



# Κεντρική Ασφαλιστική

**Kentriki Insurance Limited**

**Solvency and Financial Condition Report 2018  
(SFCR)**

# SFCR REPORT

## Contents

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A.	Executive Summary	4
B.	Business Performance	5
B.1	Business	5
B.2	Underwriting performance	6
B.3	Investment Performance	6
B.4	Income and expenses arising from investments by asset class	7
B.5	Any gains and losses recognised directly in equity	7
B.6	Any investments in securitisation	7
B.7	Investment Projections	7
B.8	Performance of other activities	7
B.9	Other material income and expenses	7
B.10	Any other information	7

---

C.	System of Governance	8
C.1	General information on the system of governance	8
C.2	The structure of the Board of Directors (BoD)	8
C.3	Organisational Structure	9
C.4	Key Functions	10
C.5	Material changes in the system of governance over the reporting period	10
C.6	Remuneration policy and practices for the BoD and employees	10
C.7	Information about material transactions during the reporting period with:	10
C.8	Fit and proper requirements	10
C.9	Risk management system including the own risk and solvency assessment	12
C.10	Description of the undertaking's risk management system	12
C.11	Significant Risk Exposures	15
C.12	Material Risks not included in the calculation of the Solvency Capital Requirement	15
C.13	Prudent Person Principle	15
C.14	Credit Assessments	15
C.15	Own Risk and Solvency Assessment (ORSA)	15
C.16	Internal control system	17
C.17	Description of the undertaking's internal control system	17
C.18	Compliance Policy and Compliance Function	19
C.19	Internal audit function	19
C.20	Actuarial Function	20
C.21	Outsourcing	21
C.22	Outsourcing Policy	21
C.23	Adequacy of the system of governance	22
C.24	Any other information	22

---

D.	Risk Profile	23
D.1	Underwriting Risk	23
D.2	Risk Assessment/Measurement	24
D.3	Risk Concentration	24
D.4	Risk Mitigation	24
D.5	Risk Sensitivity	25
D.6	Market risk	26
D.7	Credit risk	29
D.8	Liquidity risk	30
D.9	Operational risk	31
D.10	Risk Assessment/Measurement	32
D.11	Risk Concentration	32
D.12	Risk Mitigation	32
D.13	Risk Sensitivity	33

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E.	Valuation for solvency purposes	34
E.1	Assets	34
E.2	Technical provisions	35
E.3	Valuation of other liabilities	39
E.4	Any other information	39

---

F.	Capital Management	40
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F.1	Own Funds	40
F.2	Solvency Capital Requirement and Minimum Capital Requirement	41
F.3	Non-compliance with the MCR and non-compliance with the SCR	43

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APPENDICES44

Appendix A:	Risk Appetite Statement	45
Appendix B:	The Company's Organisational Structure	47
Appendix C:	QRT Templates	48
Appendix D:	Audit Report	49

# A. Executive Summary

This Solvency and Financial Condition Report has been prepared for Kentriki Insurance Limited (hereinafter "Kentriki" or "Company") in accordance with all applicable laws and regulations. It refers to the financial year ended on 31 December 2018 ("the reference date").

Kentriki Insurance Company Ltd was founded and began its operations in 1985. Kentriki is a non-life insurer currently operating in Cyprus.

Kentriki is licenced under article 19 of the Insurance and Reinsurance Services and Other Related Issues Law of 2016 to underwrite accident and health, motor – including third party liability, marine and transit risks, fire and other property damage and general liability insurance business.

Since its founding, the company's philosophy has been the union, association and participation of insurers, hence the Company's symbolic logo. All shareholders of the Company are active and energetic insurance agents who run their own agencies or are otherwise involved in the industry. One of the Company's aims is its dynamic presence in Cyprus as a stable, creative, and multifaceted company which gives a sense of security to its associations, stability and confidence to its clients and is recognised among the broad insurance public. This is why we always say: "Put your insurance in our hands."

Our risk management policy provides for a thoroughly articulated risk appetite statement and a closely monitored risk management system ensuring that the company is not exposed to any unwanted risks.

During the year ended 2018 the Gross Written Premium (GWP) of the company increased to €4,453,260 compared to previous year (2017) €3,869,819. Despite the increase in the GWP there was an increase to the loss of the company €482.592 compared to last year (ended 2017) in which the loss occurred was €1,520. This is due to the fact that, following suggestion by the auditors, the company has deleted from accounts the amount relating to claims recoveries.

Furthermore, the Company maintains a solid capital position. At the reference date, the Solvency Capital Requirement amounted to €3.700 million (2017: €3.700 million), which is the absolute Minimum Capital Requirement (MCR) set out in the Solvency II regulation, and the eligible own funds available to cover this requirement amounted to €4.456 million (2017: €4.539 million). Hence, the ratio of eligible own funds to SCR at the reference date amounted to 120% (2017: 123%). The decrease of coverage ratio compared to last year is mainly attributed to the decrease in own. The Company is expected to maintain a Solvency Coverage ratio of above the target of 115%.

The information in this Report was subject to external audit. The Audit Report is presented in Appendix D.

## B. Business Performance

### B.1 Business

#### **B.1.1 Name and legal form of undertaking**

Kentriki Insurance Limited is a limited liability company incorporated under the Companies laws Cap 113 of Cyprus, on February 26, 1983 with company Registration Number: HE19119

Its registered address is Kentriki Insurance, 33 Klimentos str, Kentriki Tower, 1061 Nicosia, Cyprus.

#### **B.1.2 Supervisory authority**

The Company is authorised and regulated by the Cyprus Insurance Companies Control Service.

#### **B.1.3 External Auditors**

Its external auditors for the financial year 2018 were EY

#### **B.1.4 Shareholders**

Kentriki is a private limited company with main shareholders being:

*Stelios Georgallides Insurance Consultants Ltd – 19.90%*

*Stelios Georgallides – 31.23%*

*Aristos Chrysostomou Insurance Agents Ltd – 20.46%*

*Princetiger Financial Ltd – 6.78%*

*Agriiotis Insurance Agents & Consultants Ltd – 8.79%*

*Naso Eliadou Insurance Agents & Consultants Ltd – 8.72%*

*Philippos Raspas Insurance Agents & Consultants Ltd – 4.14%*

#### **B.1.5 Material lines of business and material geographical areas where the company carries out business**

Kentriki is licenced under article 19 of the Insurance and Reinsurance Services and Other Related Issues Law of 2016 to underwrite accident and health, motor – including third party liability, marine and transit risks, fire and other property damage and general liability insurance business.

#### **B.1.6 Significant changes that have had a material impact on the undertaking**

The Company ceased cooperation with a large agent in 2017. The Company took all necessary actions with a significant part of the lost portfolio being replaced by new business of higher quality in 2018.

#### **B.1.7 Business Objectives**

Since its founding, the company's philosophy has been the union, association and participation of insurers, hence the Company's symbolic logo. All shareholders of the Company are active and energetic insurance agents who run their own agencies or are otherwise involved in the industry. One of the Company's aims is its dynamic presence in Cyprus as a stable, creative, and multifaceted company which gives a sense of security to its associations, stability and confidence to its clients and is recognised among the broad insurance public. This is why we always say: "Put your insurance in our hands."

## B.2 Underwriting performance

The Company registered an increase of 15.08% in its GWP mainly attributed to the Medical expense (29.27%), General liability (54.23 %) and Miscellaneous financial loss (127.84 %) lines of business.

Gross Written Premium €	2018	2017	%increase
Medical expense insurance	80,481	57,669	39.56%
Income protection insurance	73,217	65,548	11.70%
Motor vehicle liability insurance & Motor Other	2,437,477	2,084,190	16.95%
Marine, aviation and transport insurance	196,293	200,324	-2.01%
Fire and other damage to property insurance	1,270,403	1,060,548	19.79%
General liability insurance	615,789	384,957	59.96%
Miscellaneous financial loss	31,337	16,581	88.99%
Total	<b>4,704,998</b>	<b>3,869,819</b>	21.58%

The incurred claims of the company, in 2018, increased by 37.5%, compared to last year, mainly due to the disallowance of the expected recoveries in the IFRS accounts.

Incurred Losses €	2018	2017	%increase
Medical expense insurance	28,379	21,144	34.2%
Income protection insurance	15,934	125,989	-87.4%
Motor vehicle liability insurance & Motor Other	1,342,484	1,026,093	30.8%
Marine, aviation and transport insurance	1,476	15,555	-90.5%
Fire and other damage to property insurance	338,020	93,579	261.2%
General liability insurance	102,296	47,072	117.3%
Miscellaneous financial loss	0	0	0
Total	<b>1,828,591</b>	<b>1,329,431</b>	<b>37.5%</b>

The company forecasts its results over its business planning horizon as part of its Own Risk and Solvency Assessment. According to our forecasts, we expect the levels of growth and profitability to be enhanced.

### B.2.1 Underwriting performance over the business planning horizon

Overall the projected portfolio of Kentriki is expected to remain profitable over the business planning horizon. Availability of reinsurance remains critical for the company to maintain its competitiveness as well as its risk-taking capacity.

## B.3 Investment Performance

The composition of the Company's investment portfolio as at 31.12.2018 was as follows:

Type	2018 €	2017 €
Property	4,834,057	4,784,513
Cash and cash equivalents	660,705	511,060
Deposits other than cash	768,276	788,552
Equities/other shares - listed	32,526	49,498
Other investments	8,706	46,946

#### **B.4 Income and expenses arising from investments by asset class**

Type	2018 €	2017 €
Property	21,392	18,783
Cash and cash equivalents	-	-
Deposits other than cash	12,504	14,400
Equities/other shares - listed	485	630
Other investments	-	-

Income arising is composed of dividends, interest, rental income received and unrealised capital gains.

#### **B.5 Any gains and losses recognised directly in equity**

No other material items have been recognised in the Other Comprehensive income in 2018 (this is an extension of the income statement which is recognised directly in other reserves).

#### **B.6 Any investments in securitisation**

#### **B.7 Investment Projections**

When compiling projections, no market movements are factored. Dividends are projected to remain stable year on year based on the most recent data available and interest on debt securities reflects actual coupons receivable. Rental income projections are based on contracts in force.

#### **B.8 Performance of other activities**

#### **B.9 Other material income and expenses**

The Company does not have any material leasing arrangement or any other material income and expense item in addition to the underwriting and investment income and expenses outlined in the sections above.

#### **B.10 Any other information**

There is no other material information regarding the business and performance of the Company which has not already been disclosed in the sections above.

# C. System of Governance

## C.1 General information on the system of governance

The company is committed to implementing a sound governance framework that provides for the sound and prudent management of the business based on the following principles:

- Transparent organisational structure
- Strategic objectives and corporate values communicated throughout the Company
- Clear lines of responsibility and accountability throughout the Company
- BOD members and Senior Management are qualified for their positions, have a clear understanding of their role in corporate governance and are able to exercise sound independent judgment about the affairs of the Company and that Fit and Proper requirements are met
- There is appropriate oversight of the Company's activities through the three lines of defence model
- Effective utilisation of the work conducted by internal and external auditors, as well as other control functions, given their critical contribution to sound corporate governance
- Compensation policies and practices are consistent with the Company's ethical values, objectives, strategy and control environment

The Corporate Governance framework for the Company is based on the 'three lines of defence model' as presented in the diagram below:

## C.2 The structure of the Board of Directors (BoD)

The BoD is responsible for leading and controlling the Company, devising strategies and plans for their implementation and reviewing and evaluating the Company's performance against such strategies and plans.

The BoD organises and directs the affairs of the Company in a manner that seeks to protect its policyholders' funds, maximize the value of the Company for the benefit of its shareholders, while complying with regulatory requirements and relevant governance standards.

The BoD is responsible for setting the appropriate "tone at the top" by providing appropriate Organisational values, ethics and priorities and by establishing and embedding an Organisational culture that supports the effective operation of the system of governance

Furthermore, the members of the BoD act as advisers and counsellors to the CEO and Senior Management and oversee the Senior Management's performance.

The Directors are responsible for the general governance of the Company, its proper administration and management and for the general supervision of its affairs. The day-to-day management of the Company is delegated by the Directors to an executive committee (the "Executive Committee") consisting of the company's senior management.

### **C.2.1.1 Selection and Appointment of Board Members**

The Directors are appointed by election at the annual general meeting of the Issuer.

The directors of the Company shall not be required to retire by rotation. Their appointment shall stand until removed by their appointors.

As at the reference day the current members of the Board of Directors of the Company are as below:

Mr. Chrysostomou Aristos	Chairman
Mr. Georgallides Stelios	General Manager
Mrs. Georgallidou Marina	Director
Mr. Koukounis Stavros	Director
Mr. Raspas Philippos	Director
Mr. Prodromou Prodromos	Director (resigned on 09 March 2018)
Mr. Yiallourous Nicolas	Director
Mr. Raspas Petros	Secretary

All members of the Board and Senior Management should fulfil the Fit and Proper requirements in accordance with the Solvency II framework.

### **C.2.1.2 Board Meetings**

The BoD shall meet formally at least 4 times a year in the context of its regular duties in the annual business cycle. Additional meetings may also be held upon such need as identified by the senior management or by members of the BoD or its Committees.

### **C.2.1.3 Board Committees**

For a more effective organisation of the Company, the Board established the below-mentioned Committees.

Committee	Brief Terms of Reference	Composition
Audit Committee	Ensures the operation of an effective system of internal controls within the Company and oversees the selection and remuneration of external auditor	Mr. Prodromou Prodromos (resigned on 09 March 2018) Mr. Raspas Philippos Mr. Koukounis Stavros Mr. Gyallourous Nicolas
Finance Committee	Reviews and challenges the finale policy of the Company and its implementation in the business	Mr. Chrysostomou Aristos Mr. Georgallides Stelios Mr. Koukounis Stavros
Risk	Monitors compliance initiatives including regulatory as well as voluntary and ensures codification of processes of the company. It also considers the exposure of the company to significant risk and ensures the overall risk profile of the company is sound and proficient	Mrs. Georgallidou Marina Mr. Chrysostomou Aristos Mr. Raspas Philippos

## **C.3 Organisational Structure**

The Organisational structure and reporting lines of the Company are designed to:

- Enable apportionment of responsibilities and clear accountabilities and responsibilities
- Facilitate prompt transfer of information to all persons who need it
- Prevent conflicts of interest

- Ensure the prudent and effective management of the Company

As previously mentioned the company's ultimate supervisory body is the BoD.

The Senior Management, through the CEO has the day to day responsibility for the implementation of the Company's approved strategy and reports to the BoD. Reporting to the BoD is both structured, through planned meetings and regular reporting and ad hoc as required.

The Business Functions of the Company have the responsibility for the implementation of the BoD's strategy in their business functions. They report directly to the CEO with regards to their day-to-day duties. In order to minimize the probability of a potential conflict of interest and preserve their operational independence, the key control functions have additional direct reporting lines to the BoD or Board Committees. These additional reporting lines are implemented in order to ensure that these functions have the ability to escalate important issues directly to the BoD. Consequently, the Risk, Compliance and Actuarial Functions have a reporting line to the Risk Committee.

The Organisational structure of the Company is presented in Appendix C.

#### **C.4 Key Functions**

In accordance with the Solvency II framework the Key Functions recognised by the BoD are the following:

- Actuarial Function
- Risk Management Function
- Compliance Function
- Internal Audit Function

Details of the duties of these functions are shown in subsequent sections.

Each key function reports directly to the Board without any restrictions and the Board is ultimately responsible for reviewing the performance of the key functions and considering any recommendations made by these functions.

The Board is also responsible for ensuring that all key functions are operationally independent, which implies that each function should be free from any undue influence, control or constraint from any other key function or the Board itself.

#### **C.5 Material changes in the system of governance over the reporting period**

There have been no material changes in the system of governance in 2018.

#### **C.6 Remuneration policy and practices for the BoD and employees**

The Company's remuneration is in line with the market norms in order to enable the company attract competent and experienced resources and ensure that any resources that it engages do not take excessive risks that could be detrimental to the company.

#### **C.7 Information about material transactions during the reporting period with :**

During 2018 there were no material transactions between the company and its shareholders or members of the BoD.

#### **C.8 Fit and proper requirements**

Prior to the appointment of any member of the BoD, member of senior management or Key Function the company carries out an evaluation of the fitness and propriety of that individual.

Furthermore, such appointments are subject to approval by the Cyprus Insurance Companies Control Service.

The function delegated with the responsibility for the Fit and Proper test is the Compliance function. The Compliance Function also bears the responsibility for monitoring the fitness and propriety of individuals on an ongoing basis.

The fit and proper test criteria satisfy at a minimum the relevant regulatory requirements as well as additional criteria laid down by the Company.

The Fitness test assesses the individual's professional and technical competence through a consideration of:

- previous experience, knowledge and professional qualifications and whether these are adequate to enable sound and prudent management of the Company;
- proof of skill, care, diligence and compliance with the relevant standards of the area/sector he/she has previously worked in;

The Propriety test assesses honesty, integrity, reputation and financial soundness of the individual by considering their:

- reputation, including an enquiry as to whether there have been any criminal or financial antecedents or past experience with regulatory authorities which may cast doubt on the ability of that person to adequately discharge his/her duties in line with applicable rules, regulations and guidelines.

The assessment is facilitated through:

- personal questionnaires
- academic and/or professional qualification certificates
- certificate of non-bankruptcy
- clear criminal record certificate
- personal resume and
- personal declaration.

In particular, with regards to members of the BoD they must always have the collective knowledge of the financial and insurance market, business strategy, system of governance, financial and actuarial analysis and the regulatory framework and requirements.

### **Key Function Holders**

The persons holding Key Function roles in the Company are as follows:

Chief Executive Officer	Georgallides Stelios
Chief Finance Officer	Georgiades Elias
Actuarial Function	Deloitte Actuarial Services Ltd
Risk Management Function	Deloitte Actuarial Services Ltd
Compliance Function	Deloitte Actuarial Services Ltd
Internal Audit Function	PRICEWATERHOUSECOOPERS (PWC)

## C.9 Risk management system including the own risk and solvency assessment

### C.10 Description of the undertaking's risk management system

The Company has implemented an effective risk management system which is designed to ensure timely identification and assessment of existing and emerging risk exposures as well their effective management. The risk management system covers the risk governance, a risk appetite statement and the risk management framework.

#### C.10.1.1 Risk Appetite Statement

The risk appetite statement lays down the level and nature of risks that are considered acceptable for the Company and the constraints within which it should operate in pursuing its strategy.

The Company manages its risk appetite through a set of limits. The limits are set, not such that they are likely to be fully used, but rather so that limited exceptions are reported. The aggregate risk limits and the risk category limits are to be used by the RMF for the monitoring and reporting of overall risk exposure and by the BoD and Risk Committee for making decision on the Company's risk profile.

Overall the Company sees itself as a low risk entity and risk tolerance limits have been set to reflect that.

The company has a target of maintaining a solvency coverage ratio at all times in excess of 115%.

In this context, tolerance limits are set for all risk categories to ensure that on a worst-case scenario basis, risk exposures will not lead to losses threatening this target solvency ratio.

The risk appetite statements are disclosed in Appendix A.

#### C.10.1.2 Risk Governance

The risk governance of the Company forms an integral part by defining the role of each function of the company in the Risk Management Framework. It is organised in a way that ensures the establishment of clear responsibility boundaries, the proper segregation of duties and the avoidance of conflicts of interest at all levels.

The risk management is embedded into the organisational structure and decision-making processes of the company and that the risk management system is supported by appropriate internal controls and by information systems that provide relevant, accurate and reliable information.

The roles of the key functions in the Risk Management System are outlined below:

Body / Function	Roles in the risk management framework
<b>BoD</b>	<ul style="list-style-type: none"><li>The responsibility for the approval and periodic review of the risk profile and risk appetite, as well as the risk strategy and the policies for managing risks, lies with the BoD, so as to ensure that the BoD takes all measures necessary for the monitoring and control of risks, in accordance with the approved risk strategy and policies. This information reaches the BoD through the Risk Committee</li></ul>
<b>Risk Committee</b>	<ul style="list-style-type: none"><li>Responsibility for the supervision of the risk management framework is assumed by the Risk Committee</li><li>The Risk Committee reviews on an annual basis the suite of Risk Policies of the Company and pre-approves any required changes, and subsequently</li></ul>

	<p>forwards the updated Policy to the BoD for final approval</p> <ul style="list-style-type: none"> <li>The Risk Committee receives frequent information on the levels of risks to which the Company is exposed, with the purpose of ensuring that the Company's risk profile remains within the established risk tolerance limits. Risk appetite and risk limits are set at a level which is commensurate with the sound operation of the Company and its strategic goals</li> </ul>
<b>Head of the RMF and the RMF</b>	<ul style="list-style-type: none"> <li>Supports the BoD in the determination and implementation of the risk strategy and capital planning</li> <li>Coordinates the implementation of the risk management framework and is the main unit for risk management responsibilities.</li> <li>Regular reporting to the Senior Management and Risk Committee</li> <li>Risk management training to the BoD, Committees, Senior Management and Risk taking functions directly involved in the management and oversight of risk, on the contents of the current and other risk-specific policies, and for providing guidance on their application</li> <li>Moreover, the RMF continuously reviews the compliance of this Policy with Solvency II requirements and the appropriateness of risk strategy with Company objectives, appetite and limits, and informs the Risk Committees of any changes that may be required</li> <li>Monitors the risk profile of the Company against the BoD's risk appetite</li> <li>Develops internal risk methodologies and models</li> <li>The RMF also brings to the attention of the Risk Committee any breaches of this Policy</li> </ul>
<b>CEO and Senior Management with risk taking capacity</b>	<ul style="list-style-type: none"> <li>The Company's Senior Management is responsible for the implementation of the risk strategy, as this has been approved by the BoD, and for the development of the policies, methodologies and procedures required to identify, measure, monitor and control every type of risk, in accordance with the nature and complexity of the Company's operations</li> <li>They also have the responsibility to apply the framework in their day to day activities</li> </ul>
<b>Business Units</b>	<ul style="list-style-type: none"> <li>The individual business units under the direction of their Heads have the responsibility to know and apply the requirements of the risk strategy and Policies in their area of business</li> </ul>
<b>Actuarial Function</b>	<ul style="list-style-type: none"> <li>The Actuarial function is a specialist function that advises the Senior Management of the Company on the calculation of technical provisions and capital requirements, as well as on the technical aspects of risk management and modelling.</li> </ul>
<b>Compliance Function</b>	<ul style="list-style-type: none"> <li>The Compliance Function applies suitable procedures for the purpose of achieving a timely and on-going compliance of the Company's risk management framework with existing and new laws and regulations.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>The Internal Audit Function undertakes independent reviews and testing of the risk management framework or of specific components of the framework and reports the results to the Audit Committee. The responsibilities of Internal Audit are governed by the Internal Audit Policy</li> </ul>

### **C.10.1.3 Risk management Processes**

The risk management framework is a continuous process encompassing of the following key stages:

#### **Risk Identification**

The identification process is facilitated by a continuous use and review of internal and external sources of information.

Quantitative risks are identified through observation of the company's exposures through its financial records. Emerging risks are identified through external data or information.

Qualitative risks are identified through identification of events, actions or inactions (risks) that have the potential to materially impact the achievement of the objectives or the intended operation of functions and business processes. These can relate to both threats to operations or failures to take advantage of opportunities.

Stress testing, scenario analysis and sensitivity analysis are also adopted for the purposes of identifying risk exposures over the business planning horizon through the ORSA process which is described in the next section.

#### **Risk Assessment / Measurement**

The main metric for assessing quantifiable risk exposures is the 99.5% value at risk. This is a measurement of the maximum loss occurring from predefined events with a probability of 1 in 200. All risk metrics correspond to a risk tolerance limit explicitly stated within the risk appetite statement. This enables the comparison of actual risk exposures against the company's tolerances indicating where further mitigating action is necessary.

Once identified and measured, material risks are documented in the Risk Register. Risk and control owners are assigned to each risk to ensure accountability for managing all material risks and the related controls. The Risk Register is monitored regularly and amended where necessary to capture changes in risks facing the business or in the controls used to mitigate existing risks.

#### **Risk Control and Mitigation**

The company has a strong risk controls culture to ensure the mitigation of all risks in its risk universe. Controls are developed and used to safeguard the integrity of the Company's processes and systems.

Additionally, the RMF evaluates and adopts appropriate risk transfer methods to mitigate its exposure to the identified risks.

Unexpected risks exposures are also covered by own funds, in accordance with the Solvency II requirements.

#### **Risk Monitoring and Reporting**

The RMF has the responsibility to ensure that all material risk exposures are monitored on an on-going basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the Risk Committee.

Specifically, the RMF monitors the following for each risk:

- Actual exposure vs. Limit at an aggregate base
- Key Risk Indicators
- Risk data and model validation
- Appropriateness and assumptions of risk measurement methodologies
- Unusual or material events

- Early warning indicators (in the internal and external environment of the Company)
- Policy breaches

In addition, on an annual basis:

- the Risk Register is formally reviewed by the Risk Management Function and any actions deemed necessary following such review are brought to the attention of the Board; and
- the Risk Management Function runs stress and scenario tests and reports the results and suggested courses of action to the Board.

### C.11 Significant Risk Exposures

The main risk exposures as at 31 December 2018 as measured through the Solvency II standard formula are shown in the table below:

99.5% Value at risk (SCR)	€
Market risk	1,366,050
Counterparty default risk	700,300
Life Underwriting risks	0
Health underwriting risk	106,029
Non-Life underwriting risk	841,274
Intangible asset risk	0
Operational risk	126,661

### C.12 Material Risks not included in the calculation of the Solvency Capital Requirement

There were no material risks other than those captured in the calculation of the SCR.

### C.13 Prudent Person Principle

The Company manages its investments in a prudent manner and in accordance with “The Prudent Person Principle”. The performance and risk profile of the investment portfolio is monitored on a quarterly basis.

### C.14 Credit Assessments

Credit assessments are used for the company’s main counterparties through its reinsurance program and its asset portfolio. The ratings used are those of the main global rating agencies such as AM Best, Standard & Poor’s, Fitch and Moody’s. The Company considers these external ratings as adequate for the purpose of the credit risk assessment of these counterparties unless information emerges which is thought to compromise their credit worthiness and has not yet been allowed for by the rating agencies.

### C.15 Own Risk and Solvency Assessment (ORSA)

#### C.15.1.1 ORSA Process

In line with the Company’s ORSA policy, ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks the Company faces or may face and to determine the own funds necessary to ensure that the Company’s overall solvency needs are met at all times. The ORSA policy is the policy which governs the ORSA process.

Strategic decisions such as the introduction of new products, utilisation of additional distribution channels etc. are assessed and evaluated in the light of their effect on the Company’s risk situation and risk-bearing capacity.

The Company follows the steps below to implement its ORSA:

- i. **Identify and classify risks, including governance** - The Company identifies the material risks it faces at a particular point in time. This includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic and business risks.
- ii. **Assessment and measurement of risks** - the Company collects data, quantifies and aggregates risks using using different approaches such as Value at Risk and stress testing. The assessment is done using predefined risk metrics. This also includes and assessment of the Solvency II standard formula and whether it adequately reflects the underlying risk profile of the company.
- iii. **Capital Allocation** – According to its risk profile, the Company determines the necessary risk capital required at that point in time.
- iv. **Capital planning** – The company projects its risk profile based on its business plan and prepares a capital plan over the business planning horizon. The capital plan depends on its strategic objectives and financial projections and assumptions on future economic conditions.
- v. **Stress testing** - The Company applies stress and scenario testing to the forward-looking capital plan and develops actions that can be taken in unforeseen circumstances in the future. Stress tests complement the use of the standard formula by assessing the financial effect of events or sequence of events that lead to specific adverse scenarios. Thus, they can be used to understand the Company's vulnerability to its various risk exposures and the level of financial strain that it can withstand.
- vi. **Communicate and document the results** – The Company presents the results of the process to senior management and the BoD and prepares the ORSA report. The BoD reviews and challenges the results of the ORSA through minuted discussions.

#### **C.15.1.2 Governing the ORSA**

The ultimate responsibility for the ORSA process lies with the BoD. The BoD defines the corporate objectives and the risk strategies of the company which form significant inputs to the ORSA. The BoD also defines the stress testing program and also reviews, challenges and approves the ORSA Report. The BoD also sets the ORSA policy and reviews it every year.

The function mostly responsible for carrying out the ORSA is the Risk Management Function. However, due to its very nature, the ORSA requires input from across the whole Company and hence the Risk Management Function coordinates the ORSA process in conjunction with all the other functions as risk owners.

Significant input is required from the finance function for the preparation of the financial projections in accordance with the company's business plan and from the Actuarial function in quantifying future risks and assisting with the financial modelling of forecasted solvency assessments.

#### **C.15.1.3 ORSA and decision making processes**

ORSA is considered as a very valuable assessment in addressing the risks inherent with the company's strategy and the BoD confirms that it is embedded in the decision-making processes of the company. In particular, the ORSA allows the management to take into account all the risks associated with the Company's business strategies and the required level of capital that the Company requires commit, explore alternative options and assess their impact and decide on the optimal strategy and advise to BoD accordingly.

#### **C.15.1.4 Frequency of the ORSA**

The Company currently intends to perform the ORSA annually. Furthermore, the assessment will be performed immediately following any significant changes to the environment that the company operates.

These changes include, but are not limited to:

- Significant changes to the financial and political environment in which the Company operates
- Significant operational losses
- Material changes to the new business volumes
- Planned changes to the operating model of the company
- Significant changes in the Company's risk profile

#### **C.15.1.5 Solvency needs and Risk Profile**

In 2018, the Company undertook a detailed risk and solvency assessment as well as a forward-looking assessment of capital requirements comprising of the year end 2018-2020. These assessments encompass all material risks that the Company faces or could expect to face over its planning period.

The assessment also addressed the adequacy of the standard formula and how it relates to the underlying risk profile of the company. The assessment provided satisfactory evidence for the adequacy of the standard formula and comfort that we can continue using this as a key risk metric. Furthermore, it provided confidence that the capital requirements address the material risk exposures and the available own funds provide a satisfactory buffer in safeguarding business continuity beyond the 99.5% confidence threshold.

Any risks not covered by capital are believed to be adequately mitigated through the control measures applied internal and no additional capital beyond the SCR was deemed necessary.

### **C.16 Internal control system**

#### **C.17 Description of the undertaking's internal control system**

Internal control is a process effected by Company's Board of Directors, management, and other personnel and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Every member of the Company has a role in the system of internal control. Internal control is people-dependent and its strength depends on people's attitude toward internal control and their attention to it:

- The Board is responsible for setting the strategy, tone, culture and values of the Company
- Management, Risk Management, Compliance and Actuarial function design policies and procedures to ensure that an effective internal control system is established within the Company
- The Internal Audit function monitors the effectiveness of the internal control system

There are five interrelated components of effective internal control, which are discussed in the following sections:

- Control Environment
- Risk Management
- Control Activities
- Reporting
- Monitoring

Each of these are outlined below and described in detail in the company's Internal Control Policy:

#### **C.17.1.1 Control environment**

The control environment sets the tone of the Company, influencing the control consciousness of its people. It is the foundation for all other components of the Company's internal control system, providing discipline and structure. Control environment factors include:

- Integrity and ethical values
- Commitment to competence
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility

#### **C.17.1.2 Risk Management**

The risk management system entails the identification and analysis of relevant risks which threaten the achievement of the Company's objectives, forming a basis for determining how the risks should be managed. As an integral part of its Risk Management system, the Company identifies all reasonably foreseeable material risks and assesses the frequency and severity of such risks, recording such identification and assessment in the Risk Register.

The process is overseen by the Board and Risk Management function. The risk management process is described in detailed in the Company's Risk Management Policy.

#### **C.17.1.3 Control Activities**

Control activities are the policies and procedures that are designed to ensure that management directives are carried out, strategies are properly implemented and the necessary actions are taken to address material risks to the achievement of the Company's objectives. Control activities occur throughout the entire Company, at all levels and in all functions. They include a range of activities as diverse as:

- approval and authorization requirements, as required by the Company's procedure manual;
- segregation of duties, as reflected in the Company's organisational structure and in other controls outlined in the procedure manual;
- controls required by the Company's various policies, such as the Outsourcing Policy;
- verifications, reconciliations, reviews, controls over assets and other controls as identified in the procedure manual and which are primarily aimed at implementing the four-eyes principle.

The Company has appropriate documented policies, procedures, techniques, and mechanisms in place for each of its business areas (e.g. Underwriting, Claims) and control functions (Risk and Compliance). All relevant objectives and associated risks for each significant activity are identified in conjunction with conducting the risk identification process.

Up to date Company policies and procedures are distributed to all relevant personnel, who read and understand them. Management oversees the implementation of the Company's policies and procedures and ensure that control activities are properly applied. Monitoring personnel review the functioning of established control activities and remain alert for instances in which excessive control activities should be streamlined. They act timely on exceptions, implementation problems, or information that requires follow-up.

Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.

#### **C.17.1.4 Reporting**

Financial and other information must be identified, captured and communicated in a form and timeframe that enables the management and the BoD to carry out their responsibilities. Management accounts, solvency assessments and risk reports are submitted to the BoD on a quarterly basis. Moreover, all key functions report to the Board at least once a year on their activities, the adherence to their respective company policies together with any proposals for changes to the policy as considered necessary by the relevant function.

#### **C.17.1.5 Monitoring of internal controls**

The Company has established the necessary monitoring mechanisms that facilitate the understanding of the Company's situation and provide the Board with relevant information for the decision-making process. Management and monitoring personnel know their responsibilities for internal control and make control and control monitoring part of their regular operating processes.

Regular monitoring occurs during normal operations and includes on-going Management activities and actions taken by all personnel when performing their duties. It is performed continually and on a real-time basis, reacts dynamically to changing conditions and is ingrained in the Company's operations.

The effectiveness of the internal control system is monitored on a continuous basis by business areas and control owners, any deficiencies of the system are identified and rectified in a timely manner. As part of the internal control monitoring, the quality of performance over time is assessed and the findings of audits and other reviews are promptly resolved.

### **C.18 Compliance Policy and Compliance Function**

The Compliance Function ensures that compliance awareness is promoted internally and externally and that compliance is an integral part of the corporate culture of all licensed entities. Employees within the organization receive adequate training on compliance on a set periodic basis and are encouraged to identify and report all breaches as necessary so that corrective action can be immediately taken and risks mitigated.

The role of the Compliance Function includes:

- a) advising the Board of Directors on compliance with any legislation, regulations and any other applicable laws, in so far as they apply to the company,
- b) the assessment of possible impact as regards changes in the legal environment on the company,
- c) the identification and assessment of any compliance/regulatory risks.
- d) providing the Board of Directors with regular reports on the progress of the Compliance plan, and any other matters which need to be brought to the attention of the Board of Directors.

### **C.19 Internal audit function**

The Company's Internal Audit Policy establishes and maintains an Internal Audit Function, the objectives of which are:

- to independently examine and evaluate the functioning and effectiveness of the internal controls and all other elements of the system of governance;
- to assess compliance with internal strategies, policies, processes and reporting procedures.

The Company outsources its Internal Audit Function to PricewaterhouseCoopers (PWC) thus ensuring the independence and objectivity from any functions which have operational responsibilities. The Internal Audit Function reports to the Board through the Audit Committee.

The Internal Audit Function has an unrestricted right to obtain information relevant to the discharge of its responsibilities. This entails the prompt provision of all necessary information, the availability of all essential documentation and the ability to look into all activities and processes of the Company. To this effect, the Internal Audit Function has full, free and unrestricted access to all the personnel of the Company who shall, in turn, ensure that the Internal Audit Function obtains the necessary information about, and has the necessary access to, the Company's outsourced functions.

## **C.20 Actuarial Function**

The Actuarial Function is a critical function for the Company. It is subject to the fit and proper criteria and according to the relevant legislation it should at all times be carried out by persons who are fit and proper to carry out the duties outlined below, in an objective manner and free from any undue influences. The Actuarial Function of the Company is outsourced to Deloitte Actuarial Services Ltd, and is executed by a Fellow of the Institute of Actuaries who fulfils all above criteria.

The Actuarial Function reports to the Chief Executive Officer and to the BoD and is subject to the audit of the Internal Audit Function regarding the adequacy and effectiveness of its procedures. The operating procedures of the function are described in detail in the Actuarial Function Manual.

The role of the Actuarial Function is to establish and maintain appropriate procedures, processes and systems sufficient to allow the Company to reasonably estimate its insurance obligations and exposures and the related capital requirements, in line with applicable laws and recognised professional standards. In this context, the Actuarial Function coordinates the assessment and validation of internal data to determine the level of compliance with recognised standards for data quality and, if necessary, recommends improvements.

Furthermore, the Actuarial Function is involved in the profit testing process of new products assessing them for profitability, capital intensiveness, risk profile, system compatibility and marketability. It also contributes all financial modelling in relation to risk management activities and the ORSA in particular.

The activities of the Actuarial Function during 2018 were as follows:

- Carried out the calculation of technical provisions on a quarterly basis in accordance with all relevant regulatory requirements
- Submitted reports in relation to the above calculations to the BoD
- Provided modelling assistance for the calculation of Solvency Capital Requirements on a quarterly basis
- Assessment of data quality
- Profit testing of new products
- Expressed opinion on adequacy of Reinsurance Arrangements and participated in the discussions with the Reinsurers for the renewal of treaties.
- Expressed opinion on the company's underwriting policy
- Worked closely with the management and addressed areas of its expertise in relation to the company's ongoing operations
- Provided the modelling for carrying out the financial and solvency projections of the ORSA
- Attended four meetings of the BoD and actively participated in discussions around the company's restructuring plan and its strategy going forward.
- Carried out investigations to the company's experience in terms of claims, lapses, expenses and new business volumes

## C.21 Outsourcing

The Company outsources the following key functions:

Function	Entity	Person Responsible
Actuarial Function	Deloitte Actuarial Services Ltd	Dimitris Dimitriou
Risk Management Function	Deloitte Actuarial Services Ltd	Aristos Kyriakides
Compliance Function	Deloitte Actuarial Services Ltd	Dimitris Dimitriou
Internal audit	PricewaterhouseCoopers (PWC)	Christos Alexandrou

The Company has opted to outsource these functions given the high level of specialisation and the limited availability of such skills in the domestic market. Furthermore, we have selected providers with significant expertise in their areas who can introduce knowhow and skillset in a beneficial way for the company. Outsourcing is also believed to be a cost efficient approach for the selected functions.

Additional benefits of outsourcing include the safeguarding the continuity of services since the Company does not rely on one person but a firm with a contractual obligation to provide the requested services under all circumstances.

It also saves on infrastructure and technology since the company does not need to invest in specialised software and relevant IT solutions.

The selected partners have over the years proven to be efficient in their dealings with the Company and provide comfort to the BoD in the quality of their service and the value they add to the Company.

## C.22 Outsourcing Policy

The criteria for the selection of service providers and the process for their appointment is laid down in the company's outsourcing policy which is approved by the BoD and reviewed once a year. In particular the Outsourcing Policy states that when choosing a service provider for any critical or important functions or activities the Company ensures that:

- The potential service provider has the ability and capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs
- The service provider has adopted all means to ensure that no explicit or potential conflict of interests with the Company impairs the needs of the outsourcing undertaking
- It enters into a written agreement with the service provider which clearly allocates the respective rights and obligations of the undertaking and the service provider
- The general terms and conditions of the outsourcing agreement are authorised and understood by the CEO. The outsourcing does not represent a breach of any data protection regulation or any other laws
- The service provider is subject to provisions on the safety and confidentiality of information relating to the Company or to its policyholders or beneficiaries

In order to ensure against an undue increase in Operational Risk, when outsourcing critical or important functions or activities the Company shall:

- Verify that the service provider has adequate financial resources to take on the additional tasks the company plans to transfer and to properly and reliably discharge its duties towards the company and that the staff of the service provider is chosen on the basis of criteria that give reasonable assurance that they are sufficiently qualified and reliable

- Make sure the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and has periodic testing of backup facilities where that is necessary having regard to the function, service or activity outsourced

Furthermore, the Policy lays down the minimum required contents of an outsourcing agreement safeguarding the quality of service provided, protecting the interests of the Company, ensuring that conflicts of interest are avoided and that the service provider cooperates with internal or external auditors as well as the supervisory authority.

### **C.23 Adequacy of the system of governance**

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

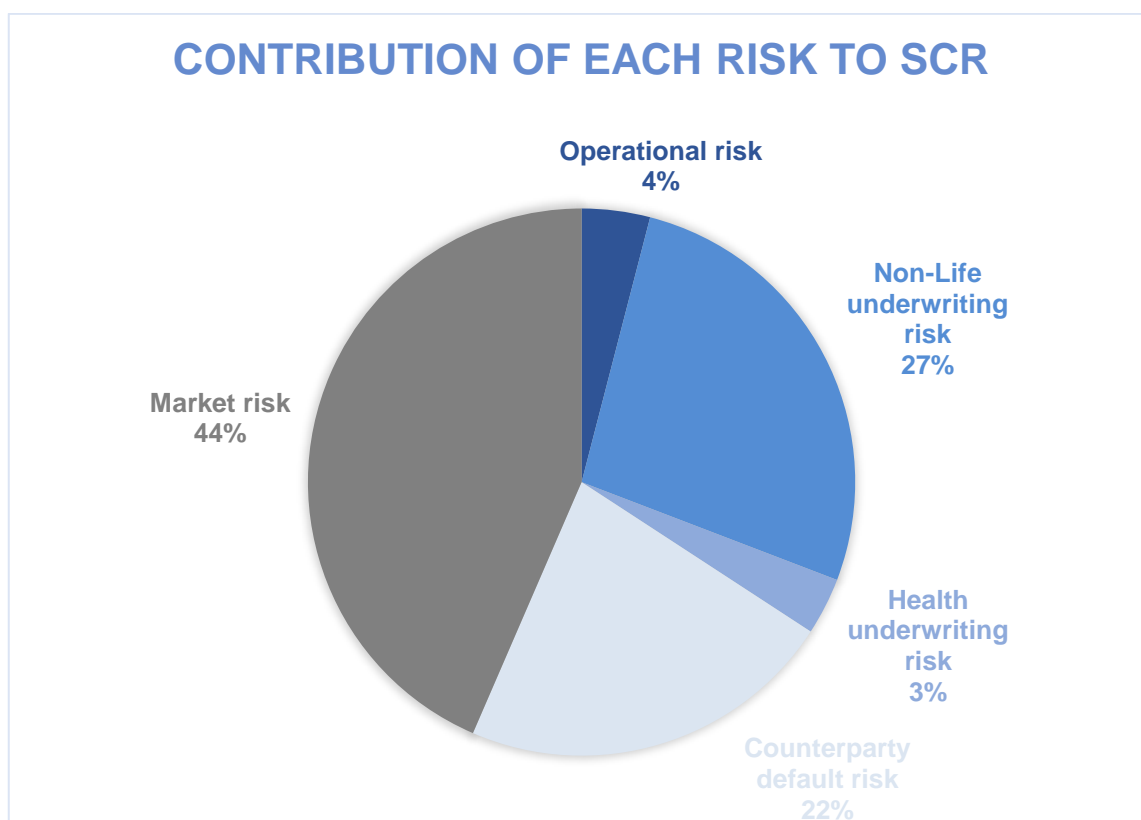
### **C.24 Any other information**

Include in a separate section any other material information regarding the system of governance of the undertaking

## D. Risk Profile

The Company believes that a robust and effective risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. Quantifiable risks are assessed through the 99.5% Value at risk as measured with the Solvency II standard formula (SCR). The company aims to hold sufficient capital at all times to protect itself from losses occurring due to such risks. Non-quantifiable risks are measured through qualitative analyses and a frequency/severity approach.

In addition to capital, the company manages all risks through its processes and procedures and its internal control framework and by monitoring exposures and benchmarking those against its risk appetite.



The Company's risk profile is mainly driven by its exposure to the property investments. Market risk forms around 44% of the total risk portfolio of the company. The second largest exposure (27% of undiversified SCR) arises from Non-Life Underwriting risk. The third material risk exposure of the Company is the result of the counterparty risk.

The risk profile of the company as at 31 December 2018 was in line with its risk strategy.

### D.1 Underwriting Risk

#### D.1.1 ***Overview of any material risk exposures anticipated over the business planning period***

Underwriting risk is defined as the risk of loss, or adverse change in the value of insurance liabilities, due to inadequate pricing and/or reserving practices. Underwriting risk may be caused by the fluctuations in timing, frequency and severity of insured events and claim settlements in comparison to the expectations at the time of underwriting.

The Company controls and monitors its underwriting risk by ensuring that:

- reasonable and effective controls are in place to support the risk selection and underwriting process;
- the Company's reinsurance programme provides secure coverage appropriate to the Company's strategy, level of capital and risk profile;
- the risks arising out of reinsurance as a risk mitigation technique are properly understood, addressed and monitored;
- claims are managed fairly and recorded properly in line with reinsurance agreements and all amounts recoverable from reinsurers are duly collected;
- a consistent methodology for the calculation of, and the accounting for, outstanding loss reserves (OSLR) and incurred but not reported reserves (IBNR) is maintained.

The non-life portfolio of the Company is not focused only on residential, commercial, industrial or agricultural. With regards to geographical diversification, we note that our portfolio is diversified both geographically and in respect of the type and time of cat losses. Furthermore, the portfolio contains no sub-portfolios split per region that might generate positively correlated losses.

## D.2 Risk Assessment/Measurement

The Company measures its Underwriting risk primarily using the standard formula, the adequacy of which was assessed during the latest ORSA. The measurement addresses four sources of risk; Premium and Reserve Risk, Lapse Risk, Catastrophe risk. These exposures are assessed by calculating the impact on the own funds when allowing in the projections for a number of risk events.

The results of the risk assessment as described above are summarised below:

99.5% value at risk	2018 €	2017 €
Non-Life underwriting risk	841,274	763,331
Health underwriting risk	106,029	106,807

## D.3 Risk Concentration

### D.3.1 Information on any material risk concentrations the undertaking is exposed to

No material risk concentrations have been identified. This is because of:

- The Company's diversified insurance portfolio:
- Reinsurance: The Company manages its exposure to any one risk and to catastrophic events using reinsurance. Thus, the loss to the Company is generally limited to its retention.

### D.3.2 Overview of any future risk concentrations anticipated over the business planning period and how they will be managed

No future risk concentrations are anticipated over the business planning period.

## D.4 Risk Mitigation

### D.4.1 Information on the techniques currently used

#### D.4.1.1 Reinsurance

Kentriki uses reinsurance to protect against claims volatility. Proportional and non-proportional reinsurance arrangement is in place for all product lines. The actuarial function also issues an opinion on the adequacy of reinsurance arrangements annually. The credit rating and the

financial condition of the key reinsurance counterparties are reviewed, so that corrective action is taken in the event of a deterioration in their financial quality.

The effectiveness of the current reinsurance structure as well as that of potential reinsurance agreements considered are also assessed in the ORSA with respect to their impact on profitability and solvency coverage ratio over the business planning horizon.

Use of reinsurance protection enable the company to manage and optimise its underwriting portfolio, whilst protecting its balance sheet and maintaining its exposure to the risk limits set by the Board of Directors. The steps taken to ensure that both the reinsurance structure and the reinsurance counterparties are appropriate have enabled the company to remain profitable with little volatility in its financial results.

#### ***D.4.1.2 Portfolio Monitoring***

The senior management of the Company receives and reviews:

- Regular reports on the gross written premium, risks written, claims and reserves; and
- Regular detailed profitability analyses and reviews undertaken by the Actuarial Function

The management of the Company undertakes the reviews above to ensure that the company is protected against the risk of inadequate pricing. The frequency of the reviews, will enable the management to take quick action to resolve any issues identified.

#### ***D.4.2 Description of any material risk mitigation techniques the undertaking is considering purchasing or entering into over the business planning period and the rationale***

The continued effectiveness of the risk mitigation techniques and controls described above is monitored continuously by the Senior Management. In the event of any findings or shortcomings identified, quick action is taken and the risk mitigation techniques are adjusted accordingly.

The Company will continue to use the risk mitigation techniques mentioned above, continuously aiming at enhancing them to reduce risk. The Company does not plan to enter or purchase any additional risk mitigation products over the planning period.

### **D.5 Risk Sensitivity**

As part of the business and capital planning processes, the risk management function carries out stress tests including the assessment of alternative scenarios to feed into the ORSA. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented, through timely remedial actions or through the commitment of additional capital.

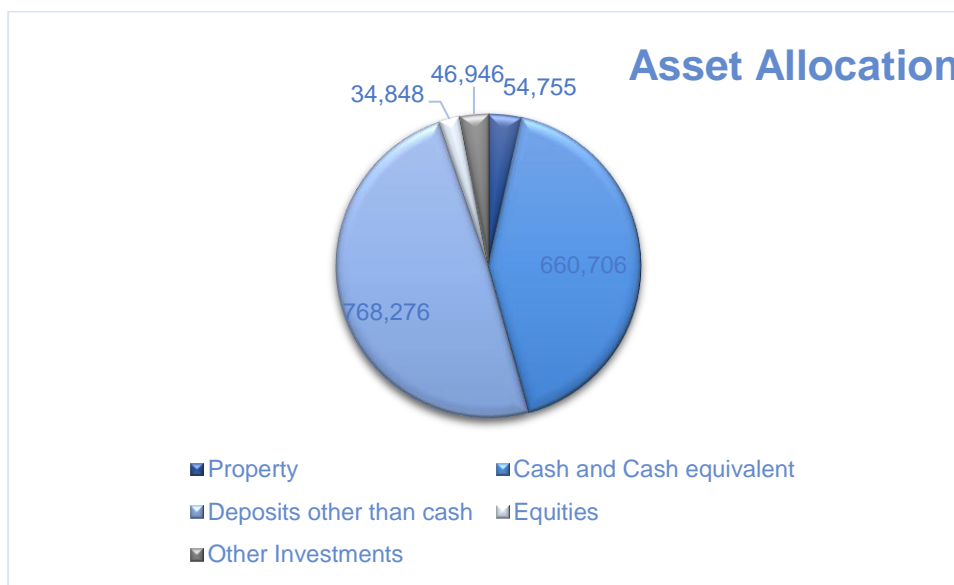
Based on the results of the stress scenarios above the Company's risk exposures are in line with its strategy and that adequate processes and controls are in place to ensure that such risk exposures are identified, measured, mitigated where necessary and reported.

## D.6 Market risk

### D.6.1 **Overview of any material risk exposures anticipated over the business planning period and how they are managed**

The Company is exposed to market (Investment) risk through its asset portfolio and in particular from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets of the Company.

Market risk reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the Company.



As at 31 December 2018, Company's investment assets include property, equity, bank deposits, cash and current accounts. Current accounts are subject to credit risk (including counterparty default risk, spread risk and concentration risk) and liquidity risk which are dealt with in the respective sections below. Market risk arises in the following forms both on the asset and on the liability side as the value of technical provisions depends on market conditions:

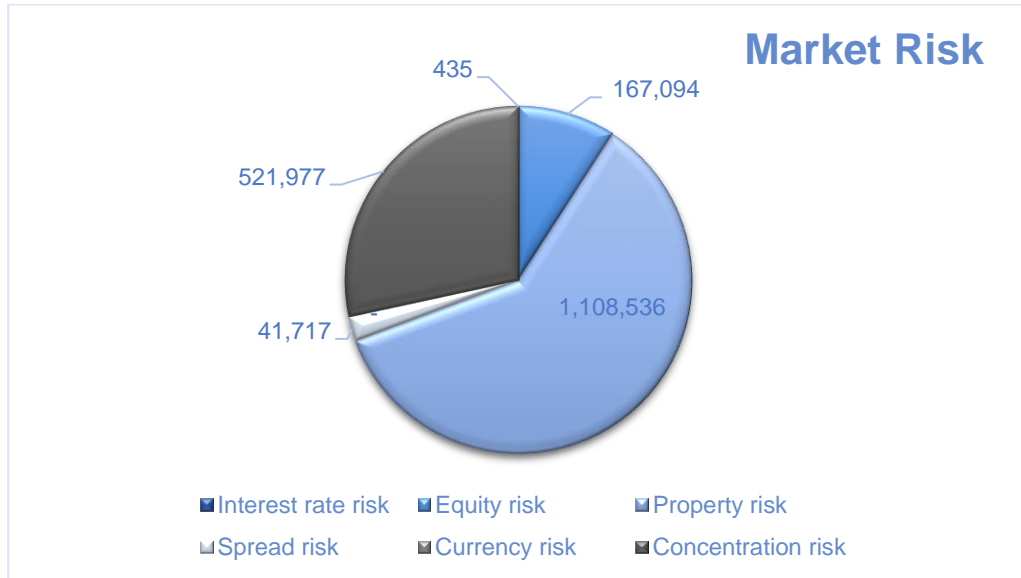
- **Interest rate risk:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates
- **Equity risk:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities
- **Property risk:** the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate

### D.6.2 **Risk Assessment/Measurement**

The Company measures its market risk using the standard formula, the adequacy of which was assessed during the latest ORSA. The measurement is done separately for the sub-categories mentioned above. Then the aggregate market risk measure allows for diversification between its components.

The Company also adopts other risk assessment tools such as stress and scenario testing (both on the current position and over the business planning horizon), maintenance of a risk register, comparison of actual exposure and risk tolerance limits and use of Key Risk Indicators.

With the support of the RMF, the Company assesses the impact of any material investment decisions on its solvency coverage ratio.



The primary sources of market risk are property and concentration risks arising from exposure to investment in real estate. The overall current market risk exposure is considered to be high.

### Interest Rate Risk

The total assets and liabilities that are sensitive to changes in interest rates are as follows:

Assets	8,377,935
Liabilities	3,885,452

As at 31.12.2018 the 99.5% value at risk for interest rate risk was €0.44k (€0.85k in 2017). Due to the relatively short-term nature of assets and liabilities of the company the interest rate risk is not considered to be material risk

### Equity Risk

The total SCR for Equity risk on the same date was €167k (€159k in 2017).

### Property Risk

The company has a significant portion of its asset portfolio invested in properties. This relates to the company's head office. The composition of the property portfolio is as follows:

The total property portfolio of the company as at 31.12.2018 was €4.8m and the total SCR for property risk on the same date was €1.1m (€1.1m in 2017).

### Currency Risk

The Company has no exposure to foreign exchange as at the reference date

## D.6.3 Risk Concentration

### D.6.3.1 Information on any material risk concentrations the undertaking is exposed to

One of the main market risk sub-modules of the company is Concentration Risk. The company's portfolio is concentrated to property investments which represents around 65% of the concentration risk €0.5m (€0.5m in 2017).

***D.6.3.2 Overview of any future risk concentrations anticipated over the business planning period and how they will be managed***

The investment mix is not expected to change over the business planning period and hence the Company anticipates the same level of market risk concentration.

***D.6.4 Risk Mitigation***

***D.6.4.1 Information on the techniques currently used***

Market risk is mitigated through the continued review and monitoring of the company's investment exposures.

***D.6.4.2 Description of any material risk mitigation techniques the undertaking is considering purchasing or entering into over the business planning period and the rationale***

The Company does not plan to enter or purchase any additional market risk mitigation products over the planning period

***D.6.5 Prudent Person Principle***

The Solvency II regulations require investment of assets in accordance to the "Prudent Person Principle".

The Company regularly reviews the financial condition of its investment counterparties and ensures that the currency, nature and duration of assets is appropriate to the characteristics of its liabilities, avoiding excessive reliance on any one counterparty or asset class or geographical location. The company has not invested in derivatives or other inadmissible financial instruments.

A complete list of assets as at 31/12/18 is provided in Appendix D.

***D.6.6 Risk Sensitivity***

***D.6.6.1 Stress tests and scenario analyses***

As part of the business and capital planning processes, the risk management function carries out stress tests including the assessment of alternative scenarios. The most onerous stress was the reduction in fair value of property investments due to the excessive exposure in this type of investment.

## **D.7 Credit risk**

### ***D.7.1 Overview of any material risk exposures anticipated over the business planning period and how they are managed***

Credit risk refers to the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of counterparties. The Company is exposed to credit risk rising from the following exposures:

- Cash at bank
- Bank deposits
- Reinsurance recoverables
- Premium receivables

### ***D.7.2 Risk Assessment/Measurement***

The Company measures its credit risk using the standard formula, the adequacy of which was assessed during the latest ORSA. With respect to exposures to banks, bond issuers, loan holders and reinsurers the assessment depends highly on the credit rating of the counterparties which defines the probability of default. On the other hand, for premium receivables the assessment is based on how long overdue these are and the probability of default is determined based on that.

The overall credit risk exposure is considered to be medium.

Credit risk is not expected to change materially over the business planning horizon

### ***D.7.3 Risk Concentration***

#### ***D.7.3.1 Information on any material risk concentrations the undertaking is exposed to***

The Company's exposure to credit risk is mainly driven by a small number of single counterparty exposures and the Premium receivables

#### ***D.7.3.2 Overview of any future risk concentrations anticipated over the business planning period and how they will be managed***

The Company is not anticipating that the credit risk will change materially over the planning period.

### ***D.7.4 Risk Mitigation***

#### ***D.7.4.1 Information on the techniques currently used***

The credit rating and the financial condition of all key counterparties are reviewed at least quarterly and management is ready to take action in the event of a deterioration in the credit quality.

#### ***D.7.4.2 Description of any material risk mitigation techniques the undertaking is considering purchasing or entering into over the business planning period and the rationale***

The Company does not plan to enter or purchase any additional credit risk mitigation products over the planning period

## **D.7.5 Risk Sensitivity**

### **D.7.5.1 Description of relevant stress tests and scenario analysis including their outcome, description of the methods used and the main assumptions underlying those stress test and scenario analyses**

As part of the business and capital planning processes, the risk management function carries out stress tests including the assessment of alternative scenarios. The most onerous stress was the default of Bank of Cyprus and loss of current accounts and deposits in the particular bank.

## **D.8 Liquidity risk**

### **D.8.1 Overview of any material risk exposures anticipated over the business planning period**

Liquidity risk is defined as the risk that the Company is unable to realise investments and other assets (or realise them at excessive cost) in order to settle its financial obligations when they fall due.

The liquidity risk of the company is generally very low as:

- A significant proportion of the assets is invested in short-terms products, including cash and bank deposits.
- Most of the assets held are highly tradeable which enables fast and low cost liquidation of assets.

The composition of the asset portfolio is not expected to change over the business planning horizon in a way that would introduce liquidity risk.

### **D.8.2 Risk Assessment/Measurement**

The Company's liquidity requirements are assessed regularly in order to meet the Company's stated liquidity objectives

### **D.8.3 Risk Concentration**

#### **D.8.3.1 Information on any material risk concentrations the undertaking is exposed to**

Sources of cash in and cash out flows such as insurance premiums, claims expenses etc., are diversified and to a large extent independent. This risk concentration within liquidity risk is limited.

#### **D.8.3.2 Overview of any future risk concentrations anticipated over the business planning period and how they will be managed**

The company does not anticipate a deterioration in its liquidity position or risk during the business planning period.

### **D.8.4 Risk Mitigation**

#### **D.8.4.1 Techniques currently used**

The Company also minimizes liquidity risk by

- ensuring that the Accounting function designs and implements proper controls, documented in the procedure manual, to ensure that inflows are actively managed, monitored and followed up;
- ensuring that income generated from the investment portfolio is duly received by the Company;
- catering for unexpected cash flows, since the quota for highly liquid assets provides a good buffer over and above the maximum historic cash outflows;

- considering the effect of any proposed new business on liquidity and liquidity risk at Board level;
- closely monitoring the timing of claims payments and reinsurance recoveries.

***D.8.4.2 Description of any material risk mitigation techniques the undertaking is considering purchasing or entering into over the business planning period and the rationale***

The company does not deem necessary to adopt any risk mitigation techniques given the low level of its liquidity risk.

***D.8.5 Expected profit included in future premiums***

As at valuation date, there are no future premiums cash-flows within the contract boundaries of unexpired policies and therefore there is no expected profit included for future premiums.

The contract boundaries are defined as:

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

**D.9 Operational risk**

***D.9.1 Overview of any material risk exposures anticipated over the business planning period***

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events. This risk encompasses all exposures faced by the Company's functions in the course of conducting the Company's business, including but not limited to, accounting and financial reporting, business continuity, claims management, information technology and data processing, legal and regulatory compliance, outsourcing and reinsurance. The company has the exposure to the following types of operational risk:

<b>Business Disruption &amp; Systems Failure</b>	<b>Interruption of business activity due to system or communication failures</b>
<b>Financial Integrity &amp; Reporting</b>	Disclosure of materially incorrect or untimely information
<b>External Fraud</b>	Acts intended to defraud, misappropriate property or circumvent the law by an external party
<b>Internal Fraud</b>	Acts intended to defraud, misappropriate property or circumvent the law by an internal party
<b>Process Risks</b>	Failure to execute or process transactions timely and accurately with clients and other counterparties
<b>Clients, Products and Business Practices</b>	Lack of productivity and poor customer service

## **D.10 Risk Assessment/Measurement**

The company commits capital as a buffer to absorb losses due to operational risks as measured through the standard formula.

## **D.11 Risk Concentration**

### ***D.11.1.1 Material risk concentrations***

Currently there are no material operational risk concentrations.

### ***D.11.1.2 Overview of any future risk concentrations anticipated over the business planning period and how they will be managed***

The operational risk profile of the Company is not expected to change over the business planning period.

## **D.12 Risk Mitigation**

### ***D.12.1.1 Information on the techniques currently used***

The Company addresses its operational risk through the following:

- an internal control system is in place
- a business continuity plan is in place to ensure continuity and regularity in the performance of activities
- Regular Internal Audit
- Performance management and reviews to ensure employees are satisfied with their work and perform to the best of their abilities
- Legal advice is sought at the earliest opportunity from specialised lawyers
- Peer review of material work and appropriate underwriting, claims and other authority limits in place
- Insurance against property damage that could cause business disruption

### ***D.12.1.2 Description of any material risk mitigation techniques the undertaking is considering purchasing or entering into over the business planning period and the rationale***

The Company will continue to use the risk mitigation techniques mentioned above, continuously aiming at enhancing them to reduce risk. The Company does not plan to enter or purchase any additional operational risk mitigation products over the planning period.

## **D.13 Risk Sensitivity**

### ***D.13.1.1 Description of relevant stress tests and scenario analysis including their outcome, description of the methods used and the main assumptions underlying those stress test and scenario analyses***

Due to the complexity of the Operational risk, no explicit sensitivities have been performed for the particular risk. The company capital provides an adequate buffer to absorb losses due to operational risks as higher than those assumed by standard formula.

## E. Valuation for solvency purposes

### E.1 Assets

#### E.1.1 Value of assets

All assets and liabilities, listed in the Table below are valued in accordance with the Solvency II Framework. Assets and liabilities are valued on the assumption that the Company will pursue the business as a going concern. No changes in the valuations methods occurred during the year under review.

The Company does not have any off-balance sheet assets or liabilities.

31.12.2018 €	Solvency II	IFRS
<b>Assets</b>		
Investments	1,814,858	1,814,858
Deferred Tax Asset	0.00	0.00
Reinsurance Assets	419,322	972,458
Property	3,828,707	3,828,707
Goodwill	0	0.00
Intangible Assets	0.00	1,504
Deferred Acquisition Cost	0	824,570
Cash and cash equivalents	660,705	660,705
Insurance and intermediaries receivables	1,554,743	1,554,743
Other Assets	99,599	99,599
Total Assets	<b>8,278,335</b>	<b>9,757,144</b>

#### E.1.2 Description of bases, methods and main assumption used for valuation for solvency purposes

##### Investments

The fair value of quoted financial assets is based on quoted market prices at the end of the reporting period. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

##### Reinsurance Assets

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurers' share of technical provisions or receivables from reinsurers (unless netted off against amounts payable to reinsurers). These assets consist of short term balances due from reinsurers (classified within receivables), as well as receivables (classified as reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

##### Properties

Investment properties are initially measured at cost including related transaction costs. Investment properties are subsequently carried at fair value, representing open market value determined annually by external valuers, or by virtue of a Directors' valuation. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative

valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

### **E.1.3 Differences between IFRS and Solvency II valuation**

Differences exist for Reinsurance Recoverables and for Deferred Acquisition Cost assets described in detail below:

#### **Reinsurance recoverables**

Reinsurance Recoverables represent the difference between Gross and Net provisions. On a solvency II valuation these are valued on a best estimate basis.

#### **Deferred Acquisition Cost (DAC)**

There is no concept of Deferred Acquisition Costs in Solvency II. The premium provision only allows for future expense cash flows. For those policies already in-force. Initial expenses such as up-front commission will have occurred in the past and so not been allowed in the premium provision. For this reason, initial expenses need only be allowed for in respect of uninspected business where these expenses have not yet been paid at the valuation date.

## **E.2 Technical provisions**

### **E.2.1 Value of Technical Provisions**

The Technical provisions are defined as the probability-weighted average of future cashflows, discounted to take into account the time value of money considering all possible future scenarios. Technical provisions are grouped into the following key components:

- Claims Provisions: Best Estimate of provisions relating to the earned exposure
- Premium Provisions: Best Estimate of provisions that relate to the unearned exposure
- Risk Margin: Additional provision to bring the best estimate to the level required to transfer the insurance obligations to a third party

31.12.2018 €	Claims Provision		Premium Provision		Risk Margin
	Gross BE	RI Recoverable	Gross BE	RI Recoverable	
<b>Medical expense</b>	1,925	1,482	26,502	5,750	774
<b>Income protection</b>	4,898	4,429	32,987	16,354	302
<b>Workers' compensation</b>	0	0	0	0	0
<b>MTPL</b>	569,364	0	675,685	0	57,086
<b>Other motor</b>	142,341	0	169,729	0	13,994
<b>Marine and transport</b>	0	0	65	0	1,004
<b>Fire and other PD</b>	18,967	73,430	471,818	251,194	3,096
<b>General liability</b>	160,243	13	251,514	17,171	20,868
<b>Credit and Suretyship</b>	0	0	0	0	0
<b>Legal expenses</b>	0	0	0	0	0
<b>Assistance</b>	0	0	0	0	0
<b>Miscellaneous</b>	0	0	12,073	5,140	382
<b>Total</b>	<b>897,739</b>	<b>79,353</b>	<b>1,640,372</b>	<b>295,609</b>	<b>97,507</b>

## ***E.2.2 Description of the bases, methods and main assumptions used***

### ***E.2.2.1 Claims Provision***

The provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. The components of the claims provision under IFRS are the Case by Case Estimates (OSLR), the Incurred But Not Reported (IBNR), the Incurred But Not Enough Reported (IBNER) and the reserve for Claims Handling Expenses. Under Solvency II, the reserves are discounted to allow for the time value of money.

Several methods have been applied to calculate this reserve namely the Chain Ladder on Paid and Incurred claims, the Loss Ratio method and the Bornhuetter Ferguson method. The methods applied, capture both the IBNR and IBNER reserves. The IBNER was determined by subtracting the IBNR calculation from the total reserve.

When triangulation methods are used, there are a number of issues to consider that may invalidate the underlying assumption that the future claims development is likely to be in line with the past claims development (i.e. Distortions caused by “Large Losses”, Changes in claims handling procedures, Changes in Claims reporting processes, One-off Claims Reviews, Changes in Reserving Policy, Changes in Legislation etc.)

Therefore, actuarial judgment was used during the reserving process rather than the mechanical application of a triangulation method to the data. In particular, considerable care should be taken in applying the method that prevents unusual and one-off aspects in the data which have a significant impact on the results.

In general, the development factors were chosen based on the average and weighted average of the development factors of the 10 previous accident years but also taking into account any trends of either deterioration or improvement during the last 3-4 accident years.

Due to the low volume of Motor claims, the data cannot be split into homogeneous groups (i.e. Bodily Injury, Property Damage to Third Party and Own Damage). Due to this limitation, credible statistical assessment at a sufficiently granular level cannot be performed. To increase the volume of the claims and thus the credibility of the results, all types of motor claims were considered together for the Motor valuation.

The small number of non-motor claims makes it difficult to apply any statistical modelling for the purpose of their valuation. Due to the small number of these claims we believe that the company should continue the practice of applying case estimates that are reviewed and adjusted frequently and appropriately. These reported case estimates can be considered robust and valid reserving basis.

### ***E.2.2.2 Premium Provision***

The calculation of the best estimate of the premium provision relates to all future cashflows arising from future events, in relation to unexpired policies. Such cash flows relate mostly to future claims, administration expenses and reinsurance.

Premium provision is determined on a prospective basis taking into account the expected cash inflows, cash outflows and time value of money. The main expected cash flows were estimated by applying an appropriate prospective combined ratio to the Unearned Premium Reserve.

On the basis of the data analysis, this methodology and its underlying model and assumptions are deemed to be realistic for each line of business. The conditions rendering this method valid are met, namely:

- it can be expected that the combined ratio, explained below, remains stable over the run-off period of the premium provision;
- a reliable estimate of the combined ratio can be made;

- the unearned premium provision is an adequate exposure measure for estimating future claims and expenses during the unexpired risk period.

The Combined Ratio is defined as the sum of the expense ratio, the claims ratio and the reinsurance cost ratio. This enables the claims forecast and the expense forecast to be modelled separately. For the purpose of this valuation we assumed that “Expenses”, under the Premium Provision, include all expense items, except acquisition costs as allocated to each line of business by the company.

The difference between the Premium Provision and the current UPR represents profits (losses if negative) that are expected to emerge during the remaining duration of unexpired policies.

#### ***E.2.2.3 Risk Margin***

The risk margin is equivalent to the amount that would be paid to another insurance company to take over the Company’s insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the Company’s reinsurance obligations over the lifetime thereof. This rate, called the Cost-of-Capital, is prescribed by EIOPA and currently stands at 6%.

#### ***E.2.2.4 Reinsurance Recoverables***

Reinsurance Recoverables represent the difference between Gross and Net provisions. For the Claim Provision, the reinsurance recoverables were determined as the reinsurers’ share on the current outstanding case by case reserves. For the Premium Provision, we have assumed zero reinsurance recoverables for classes with non-proportional reinsurance. Reduction of the reinsurance recoverables to allow for expected losses due to the default of counterparty has also applied

#### ***E.2.2.5 Discounting***

The payment pattern of the reserves, for each LoB, has been derived using the historical payment pattern, as observed in the Paid Claims triangles. The euro risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA, has been used for discounting. As expected, the impact of discounting was very small due to the short-term nature of the business and the prevailing low interest rates.

### ***E.2.3 Level of Uncertainty***

Ultimate claims, when fully settled, will turn out to be different from the results shown in this report. This uncertainty results from a number of sources and is normal for any actuarial investigation. Some of the sources contributing to uncertainty include:

- The inherent uncertainty in the process of statistical estimation
- The extent to which past development patterns are an indication of likely future development patterns
- Uncertainty in the level of future claims inflation, particularly bodily injury claims
- Uncertainty with regard to claim propensity and severity given the change in the mix of business experienced recently

To calculate the statistical uncertainty in the Motor business which represents 90% of the Net reserves, we used the Mack method, which is a generally accepted actuarial method.

In addition to the above, a number of methods have been used to calculate this Motor reserve (i.e. Chain Ladder on Paid and Incurred Claims, the Expected Loss Ratio method, the Bornhuetter Ferguson method and the Average Cost per Claim).

#### **E.2.4 Differences between Solvency II Valuation and IFRS Valuation**

SOLVENCY II €	CLAIMS PROVISION	PREMIUM PROVISION	RISK MARGIN
<b>Gross</b>	897,739	1,640,372	97,507
<b>RI Recoverable</b>	79,353	295,609	0
<b>Net</b>	818,386	1,344,763	97,507

IFRS €	CASE ESTIMATES	IBNR	IBNER	UPR	CHE
<b>Gross</b>	1,040,315	72,441	123,694	2,271,047	31,209
<b>RI</b>	68,505	10,726	0	783,861	0
<b>Net</b>	971,810	61,716	123,694	1,487,186	31,209

The main valuation principles of Solvency II leading to differences from reserves shown in the Financial Statements are:

- Removal of any implicit or explicit margin for prudence
- Allowance for time value of money through the discounting of future cash flows
- Allowance for the expected recoveries from the salvages and subrogation
- Allowance is possible for negative IBNER where it is expected that there will be a favourable development of case-by-case reserves
- Consideration of ENIDs (Events Not In Data) such as Binary and Extreme events
- In the calculation of the Premium Provision under Solvency II, an insurer may take credit for profits embedded in unexpired policies. Under Solvency I this is disallowed and any profits embedded in the UPR may not be recognised until the expiry of these contracts. An Additional Unexpired Risk Reserve (AURR) is mandatory only where it is positive but not when it is negative.
- The UPR/URR only allows for policies inforce at the valuation date. The Premium Provision needs to include all policies that the (re)insurer is obligated to, at the valuation date, including policies that have not yet incepted.
- There is no explicit allowance in the UPR/URR for ENIDs. Where an AURR is needed, it is sufficient for the URR calculation to allow for reasonably foreseeable events only.
- There is no concept of risk margin under the current IFRS valuation
- In addition to differences stemming from requirements to value in line with gross liabilities, there are also differences in requirements specific to the valuation of reinsurance. These include the requirement to allow for expected non-payment due to default or dispute.

#### **E.2.5 Additional Disclosures**

There was no material change in the methodology used when compared to 31 December 2016.

### E.3 Valuation of other liabilities

#### E.3.1 Value of other liabilities

31.12.2017 €	Solvency II	IFRS
<b>Liabilities</b>		
Deferred tax liabilities	543,101	543,101
Any other liabilities, not elsewhere shown	706,732	706,732

#### E.4 Any other information

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

## F. Capital Management

### F.1 Own Funds

#### **F.1.1 Objectives, policies and processes employed for managing its own funds**

The objective of capital management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management and BoD, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. As part of own funds management, the Company prepares annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a three-year projection of funding requirements and this helps focus actions for future funding.

#### **F.1.2 Information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period**

The following table shows the structure of own funds as at 31 December 2018 as well as at 31 December 2017

Own Funds €	Dec-18	Dec-17
Ordinary share capital	4,720,000	4,720,000
Reconciliation reserve	-227,517	-180,814
Total Basic Own Funds	<b>4,492,483</b>	<b>4,539,186</b>

#### **F.1.3 Eligible amount of own funds to cover SCR & MCR**

The composition of Own Funds as at 31.12.2018 and the classification into tiers is shown below:

Eligible Own Funds €	Total	Tier 1	Tier 2	Tier 3
Ordinary share capital (net of own shares)	4,720,000	4,720,000	0	0
Reconciliation reserve	-227,517	-227,517	0	0
Total Eligible Own Funds	<b>4,492,483</b>	<b>4,492,483</b>	<b>0</b>	<b>0</b>

All of the above own funds items are eligible to cover the SCR and MCR.

#### **F.1.4 Material terms and conditions of the main items of own funds held by the undertaking**

As shown above, own funds are only composed of Tier 1 ordinary share capital and retained profits and this is not expected to change over the projection horizon. Consequently, these own funds items have no maturity or call dates and therefore their duration expands beyond the duration of liabilities

### ***F.1.5 IFRS Equity vs Own Funds***

The following summary table shows the comparisons and movement in the IFRS and Solvency II valuation of assets, liabilities and Own Funds.

	<b>IFRS €</b>	<b>Solvency II €</b>	<b>Movement €</b>
Total Assets	9,757,145	8,377,935	-1,379,210
Total Liabilities	5,011,239	3,885,452	-1,125,787
Total Own Funds	4,745,907	4,492,483	-253,424

The movement in the valuation of assets and liabilities arises from the differences in the valuation of IFRS and Solvency II standards, below:

Deferred Acquisition Cost (DAC) is not included under Solvency II

Differences in gross technical provisions and reinsurance recoverables (as explained in the previous section)

Allowance for the expected recoveries from salvages and subrogation in the Technical Provisions

### ***F.1.6 The expected developments of the undertaking's own funds over its business planning period***

The development of own funds over the company's business planning period have been assessed in most recent ORSA projections

### ***F.1.7 Whether there is any intention to repay or redeem any own-fund item***

There is no intention to repay or redeem any own-fund item.

### ***F.1.8 Plans to raise additional own funds***

There are no plans for capital injection over the 3-year business planning horizon unless needed.

## **F.2 Solvency Capital Requirement and Minimum Capital Requirement**

### ***F.2.1 Amounts of SCR and MCR***

As at 31 December 2018 the SCR of the company was calculated at €2,323,732 (€ 2,215,503 in 2017) and the MCR at €3,700,000 (€3,700,000 in 2017).

### **F.2.2 Breakdown of SCR by risk modules**

The following table shows the SCR split by risk modules:

<b>Solvency Capital Requirement</b>	<b>2018 €</b>	<b>2017 €</b>
Market risk	1,366,050	1,381,310
Counterparty default risk	700,300	594,642
Life Underwriting risks	0	0
Health underwriting risk	106,029	106,807
Non-Life underwriting risk	841,274	763,331
<b>Sum of risk components</b>	<b>3,013,653</b>	<b>2,846,091</b>
<b>Diversification effects</b>	<b>-816,582</b>	<b>-759,701</b>
<b>Diversified risk</b>	<b>2,197,071</b>	<b>2,086,390</b>
Intangible asset risk	0	0
Basic SCR	2,197,071	2,086,390
Operational risk	126,661	129,114
Adjustments	0	0
SCR	<b>2,323,732</b>	<b>2,215,503</b>

### **F.2.3 Simplifications**

No simplifications have been used for any of the modules or sub-modules of the SCR.

### **F.2.4 Undertaking-specific parameters**

The Company has not used undertaking-specific parameters for any of the parameters of the standard formula.

### **F.2.5 Information on the inputs used to calculate the MCR**

The inputs used in the calculation of the MCR are presented in the table below:

<b>Minimum Capital Requirement</b>	<b>2018 €</b>	<b>2017 €</b>
Linear MCR	470,327	410,128
SCR	2,323,732	2,215,503
MCR cap	1,045,679	996,977
MCR floor	580,933	553,876
Combined MCR	580,933	553,876
Absolute floor of the MCR	3,700,000	3,700,000
MCR	<b>3,700,000</b>	<b>3,700,000</b>

### ***F.2.6 The expected development of the undertaking's SCR and MCR over the business planning period***

Over the business planning horizon, the Company expects to further strengthen its current levels of capital adequacy.

Finally, the MCR is expected to remain at the same levels over the business planning horizon.

## **F.3 Non-compliance with the MCR and non-compliance with the SCR**

### ***F.3.1 Non-compliance with the MCR & SCR***

The company has been continuously compliant with the both the MCR and the SCR throughout the year.

### ***F.3.2 Any reasonably foreseeable risk of non-compliance with the MCR or SCR***

Based on the projections of the solvency position performed as part of the ORSA and on the resilience the Company has shown to the stress tests performed, there is no reasonably foreseeable risk of non-compliance with the MCR or SCR.

### ***F.3.3 Plans to ensure compliance with SCR and MCR is maintained***

The Company will closely monitor actual experience compared to what was assumed in the ORSA projections. Should any material deviation occur, an investigation will take place to identify the underlying source and take corrective actions.

Moreover, ORSA projections will continue to be performed every year so as to ensure each and every year that the business strategy of the Company will be in line with its target solvency ratio.

Despite being sufficiently capitalised (based on the above projections), a medium-term capital management plan has been developed which includes realistic plans as to how to raise additional capital if and when required.

# APPENDICES

# Appendix A: Risk Appetite Statement

The Company manages its risk appetite through a set of qualitative and quantitative statements. Furthermore, the risk appetite is enhanced through a set of risk tolerance limits. These limits are set, not such that they are likely to be fully used, but rather so that limited exceptions are reported.

Limits are established at three levels within the Company:

- The aggregate level looking at the overall risk profile of the Company
- The risk category level that sets the aggregate risk appetite at the risk level for each of the key risk categories
- Exposure level limits for each risk

The aggregate risk limits and the risk category limits are to be used by the RMF for the monitoring and reporting of overall risk exposure and by the BoD and Risk Committee for making decisions on the Company's risk profile.

Further cascading of limits to the exposure level is to be used by risk taking functions in their day to day operations to manage their exposures and can be found in the sub-policies for the specific risk classes.

## Risk Appetite Statement

### **Capital**

The Company aims to maintain sufficient available capital to adequately cover all risks faced by the Company and to meet regulatory solvency requirements.

The Company aims to maintain an optimal capital buffer that is at all times in excess of 15% of the SCR (or MCR whichever is higher) to cover its exposure to all risks within its risk profile and meet unexpected obligations.

### **Earnings**

The Company aims to maintain low earnings volatility.

The Company has no appetite to write new business with a low return.

### **Credit Risk**

The Company aims to maintain sufficient solvency to meet regulatory and internal requirements in normal and stressed conditions.

At all times the capital allocated to credit risk should not fall below the Pillar 1 capital calculated in the SCR calculation for credit risk (regulatory minimum).

### **Large exposures to single counterparty or group of connected counterparties**

The Company aims to limit the risk to a single counterparty or group of connected counterparties to levels that diversify the Company's credit risk and eliminate large exposures.

The Company's capital should be protected from erosion due to a credit loss from a single large counterparty default.

Concentration risk should not pose undue risks to the Company's solvency position.

### **Investment Risk**

The Company aims to maintain sufficient solvency to meet regulatory and internal requirements.

Investment activities should not pose undue risks to capital.

### **Investment diversification**

The Company's investment strategy should be sufficiently diversified across asset classes, counterparties, industrial sectors and geographical areas.

### **Operational Risk**

The Company will take appropriate and timely steps to prevent undue operational risk and financial loss due to weaknesses in processes, people and systems.

Appropriate controls and mitigation, via the use of insurance should be used to mitigate the impact of operational losses above the single and aggregate operational risk loss thresholds.

### **Underwriting Risk and Reserving Risk**

The Company aims to maintain sufficient solvency to meet regulatory and internal requirements. Underwriting activities should not pose undue risks to capital. Reserving risk should not pose undue risks to the Company's solvency position.

#### **Asset – Liability Risk**

The Company aims to maintain sufficient solvency to meet regulatory and internal requirements. ALM risk should not pose undue risks to the Company's solvency position

#### **Liquidity Risk**

The Company aims to maintain sufficient liquidity to manage its day-to-day operations in the short, medium and long term as well as a sufficient buffer of liquid assets for covering sudden liquidity demands that may arise.

- The Company maintains a pool of liquid assets (that represents at least 10% of total assets) that is used to meet short term liquidity demands (up to 3 months) as well as a buffer for unexpected cash demands
- The Company's liquid assets are regularly reviewed and it is ensured that the value of the liquid asset buffer is stable under normal and stressed market conditions

#### **Strategic Risk**

The Company has low tolerance to strategic risk.

The Company's strategy takes consideration of its risk profile and risk appetite and the impact of risks are managed through stress testing and management actions.

Variation above the tolerance levels should be resolved by management actions and review of planning.

#### **Reputational Risk**

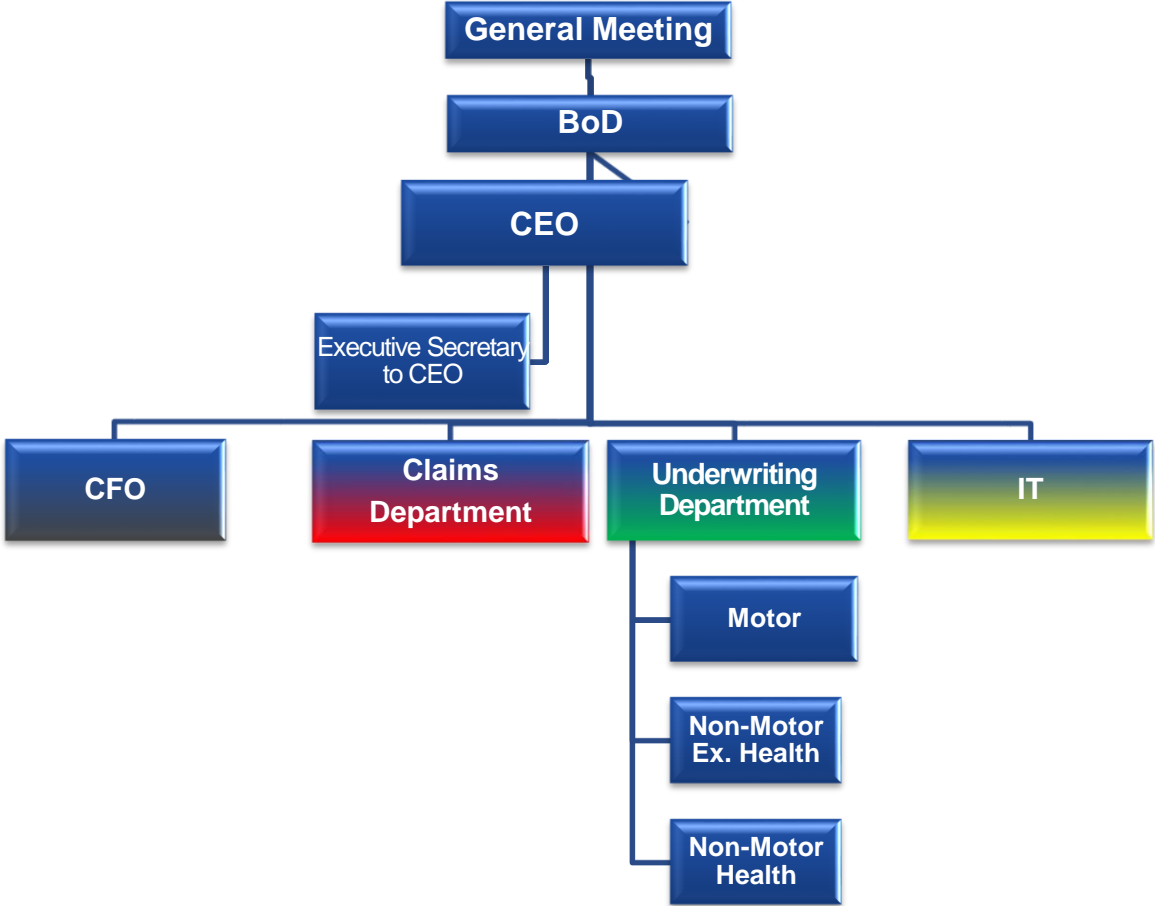
The Company seeks to protect its reputation at all times and seeks to ensure that its brand is associated with a consistent quality across the business lines.

There is zero tolerance to financial loss due to reputational reasons.

The Company assesses the reputation risk of all new business and products and does not write business which has an increased potential of reputational damage.

The Company will not tolerate any unauthorised use of its brand.

# Appendix B: The Company's Organisational Structure



# Appendix C: QRT Templates

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

	Solvency II value
	C0010
<b>Assets</b>	
Intangible assets	R0030 -
Deferred tax assets	R0040 -
Pension benefit surplus	R0050 -
Property, plant & equipment held for own use	R0060 3,828,707
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 1,814,858
Property (other than for own use)	R0080 1,005,350
Holdings in related undertakings, including participations	R0090 -
Equities	R0100 32,526
Equities - listed	R0110 32,526
Equities - unlisted	R0120 -
Bonds	R0130 -
Government Bonds	R0140 -
Corporate Bonds	R0150 -
Structured notes	R0160 -
Collateralised securities	R0170 -
Collective Investments Undertakings	R0180 2,322
Derivatives	R0190 -
Deposits other than cash equivalents	R0200 768,276
Other investments	R0210 6,384
Assets held for index-linked and unit-linked contracts	R0220 -
Loans and mortgages	R0230 -
Loans on policies	R0240 -
Loans and mortgages to individuals	R0250 -
Other loans and mortgages	R0260 -
Reinsurance recoverables from:	R0270 374,962
Non-life and health similar to non-life	R0280 374,962
Non-life excluding health	R0290 346,948
Health similar to non-life	R0300 28,015
Life and health similar to life, excluding health and index-linked and unit-linked	R0310 -
Health similar to life	R0320 -
Life excluding health and index-linked and unit-linked	R0330 -
Life index-linked and unit-linked	R0340 -
Deposits to cedants	R0350 -
Insurance and intermediaries receivables	R0360 1,554,743
Reinsurance receivables	R0370 44,359
Receivables (trade, not insurance)	R0380 -
Own shares (held directly)	R0390 -
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400 -
Cash and cash equivalents	R0410 660,705
Any other assets, not elsewhere shown	R0420 99,599
<b>Total assets</b>	<b>R0500 8,377,935</b>
<b>Liabilities</b>	
Technical provisions – non-life	R0510 2,635,618
Technical provisions – non-life (excluding health)	R0520 2,568,231
Technical provisions calculated as a whole	R0530 -
Best Estimate	R0540 2,471,800
Risk margin	R0550 96,430
Technical provisions - health (similar to non-life)	R0560 67,388
Technical provisions calculated as a whole	R0570 -
Best Estimate	R0580 66,311
Risk margin	R0590 1,077
Technical provisions - life (excluding index-linked and unit-linked)	R0600 -
Technical provisions - health (similar to life)	R0610 -
Technical provisions calculated as a whole	R0620 -
Best Estimate	R0630 -
Risk margin	R0640 -
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650 -
Technical provisions calculated as a whole	R0660 -
Best Estimate	R0670 -
Risk margin	R0680 -
Technical provisions – index-linked and unit-linked	R0690 -
Technical provisions calculated as a whole	R0700 -
Best Estimate	R0710 -
Risk margin	R0720 -
Contingent liabilities	R0740 -
Provisions other than technical provisions	R0750 -
Pension benefit obligations	R0760 -
Deposits from reinsurers	R0770 -
Deferred tax liabilities	R0780 543,101
Derivatives	R0790 -
Debts owed to credit institutions	R0800 -
Financial liabilities other than debts owed to credit institutions	R0810 -
Insurance & intermediaries payables	R0820 -
Reinsurance payables	R0830 -
Payables (trade, not insurance)	R0840 -
Subordinated liabilities	R0850 -
Subordinated liabilities not in Basic Own Funds	R0860 -
Subordinated liabilities in Basic Own Funds	R0870 -
Any other liabilities, not elsewhere shown	R0880 706,732
<b>Total liabilities</b>	<b>R0900 3,885,452</b>
<b>Excess of assets over liabilities</b>	<b>R1000 4,492,483</b>

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	
<b>Premiums written</b>																	
Gross - Direct Business	R0110	80,481	73,217	-	1,949,982	487,495	196,293	1,270,403	615,789	-	-	-	31,337				4,704,998
Gross - Proportional reinsurance accepted	R0120	-	-	-	-	-	-	-	-	-	-	-	-				-
Gross - Non-proportional reinsurance accepted	R0130																
Reinsurers' share	R0140	26,093	60,846	-	115,556	28,889	176,710	1,051,429	65,259	-	-	-	20,658				1,545,440
Net	R0200	54,388	12,371	-	1,834,426	458,606	19,583	218,974	550,530	-	-	-	10,679				3,159,558
<b>Premiums earned</b>																	
Gross - Direct Business	R0210	69,751	74,445	-	1,776,808	444,202	193,358	1,129,760	509,896	-	-	-	23,810				4,222,030
Gross - Proportional reinsurance accepted	R0220	-	-	-	-	-	-	-	-	-	-	-	-				-
Gross - Non-proportional reinsurance accepted	R0230																
Reinsurers' share	R0240	28,315	65,514	-	128,394	32,099	176,710	983,425	59,401	-	-	-	16,741				1,490,599
Net	R0300	41,436	8,931	-	1,648,413	412,103	16,649	146,335	450,495	-	-	-	7,069				2,731,431
<b>Claims incurred</b>																	
Gross - Direct Business	R0310	28,379	15,934	-	1,073,987	268,497	1,477	338,020	102,296	-	-	-	-				1,828,591
Gross - Proportional reinsurance accepted	R0320	-	-	-	-	-	-	-	-	-	-	-	-				-
Gross - Non-proportional reinsurance accepted	R0330																
Reinsurers' share	R0340	23,005	14,693	-	-	-	788	228,040	-	-	-	-	-				266,526
Net	R0400	5,374	1,241	-	1,073,987	268,497	689	109,980	102,296	-	-	-	-				1,562,066
<b>Changes in other technical provisions</b>																	
Gross - Direct Business	R0410	7,896	4,789	-	1,098,089	274,522	689	119,132	105,999	-	-	-	4,000				1,615,116
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-				-
Gross - Non-proportional reinsurance accepted	R0430																
Reinsurers' share	R0440																
Net	R0500	7,896	4,789	-	1,098,089	274,522	689	119,132	105,999	-	-	-	4,000				1,615,116
<b>Expenses incurred</b>	R0550	19,997	17,313	-	983,011	245,753	27,222	325,542	268,750	-	-	-	7,480				1,895,069
<b>Other expenses</b>	R1200																121,622
<b>Total expenses</b>	R1300																2,016,691

## Annex I

## S.05.02.01

## Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	<b>R0010</b>	<del>C0080</del>						<del>C0140</del>
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
Gross - Direct Business	<b>R0110</b>	4,704,998						4,704,998
Gross - Proportional reinsurance accepted	<b>R0120</b>	-						-
Gross - Non-proportional reinsurance accepted	<b>R0130</b>	-						-
Reinsurers' share	<b>R0140</b>	1,545,440						1,545,440
Net	<b>R0200</b>	3,159,558						3,159,558
<b>Premiums earned</b>								
Gross - Direct Business	<b>R0210</b>	4,222,030						4,222,030
Gross - Proportional reinsurance accepted	<b>R0220</b>	-						-
Gross - Non-proportional reinsurance accepted	<b>R0230</b>	-						-
Reinsurers' share	<b>R0240</b>	1,490,599						1,490,599
Net	<b>R0300</b>	2,731,431						2,731,431
<b>Claims incurred</b>								
Gross - Direct Business	<b>R0310</b>	1,828,591						1,828,591
Gross - Proportional reinsurance accepted	<b>R0320</b>	-						-
Gross - Non-proportional reinsurance accepted	<b>R0330</b>	-						-
Reinsurers' share	<b>R0340</b>	266,526						266,526
Net	<b>R0400</b>	1,562,066						1,562,066
<b>Changes in other technical provisions</b>								
Gross - Direct Business	<b>R0410</b>	1,615,116						1,615,116
Gross - Proportional reinsurance accepted	<b>R0420</b>	-						-
Gross - Non- proportional reinsurance accepted	<b>R0430</b>	-						-
Reinsurers' share	<b>R0440</b>	-						-
Net	<b>R0500</b>	1,615,116						1,615,116
<b>Expenses incurred</b>	<b>R0550</b>	1,895,069						1,895,069
<b>Other expenses</b>	<b>R1200</b>	<del>C0080</del>	<del>C0090</del>	<del>C0100</del>	<del>C0110</del>	<del>C0120</del>	<del>C0130</del>	121,622
<b>Total expenses</b>	<b>R1300</b>	1,895,069						2,016,691



9	10	11	12	13	14	15	16	17	18	
insurance					Accepted non-proportional reinsurance					Total Non-Life obligation
General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance		
C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	
251,514	-	-	-	12,073	-	-	-	-	1,640,372	
17,171	-	-	-	5,140	-	-	-	-	295,609	
234,343	-	-	-	6,933	-	-	-	-	1,344,763	
160,243	-	-	-	-	-	-	-	-	897,739	
13	-	-	-	-	-	-	-	-	79,353	
160,231	-	-	-	-	-	-	-	-	818,386	
411,757	-	-	-	12,073	-	-	-	-	2,538,111	
394,574	-	-	-	6,933	-	-	-	-	2,163,149	
20,868	-	-	-	382	-	-	-	-	97,507	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
432,625	-	-	-	12,455	-	-	-	-	2,635,618	
17,183	-	-	-	5,140	-	-	-	-	374,962	
415,442	-	-	-	7,315	-	-	-	-	2,260,656	

Annex I  
S.19.01.21  
Non-life insurance claims

Total Non-Life Business

Accident year / Underwriting year 

Z0010	Acc
-------	-----

Gross Claims Paid (non-cumulative)  
(absolute amount)

Development year

Year	Development year											In Current year	Sum of years (cumulative)			
	0	1	2	3	4	5	6	7	8	9	10&+					
Prior	R0100															
N-9	R0160	1,583,445	319,598	1,673	702	60,129	119,307	-	738	1,890	650	17,758				
N-8	R0170	1,513,025	422,810	6,509	67,068	64,862	12,178	21,958	42,809	60,667						
N-7	R0180	1,639,018	333,960	158,007	94,291	133,865	89,065	35,769	81,825							
N-6	R0190	1,178,134	270,369	70,827	15,367	27,210	30,719	13,193								
N-5	R0200	1,047,513	187,049	-	2,126	16,348	26,792	2,975								
N-4	R0210	1,035,163	199,525		123,259	33,970	8,291									
N-3	R0220	1,100,301	188,341		49,462	21,106										
N-2	R0230	1,036,204	190,564		10,123											
N-1	R0240	935,403	127,065													
N	R0250	1,151,194														
Total	R0260												1,494,197		17,801,922	

**Gross undiscounted Best Estimate Claims Provisions**  
(absolute amount)

Year	Development year											Year end (discounted data)			
	0	1	2	3	4	5	6	7	8	9	10&+	C0360			
Prior	R0100												R0100	60,648	
N-9	R0160	-	-	-	-	-	-	-	14,692	19,404	27,034		R0160	26,701	
N-8	R0170	-	-	-	-	-	-	54,797	35,074	20,968			R0170	18,701	
N-7	R0180	-	-	-	-	-	160,349	158,483	163,184				R0180	150,312	
N-6	R0190	-	-	-	-	59,480	50,102	55,919					R0190	49,873	
N-5	R0200	-	-	-	44,779	56,225	27,563						R0200	25,729	
N-4	R0210	-	-	134,430	112,857	82,449							R0210	74,711	
N-3	R0220	-	117,429	94,618	68,388								R0220	63,032	
N-2	R0230	281,753	147,760	111,592									R0230	98,436	
N-1	R0240	190,903	83,644										R0240	73,884	
N	R0250	200,741											R0250	184,542	
													Total	R0260	826,568



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

Market risk  
Counterparty default risk  
Life underwriting risk  
Health underwriting risk  
Non-life underwriting risk  
Diversification  
Intangible asset risk  
**Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

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

**Solvency Capital Requirement excluding capital add-on**

Capital add-on already set

**Solvency capital requirement**

**Other information on SCR**

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

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	1,366,050		
R0020	700,300		
R0030	-		
R0040	106,029		
R0050	841,274		
R0060	- 816,582	0	
R0070	-		
R0100	2,197,071		

	C0100
R0130	126,661
R0140	-
R0150	-
R0160	-
R0200	2,323,732
R0210	-
R0220	2,323,732
R0400	-
R0410	-
R0420	-
R0430	-
R0440	-

**Annex I**

**S.28.01.01**

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

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

	<b>C0010</b>
MCR <sub>NL</sub> Result	<b>R0010</b> 470,327

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	<b>C0020</b>	<b>C0030</b>
Medical expense insurance and proportional reinsurance	<b>R0020</b> 21,195	48,458
Income protection insurance and proportional reinsurance	<b>R0030</b> 17,102	10,615
Workers' compensation insurance and proportional reinsurance	<b>R0040</b> -	-
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b> 1,245,049	1,698,438
Other motor insurance and proportional reinsurance	<b>R0060</b> 312,070	424,609
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b> 65	16,649
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b> 166,161	169,586
General liability insurance and proportional reinsurance	<b>R0090</b> 394,574	528,475
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b> -	-
Legal expenses insurance and proportional reinsurance	<b>R0110</b> -	-
Assistance and proportional reinsurance	<b>R0120</b> -	-
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b> 6,933	10,990
Non-proportional health reinsurance	<b>R0140</b> -	-
Non-proportional casualty reinsurance	<b>R0150</b> -	-
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b> -	-
Non-proportional property reinsurance	<b>R0170</b> -	-

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

	<b>C0040</b>
MCR <sub>L</sub> Result	<b>R0200</b>

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

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b> 470,327
SCR	<b>R0310</b> 2,323,732
MCR cap	<b>R0320</b> 1,045,679
MCR floor	<b>R0330</b> 580,933
Combined MCR	<b>R0340</b> 580,933
Absolute floor of the MCR	<b>R0350</b> 3,700,000
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b> 3,700,000

# Appendix D: Audit Report



Building a better  
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## Independent Auditor's Report

To the Board of Directors of Asfalistiki Etaireia i "Kentriki" Limited

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

### Opinion

We have audited the following Solvency II Quantitative Reporting Templates ("QRTs") contained in Annex I to Commission Implementing Regulation (EU) No 2015/2452 of 2 December 2015, of Asfalistiki Etaireia i "Kentriki" Limited (the "Company"), prepared as at 31 December 2018:

- S.02.01.02 - Balance sheet
- S.17.01.02 - Non-Life Technical Provisions
- S.23.01.01 - Own funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
- S.28.02.01 - Minimum Capital Requirement - Both life and non-life insurance activity

The above QRTs are collectively referred as "the relevant QRTs of the Solvency and Financial Condition Report".

In our opinion, the information in the relevant QRTs of the Solvency and Financial Condition Report as at 31 December 2018 is prepared, in all material respects, in accordance with the Insurance and Reinsurance Services and other Related Issues Law of 2016, the Commission Delegated Regulation (EU) 2015/35 and Solvency II Technical Standards and Guidelines (collectively "the Framework").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the relevant QRTs of the Solvency and Financial Condition Report in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

The Board of Directors is responsible for the Other information. The Other information comprises certain narrative sections and certain QRTs of the Solvency and Financial Condition Report as listed below:

### Narrative sections:

- Business and performance
- Valuation for solvency purposes
- Capital management

QRTs (contained in Annex I to Commission Implementing Regulation (EU) No 2015/2452 of 2 December 2015):

- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.19.01.21 - Non-Life insurance claims

Our opinion on the relevant QRTs of the Solvency and Financial Condition Report does not cover the Other information listed above and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Board of Directors for the Solvency and Financial Condition Report**

The Board of Directors is responsible for the preparation of the Solvency and Financial Condition Report in accordance with the Framework.

The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

In preparing the Solvency and Financial Condition Report, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report**

Our objectives are to obtain reasonable assurance about whether the relevant QRTs of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Solvency and Financial Condition Report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the relevant QRTs of the Solvency and Financial Condition Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of the basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Solvency and Financial Condition Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



## Other Matter

Our report is intended solely for the Board of Directors of the Company and should not be used by any other parties. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

A handwritten signature in black ink, appearing to be 'Savvas Pentaris', written over a horizontal line.

Savvas Pentaris  
Certified Public Accountant and Registered Auditor  
for and on behalf of

Ernst & Young Cyprus Limited  
Certified Public Accountants and Registered Auditors

Nicosia  
22 April 2019