommendations for management actions in order to meet the target during the execution of the Company Business Plan. The Target Solvency Cover is determined by the Board and documented within the Risk Appetite Statement of the Company.

In case of breach or potential breach of the Target Solvency Cover, the Board will review the capital management plan according to the regulatory requirements, after consultation with the Group and subject to the opinion of the HoAF.

Description of how existing committees interact with the AMSB to ensure the AMSB meets its responsibilities with regard to the internal model

The Company does not use an Internal Model.

Any material changes to the internal model governance during the reporting period

The Company does not use an Internal Model.

A description of the validation process (used to monitor the performance and on-going appropriateness of the internal model)

The Company does not use an Internal Model.

B.4 Internal Control System

A *description of the internal control system; and how it has been implemented*

The Company defines *Internal Control* as a process of business control and management implemented on an on-going basis by the entity's Board of Directors, senior management and other personnel. The Company's system of internal control operates within a framework comprising of internal delegations of authority and fundamental principles as set out in documents such as company policies and the Code of Conduct. The Internal Control function oversees the management and assessment of risks, and existence and operating effectiveness of controls. Roles and responsibilities of Internal Control include:

- Supporting all business areas in creating, documenting and reviewing processes and identifying risks and controls;
- Creating and implementing residual risk action plans, if any, and monitoring the progress of these;
- Testing all key controls throughout the year to ensure operating effectiveness;
- Managing and co-ordinating the reviews and onsite testing for all third party administrators ("**TPAs**") and intermediary entities in each country;
- Providing training to all new joiners of the Company to ensure each employee is aware of their responsibilities;
- Working closely with internal and external audit, where applicable; and

- Ensuring that accurate and regular reporting to the Executive Committee and Audit Committee is performed on a monthly and quarterly basis respectively.

Internal control consists of five interrelated components:

1. An organisational structure with a clear definition of responsibilities, adequate resources and skills, information systems, operating procedures and methods, tools and appropriate practices;
2. In-house distribution of relevant and reliable information, the awareness of which enables everyone to exercise their responsibilities;
3. A risk management process to identify, analyse and address the main risks with regards to the Company's objectives;
4. Control activities that are proportionate to the risk inherent in each process and designed to ensure that the necessary measures are taken to manage risks that are likely to affect the Company in reaching its objectives; and
5. On-going monitoring of the internal control processes and key controls.

The controls are performed at three levels within the Company:

1. First-tier controls which must be set up by all operational or functional departments to manage the risks associated with their activities;
2. Second-tier controls performed by the *second lines of defence* of the Company ; and
3. Third-tier of periodic control which is provided by Internal Audit.

Description of how the compliance function was implemented

The Compliance Function interacts with other functions, being a *second line of defence* of the Company, and contributes to reinforcing the risk control framework of the Company. The function is led by the Head of Compliance.

The Head of Compliance is a member of the Executive Committee and reports directly to the CEO. The Board is ultimately responsible for compliance by the Company with its legal and regulatory obligations and for creating the compliance culture within the Company. The function is responsible for the management, monitoring and reporting of compliance risks to which the Company is exposed. The Compliance Function identifies, assesses and seeks to prevent the risk of non-compliance by carrying out the following activities:

- Monitoring of regulatory provisions, guidance issued by regulatory and supervisory authorities in order to assess the impact of these on the Company;
- Identifying, documenting and assessing compliance risks associated with the business activities of the Company;
- Ensuring ongoing compliance with regulatory requirements through ongoing risk based monitoring and compliance reviews;
- Annual staff training on compliance matters, including anti-money laundering, anti-corruption and bribery, data protection, health & safety and information security. Educating staff on compliance issues and acting as a point of contact within the Company for compliance queries from management and staff members.
- Establishing written guidance and supporting the business with the appropriate implementation of compliances laws, rules and standards through policies and procedures and other documents such as internal

codes of conduct, practice guidelines and processes. The Compliance Function reviews the policies and procedures on a regular basis to ensure they remain appropriate and up to date;

- Attendance at regular functional committees within the Company and advising senior management and the Board on compliance with laws, regulations, standards, including keeping them informed on the developments in the area;
- Liaising with external bodies including regulatory authorities, insurance associations and external experts;
- Reporting to the Board and its committees on compliance related matters;
- Interacting with the CNP Assurances S.A. Compliance Function through the submission of any CNP Group reporting requirements in a timely manner; the exchange of best practices with other members of the Compliance Function in the group; alignment of internal policies with the compliance framework of CNP Assurance S.A., where applicable and possible in accordance with local legislation; and
- Overseeing the resolution of compliance issues reported to the Compliance Function through the Company's *Compliance Incident Management Procedure* or otherwise identified by the Compliance Function and reporting on the investigation and remediation of incidents to senior management) and to the Board.

In order to ensure the appropriate flow of communication and awareness of all stakeholders, the Company established a Regulatory and Compliance Committee which is chaired by the Head of Compliance and sits on a bi-monthly basis. The function of the committee is to assist the CEO and the Executive Committee in the effective management and oversight of legal and compliance risks faced by the Company. The responsibilities of the Regulatory and Compliance Committee are set out in the Terms of Reference.

B.5 Internal Audit Function

A description of the Internal Audit Function and how it has been implemented

The Internal Audit Function operates in accordance with the Institute of Internal Auditors and other relevant codes of conduct and is independent from the operational functions.

As a *third line of defence* and as an independent, objective assurance and consulting activity, the Internal Audit Function assists the Company in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Internal Audit Function implements and maintains an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance. The Function takes a risk based approach in deciding its priorities. Internal audit can conduct missions on, but is not limited to, the following:

- The safety of operations, the quality and effectiveness of internal controls, compliance with procedures, laws and regulations in force (operational risk, compliance);
- The efficiency of organisations, processes, projects and information systems in place (performance);
- The alignment of resources and control methods implemented to achieve the objectives of the Company (strategy, governance, management of technical and financial risks);
- The processes and activities shared with our partners or joint ventures (joint missions);
- Monitoring corrective plans following an internal audit or a recommendation by the CBI; and
- Review of prudential models and ORSA device qualitatively.

All internal audit reports and updates are presented to the Audit Committee of the Company in a separate Internal Audit update, on a quarterly basis. The CEO receives the internal audit report as and when the final reports are issued. The update includes:

- The audits performed during the year and any deficiencies found;
- The status of the audit plan;
- The main findings and key recommendations; and
- The status of previous recommendations on all internal audits performed.

Description of how its independence and objectivity is maintained

The Internal Audit Function, via the Head of Internal Audit, reports directly to the Chairman of the Audit Committee of the Company for functional purposes. This reporting arrangement protects both the authority and the independence of the Internal Audit Function allowing the Head of Internal Audit direct and unrestricted access to senior management and the Board.

The Board member ultimately responsible for Internal Audit within the Company is an Independent Non-Executive Director - member of the Board and chair of the Audit Committee - and is subject to the Fitness & Probity regime of the CBI.

B.6 Actuarial Function

A description of the actuarial function; and how it has been implemented.

The Actuarial Function is implemented according to the regulatory requirements of Solvency II. The *Pre-Approved Controlled Function* (PCF-48) role of Head of Actuarial Function within the Company also holds the position of Chief Actuary. As HoAF, the individual is subject to the Fitness & Probity regime of the CBI, is part of the second line of defence and shall maintain its role of independence and assurance within the Company. With this regard, both the Head of Reserving and Capital and the Head of Pricing within the Company report to the HoAF and by assuming their responsibilities for the first line of defence, they help ensure that the specific aspects of the HoAF role remain independent.

The HoAF is also a member of the Executive Committee and has overall responsibility for the tasks of the Actuarial Function and hence overall responsibility for the reliability and adequacy of the technical provisions.

The key activities of the Actuarial Function include:

- Co-ordination and calculation of Technical Provisions;
- Ensuring the appropriateness of the assumptions, methodologies and models underlying the calculation of the Technical Provisions;
- Assess sufficiency and quality of data used in the calculation of technical provisions;
- Monitoring actual versus expected experience;
- Informing the Board of the reliability and adequacy of the calculation of technical provisions.

Some of the key deliverables of the Actuarial Function are listed below: production of quarterly and annual QRTs; definition of stress test as part of the ORSA; production of sensitivities; review of Solvency II Reserving Risk Management

Policy; review of Solvency II related processes. The Reserving and Capital team within the Actuarial Department is responsible for the production and review of the aforementioned items. A Technical Committee assists the CEO and Executive Committee in managing effectively the oversight of reserving, claims and capital risks as well as experience monitoring.

In relation to underwriting, the Head of Pricing, is responsible for all product pricing and checks in order to be compliant with the business' underwriting standards. The HoAF provides an opinion on the Underwriting Risk Management Policy of the Company including pricing. A Product Committee assists the CEO and Executive Committee in managing effectively the oversight of pricing and underwriting risks.

B.7 OUTSOURCING

Description of outsourcing policy, including details of critical or important functions or activities that have been outsourced and jurisdiction of the service provider.

The Company has an Outsourcing Risk Management Policy in place which sets out the framework followed by the Company when entering into a new outsourced relationship and for continuous monitoring of existing providers.
The outsourcing framework is developed according to the risk profile of the Company; the Solvency II Directive requirements; and, the CBI guidelines and requirements.

The key aspects covered by the policy include the following:

- the criteria for determining the criticality of functions and activities within the Company;
- the process for engaging new outsourcers, including all the steps required before the signing of the agreement (assessment of provider criticality; due diligence reviews; notification of material outsourcing to the regulator);
- the details to be included in the written agreement with the service provider
- the criteria for managing intra and sub-outsourcing;
- the framework for the monitoring and management of existing outsourced services.

The Company carries out a comprehensive due diligence review before entering into outsourcing arrangements for *critical activities* and, as good practice and regardless of the criticality, the Company carries out a less detailed due diligence review in respect of any other provider classified as Outsourcer. The due diligence review is carried out with the ultimate aim to provide comfort that the service provider is financially sound and has all the necessary controls, processes and measures in place to provide the required service as set out under the agreement.

Material outsourcing arrangements are notified to the CBI at least six weeks before the outsourcing is due to come into effect, in accordance with the "Notification Process for (Re)Insurance Undertakings when Outsourcing Critical or Important Functions or Activities under Solvency II" guideline. As a minimum the following information is included: description of the scope and rationale for the outsourcing; the service provider's name and contact details; and, additional information as set out in the guidelines, in case of outsourcing of a key function. The Company's Policy sets the criteria for determining the criticality of a function or activity. "Critical" activities are those deemed essential for the activity of the Company having regard to the fact that the Company could not deliver its service to its customers without these functions or activities. This definition is in line with Article 49 of the Solvency II Directive. The following activities have been identified as critical within the Company:

- Product design and pricing;
- Claims and complaints handling;
- Cancellation and policy administration;
- Reserving process including calculation of technical provisions;
- Information Technology services required for critical business activities;
- Provision of storage for sensitive and personal data as defined in the Company's Data Protection Policy;
- Solvency II returns including ORSA;
- Investment and asset management;
- Production of financial reporting, including tax and banking services;
- Provision of on-going Risk Management, Compliance, Actuarial or Internal Audit services; and
- Ad-hoc activities considered strategically critical to execute the business strategy of the Company.

The list of the critical functions or activities outsourced as at Year End 2018 is as follows:

Service	Operating country	Jurisdiction	Intra group
Investment Portfolio Management Services	Head office	Spain	Yes
End user computing services	Head office	United Kingdom	Yes
End user computing services	Head office	United Kingdom	Yes
Insurance systems and IT hosting services	Head office	Spain	Yes
Claims handling and insurance services	Italy	Italy	No
Claims handling and insurance services	Italy	Italy France	No
Claims handling and insurance services	Germany	Germany	No
Claims handling and insurance services	Germany	Germany Spain France	No
Claims handling and insurance services	Germany	Germany	No
Claims handling and insurance services	Spain	Spain France	No
Claims handling and insurance services	Nordics countries (Sweden, Denmark, Norway, Finland)	Ireland / Nordics	No
Claims handling and insurance services	Belgium	The Netherlands	No
Claims handling and insurance services	Poland	Poland	No
Claims handling and insurance services	Poland	Poland	No
Claims handling and insurance services	Austria	Germany Spain	No
Financial Sanction Screening	Italy	Italy	Yes

Financial Sanction Screening	Germany	Germany	Yes
Financial Sanction Screening	Spain	Spain	Yes
Financial Sanction Screening	Sweden	Sweden	Yes
Financial Sanction Screening	Norway	Norway	Yes
Financial Sanction Screening	Denmark	Denmark	Yes
Financial Sanction Screening	Finland	Finland	Yes
Financial Sanction Screening	Belgium	The Netherlands	Yes
Financial Sanction Screening	Poland	Poland	Yes
Financial Sanction Screening	Austria	Austria	Yes

B.8 ASSESSMENT OF GOVERNANCE AND ANY OTHER DISCLOSURE

Assessment of the adequacy of the system of governance to the nature, scale and complexity of the risks inherent in the business

The Company's system of governance is tailored to the nature, scale and complexity of the Company and has been implemented in accordance with the Corporate Governance Requirements, the CBI guidelines on Systems of Governance and the Pillar II requirements of the Solvency II Directive. The Executive Committee of the Company and its Board consider the System of Governance effectively provides for the sound and prudent management of the business and is adequate in respect of the operations, risk profile and PRISM risk rating of the Company.

Any other information for disclosure relevant to systems of governance

There is no additional information to be disclosed in relation to the system of governance.

C. RISK PROFILE

C.1 UNDERWRITING RISK

Description of measures used to assess risks, including any material changes over the year

The main measures to assess underwriting risks are described below:

- *Risk Universe Review:* the Company conducts, at least on an annual basis, a risk identification and mapping exercise, where it attaches impact and likelihood scores to underwriting risks impacting the business. This exercise is carried out by management at a departmental/functional level, with consideration also given to strategic or cross-functional risks.
- *Monthly Management Reporting:*
  - Measures of premium volumes (including new business and cancellations) at a product grouping and country level; and
  - Claims Loss ratios at a product grouping and country level.
- *ORSA process:* the ORSA process itself is also considered as a measure to assess the Underwriting Risk that the Company is exposed to and determine the level of Own Funds that are necessary to ensure that the solvency needs are met at all times.

No material changes were made to the measures used to assess underwriting risk over the year.

Description of material risks, including any material changes over the year

The material underwriting risks for the Company are reflected in the standard formula of the SCR. For the Company these are: morbidity; disability; expense risk; lapse risk as well as non-life risks of unemployment and GAP.

The values of each of the *Non-Life Underwriting Risk* sub-module of the SCR as at 31st December 2018, including a comparison with these values as at 31st December 2017, are as follows:

SCR Non-Life Underwriting Risk sub-module	2018 €M	2017 €M
Mortality	0	0
Longevity	0	0
Disability	0	0
Lapse	23	20
Expense	0	0
Catastrophe	45	45
Non-Life Premium Reserve	129	123
Diversification Benefit	(48)	(46)
TOTAL	**149**	**143**

The *Non-Life Underwriting* capital is the highest component of the Company's SCR. This is mainly due to the premium reserve and catastrophe stresses applied to the unemployment and GAP covers. The increase in *Non-Life premium reserve* SCR over the period is driven by the roll-forward of the budget which increases the value of the earned premium flowing through the SCR calculation.

The values of each of the Health Underwriting Risk sub-module of the SCR as at 31st December 2018, including a comparison with these values as at 31st December 2017, are as follows:

SCR Health Underwriting Risk sub-module	2018 €M	2017 €M
Mortality	0	0
Longevity	0	0
Disability	23	22
Lapse	12	7
Expense	0	0
Catastrophe	5	4
Non-Life Premium Reserve	0	0
Diversification Benefit	(13)	(9)
TOTAL	**28**	**23**

The *Health Underwriting Risk* has increased over the reporting period in line with the increase in the BEL due to the growth of the business. Assumption changes made at Year End 2018 for lapses also resulted in some changes to the SCR; however, there were no material changes in the nature of the underwriting risks over the reporting period.

Another insurance risk for the Company is unexpected changes to the underlying mix of the customer profile. The Company continuously monitors lapses, average age mix, gender profile and average exposures to ensure stability within these metrics.

Description of the material risk concentrations

The concentration of risks are as follows:

- Exposure of policies in a specific market. This is mitigated through the geographical diversification of the business as per business strategy; and
- Exposure to individual policies. This is mitigated by the definition of limit per single policy as defined in the Company's Risk Appetite Statement and Underwriting Risk Management Policy.

The Company has a concentration on one product grouping (i.e. covers related to loans), but this is geographically diversified and comprises large numbers of small risks. It is also important to note that the Company has also started to widen its product offering in recent years offering products not related to loans or other credit.

Description of the method for mitigating risk and the process for monitoring effectiveness of these strategies

The main methods for mitigating underwriting risks are described below:

- *Geographical diversification*: through writing business in several countries the Company's underwriting risks are well diversified. The geographical diversification of the business mitigates the risk of high concentration of underwriting risk in a specific market;
- *Reinsurance:* reinsurance may be used as a mitigation technique for underwriting risks. When launching new types of products, the Company might enter into commercial arrangements such as reinsurance or other partnership arrangements when this would result in a cautious approach to gaining expertise in new types of products and/or improve the overall product offer of the Company. This approach has historically provided access to the valuable underwriting expertise of the reinsurance partner until such time as the Company developed its own experience and hence facilitated quicker access to markets. However, the Company now has the capacity to accept 100% of the risk on new business written and acts as direct insurer in each of its current markets;
- *Limits per individual policy*: the Underwriting Risk Management Policy and the Risk Appetite Statement define the limits on the insured amounts and related benefit;
- *Experience analysis:* trends in claims and cancellations are monitored and reviewed on a regular basis. This represents the base for future assumptions used for pricing;
- *Reserve adequacy:* the adequacy of reserves is monitored and reviewed on a monthly basis. This aims to ensure accuracy and appropriateness of the earning and reserving rules;
- *Product launch guidelines and processes:* a detailed process must be followed internally by the Company to ensure certain criteria are taken into account before launching a new or materially amended product in accordance with the internal processes. The requirements of the Underwriting Risk Management Policy and Risk Appetite Statement of the Company are also taken into consideration. All aspects are considered when setting the assumptions and the terms and the conditions of the product. Sensitivity analysis and profit testing are carried out accordingly. The Company ensures that customer documentation is unambiguous and fully enforceable. This is achieved through a sound governance process and multiple reviews of the documentation. Where applicable, in the process of evaluating a new insurance product, the Company will take into account reinsurance arrangements and investment constraints;
- *Product monitoring review:* A review of product performance, including underwriting, is carried out for each material new or materially amended product 12 months after the launch. Actions are identified and reviewed by the Product Committee before escalation to the Executive Committee and Board for review and approval if required as per Underwriting Risk Management Policy;
- *Rules of delegation:* The Underwriting Risk Management Policy specifies the level of delegated authority assigned to the Company as well as the circumstances in which items are escalated to the Group, CNP Assurance S.A.;
- *Waiting period, exclusions and eligibility checks:* waiting periods and exclusions are allowed by the Underwriting Risk Management Policy and considered as a method of underwriting risk mitigation when included in the Terms and Conditions of the products. Also, eligibility checks are carried out when selling the product to ensure associated covers are suitable; and
- *Compliance with local regulation*: when launching a product in a jurisdiction, the Company engages with local law firms in order to identify the local requirements to be applied and ensure customer's documentation is aligned to the local legal and regulatory requirements.

Underwriting risks and effectiveness of mitigating actions are monitored through the following committees within the Company: *Board Risk Committee, Executive Committee*, *Technical Committee, Product Committee* and *Risk, Actuarial and Finance Forum*. Regulatory changes impacting underwriting are reviewed and monitored at the *Regulatory and Compliance Committee* and *Product Committee* as appropriate.

The CRO and Chief Actuary, reporting to the CEO, have responsibility to ensure that the Company considers all aspects of Underwriting Risk as it conducts business and that the Company's products remain within its risk appetite.

Description of assumptions, methodology and results of stress-testing and sensitivity analysis for each material risk

The Company uses stress testing and/or sensitivity analyses in order to investigate the potential development of its solvency needs and how it might meet its capital requirements in various scenarios. As part of the yearly ORSA process, the following underwriting risks were stressed simultaneously:

- Unemployment;
- Mass Lapse; and
- Disability.

These underwriting risks were assessed alongside others in this scenario to give a combined stressed view of the Economic Balance Sheet.

Any other disclosure

There is no additional information to be disclosed in relation to underwriting risks.

C.2 Market Risk

Description of measures used to assess risks, including any material changes over the year

The main measures to assess market risks are described below:

- *Asset Liability Matching*: the aim of the ALM methodology chosen by the Company is to achieve a satisfactory degree of "immunisation", i.e. a state where projected liability cash flows are broadly matched by corresponding asset cash flows. This is achieved through duration matching for each different currency. The ALM methodology also includes measures for currency exposure and massive surrender risk;
- *Risk Universe review:* market risks are assessed as part of the annual review of the Risk Universe where associated risks are identified and measured through an assessment of impact and likelihood; and
- *ORSA process:* In addition to the market shocks prescribed by the Standard Formula, the ORSA process includes additional market shocks to asset values, including interest rate shock, equity shock, and spread shock. These are in addition to, not as replacements for, the Standard Formula shocks.

No material changes were made to the measures used to assess market risk over the year.

Description of material risks, including any material changes over the year

The material risks identified by the Company are described as follows:

Interest Rate Risk: Interest rate risk arises where, due to a sudden increase in interest rates, the fall in the value of assets is not offset by a corresponding decrease in the value of liabilities, or vice versa. Due to the Company's policy of holding financial assets until their maturity interest rate risk is somewhat mitigated and the risk confined to a scenario of interest rate increases combined with a sudden mass lapse or other sudden cash outflow.

Currency Risk: the Company operates in five currencies: Euro; Polish Zloty; Norwegian Krone; Danish Krone; and Swedish Krona. The risk to the Company arises when an over or under exposure exists (assets versus liabilities) in a foreign currency relative to the Euro which may lead to a significant foreign exchange gain or loss.

Equity Risk: the Company holds a limited amount of mutual funds of equities and as such is exposed to fluctuations in the market value of equities.

Spread risk: the risk arises from the concentration of investments made by the Company in corporate bonds.

The Company is also exposed on a limited basis to *concentration risk.*

The market risks for the Company are captured within the standard formula of the SCR. The value of each Market SCR sub module as at Year End 2018, including a comparison with Year End 2017, is as follows:

Market SCR sub-modules €M	2018 Market Risk SCR	2017 Market Risk SCR
Interest	6	6
Equity	4	5
Property	0	0
Spread	10	9
Currency	1	1
Concentration	2	2
Diversification Benefit	(8)	(8)
TOTAL	**15**	**15**

The capital charge for the *spread risk* sub-module reflects the credit risk of issuers.

Description of the method for mitigating risk and the process for monitoring effectiveness of these strategies

The main methods for mitigating risks arising from fluctuation of the market are described below:

- *Diversification strategies*: the Company's Investment Risk Management Policy requires assets to be invested within prescribed asset norm limits by asset type, credit rating, and issuer. This ensures that the Company's assets are sufficiently diversified so as to mitigate the risks borne from concentration and counterparty exposure;
- *Duration matching*: the Company aims to limit exposure to interest rate risk by ensuring that the sensitivity of asset to a change in interest rate is close to that of liabilities. As part of the ALM Risk Management Policy, the Company has a requirement for assets and liabilities to be closely matched in terms of duration within an agreed range;

- *Monitoring of currency exposure*: net exposure in currencies other than Euro must not exceed a max threshold as set out in the Risk Appetite Statement of the Company. The majority of assets and liabilities of the business are expected to be denominated in Euros;
- *Positive cash-flow*: the Company has no appetite for any failure to meet its cash flow requirements nor for negative gaps on cumulative cash flows. The Company, therefore, aims to reduce the gap between the cash flow profile of assets and that of liabilities. Cumulative cash flows are monitored on an ongoing basis to ensure there is a continuous positive surplus; and
- *Liquidity and massive surrenders shocks*: the Company ensures adequate liquidity on an ongoing basis by measuring short term assets against liabilities with stresses applied to lapse rates for all liabilities with duration less than 1 year. Capital losses in scenario of massive surrender will be low due to holding sufficient liquid assets.

The exposure to market risk is monitored and reviewed on a monthly basis at the Investment Committee and reported to the Executive Committee and Risk Committee of the Company respectively on a monthly and quarterly basis. The Risk Function monitor the exposure to market risk through ad-hoc Key Risk Indicators which set the limits according to the Risk Appetite Statement of the Company.

Description of how assets have been invested in accordance with the 'prudent person principle' (references to Investment Policy and Investment Committee)

Assets are invested in accordance with the *prudent person principle* as prescribed by the Investment and ALM Risk Management policies, which are reviewed and approved by the Board at least on an annual basis.

Investments decisions are reviewed at the Investment Committee which is held at least on a monthly basis. The Committee ensures that Investments are made in accordance with the Investment and ALM risk management policies, Risk Appetite Statement and capital constraints under Solvency II.

The *prudent person principle* is therefore applied as follows:

- Individual assets: with respect to the whole portfolio, the Company shall only invests in assets where associated risks can be properly identified, measures, monitored, managed and reported, taking into account the assessments of the overall solvency needs; and
- Investment strategies: the assets held to cover the technical provisions shall be invested in a manner appropriate to the nature and duration of the insurance liabilities, taking into accounts the best interests of all policyholders.

Description of the material risk concentrations

The largest portion of the asset portfolio consists of fixed income securities, namely corporate and government bonds. The Company ensures that risks associated with these assets are mitigated through appropriate diversification by adhering to the Investment Risk Management Policy and Asset Norms of the Company. Market risk concentrations exposure are mitigated by ensuring that investments are done in accordance with the limits for rating categories and asset types.

Description of assumptions, methodology and results of stress-testing and sensitivity analysis for each material risk

The Company uses stress testing and/or sensitivity analyses in order to investigate the potential development of its solvency needs and how it might meet its capital requirements in various scenarios. As part of the ORSA process, the following market shocks were applied to assets simultaneously:

- Interest rate;
- Currency rates;
- Equity; and
- Spread.

Under this scenario, market as well as underwriting shocks are combined together to give a combined stressed view of the Economic Balance Sheet. Within a separate scenario, the ORSA exercise also assessed the company's exposure to foreign exchange rate shocks; non-euro currencies positions were also stressed by applying a defined shock to the forex rates.

Any other disclosure

There are no additional information to be disclosed in relation to market risk.

C.3 CREDIT RISK

Description of measures used to assess risks, including any material changes over the year

The main measures to assess credit risks are described below:

- *Credit rating*: Long term credit ratings issued by the three main rating agencies, where available, are used to assess the credit risk of the fixed income financial assets;
- *Issuer Economic Outlook*: investment advisors assess the economic and financial outlook of the issuers in support of the investment decisions; and
- *Risk Universe review:* credit risk is assessed as part of the annual review of the Risk Universe where associated risks are identified and measured through an assessment of impact and likelihood.

No material changes were made to the measures used to assess credit risk over the year.

Description of material risks, including any material changes over the year

The material risks identified by the Company are described as follows:

Counterparty Default Risk: the Company is exposed to default risk by having funds held by counterparties such as bond issuers, reinsurance partners, operational banks, or mutual fund issuers.

Downgrade risk: the company is exposed to risk of downgrade on any of its assets and counterparties. Such a downgrade could cause the company to be in breach of its own investment guidelines and in extreme cases require the immediate liquidation of a position, possibly at a loss. A ratings downgrade could also have a significant impact on the Market SCR calculated.

Description of how assets have been invested in accordance with the 'prudent person principle' (References to Investment Policy and Investment Committee)

See section C.2.

Description of the material risk concentrations

Exposure to individual issuers can result in material counterparty risk concentration. The Company ensures that counterparty credit risk is mitigated through appropriate diversification in investments by adhering to the Investment Risk Management Policy and Asset Norms which requires assets to be invested within defined limits by asset types, credit ratings and individual issuers. This ensures that the Company invests in high quality assets and issuers, which are analysed and recommended by the Company's Asset Manager and investment advisor of the Company.

Description of the method for mitigating risk and the process for monitoring effectiveness of these strategies

The main methods for mitigating counterparty credit risks are described below:

- *Diversification*: the Company's Investment Risk Management Policy requires assets to be invested within prescribed Asset Norm limits by asset types and credit ratings. This ensures that the Company's assets are sufficiently diversified so as to mitigate the risks borne from concentrated counterparty exposure;
- *Minimum acceptable credit rating:* The Company's investment policy prohibits investment in assets lower than investment grade;
- *Reinsurance Risk Management Policy*: the Policy sets the limits in relation to reinsurance counterparties; and
- *Financial Due Diligence*: detailed financial Due Diligence reviews are undertaken before entering into service agreement with third parties providers, according to the Outsourcing Risk Management Policy of the Company.

The Company performs an analysis on a monthly basis on the concentration by issuer and rating in order to comply with the limits established in the Asset Norms. The Company has experienced no issue with credit default to date and limits are monitored on an ongoing basis. The counterparty risk exposure is monitored and reviewed on a monthly basis at the Investment Committee and reported to the Executive Committee and Risk Committee of the Company respectively on a monthly and quarterly basis. The Risk Function monitor the exposure to credit risk through ad-hoc Key Risk Indicators which are set in accordance with the Asset Norms and the Risk Appetite Statement of the Company.

Description of assumptions, methodology and results of stress-testing and sensitivity analysis for each material risk

In addition to monitoring risk limits in the current business environment the Company also performs an assessment of risks under stressed criteria within the ORSA process. The Company uses stress testing and/or sensitivity analyses in order to investigate the potential development of its solvency needs and how it might meet its capital requirements in various scenarios. In general, as a result of a deterioration in the credit quality of one or more issuers, the market value of bond portfolios declines resulting in a decrease of own funds and SCR coverage. With regards to credit risk, the Company performed a stress-test as part of the ORSA process via an increase to fixed-income spreads.

Any other disclosure

There are no additional information to be disclosed in relation to credit risk.

C.4 LIQUIDITY RISK

Description of measures used to assess risks, including any material changes over the year

The main measure to assess liquidity risks within the Company are described below:

- *Liquidity Coverage Ratio* ("**LCR**")

Liquidity measure (*market value of liquid assets / stressed liability cash-flows*) aimed at ensuring that the Company's financial portfolios have enough liquid assets to pay cash-flows to policyholders in a stressed scenario. Liquid assets include all operational cash accounts and all deposit accounts; all bonds (government and corporate) with residual maturity less than one year; all other government bonds rated A, AA or AAA. The LCR shall be higher than 125% for each currency. This is in line with the liquidity standards of CNP Assurances S.A. and reflected in the Company's Risk Appetite Statement. A liquidity indicator has been established as part of the ALM Risk Management Policy and process whereby liquid assets are measured against stressed cash flows in each currency.

- *Asset Liabilities Management*, as described in the section C.2.

There are no changes to note over the reporting period.

Description of material risks, including any material changes over the year

The main Company's liquidity risks are as follows:

- There is a sudden, significant rise in benefits to be paid out (i.e. a wave of surrenders) and the Company is not able to make the payment when due;
- The Company is unable to dispose of financial assets at the right price in a short period of time or is not able to access other liquid funds at an appropriate cost.

In this regards, the Company must constantly maintain sufficient liquidity to face its liabilities. There are no changes to note over the reporting period.

Description of how assets have been invested in accordance with the 'prudent person principle' (References to Investment Policy and Investment Committee)

See section C.2.

Description of the material risk concentrations

There are no material risk concentrations in relation to liquidity risk. The Company's exposure to liquidity risk is considered to be low since it maintains a high level of liquid assets to meet its liabilities. The overall LCR indicator was tracked within the threshold over the reporting period.

Description of the method for mitigating risk and the process for monitoring effectiveness of these strategies

The main methods for mitigating liquidity risks are described below:

- *Investments in liquid assets*: Investments are made only in liquid assets with high trade volumes on regulated markets, according to the Investment and ALM risk management policies. There are no investments in illiquid assets such as private equity or real estate.

- *Investment in high credit quality*: Investment are only made in assets with a high credit rating quality (minimum BBB rated);

Additional methods for mitigating liquidity risks are described in Sections C.2. The exposure to liquidity risk is monitored and reviewed on a monthly basis at the Investment Committee and reported to the Executive Committee and Risk Committee of the Company respectively on a monthly and quarterly basis.

Description of assumptions, methodology and results of stress-testing and sensitivity analysis for each material risk

The following stresses to liquidity are performed at least on a quarterly basis:

- *LCR*: this methodology, as described above, applies a stress to the liabilities for each currency. Liabilities include all technical reserves and stressed cash flows are calculated as *3 * cancellation rate (Premium reserves) + increasing claims reserves by 20%*. No stress applied is to other liabilities; and
- *Massive surrenders combined with an increase in interest rates*: objective is to measure the capital losses that would be realised in a massive surrender scenario. Assets are stressed by applying a sudden 3% increase in interest rates to all liquid assets. Liabilities are stressed by applying a sudden lapse rate of 40% to all liabilities with duration less than 1 year. Capital losses in scenario of massive surrender will be low due to holding sufficient liquid assets.

Results are monitored on a continuous basis and any shortfall in liquidity must be addressed timely by the senior management with proper escalation to the Board, where required. No stresses were applied as part of the ORSA process as liquidity is not considered a material risk within the Company.

Any other disclosure

There is no additional information to be disclosed in relation to liquidity risk.

C.5 Operational Risk

Description of measures used to assess risks, including any material changes over the year

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria. Operational risks are reviewed on a periodic basis by the Risk Committee, Executive Committee and the Board of Directors.

The following measures are used to assess operational risks:

- *Risk Universe review*: operational risks to which the Company is exposed are identified at least on an annual basis through an operational risk identification and mapping exercise, internally referred to as the “Risk Universe” exercise, which is carried out by the Risk Function in conjunction with the relevant business owners and is reviewed by the Board. Inherent risks are assessed in respect of the likelihood of a given risk event occurring and the potential financial impact in the case that the defined risk event were to materialise. A comprehensive alignment of controls to the risks identified in the risk assessment is then performed in order to determine the residual risk universe. Corresponding remedial action plans are subsequently identified and tracked for each of the risks with the highest residual exposure (“Top Residual Risks”);

- *Operational Risk Questionnaire:* an annual review is performed on the evolution of the operational risk profile of the Company, according to CNP Risk Department's methodology. The contribution made by the Company to this exercise enables CNP Risk to determine the overall operational risk profile.
  The classification used in relation to operational risk has been developed by CNP Risk and includes a four-level hierarchy of risk category, the first of which includes the following components: *Products/policies and policyholder relations; Information system failures; Human resources management; Safety and security; Internal fraud; External fraud; Project management; Process execution, delivery and management*.
- *Business processes reviews*: the Company's Internal Control system provides a comprehensive framework which helps to measure and mitigate the operational risks faced by the Company. The Company's Internal Control team has in place a suite of Key Controls which are tested on a regular basis throughout the year and are reviewed at least on an annual basis;
- *ORSA process:* Results from both the *Risk Universe* and the *Operational Risk Questionnaire* are used as input in the selection of the Operational Risk shock for the annual ORSA process;
- *Solvency Capital Requirement*: the SCR standard formula includes an assessment and quantification of the operational risk exposure;
- *Risk Incident Log*: it is a tool owned by the Risk Function with the aim of assessing, overseeing, tracking and addressing any risk incidents in the business. A specific reporting procedure is in place and is circulated on a monthly basis to all employees of the Company to ensure risk incidents, including near misses, are reported timely. The status of remedial actions in relation to reported risk incidents are then monitored continuously; and
- *Ad-hoc assessment*: operational risks are also assessed on an ad-hoc basis through questionnaires, briefings and risk analysis carried out in conjunction with the relevant business owners.

There were no material changes in measures to assess risks over the reporting period.

Description of material risks, including any material changes over the year

Operational risk arises as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risks are identified at least on an annual basis as part of the Risk Universe review and are closely monitored throughout the year and exposure tolerance levels are captured in the Risk Appetite of the Company.

According to the Risk Universe of the Company, the material operational risks identified over the reporting period are:

Risk Type	Risk Universe	Changes in exposure compared to prior period
Outsourcing Risk	- High reliance on critical IT service providers - Permanent interruption of TPA activities	- New - No
Data complexity	- Data errors, including errors in reserving, TPA administration errors - GDPR breach - Cyber incident	- Impact ↑ - No - Impact ↑

IT failure	- IT infrastructure/service failure	- No
Customer relationship	- Legal disputes and litigations	- Likelihood ↓

1) **Outsourcing Risk:** Operational risks include outsourcing arrangements to external providers. The Company relies on its partners' systems in order to provide policy administration and claims and complaints handling services. It is critical that customers continue to receive excellent service on an ongoing basis and that information continues to be transferred accurately from end-to-end across multiple suppliers. Also, the Company has relied on outsourcing partners for the provision of most of its IT infrastructure and software services and solutions. In respect of all outsourced activities, comprehensive Service Level Agreements are in place and monitored on a continuous basis.
2) **Data complexity:** The risk of losses arising from inadequate granularity and/or accuracy of data which may lead to errors or delays in regulatory and financial reporting and as well as errors in the assumptions underpinning reserving and pricing. The Company has implemented processes and procedures for the management of data to ensure appropriateness, completeness, accuracy and timeliness of data. The Company has an IT and Data Quality team in place and has gradually developed an IT Risk Management Framework to identify, assess and mitigate the risks associated to data. This risk type also covers the risk of the Company's inability to protect data from unauthorised access, use, disclosure, disruption, modification, and/or destruction and the cyber security risk of data theft, and malicious data and service disruption. The Company has a low appetite for both data security breaches and cyber incidents which could lead to a breach of data protection, damage of reputation, interruption of key operations or major remedial costs for the Company. The Board remain accountable for Cybersecurity within the Company; and
3) **IT failure:** This refers to the risk of losses arising from the failure of critical IT systems, including models and tools considered critical for regulatory and financial reporting. This risk also includes potential losses of or damage to physical assets resulting from natural disasters or other events which may interrupt the continuity of business and/or provisions of services or that lead to a major exposure to risks. The IT Function will continue to support the business processes and enable business continuity in the event of a business continuity incident.
4) **Customer relationship:** This reflects the way the Company *conducts* business and its ability to mitigate any potential detriment of customer relationship, ensuring the best interest of policyholders and also compliance with *regulation*. With this regard, the Company, supported by external legal advisors in each territory, monitors closely any developments related to open disputes and litigations. For the most part, these are claims related. This helps the Company to identify any potential *fraud*. Also, the Company has effective processes in place around the launch or changes of products with the ultimate aim to mitigate the risk of *errors in Terms and Conditions* and policy wording.

In addition, the Company has also established a *customer experience* department with the aim to identify new opportunities across the customer journey and improve the overall relationship.

Description of material risk concentrations.

There were no material operational risk concentrations over the reporting period.

Any material future risk concentrations anticipated, and how these risk concentrations will be managed

There are no material future risk concentrations anticipated.

Description of risk mitigation techniques, and process for monitoring the continued effectiveness of these strategies

Exposures of all material operational risks are tracked within the Risk Dashboard. Risk appetite and tolerance levels are set out in the Risk Appetite Statement of the Company. The main risk mitigation techniques in place to mitigate operational risks are:

- *Monitoring of Service Level Agreements*: mitigates the risk of inadequate outsourcing services. Performance and quality of the service provided by external vendors and outsourcers are monitored and reviewed on a regular basis through dedicated reporting and governance meetings;
- *Onsite Visits*: under the service agreement, the Company has the right to visit the external vendor or outsourcer for audit, control testing and due diligence purpose. Visits are performed on a regular basis depending from the criticality of the service provided;
- Quarterly *Key Control Testing:* mitigates the risk of losses arising from the failure or inadequacy of business processes. Action plans are implemented to rectify any control weaknesses and, once a plan has been established, the key control is tested over an agreed period to ensure the weakness has been addressed;
- Regular *Due Diligence reviews*: mitigate the risk of inadequate outsourcing services or failure of external providers. Reviews are carried out during the provision of the services to ensure there were no significant changes within the outsourcer or in the nature of the service; to review the provider's financially stability;
- *TPA Reversibility Plan:* mitigates the risk of discontinuity and defines the actions to be taken in each territory on the short, medium and long term in the event of immediate unavailability of TPA to deliver the service required under the Service Agreement. Performed and finalised for each TPA in 2018 and will be updated annually;
- Annual *Company's mandatory training*: data privacy and security training mitigates the risk of cyber and data breaches;
- *Group Fraud/Crime Insurance Cover*: mitigates the impact arising from internal / external fraud;
- The Company has an *anti-bribery and corruption framework* in place;
- *Group Cyber Insurance Cover:* mitigates the impact arising from a cyber-attack;
- Annual testing of *Business Continuity Plan*: mitigates the risk of business interruption. It is tested on an annual basis. There is also insurance cover in place in the event of business interruption or damage to either property or computer equipment;
- Annual or ad-hoc *ORSA process*: mitigates the risk of a shortfall in capital arising from operational risks.
- *Data Quality Framework:* Solvency II regulations place a great deal of importance in the adequacy and accuracy of the information used for all regulatory and internal calculations and reporting. Data quality requires implementing processes, procedures and instructions for the management of information and to ensure appropriateness, completeness, accuracy and timeliness of data. Checks and controls are in place in order to validate the data related to the policies underwritten from the originator through to the final stages where the Regulatory Capital is calculated. The framework is continuously improved with the purpose of identifying and addressing any shortcomings and with the aim also of improving the homogeneity of the data checks across the entire Data Life Cycle; and
- *IT & Cybersecurity Strategy:* The security of IT services is a key priority for the Company. The Company, through its IT risk management strategy, take the technological and governance steps necessary to limit the risk of cyber-attack and to limit the potential impact of any prospective cyber-attack. The Company has cyber security

preventative measures in place and will continue to advance IT security practices and maintain alignment with evolving industry norms. Securing sensitive and business critical data is an ongoing critical function and technical security precautions are taken to minimise the possibility of a malicious attack. The IT department will implement all feasible measures to ensure the security of Company data, including keeping abreast of the latest cybersecurity techniques and services, and engaging with best-in-class vendors to make sure that the risks to the Company's systems and data are mitigated as fully as possible.

Description of assumptions, methodology and results of stress-testing and sensitivity analysis for each material risk

The Company uses stress testing in order to investigate the potential development of its solvency needs and how it might meet its capital requirements in various scenarios as part of the ORSA process.

The approach taken into account for the Operational Risk shock scenario is fully aligned with CNP Assurances prescribed guidelines where only the *Maximum* Possible *Loss* scenario is factored into the ORSA.

The scenario selected in 2018 was in line with the risk profile of the Company and it is represented below:

Scenario Type	Description	Scenario Name
Maximum Possible Loss	An event corresponding to a Maximum Possible Loss	Permanent interruption of TPA activities
VaR 90%	A major operational loss which could occur once in every 10 years.	Unexpected revision of TPA arrangement

As illustrated above, the Company performed this exercise with a *VaR* at 90% and *Maximum Possible Loss*. That is, to assess and estimate the possible impact of the occurrence of a major loss event related to "Critical supplier discontinuity" once in every 10 years and one corresponding to a maximum possible loss. The associated causes and context of each scenario were described precisely. Both scenarios were then analysed in workshops in order to determine the induced consequences and to quantify financial losses that would result, according to experts judgment, should either event materialise at any point in time. Therefore, the total amount of extra capital required for this Operational Risk scenario was added to a combined ORSA shock scenario. Lastly, related action plans were also identified for each scenario, should either event materialise at any point in time.

Any other disclosure

There is no additional information to disclose.

C.6 Other material Risk

Overview of the use of special purpose vehicles, disclosing at least information on whether the Special Purpose Vehicle ("SPV") is authorised under Solvency II, what risks are transferred to it and how the fully funded principle is assessed on an on-going basis

The Company does not make use of a Special Purpose Vehicle.

Other material risks

The additional following risks were identified as part of the risk universe of the Company and were continuously monitored over the reporting period:

- ***Strategic Risk:*** Changes in consumer behaviour, regulation and/or the evolution of commercial arrangements, in addition to the entrance of new types of business models into the insurance landscape, could potentially impact the sales performance of the Company. Furthermore, there is a potential risk that the high effort required for the achievement of key projects may delay the execution of the business strategy in the short term. Therefore, the business must always ensure that, in developing new lines of business (e.g. country launches, product launches, broadening of distribution channels), that sufficient resources are allocated to ensure successful implementation while minimising the risk of delay. The Company engages with external parties for advice and support where required. All significant projects are monitored on a continuous basis through working groups and steering committees in place, with proper escalation to the Board of Directors where required, to ensure the proper execution of the business plan and achievement of the business strategy; and
- ***Environmental Risk:*** This refers mainly to global economic conditions and developments that could negatively affect the execution of the Company's business plan, and also to sector specific developments, as *legal and regulatory changes*. The preferred strategy to mitigate the negative consequences of these events is by continuous monitoring of the surrounding economic and sectorial conditions in all the territories where the Company operates in order to anticipate and mitigate those hazards. The macroeconomic outlook for each country is monitored on a continuous basis with particular attention to the unemployment trends and consumer confidence. Any potential exposure to losses must be escalated to the Board for discussion and mitigation plans must be put in place.

  A risk assessment has been previously carried out in relation to the possible exit of the United Kingdom from Europe (known as "Brexit") and the exposure of the Company to this risk has been assessed as low and remained unchanged over the reporting period.
- ***Governance Risk***: This section includes any risk related to potential breach of *corporate governance requirements* and the ability of the Company to continuously comply with the regulations, with particular reference to the recently implemented General Data Protection Regulation and the Insurance Distribution Directive. In 2018, the Company has reviewed its processes and procedures and aligned them with the GDPR to strengthen its internal data protection framework where required. Any new regulatory developments within both the domestic and cross border markets are reported upon internally to the Executive Committee on a monthly basis, to the Regulatory and Compliance Committee on a bi-monthly basis and on a quarterly basis to the Risk Committee and Board.

C.7 ANY OTHER INFORMATION

Any additional information, if any, is included in sections C.1 to C.6.

D. VALUATION FOR SOLVENCY PURPOSE

D.1 ASSETS

Value of assets for each material class, as well as a description of the basis, methods and assumptions used for valuation

The following financial assets are held at fair value at 31st December 2018:

Balance Sheet Items Assets	2018 €/000	2017 €/000
Cash and Cash equivalents	68,169	54,354
Bonds: Government Bonds, Corporate Bonds, Structured Notes	351,740	285,649
Collective Investment Undertakings	11,476	13,040
Insurance and intermediaries receivables	12,059	13,061
Reinsurance receivables	452	1,128
Receivables (trade, not insurance)	77	105
Health similar to life (Reinsurance Asset)	7,286	9,860
Non-Life excluding health (Reinsurance Asset)	3,906	6,572
Any other assets, not elsewhere shown	1,715	-
Total Assets	**456,880**	**383,769**

Cash and cash equivalents: Cash and cash equivalents (i.e. cash deposits) are valued at nominal value. Balance has increased year on year in line with the growth of the insurance portfolio.

Bonds and Collective Investment Undertakings: this item includes *fixed income securities* and *mutual funds* held by the Company, traded in active liquid markets and are valued at fair value based on their available market price. A quoted price is readily available and is provided is provided by the Company's Asset Manager. Investments have increased year on year in line with the growth of the insurance portfolio.

Insurance and intermediaries receivables, reinsurance receivables, receivables (trade, not insurance) and *any other assets, not elsewhere shown* are included at nominal value. Balances at year end are dependent on timing of receipts and payments.

Reinsurance Assets (*Health similar to life* and *Non-Life excluding health*): this information is provided in section D.2.

For each material class, a quantitative and qualitative explanation of any material differences with the valuation basis, method and assumptions used for the financial statements

There are no differences between the Solvency II valuation basis and IFRS valuation, with exception of the Reinsurance Assets which is detailed in section D.2.

D.2 TECHNICAL PROVISIONS

The technical provisions equal the sum of the Best Estimate Liability and the Risk Margin. The BEL is the expected present value of the probability-weighted average of future cash-flows, using the relevant risk-free interest rate term structure. The BEL contains two components:

- A claims reserve based on the accounting provisions established for claims *In Course of Payment*, claims *Incurred But Not Reported* and claims *Reported But Not Settled*. This is referred to as the "*BEL - claims reserves*" for Solvency II reporting purposes; and
- An amount for future claims outgo, which is represented by the Unearned Premium Reserve on the Financial Statements. This is referred to as the "*BEL – future cashflows*" for Solvency II reporting purposes.

The RM is the cost of holding sufficient capital to back the SCR over the lifetime of the obligations. The cost of capital rate is set in the Solvency II Delegated Regulations to be 6% - above risk free. Technical provisions are calculated gross of amounts recoverable from reinsurance contracts. The *reinsurance recoverable* has been considered separately below and is calculated as the present value of the probability-weighted average of future reinsurance cashflows.

Best Estimate Liabilities – Claims Reserves

The claims reserves for Year End 2018 are slightly different to those established on the Financial Statements. Some of the elements of prudence within the Financial Statements assumptions for the claims reserves have been removed for the purposes of Solvency II reporting. The following are the components of the claims reserves under Solvency II:

- IBNR: The IBNR reserve is held in respect of claims from past periods of cover which are estimated to be still unreported. The calculation incorporates estimates of ultimate claims likely to emerge from each past month of cover (i.e. earned premium multiplied by loss ratio) as well as estimates of typical delays in the reporting of claims.
- RBNS: The RBNS represents the liabilities related to existing claims which have been reported but payment has neither been settled nor held in ICOP. For example, there may be claims pending decision, perhaps where a piece of documentary evidence (e.g. proof of unemployment) has not yet been received. The RBNS is calculated as the claim amounts payable multiplied by an acceptance rate assumption.
- ICOP: The ICOP reserve represents the liability to make further monthly benefit payments on claims which have already been reported and accepted.

Best Estimate Liabilities – Future Cashflows

The BEL is produced using a cashflow model created using an actuarial modelling tool which was developed in 2015. Future cashflows for the in-force business as at 31st December 2018 are projected at an individual coverage level. The cashflows are projected on a monthly basis and all cashflows are projected to the end of the appropriate policy term.

The projected future cashflows include:

- Income:
  - Regular premium receipts.
- Outgo:
  - Claims payments, including expected levels of surrender (cancellation);

- Commission payments;
- Expenses (maintenance costs only); and
- Third Party Administrator fees.

The cashflows are discounted using the relevant risk-free rates for each currency to obtain the BEL.

As is permitted, the Company has chosen not to apply any adjustment to the risk free rates for either the Matching Adjustment or Volatility Adjustment. The Company has also chosen not to make use of any of the Solvency II transitional arrangements permitted in respect of risk-free rates or technical provisions. Any changes to this approach in the future would require the approval of the CBI.

The commission outflows are not a policyholder liability and therefore represent accounting provisions of the Company. However for simplicity in calculation these are included in the actuarial models and are therefore included under the BEL heading.

Given the nature of the business, and in particular the lack of investment guarantees a deterministic approach has been taken in calculating the BEL - i.e. using a single yield curve and claims modelled based on claim rates without stochastic variation.

Risk Margin

The *Risk Margin* is calculated as the cost of holding certain defined components of the SCR over the lifetime of the obligations. It should be noted that, as required by the Delegated Regulations, the projected SCR is calculated on the assumption that the assets are selected in such a way that they minimise the SCR for market risk. The risks included in the projected SCR underlying the RM therefore relate to underwriting risk, operational risk and counterparty risk only. There is no projected capital in respect of market risk, as the market risk associated with the assets held is deemed to be fully hedgeable. There is also considered to be no counterparty default risk associated with deposit holdings for this purpose. The calculation of the RM is based on a simplified approach as is permitted under Solvency II.

Guideline 62 of the EIOPA *Level 3 Guidance* on the valuation of technical provisions sets out the hierarchy of simplifications that are allowed. The approach adopted by the Company is equivalent to *Method 3* of the hierarchy which is to:

"Approximate the discounted sum of all future Solvency Capital Requirements in a single step without approximating the Solvency Capital Requirements for each future year separately as referred in Article 58 (b) of the Implementing Measures, inter alia by using the modified duration of the insurance liabilities as a proportionality factor"

The approach is to apply a factor to the SCR of the reference undertaking at the valuation date. The factor is based on the duration of the business written, and so would be higher if the duration were longer etc. This methodology is also the one chosen by CNP Santander's majority shareholder CNP Assurances S.A. The SCR of the '*reference undertaking*' is taken to be the full SCR at the valuation date, excluding the market risk module and the deposit elements of the counterparty risk module, as mentioned above, and also excluding the adjustment for loss-absorbing capacity of deferred tax as required by the Delegated Regulations.

Amount of technical provisions

The table below shows the components of the technical provisions at Year End 2018 and 2017 calculated on a Solvency II basis:

Technical Provisions	2018 €/000	2017 €/000
BEL – Claims Reserves	38,348	37,956
BEL – Future Cashflows	154,478	113,398
BEL – Total	**192,826**	**151,354**
Risk Margin	**17,281**	**18,035**
Total Technical Provisions	**210,107**	**169,389**

Reinsurance Asset

The following table shows the Reinsurance Asset as at Year End 2018, including a comparison with Year End 2017:

Reinsurance Asset	2018 €/000	2017 €/000
Reinsurance Asset	7,768	11,569
Reinsurance Adjustment	(3)	(6)
Claims Reserve Share	3,428	4,869
Adjusted Reinsurance Asset	**11,192**	**16,432**

Above figures represent value of future cashflows from the reinsurance arrangements in place.

The *Reinsurance Asset* above has been calculated using the same cashflow model and on the same basis as the technical provisions (gross of reinsurance).

The *Reinsurance Adjustment* allows for the probability of default of the reinsurers.

The *Claims Reserve Share* represents the appropriate level of the quota share reinsurance in place. It is worth noting that the reinsurance asset is very small in comparison to the BEL, taking into consideration that almost all reinsurance treaties are in run off.

Uncertainty & Sensitivities

There is some uncertainty associated with the amount of the technical provisions due to the reliance on assumptions underlying the calculations. The sensitivity of the Company's Solvency II balance sheets to a range of future scenarios is explored in detail as part of the annual ORSA process.

The Company's technical provisions are most sensitive to changes in claim rates (non-life and disability) and lapses, particularly a large number of instantaneous lapses. The technical provisions are relatively insensitive to changes in expenses and expense inflation.

Assumptions

A number of economic and demographic assumptions are used for the valuation of technical provisions for the Company. The key assumptions for the Company are the claims incidence rates. These directly affect the projected claims. In some

territories, the Company has only been selling business for a relatively short period, so there is relatively little experience data available from the Company's own book in some places. However, it is felt that the assumptions have been set appropriately given this constraint, using data available from previous insurers and market data. The other assumptions that influence the results of the Technical Provisions, but to a lesser extent are:

- *Expenses* - Projected expenses are a component of the BEL. These are calculated at a per policy level using the budgeted maintenance expenses for 2019 and estimated December 2018 policies inforce;
- *Surrender/cancellation rates* - These assumptions reflect policy holder behaviour. These rates impact the projected number of policies in force and hence the claims arising in the future (and the amounts paid on cancellation). The assumptions for surrenders/lapses were calculated based on data received from the TPAs that administer the business; and
- *Interest rates* - These rates influence the BEL as projected cashflows are discounted back to the valuation date. There is no scope for the Company to set these rates as they are prescribed by EIOPA for each valuation date; the risk free rates set by EIOPA by currency are used without any adjustments.

Changes since last reporting period

While some claims, expenses, lapse rates and economic assumptions were revised; no material changes were made to the assumptions since year end 2017.

D.3 OTHER LIABILITIES

Value of other liabilities for each material class as well as a description of the basis, methods and assumptions used for their valuation

The value of Other Liabilities as at 31st December 2018, including a comparison with the previous reporting year, is as follows:

Other Liabilities	2018 (€/000)	2017 (€/000)
Deferred tax liabilities	5,448	5,446
Insurance & intermediaries payables	10,908	10,827
Payables (trade, not insurance)	10,988	9,768
Subordinated liabilities	54,000	54,000

There were no material changes to note over the reporting period.

A quantitative and qualitative explanation of any material differences with the valuation basis, method and assumptions used for financial statements purposes

No adjustment is required to these valuations for solvency purposes as the amounts held under IFRS valuation principles are deemed to be approximations of fair value. Deferred tax on the Company's AFS reserve is carried at the same value under IFRS and Solvency II. The Solvency II deferred tax liability also includes the impact of the change from IFRS equity to Solvency II own funds that is reconciled in section E.1.

D.4 Alternative methods for valuation

No alternative methods were used in the valuation of the assets and liabilities.

D.5 Any other information

There is no additional information to be disclosed in relation to the valuation of assets and liabilities.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

Information on the objectives, policies, and processes for managing own funds including the planning horizon used and any material changes

The main objective of the Company's Capital Management Policy is to ensure that capital is kept adequate at all times, in order to:

- Maintain the financial stability of the Company through a sound and effective allocation of capital along the business;
- Sustain the execution of the Company's business plan;
- Protect the best interest of the policyholders; and
- Comply at all times with the regulatory requirements, as set by the CBI and EIOPA respectively at local and European level.

The Company's requirements regarding the management of own funds are:

- Ensuring that own fund items, both at issue and subsequently, meet the requirements of Solvency II regime and are classified correctly;
- Monitoring the issuance of own fund items according to the medium-term capital management plan; and
- Ensuring that the terms and conditions of any own fund items are clear and unambiguous in relation to the criteria of the applicable capital regime.

This is achieved through a prudent management of the own funds on a continuous basis. Quality of own funds is continuously monitored to ensure that sufficient eligible own funds are maintained at all times to cover the Solvency Capital Requirement and Minimum Capital Requirement. The Company reviews the level and eligibility of own funds at least on quarterly basis, as part of the Quantitative Reporting Templates production.

Own Funds are projected at least on an annual basis as part of the ORSA process, according to the Company business plan projections, with the aim to assess the capital requirements in the medium to long term and identify any capital management action, where required. The projections are updated quarterly as actual capital requirements are calculated every quarter. These projections provide a forward-looking perspective on the Company's risk profile, solvency needs and level of own funds required over the business plan horizon. The results of projections made in the ORSA will be used by the Company to develop the medium-term capital management plan and define the Target Solvency Cover (defined as an internal prudential margin in excess of the SCR), to ensure the capital requirements are met and are aligned to with the underlying risk of the Company. In case of breach or potential breach of the target solvency cover, the Board will review the capital management plan according to the regulatory requirements.

Capital Management is embedded in the ORSA annual strategic planning process and leads to the production of a medium-term capital management plan, which is revised each year by the Board. In case the Company requires an injection of capital, the below processes will be followed:

- Additional own funds to meet any increased capital requirement may take the form of an inter-company subordinated debt loan where possible, accordingly to the local regulation. Where it is not possible for

regulatory/capital constraints, additional own funds may take the form of either ordinary share capital or a capital contribution, according to the Group's procedure.

- According to Article 138 of the Solvency II Directive, when there is a breach of the Solvency Capital Requirement, or when a breach is likely to occur in the next three months, a recovery program must be approved by the Board of Directors and presented to the CBI. The recovery program aims (i) to restore the level of eligible own funds equal to the SCR and/or (ii) to reduce the risk profile to ensure compliance of the SCR.

For each tier, information on the structure, amount and quality of own funds and an analysis of significant movements over the year

Own Funds are broken down as follows:

Own Funds	2018 (€/000)	2017 (€/000)
Ordinary Share Capital – Tier 1	53,000	53,000
Reconciliation Reserve – Tier 1	112,430	81,339
Subordinated Debt – Tier 1 Restricted	41,358	33,585
Subordinated Debt – Tier 2	12,642	20,415
Total Own Funds	**219,430**	**188,339**

The Ordinary Share Capital remained the same over the reporting period while movements in Reconciliation Reserve are explained below. The Subordinated Debt relates to loan provided by the sister company CNP Santander Insurance Life DAC to CNP Santander Insurance Europe DAC. Due to the increase in the reconciliation reserve in 2018, as explained later in this paragraph, a higher portion of the subordinated debt is now classified as Tier 1 with the balance included as Tier 2, in line with Solvency II guidelines.

Quantitative and qualitative analysis of differences between equity in the financial statements and basic own funds

The financial statements are prepared under International Financial Reporting Standards whereas the Solvency II balance sheet and own funds are prepared in accordance with the Solvency II Directive and associated regulations and guidance.

Reconciliation of Own Funds	2018 (€/000)	2017 (€/000)
Equity per Financial Statements	**180,779**	**152,726**
Removal of IFRS Technical Provisions	243,088	193,657
Addition of BEL, Risk Margin, Reinsurance Asset and Provisions other than Technical Provisions	(198,914)	(152,957)
Deferred Tax Impact of above adjustments @ 12.5%	(5,523)	(5,087)
Total Own Funds	**219,430**	**188,339**

Own Funds have increased over the reporting period in line with the growth of the portfolio and are expected to grow in line with the business plan projections over the next 5 years.

Explanation of the key elements of the reconciliation reserve

The reconciliation reserve is made up of the following components:

Reconciliation Reserves	2018 (€/000)	2017 (€/000)
Retained Earnings plus AFS Reserve per Financial Statements	73,779	45,726
Removal of IFRS Technical Provisions	243,088	193,657
Addition of BEL, Risk Margin, Reinsurance Asset and Provisions other than Technical Provisions	(198,914)	(152,957)
Deferred Tax Impact of above adjustments @ 12.5%	(5,523)	(5,087)
Reconciliation Reserve	112,430	81,339

The Company's portfolio has continued to grow over the reporting period. The increase in Reconciliation Reserve versus prior year is due to the Company continuing to grow and write new business.

E.2 Solvency Capital Requirement & Minimum Capital Requirement

Amount of SCR and MCR at Year-End

The Company has used the Standard Formula for the calculation of the SCR.

The aggregate SCR for the Company on 31st December 2018 is €147M, resulting in a SCR coverage ratio of 149%.

The aggregate MCR for the Company on 31st December 2018 is €41M, resulting in a MCR coverage ratio of 520%.

Amount of SCR split by risk modules

Solvency Capital Requirement (SCR) (by risk modules)	2018 €M	2017 €M
Life Underwriting	0	0
Non-Life Underwriting	149	143
Health Underwriting	28	25
Market Risk	15	15
Counterparty Default Risk	6	6
Intangibles	0	0
BSCR Diversification Benefit	(38)	(35)
BSCR	159	154
Operational Risk	9	8
Tax Adjustment	(21)	(20)
TOTAL SCR	**147**	**141**

Minimum Capital Requirement (MCR)	2018 €M	2017 €M
TOTAL MCR	**41**	**35**

Qualitative information on the results of MCR and SCR calculation, including reasons for material movement over the year

- The *non-life underwriting* capital is by far the largest component of the SCR under Solvency II. This is mainly due to the premium/reserve and catastrophe stresses applied to the *unemployment* and *GAP* covers. Several factors have led to an increase in this SCR module:
  - The growth of the business inforce increases this module;
  - Changes in the actual business mix over 2018 as more *GAP* and *unemployment* policies were sold compared to what was expected; and
  - Changes in the *yield* curve used to discount the cashflows and changes in claims reserves also lead to changes in this SCR module but to a much lesser - and usually more volatile - extent.
- The *health underwriting* capital is the second largest component of the SCR under Solvency II. This is mainly due to the *disability/morbidity* stresses and, to a lesser extent, *lapse* stresses. This has increased from Year End 2017 due to the increase in the BEL driven by the growth in business over the year;
- *Market, Counterparty and Operational risk* are relatively small for the Company from a capital point of view.

Information on the inputs used to calculate the MCR

The table below shows the inputs used in the calculation of the MCR as at 31st December 2018, including a comparison with the previous reporting year:

Inputs used to calculate the MCR	2018 €M	2017 €M
AMCR - *Absolute Floor of the MCR**	3.7	3.7
Linear MCR	41.3	31.4
SCR	147.0	141.3
Combined MCR	41.3	35.3
Minimum Capital Requirement	41.3	35.3

* Note the Absolute Floor of the Minimum Capital Requirement ("AMCR") is prescribed by EIOPA.

The *MCR* has increased due to an increase in the *capital at risk*. Due to the nature of the calculation, the MCR has also been influenced by the increase in the Technical Provisions as well as the Premiums between Year End 2017 and Year End 2018.

Information on whether, and for which modules, the company is using simplified calculations and/or company specific parameters

The Company has not used *simplified calculations* or *undertaking specific parameters* in the calculation of the SCR.

Amount of any capital add-ons

There is no requirement for any capital add-ons.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

This section is not applicable to the Company.

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

This section is not applicable to the Company.

E.5 Non Compliance with the MCR & Non Compliance with the SCR

The Company has complied with the SCR and MCR during the reporting period.

E.6 Any other information

There is no additional information to be disclosed with regards to Capital Management.

APPENDIX A – QUANTITATIVE REPORTING TEMPLATES

This Annex publicly discloses the following quantitative reporting templates in respect of the year ended 31st December 2018:

QRT	Description
S.02.01.01	Balance Sheet
S.05.01.01	Premiums, Claims and Expenses by line of business
S.05.02.01	Premiums, Claims and Expenses by Country
S.12.01.01	Life and Health SLT Technical Provisions
S.17.01.01	Non-Life Technical Provisions
S.19.01.01	Non-Life Insurance Claims
S.23.01.01	Own Funds
S.25.01.01	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.02.01.01
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	0.00
R0020	Deferred acquisition costs	0.00
R0030	Intangible assets	0.00
R0040	Deferred tax assets	0.00
R0050	Pension benefit surplus	0.00
R0060	Property, plant & equipment held for own use	0.00
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	363,216,087.00
R0080	Property (other than for own use)	0.00
R0090	Holdings in related undertakings, including participations	0.00
R0100	Equities	0.00
R0110	Equities – listed	0.00
R0120	Equities – unlisted	0.00
R0130	Bonds	351,739,913.81
R0140	Government Bonds	81,185,734.59
R0150	Corporate Bonds	268,678,564.81
R0160	Structured notes	1,875,614.41
R0170	Collateralised securities	0.00
R0180	Collective Investments Undertakings	11,476,173.19
R0190	Derivatives	0.00
R0200	Deposits other than cash equivalents	0.00
R0210	Other investments	0.00
R0220	Assets held for index-linked and unit-linked contracts	0.00
R0230	Loans and mortgages	0.00
R0240	Loans on policies	0.00
R0250	Loans and mortgages to individuals	0.00
R0260	Other loans and mortgages	0.00
R0270	Reinsurance recoverables from:	11,192,111.70
R0280	Non-life and health similar to non-life	3,906,293.35
R0290	Non-life excluding health	3,906,293.35
R0300	Health similar to non-life	0.00
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	7,285,818.35
R0320	Health similar to life	7,285,818.35
R0330	Life excluding health and index-linked and unit-linked	0.00
R0340	Life index-linked and unit-linked	0.00
R0350	Deposits to cedants	0.00
R0360	Insurance and intermediaries receivables	12,059,354.24
R0370	Reinsurance receivables	451,850.25
R0380	Receivables (trade, not insurance)	77,347.43
R0390	Own shares (held directly)	0.00
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00
R0410	Cash and cash equivalents	68,168,605.94
R0420	Any other assets, not elsewhere shown	1,715,037.04
R0500	**Total assets**	456,880,393.60

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	104,865,173.34
R0520	Technical provisions – non-life (excluding health)	104,865,173.34
R0530	Technical provisions calculated as a whole	0.00
R0540	Best Estimate	90,324,643.15
R0550	Risk margin	14,540,530.19
R0560	Technical provisions - health (similar to non-life)	0.00
R0570	Technical provisions calculated as a whole	0.00
R0580	Best Estimate	0.00
R0590	Risk margin	0.00
R0600	Technical provisions - life (excluding index-linked and unit-linked)	105,241,365.86
R0610	Technical provisions - health (similar to life)	105,241,365.86
R0620	Technical provisions calculated as a whole	0.00
R0630	Best Estimate	102,501,390.83
R0640	Risk margin	2,739,975.04
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0.00
R0660	Technical provisions calculated as a whole	0.00
R0670	Best Estimate	0.00
R0680	Risk margin	0.00
R0690	Technical provisions – index-linked and unit-linked	0.00
R0700	Technical provisions calculated as a whole	0.00
R0710	Best Estimate	0.00
R0720	Risk margin	0.00
R0730	Other Technical Provisions	0.00
R0740	Contingent liabilities	0.00
R0750	Provisions other than technical provisions	0.00
R0760	Pension benefit obligations	0.00
R0770	Deposits from reinsurers	0.00
R0780	Deferred tax liabilities	5,447,588.23
R0790	Derivatives	0.00
R0800	Debts owed to credit institutions	0.00
R0810	Financial liabilities other than debts owed to credit institutions	-0.01
R0820	Insurance & intermediaries payables	10,908,038.70
R0830	Reinsurance payables	0.00
R0840	Payables (trade, not insurance)	10,987,782.92
R0850	Subordinated liabilities	54,000,000.00
R0860	Subordinated liabilities not in Basic Own Funds	0.00
R0870	Subordinated liabilities in Basic Own Funds	54,000,000.00
R0880	Any other liabilities, not elsewhere shown	0.00
R0900	**Total liabilities**	291,449,949.04
R1000	**Excess of assets over liabilities**	165,430,444.56

S.05.01.01
Premiums, claims and expenses by line of business

Non-Life & Accepted non-proportional reinsurance

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Miscellaneous financial loss	
		C0120	C0200
	Premiums written		
R0110	Gross - Direct Business	143,808,933.02	143,808,933.02
R0120	Gross - Proportional reinsurance accepted	2,401,800.67	2,401,800.67
R0130	Gross - Non-proportional reinsurance accepted		
R0140	Reinsurers' share	-643,574.60	-643,574.60
R0200	Net	146,854,308.29	146,854,308.29
	Premiums earned		
R0210	Gross - Direct Business	114,565,030.82	114,565,030.82
R0220	Gross - Proportional reinsurance accepted	6,384,037.84	6,384,037.84
R0230	Gross - Non-proportional reinsurance accepted		
R0240	Reinsurers' share	10,195,183.54	10,195,183.54
R0300	Net	110,753,885.12	110,753,885.12
	Claims incurred		
R0310	Gross - Direct Business	10,207,267.01	10,207,267.01
R0320	Gross - Proportional reinsurance accepted	812,626.34	812,626.34
R0330	Gross - Non-proportional reinsurance accepted		
R0340	Reinsurers' share	367,606.16	367,606.16
R0400	Net	10,652,287.18	10,652,287.18
	Changes in other technical provisions		
R0410	Gross - Direct Business		-
R0420	Gross - Proportional reinsurance accepted		
R0430	Gross - Non- proportional reinsurance accepted		
R0440	Reinsurers' share		
R0500	Net		-
R0550	**Expenses incurred**	82,237,681.75	82,237,681.75
	Administrative expenses		
R0610	Gross - Direct Business		
R0620	Gross - Proportional reinsurance accepted		
R0630	Gross - Non-proportional reinsurance accepted		
R0640	Reinsurers' share		
R0700	Net		
	Investment management expenses		
R0710	Gross - Direct Business	78,393.27	78,393.27
R0720	Gross - Proportional reinsurance accepted	4,795.12	4,795.12
R0730	Gross - Non-proportional reinsurance accepted		
R0740	Reinsurers' share		
R0800	Net	83,188.38	83,188.38
	Claims management expenses		
R0810	Gross - Direct Business	1,684,888.79	1,684,888.79
R0820	Gross - Proportional reinsurance accepted	935.88	935.88
R0830	Gross - Non-proportional reinsurance accepted		
R0840	Reinsurers' share		
R0900	Net	1,685,824.67	1,685,824.67
	Acquisition expenses		
R0910	Gross - Direct Business	79,180,354.58	79,180,354.58
R0920	Gross - Proportional reinsurance accepted	4,592,427.95	4,592,427.95
R0930	Gross - Non-proportional reinsurance accepted		
R0940	Reinsurers' share	7,161,370.96	7,161,370.96
R1000	Net	76,611,411.57	76,611,411.57
	Overhead expenses		
R1010	Gross - Direct Business	3,634,918.42	3,634,918.42
R1020	Gross - Proportional reinsurance accepted	222,338.71	222,338.71

R1030	Gross - Non-proportional reinsurance accepted		
R1040	Reinsurers' share		
R1100	Net	3,857,257.13	3,857,257.13
R1200	**Other expenses**		
R1300	**Total expenses**		82,237,681.75

Life

		Line of Business for: life insurance obligations	Life reinsurance obligations	Total
		Health insurance	**Health reinsurance**	
		C0210	C0270	C0300
	Premiums written			
R1410	Gross	139,966,759.56	-214,270.20	139,752,489.36
R1420	Reinsurers' share	920,567.51	-	920,567.51
R1500	Net	139,046,192.05	-214,270.20	138,831,921.85
	Premiums earned			
R1510	Gross	120,908,208.74	3,766,232.12	124,674,440.86
R1520	Reinsurers' share	9,230,027.44	-	9,230,027.44
R1600	Net	111,678,181.30	3,766,232.12	115,444,413.42
	Claims incurred			
R1610	Gross	12,802,024.15	787,018.70	13,589,042.85
R1620	Reinsurers' share	461,054.17	-	461,054.17
R1700	Net	12,340,969.99	787,018.70	13,127,988.69
	Changes in other technical provisions			
R1710	Gross	-	-	-
R1720	Reinsurers' share	-	-	-
R1800	Net	-	-	-
R1900	**Expenses incurred**	82,838,200.38	2,843,829.18	85,682,029.55
	Administrative expenses			
R1910	Gross			
R1920	Reinsurers' share			
R2000	Net			
	Investment management expenses			
R2010	Gross	83,882.63	2,828.86	86,711.49
R2020	Reinsurers' share			-
R2100	Net	83,882.63	2,828.86	86,711.49
	Claims management expenses			
R2110	Gross	1,802,870.47	552.12	1,803,422.59
R2120	Reinsurers' share			-
R2200	Net	1,802,870.47	552.12	1,803,422.59
	Acquisition expenses			
R2210	Gross	84,724,834.09	2,709,280.56	87,434,114.65
R2220	Reinsurers' share	7,662,834.67		7,662,834.67
R2300	Net	77,061,999.42	2,709,280.56	79,771,279.98
	Overhead expenses			
R2310	Gross	3,889,447.85	131,167.64	4,020,615.49
R2320	Reinsurers' share			-
R2400	Net	3,889,447.85	131,167.64	4,020,615.49
R2500	**Other expenses**			
R2600	**Total expenses**			85,682,029.55

S.05.02.01
Premiums, claims and expenses by country

		Top 5 countries (by amount of gross premiums written) – Non-life obligations				
		Germany	Poland	Austria	Italy	Sweden
		C0090	C0090	C0090	C0090	C0090
	Premiums written					
R0110	Gross - Direct Business	79,225,433	24,852,147.99	15,746,402	9,181,947	2,952,118
R0120	Gross - Proportional reinsurance accepted	4,556,815		-2,155,014		
R0130	Gross - Non-proportional reinsurance accepted					
R0140	Reinsurers' share	-694,577	266,617.46		-377,226	284,161
R0200	Net	84,476,825	24,585,531	13,591,388	9,559,173	2,667,957
	Premiums earned					
R0210	Gross - Direct Business	85,675,054	3,252,284.23	1,595,391	6,711,002	2,952,118
R0220	Gross - Proportional reinsurance accepted	2,794,085		3,589,953		
R0230	Gross - Non-proportional reinsurance accepted					
R0240	Reinsurers' share	7,062,392	99,378.66		1,519,166	284,161
R0300	Net	81,406,746	3,152,906	5,185,344	5,191,836	2,667,957
	Claims incurred					
R0310	Gross - Direct Business	6,911,675	541,492	166,571	932,107	223,631
R0320	Gross - Proportional reinsurance accepted	255,647		556,979		
R0330	Gross - Non-proportional reinsurance accepted					
R0340	Reinsurers' share	264,625	53,127	-	59,479	-13,709
R0400	Net	6,902,697	488,365	723,551	872,628	237,340
	Changes in other technical provisions					
R0410	Gross - Direct Business	-				
R0420	Gross - Proportional reinsurance accepted					
R0430	Gross - Non-proportional reinsurance accepted					
R0440	Reinsurers' share					
R0500	Net	-				
R0550	**Expenses incurred**	62,588,751	2,526,568	3,481,502	3,742,995	1,923,788
R1200	**Other expenses**					
R1300	**Total expenses**	62,588,751	2,526,568	3,481,502	3,742,995	1,923,788

		Top 5 countries (by amount of gross premiums written) - Life obligations				
		Germany	Poland	Austria	Italy	Sweden
		C0230	C0230	C0230	C0230	C0230
	Premiums written					
R1410	Gross	92,910,054.88	24,559,768.95	7,040,836.82	8,463,796.57	2,508,563.37
R1420	Reinsurers' share	-517,958.66	1,963,278.74		-313,563.64	241,465.69
R1500	Net	93,428,013.53	22,596,490.22	7,040,836.82	8,777,360.21	2,267,097.67
	Premiums earned					
R1510	Gross	95,028,003.08	4,531,930.30	2,686,734.60	6,486,027.97	2,508,563.37
R1520	Reinsurers' share	5,266,553.14	731,790.08		1,262,784.10	241,465.69
R1600	Net	89,761,449.94	3,800,140.23	2,686,734.60	5,223,243.87	2,267,097.67
	Claims incurred					
R1610	Gross	8,916,260.86	679,142.49	748,342.76	1,169,055.37	280,479.46

R1620	Reinsurers' share	331,894.09	66,632.08	-	74,598.84	-17,193.49
R1700	Net	8,584,366.77	612,510.41	748,342.76	1,094,456.53	297,672.96
	Changes in other technical provisions					
R1710	Gross	-				
R1720	Reinsurers' share					
R1800	Net	-	-	-	-	-
R1900	**Expenses incurred**	65,872,170.15	2,703,487.19	2,508,060.51	4,001,095.89	2,056,609.68
R2500	**Other expenses**					
R2600	**Total expenses**					

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Life and Health SLT Technical Provisions

		Health insurance (direct business)		Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees		
		C0160	C0170	C0200	C0210
R0010	**Technical provisions calculated as a whole**	-		-	-
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**	-		-	-
	Technical provisions calculated as a sum of BE and RM				
	Best Estimate				
R0030	**Gross Best Estimate**		99,304,355.11	3,197,035.72	102,501,390.83
R0040	Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default		7,288,056.61	-	7,288,056.61
R0050	Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses		7,288,056.61	-	7,288,056.61
R0060	Recoverables from SPV before adjustment for expected losses		-	-	-
R0070	Recoverables from Finite Re before adjustment for expected losses		-	-	-
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		7,285,818.35	-	7,285,818.35
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		92,018,536.76	3,197,035.72	95,215,572.48
R0100	**Risk Margin**	2,672,931.96		67,043.08	2,739,975.04
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole	-		-	-
R0120	Best estimate		-	-	-
R0130	Risk margin	-		-	-
R0200	**Technical provisions – total**	101,977,287.07		3,264,078.80	105,241,365.86

R0210	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total**	94,691,468.71		3,264,078.80	97,955,547.51
R0220	**Best Estimate of products with a surrender option**	-			-
	Gross BE for Cash flow				
	Cash out-flows				
R0230	Future guaranteed and discretionary benefits	83,247,746.51		3,151,694	86,399,440.62
R0240	Future guaranteed benefits				
R0250	Future discretionary benefits				
R0260	Future expenses and other cash out-flows	17,304,813		45,372	17,350,184.97
	Cash in-flows				
R0270	Future premiums	1,248,205	-	30	1,248,234.76
R0280	Other cash in-flows	-		-	-
R0290	**Percentage of gross Best Estimate calculated using approximations**	3%		86%	
R0300	**Surrender value**	218,815,497.48		582,279.54	219,397,777.03
R0310	**Best estimate subject to transitional of the interest rate**	-		-	-
R0320	Technical provisions without transitional on interest rate	101,977,287.07		3,264,078.80	105,241,365.86
R0330	**Best estimate subject to volatility adjustment**	-		-	-
R0340	Technical provisions without volatility adjustment and without others transitional measures	101,977,287.07		3,264,078.80	105,241,365.86
R0350	**Best estimate subject to matching adjustment**	-		-	-
R0360	Technical provisions without matching adjustment and without all the others	101,977,287.07		3,264,078.80	105,241,365.86

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Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		Miscellaneous financial loss	
		C0130	C0180
R0010	**Technical provisions calculated as a whole**	-	-
R0020	Direct business	-	-
R0030	Accepted proportional reinsurance business	-	-
R0040	Accepted non-proportional reinsurance		-
R0050	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	-	-
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	Gross – Total	71,389,945.65	71,389,945.65
R0070	Gross - direct business	69,841,853.11	69,841,853.11
R0080	Gross - accepted proportional reinsurance business	1,548,092.55	1,548,092.55
R0090	Gross - accepted non-proportional reinsurance business		-
R0100	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	2,360,545.21	2,360,545.21
R0110	Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	2,360,545.21	2,360,545.21
R0120	Recoverables from SPV before adjustment for expected losses	-	-
R0130	Recoverables from Finite Reinsurance before adjustment for expected losses	-	-
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	2,359,330.08	2,359,330.08
R0150	Net Best Estimate of Premium Provisions	69,030,615.57	69,030,615.57
	Claims provisions		
R0160	Gross - Total	18,934,697.50	18,934,697.50
R0170	Gross - direct business	17,770,647.74	17,770,647.74
R0180	Gross - accepted proportional reinsurance business	1,164,049.76	1,164,049.76
R0190	Gross - accepted non-proportional reinsurance business		-
R0200	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	1,546,963.27	1,546,963.27
R0210	Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	1,546,963.27	1,546,963.27
R0220	Recoverables from SPV before adjustment for expected losses	-	-
R0230	Recoverables from Finite Reinsurance before adjustment for expected losses	-	-
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,546,963.27	1,546,963.27
R0250	**Net Best Estimate of Claims Provisions**	17,387,734.23	17,387,734.23

R0260	**Total Best estimate - gross**	90,324,643.15	90,324,643.15
R0270	**Total Best estimate - net**	86,418,349.81	86,418,349.81
R0280	**Risk margin**	14,540,530.19	14,540,530.19
	Amount of the transitional on Technical Provisions		
R0290	**TP as a whole**	-	-
R0300	**Best estimate**	-	-
R0310	**Risk margin**	-	-
	Technical provisions - total		
R0320	Technical provisions - total	104,865,173.34	104,865,173.34
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	3,906,293.35	3,906,293.35
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re-total	100,958,879.99	100,958,879.99
	Line of Business: further segmentation (Homogeneous Risk Groups)		
R0350	Premium provisions - Total number of homogeneous risk groups	10	
R0360	Claims provisions - Total number of homogeneous risk groups	10	
	Cash-flows of the Best estimate of Premium Provisions (Gross)		
	Cash out-flows		
R0370	Future benefits and claims	58,637,468	58,637,467.73
R0380	Future expenses and other cash-out flows	14,623,962	14,623,961.60
	Cash in-flows		
R0390	Future premiums	1,871,483.67	1,871,483.67
R0400	Other cash-in flows (incl. Recoverable from salvages and subrogations)	-	-
	Cash-flows of the Best estimate of Claims Provisions (Gross)		
	Cash out-flows		
R0410	Future benefits and claims	18,934,697.50	18,934,697.50
R0420	Future expenses and other cash-out flows	-	-
	Cash in-flows		
R0430	Future premiums	-	-
R0440	Other cash-in flows (incl. Recoverable from salvages and subrogations)	-	-
R0450	**Percentage of gross Best Estimate calculated using approximations**	8%	8%
R0460	**Best estimate subject to transitional of the interest rate**	-	-
R0470	Technical provisions without transitional on interest rate	104,865,173.34	104,865,173.34
R0480	**Best estimate subject to volatility adjustment**	-	-
R0490	Technical provisions without volatility adjustment and without others transitional measures	104,865,173.34	104,865,173.34

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Non-life insurance claims

Z0010	Line of business	1
Z0020	Accident year / Underwriting year	Total
Z0030	Currency	2
Z0040	Currency conversion	0

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year**												
		0	1	2	3	4	5	6	7	8	9	10&+	**In Current year**	**Sum of years (cumulative)**
R0100	Prior											0.00	0.00	0.00
R0160	N-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		-	0.00
R0170	N-8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			-	0.00
R0180	N-7	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				-	0.00
R0190	N-6	249,698.45	700,007.25	98,158.23	5,541.84	0.00	0.00	0.00					-	1,053,405.77
R0200	N-5	843,219.24	1,190,832.08	126,144.04	13,452.57	4,580.50	0.00						-	2,178,228.43
R0210	N-4	1,237,315.59	1,692,647.00	203,161.57	8,680.33	1,594.74							1,594.74	3,143,399.23
R0220	N-3	1,726,080.09	2,187,326.90	233,487.97	28,077.70								28,077.70	4,174,972.66
R0230	N-2	2,356,516.14	3,377,591.95	328,731.55									328,731.55	6,062,839.65
R0240	N-1	3,524,863.08	4,549,790.03										4,549,790.03	8,074,653.10
R0250	N	5,125,050.20											5,125,050.20	5,125,050.20
R0260												**Total**	10,033,244.22	29,812,549

Gross undiscounted Best Estimate Claims Provisions – Development Year

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	0	1	2	3	4	5	6	7	8	9	10 & +	**Year end (discounted data)**
R0100	Prior												0.00
R0160	N-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
R0170	N-8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00
R0180	N-7	0.00	0.00	0.00	1,687.50	0.00	0.00	2,493.75	2,460.50				2,460.50
R0190	N-6	586,357.90	147,988.16	49,378.33	34,240.02	131,142.36	75,768.05	96,024.21					96,024.21
R0200	N-5	2,661,090.11	757,401.40	470,909.24	207,211.81	162,007.14	170,134.20						170,134.20
R0210	N-4	4,714,476.69	1,640,447.78	916,915.72	301,952.79	211,666.50							211,666.50
R0220	N-3	8,503,378.16	3,600,720.49	1,197,373.07	426,000.50								426,000.50
R0230	N-2	10,830,711.70	3,126,272.53	671,282.84									671,282.84
R0240	N-1	14,347,549.93	2,031,329.38										2,031,329.38
R0250	N	15,325,799.37											15,325,799.37
R0260												**Total**	18,934,697.50

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Own Funds

		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**
		C0010	C0020	C0030	C0040
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35				
R0010	Ordinary share capital (gross of own shares)	53,000,000.00	53,000,000.00		-
R0030	Share premium account related to ordinary share capital	-	-		-
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-		-
R0050	Subordinated mutual member accounts	-		-	-
R0070	Surplus funds	-	-		
R0090	Preference shares	-		-	-
R0110	Share premium account related to preference shares	-		-	-
R0130	Reconciliation reserve	112,430,444.56	112,430,444.56	0	0
R0140	Subordinated liabilities	54,000,000.00		41,357,611.14	12,642,388.86

R0160	An amount equal to the value of net deferred tax assets	-			
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-
	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	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-			
	Deductions				
R0230	Deductions for participations in financial and credit institutions	-	-	-	-
R0290	**Total basic own funds after deductions**	219,430,444.56	165,430,444.56	41,357,611.14	12,642,388.86
	Ancillary own funds				
R0300	Unpaid and uncalled ordinary share capital callable on demand	-			-
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-			-
R0320	Unpaid and uncalled preference shares callable on demand	-			-
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-			-
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-			-
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-			-
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-			-
R0390	Other ancillary own funds	-			-
R0400	**Total ancillary own funds**	-			-
	Available and eligible own funds	0			0
R0500	Total available own funds to meet the SCR	219,430,444.56	165,430,444.56	41,357,611.14	12,642,388.86
R0510	Total available own funds to meet the MCR	219,430,444.56	165,430,444.56	41,357,611.14	12,642,388.86
R0540	Total eligible own funds to meet the SCR	219,430,444.56	165,430,444.56	41,357,611.14	12,642,388.86
R0550	Total eligible own funds to meet the MCR	215,052,560.53	165,430,444.56	41,357,611.14	8,264,504.83

R0580	**SCR**	147,041,367.37			
R0600	**MCR**	41,322,524.17			
R0620	**Ratio of Eligible own funds to SCR**	1.49			
R0640	**Ratio of Eligible own funds to MCR**	5.20			

Reconciliation reserve

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	165,430,444.56
R0710	Own shares (held directly and indirectly)	-
R0720	Foreseeable dividends, distributions and charges	-
R0730	Other basic own fund items	53,000,000.00
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-
R0760	**Reconciliation reserve**	112,430,444.56
	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)**	-

S.25.01.01

Solvency Capital Requirement – for undertakings on Standard Formula

Basic Solvency Capital Requirement

		Solvency capital requirement
		C0030/C0040
R0010	Market risk	14,930,036.37
R0020	Counterparty default risk	5,575,148.83
R0030	Life underwriting risk	0.00
R0040	Health underwriting risk	27,996,572.99
R0050	Non-life underwriting risk	148,572,526.98
R0060	Diversification	-37,770,616.82
R0070	Intangible asset risk	0.00
R0100	**Basic Solvency Capital Requirement**	159,303,668.36

Calculation of Solvency Capital Requirement

		Value
		C0100
R0130	Operational risk	8,743,608.63
R0140	Loss-absorbing capacity of technical provisions	0.00
R0150	Loss-absorbing capacity of deferred taxes	-21,005,909.62
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0.00
R0200	**Solvency Capital Requirement excluding capital add-on**	147,041,367.37
R0210	Capital add-on already set	0.00
R0220	Solvency capital requirement	147,041,367.37
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0.00
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0.00
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0.00
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0.00
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0.00
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	0.00
R0460	Net future discretionary benefits	0.00

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

		MCR components
		C0010
R0010	MCR_{NL} Result	34,116,401

Background information

		Background information	
		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	86,418,349.81	147,890,066.27
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	7,206,123.02

Total capital at risk for all life (re)insurance obligations

		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		
R0240	Other life (re)insurance and health (re)insurance obligations	95,215,572.48	
R0250	Total capital at risk for all life (re)insurance obligations		7,437,994,289.23

Overall MCR calculation

		C0070
R0300	Linear MCR	41,322,524.17
R0310	SCR	147,041,367.37
R0320	MCR cap	66,168,615.32
R0330	MCR floor	36,760,341.84
R0340	Combined MCR	41,322,524.17
R0350	Absolute floor of the MCR	3,700,000.00
R0400	**Minimum Capital Requirement**	41,322,524.17