

# Solvency and Financial Condition Report



## Trust International Insurance Company (Cyprus) Ltd



Report for year ending 31 December 2018

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## Executive Summary

Trust Cyprus was established in 1990 and provided reinsurance and management services to the Direct Insurance Companies of Nest Group. In 2003, Trust Insurance Cyprus acquired the license to exercise Insurance services in Cyprus and in August 2009 with a new Board of Directors and Management Team, the Company began its local operations.

On the 1<sup>st</sup> of January 2016 Trust Cyprus implemented the Solvency II (SII) regime, following several amendments in the policies and procedures of the Company in order to meet Solvency II requirements.

Based on the requirements of SII the Company has to provide the Solvency and Financial Condition Report (SFCR), a report that will be made available to the public describing the performance of the Company for the relevant year end.

The SFCR is produced as per the requirements of articles 290 – 302 and Annex XX of the Commission Delegated Regulation (EU) 2015/35 hereafter referred to as “**Delegated Acts**” of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The articles and annexes provide directions on the content and structure of this report as follows:

Table 0-1: Content and structure of SFCR

Section heading	Article	Description of contents
1. Business and performance	293	Provides basic information on the Company and gives a summary of business performance over the reporting year.
2. System of governance	294	Provides organisational information on the Company including committee structure, responsibilities of those committees and details of the processes used to manage risks in the Company.
3. Risk profile	295	Provides qualitative and quantitative information regarding the risks that the Company faces.
4. Valuation for Solvency purposes	296	Provides values for the Company's assets and liabilities calculated in accordance with accounting rules and solvency rules, gives details on the assumptions used to calculate these valuations and provides information on the differences between them.
5. Capital management	297	Provides details on the regulatory capital requirements that the Company must hold in line with Solvency II regulations and information on the Company's excess assets not required to meet its liabilities.

The report forms part of the SII public disclosures of Trust International Insurance Company (Cyprus) Ltd hereafter referred to as the “**Company**”.

The SFCR was approved by the Board of Directors (BOD) of the Company.

The SFCR was approved by the Company Auditors.

Moreover, the SFCR is a public document and the Company is required to disclose this document on its official website after it has been audited and approved by the external auditors. The Company will also provide a copy of this report to the Insurance Company Control Service (ICCS).

The reference date of the report is the 31<sup>st</sup> of December 2018 hereafter referred to as the “**valuation date**”.

All quoted results are in Euros (€).

This is the third SFCR. The previous SFCR was produced as at the 31<sup>st</sup> of December 2017 hereafter referred to as the “**previous valuation date**”.

A summary of the report is provided below.

### • Business Performance

The underwriting profit of the Company as at the valuation date is as follows:

	€ '000 2018				
	Motor	Property	Medical	Other	Total
Gross Written premium	18,313	6,236	5,633	5,094	35,276
Net Earned Premium	16,495	1,935	5,370	4,333	28,133
Net Claims incurred	(9,123)	(518)	(4,850)	(1,515)	(16,006)
Net Commissions and Acquisition Costs	(4,149)	156	(602)	(641)	(5,236)
Administrative Expenses	(2,577)	(1,324)	(626)	(1,097)	(5,624)
<b>Underwriting Profit</b>	<b>646</b>	<b>249</b>	<b>(708)</b>	<b>1,080</b>	<b>1,267</b>

The investment performance of the Company as at the valuation date is as follows:

	Euros '000 2018
Interest income from term deposits with Banks	109
Interest income from Government bonds	59
Interest income from Corporate bonds	258
Interest income from Structured products	26
Dividend income from Equity shares	10
Rental income from Investment properties	96
Profit on sale of Structured products	10
Change in the fair value of Investment properties	637
<b>Total income</b>	<b>1,205</b>
Change in the fair value of investments at fair value through profit and loss (Structured products, Equity shares)	(65)
Investment portfolio advisory fees	(44)
Investment portfolio custody fees	(16)
Expenses for Investment properties	(55)
Loss on sale of Corporate bonds	(39)
Loss on sale of Equity shares	(122)
<b>Total losses</b>	<b>(341)</b>

The Business performance of the Company is further analysed in section A of this report.

## • System of governance

The Company is governed by the BOD which consists of six non-executive members and one executive member.

The BOD has established the following Board Committees:

- Risk Committee
- Audit Committee
- Nomination and Remuneration Committee

Moreover, the Company has established the following functions to ensure effective oversight of its operations, in accordance with the requirements of Solvency II for an Internal Control System:

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

To assess the fitness of the function holders and the committees, the Company has laid down its requirements in the Fit and Proper policy.

The Company has also defined its own risk management system and performs an Own Risk and Solvency Assessment (ORSA) at least once a year.

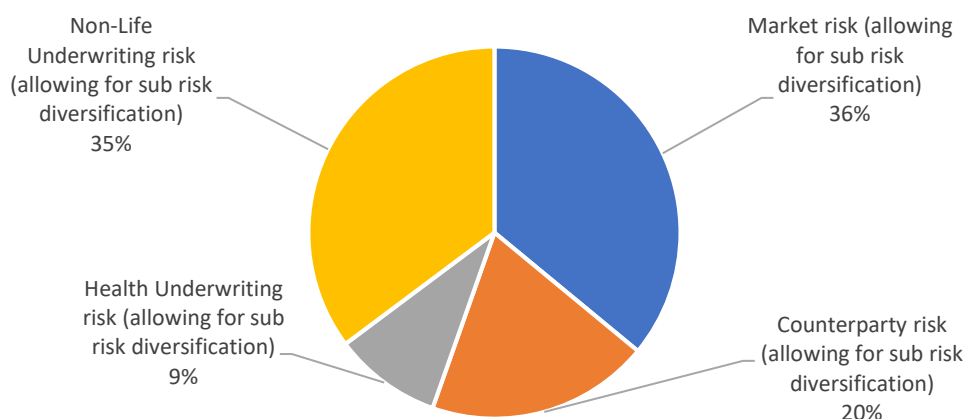
The System of governance of the Company is further analysed in section B of this report.

## • Risk profile

The Company assesses its risks using the standard model of Solvency II.

The diagram that follows summarizes the risk profile of the Company as at the valuation date. Based on the type of business written and the asset exposures of the Company, it is exposed primarily to Market risk and Underwriting risk (Non-Life and Health). The Company is also exposed to Counterparty risk to a lower extent:

Figure 0-1: Company Risk profile 2018



The Risk profile of the Company is further analysed in section C of this report.

## • Valuation for Solvency Purposes

As at the valuation date the total value of Company assets is €65.9M on an IFRS basis and €61.2M on a SII basis. The difference in the value of assets between the two bases is fully explained by the exclusion of "Other Intangible Assets" and "Deferred Acquisition Costs" and the revaluation of the "Reinsurance Recoverables".

The table below shows the company's liabilities as at the valuation date, both on an IFRS basis and SII basis. The starting point in calculating the SII technical provisions is the IFRS liabilities. Thereafter the IFRS liabilities are adjusted as follows:

Table 0-2: Reconciliation between SII and IFRS Liabilities – 2018

Item	€'000 2018
<b>IFRS Liabilities</b>	<b>36,867</b>
Less Release of UPR from the use of expected loss ratios	-6,260
Plus allowances for future expenses	1,591
Less Release of prudence in the Incurred But not Reported provisions	-483
Less Release of prudence in the claim settlement costs	-98
Plus Discounting	131
Plus Risk Margin	729
<b>SII Technical provisions</b>	<b>32,477</b>

The valuation for solvency purposes of the Company is further analysed in section D of this report.

## • Capital management

As at the valuation date the Company has enough available capital to cover its Required Capital approximately by 1.4 times. Under SII, available capital is called the Own Funds.

The exact coverage ratio of the Company is 138.55% as at the valuation date and this is analysed as follows:

Table 0-3: SCR coverage ratio 2018

		€ '000 31/12/2018	Calculation
(a)	Assets	61,238	
(b)	Liabilities	37,804	
(c)	Available capital (Own Funds)	23,434	(a) – (b)
(d)	Capital Requirements (SCR)	16,913	
(e)	Free Surplus	6,521	(c) – (d)
(f)	Coverage ratio	138.55%	(c) / (d)

Under SII all insurance entities must satisfy at any point in time the requirements of having sufficient available capital to meet the Minimum Capital Requirement (MCR) to retain its licence to sell insurance business in Cyprus. As at the valuation date, the MCR of the Company was determined to be €4.8m which means that the Company needs to have at least €4.8m of available capital (own funds) to retain its licence to sell insurance business in Cyprus. Given its available capital is at a level of €21.8m, the Company can cover its minimum capital requirement by approximately 4.9 times.



The actual minimum capital coverage ratio is 486% and this is analysed as follows:

Table 0-4: MCR coverage ratio 2018

		'000 31/12/2018	Calculation
(a)	Linear Minimum Capital Requirement	4,819	
(b)	Available capital (Own Funds)	23,433	
(c)	Solvency Capital Requirements (SCR)	16,913	
(d)	Minimum Capital Requirement cap	7,611	45% x (c)
(e)	Minimum Capital Requirement floor	4,228	25% x (c)
(f)	Minimum Capital Requirement absolute floor	3,700	Defined by Regulation
(g)	Final Minimum Capital Requirement	4,819	Max( (a) , (f) )
(h)	Minimum Capital Requirement Coverage	486%	(b) / (g)

The Capital management of the Company is further analysed in section E of this report.

Annex A, shows the quantitative templates submitted to the local Regulator on behalf of the Company for the valuation date.

The following templates are reproduced in this Annex:

Table 0-5: Annual QRTs 2018

Code	Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
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 non-life insurance or reinsurance activity

# A. Business and Performance



This section of the report is produced as per the requirements of **Article 293: Business and Performance**.

The section provides an analysis of the following:

- Business
- Underwriting Performance
- Investment Performance
- Performance on any other activities
- Any other information

## **A. Business and Performance**

### **A.1. Business**

Trust Insurance Cyprus was established in 1990 and provided reinsurance and management services to the Direct Insurance Companies of Nest Group. In 2003, Trust Insurance Cyprus acquired the license to exercise Insurance services in Cyprus and in August 2009 with a new Board of Directors and Management Team, the Company began its local operations.

#### **A.1.a. Name and legal form of the Company**

The name of the undertaking is Trust International Insurance Company (Cyprus) Ltd. This is a privately-owned limited liability company registered as a local insurance company in 2003.

The registered office is:

284 Archbishop Makarios III Avenue  
Fortuna Court Block B, 2nd floor  
3105 Limassol, Cyprus

#### **A.1.b. Supervisory Authority Responsible for Financial Supervision**

The Supervisory Authority responsible for the financial supervision of the Company is the Insurance Companies Control Service, a unit that belongs to the Cyprus Ministry of Finance.

The contact details of the unit are as follows:

Insurance Companies Control Service  
P.O. Box 23364,  
1682 Nicosia

Although a member of the Trust Group which belongs to the Nest Investment (Cyprus) Ltd group, the Company reports as a solo entity to the Cyprus Insurance Companies Control Service i.e. there is no Group Supervisor.

#### **A.1.c. External Auditor of the Company**

The Company's external Auditor is PwC.

The contact details of the auditor are as follows:

PwC Central  
43 Demostheni Severi Avenue  
CY-1080, Nicosia,  
Cyprus

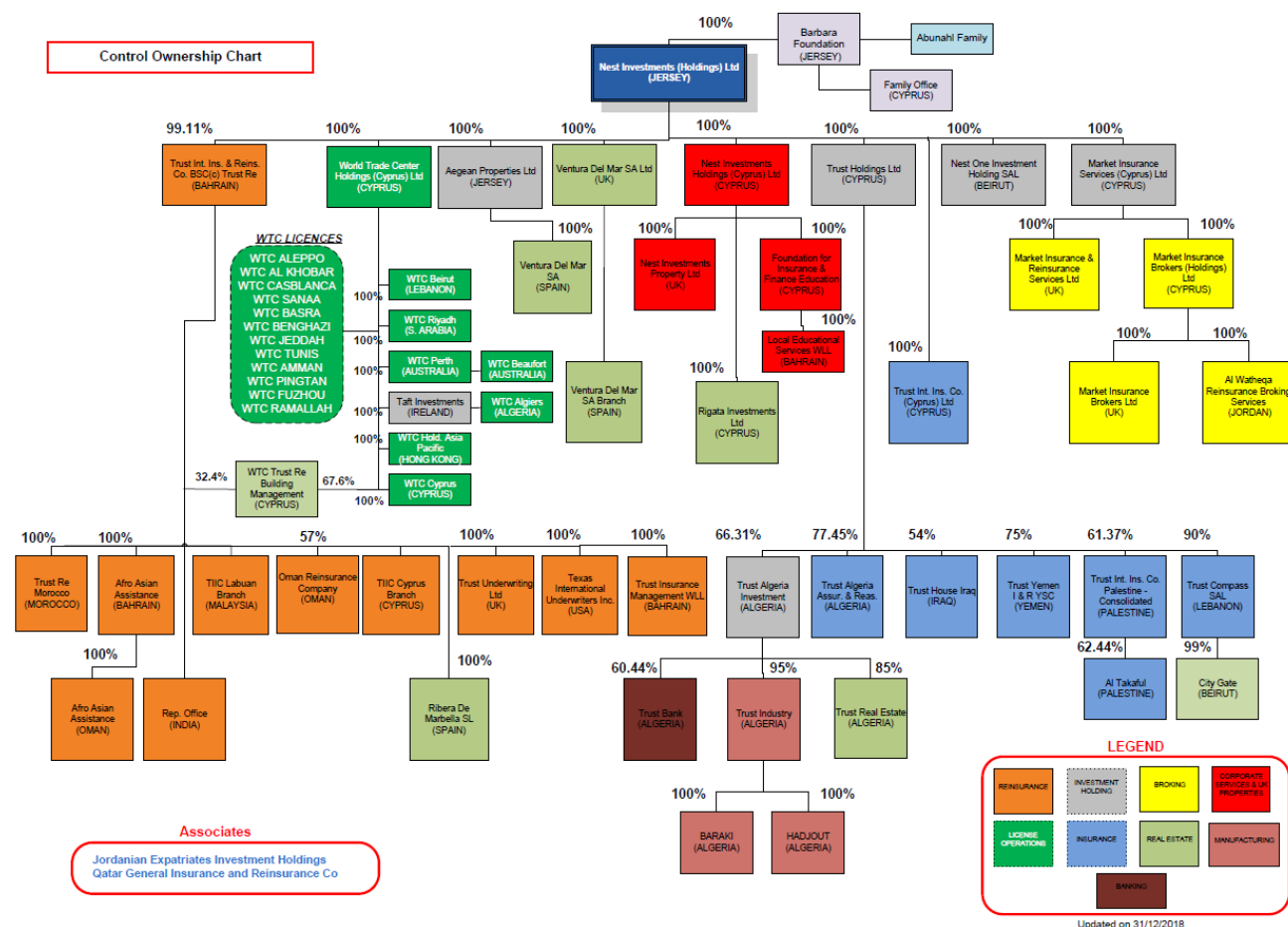
#### **A.1.d. Description of the holders of qualifying holdings**

The Company is controlled by Nest Investments (Holdings) Ltd, incorporated in Jersey, which owns 100% of the Company's shares. The Company's ultimate shareholder is Mr. Ghazi Abu Nahl.

### A.1.e. Position within the legal structure of the group

The Company is a subsidiary of Nest Investment (holdings) Ltd. The diagram below, shows the position of the Company in the Nest Group.

Figure A-1 Company position within the Group



### A.1.f. Material lines of business and geographical areas

The Company offers several general insurance products including:

- Miscellaneous Policies provide cover mostly for Personal Accident.
- Liability policies include three types of products such as Employer's Liability, Public Liability and Professional Indemnity
- For Engineering Policies cover is provided for Contractor's All Risks and Machinery Breakdown. Cover is restricted for buildings already under construction and buildings under renovation.
- Fire Policies provide a wide range of covers for houses, buildings, shops, factories and businesses. Perils such as fire, lighting, storm and explosion are provided.
- Marine Hull policies provide cover for private use yachts only. Marine Cargo cover is also provided for goods in transit via sea, air or land.

For most of the above products the insurance coverage is one year. Contractor's All Risks policies, where the duration of the cover depends in the construction period of the building, may have durations exceeding one year. Also for Marine policies, the insurance period depends on the duration of the transit.

Third Party coverage as obliged by the Law is provided under the Motor Policy. Comprehensive cover is also provided and includes Own Damage Benefits, Personal Accident of the Driver and more.

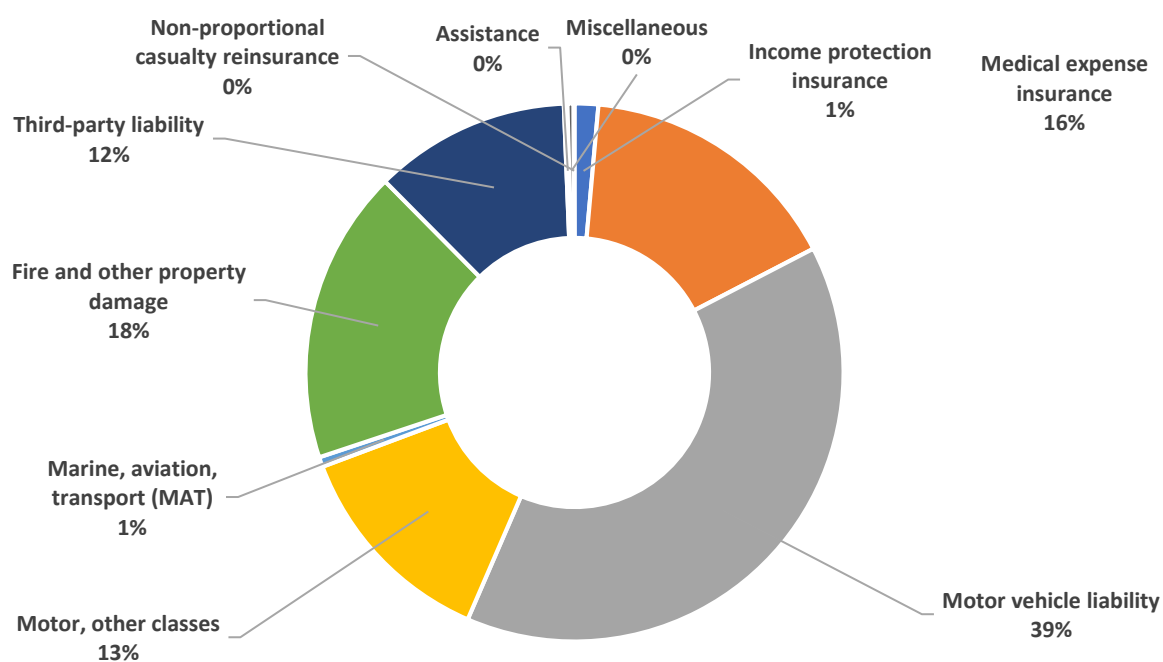
Inward reinsurance represents a small percentage of the Company's portfolio.

The Written Premium per line of business for 2018 is provided below:

Table A-1: 2018 - Written Premium

Segment	Gross €	Reinsurance €	Net €
Income protection insurance	502	23	479
Medical expense insurance	5,633	263	5,370
Motor vehicle liability	13,795	419	13,376
Motor, other classes	4,518	706	3,812
Marine, aviation, transport (MAT)	208	158	50
Fire and other property damage	6,236	4,290	1,946
Third-party liability	4,161	204	3,957
Assistance	76	33	43
Miscellaneous	130	65	65
Non-proportional casualty reinsurance	17	0	17
<b>Total</b>	<b>35,276</b>	<b>6,161</b>	<b>29,115</b>

Figure A-2: 2018 - Written Premium



During 2017 the written premiums (reported in the previous SFCR) were as follows:

Table A-2: 2017 - Written Premium

Segment	Gross €	Reinsurance €	Net €
Income protection insurance	475	13	462
Medical expense insurance	4,618	242	4,376
Motor vehicle liability	12,513	515	11,999
Motor, other classes	4,129	840	3,289
Marine, aviation, transport (MAT)	176	127	49
Fire and other property damage	6,311	4,353	1,958
Third-party liability	3,441	232	3,208
Assistance	61	30	31
Miscellaneous	133	76	57
Non-proportional casualty reinsurance	30	0	30
<b>Total</b>	<b>31,887</b>	<b>6,428</b>	<b>25,459</b>

#### A.1.g. Significant Business or other events over the reporting period

During the year 2018 the Company marked a growth of 11% comparing to 2017, achieving its targets. According to the latest official statistics of the Insurance Association of Cyprus, the Company has a market share of about 9% of the Cypriot general insurance business and ranks third amongst the general business insurance companies.

The Company had a significant increase in its profitability in 2018 comparing to 2017. The main reason for the increase in the profit is the decrease in net claims ratio and expense ratio, as well as the increase in net earned premium and the gain from revaluation of investment properties.

As a result of a continuous action plan in relation to Solvency II, the Company continued during the year its Investment strategy, which targets in reducing its Counterparty Risk and increasing its Solvency Ratio.

Furthermore, during 2018 the Company enhanced its corporate governance processes by upgrading its procedure manuals, automating its operating systems and upgrading its Enterprise Risk Management (ERM) procedures. Throughout the year the Company continued investing in technology; it enhanced the Business Intelligence system for transparency and reliability and timely decision-making. Furthermore, the Company implemented new procedures for the collection of premiums in light of the new collections directive implemented on 1st January 2018, which resulted in a significant reduction of Premiums receivable. During the year the Company continued the preparations for implementing a new Insurance system, which is planned to be in force in 2019.

## A.2. Underwriting Performance

The table below, provides an analysis of the underwriting profit of the Company as at the valuation date:

Table A-3: Underwriting profit 2018

	€ '000 2018				
	Motor	Property	Medical	Other	Total
Gross Written premium	18,313	6,236	5,633	5,094	35,276
Net Earned Premium	16,495	1,935	5,370	4,333	28,133
Net Claims incurred	(9,123)	(518)	(4,850)	(1,515)	(16,006)
Net Commissions and Acquisition Costs	(4,149)	156	(602)	(641)	(5,236)
Administrative Expenses	(2,577)	(1,324)	(626)	(1,097)	(5,624)
<b>Underwriting Profit</b>	<b>646</b>	<b>249</b>	<b>(708)</b>	<b>1.080</b>	<b>1,267</b>

The above analysis is based on the results as reported in the Company accounts.

The Company's written premium is at €35.3m for 2018 compared to €31.9m for 2017. Almost all lines of business increased comparing to last year, especially motor and medical business. The net claims incurred (including IBNR and claims handling reserves) amounted to €16.0m during the year comparing to €14.8m in 2017. The net claims ratio, the net commission ratio and the net administration expenses ratio have decreased comparing to 2017. As a result, the underwriting profit for the year amounted to €1.3m comparing to a loss of €0.2m for 2017.

The medical business showed underwriting losses mainly because of higher claims, for which the management of the Company has taken corrective actions. The remaining lines of business showed underwriting profits.

The table below, provides an analysis of the underwriting profit of the Company as at the previous valuation date:

Table A-4: Underwriting profit 2017

	€ '000 2017				
	Motor	Property	Medical	Other	Total
Gross Written premium	16,642	6,311	4,618	4,316	31,887
Net Earned Premium	15,023	1,972	4,346	3,687	25,028
Net Claims incurred	(9,058)	(405)	(3,506)	(1,852)	(14,821)
Net Commissions and Acquisition Costs	(3,908)	26	(492)	(584)	(4,958)
Administrative Expenses	(2,805)	(1,094)	(819)	(757)	(5,475)
<b>Underwriting Profit</b>	<b>(748)</b>	<b>499</b>	<b>(471)</b>	<b>494</b>	<b>(226)</b>

### A.3. Investment Performance

The Board of the Directors of the Company approves the Investment strategy of the Company. The asset categories chosen are consistent with the Company's liabilities in terms of nature, term and duration. The investment choices are also consistent with the Prudent Person Principle of SII described in section C of this report.

#### A.3.a. Income and expenses arising by asset class

Table A-5: Income and losses arising by asset class 2018

	Euros '000 2018
Interest income from term deposits with Banks	109
Interest income from Government bonds	59
Interest income from Corporate bonds	258
Interest income from Structured products	26
Dividend income from Equity shares	10
Rental income from Investment properties	96
Profit on sale of Structured products	10
Change in the fair value of Investment properties	637
<b>Total income</b>	<b>1,205</b>
Change in the fair value of investments at fair value through profit and loss (Structured products, Equity shares)	(65)
Investment portfolio advisory fees	(44)
Investment portfolio custody fees	(16)
Expenses for Investment properties	(55)
Loss on sale of Corporate bonds	(39)
Loss on sale of Equity shares	(122)
<b>Total losses</b>	<b>(341)</b>

Table A-6: Income and losses arising by asset class 2017

	Euros '000 2017
Interest income from term deposits with Banks	164
Interest income from Government bonds	59
Interest income from Corporate bonds	198
Interest income from Structured products	68
Dividend income from Equity shares	10
Profit on sale of Corporate bonds	33
Profit on sale of Equity shares	36
Profit on sale of Structured products	6
Profit on sale of Investment properties	20
Change in the fair value of Investment properties	65
<b>Total income</b>	<b>659</b>
Investment portfolio advisory fees	(32)
Investment portfolio custody fees	(13)
<b>Total losses</b>	<b>(45)</b>



**A.3.b. Gains and Losses recognised directly in Equity***Table A-7: Gains and losses recognised directly in equity 2018*

	Euros '000 2018
Revaluation of property (land and buildings)	334
Deferred tax liabilities on revaluation of property	(31)
Change in the fair value of investments available for sale (Corporate bonds, Government bonds, Equity shares)	(483)
Transfer to the income statement on sale of investments available for sale	29
<b>Net losses</b>	<b>(151)</b>

*Table A-8: Gains and losses recognised directly in equity 2018*

	Euros '000 2017
Revaluation of property (land and buildings)	160
Deferred tax liabilities on revaluation of property	(2)
Change in the fair value of investments available for sale (Corporate bonds, Government bonds, Equity shares)	211
Transfer to the income statement on sale of investments available for sale	(66)
<b>Net gains</b>	<b>303</b>

**A.3.c. Investments in Securitisation**

There were no investments in securitizations as at the valuation date.

**A.4. Performance of other activities**

The Company does not carry out any activities other than the insurance/reinsurance operations described above. Hence, there is no other material income and expenses incurred over the reporting period.

**A.5. Any other information**

None.

# B. System of Governance



This section of the report is produced as per the requirements of **Article 294: System of Governance**.

The section provides an analysis of the following:

- General information on the system of governance
- Fit and Proper requirements
- Risk Management system including the ORSA
- Internal Control System
- Internal Audit Function
- Actuarial Function
- Outsourcing
- Any other information

## B. System of Governance

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

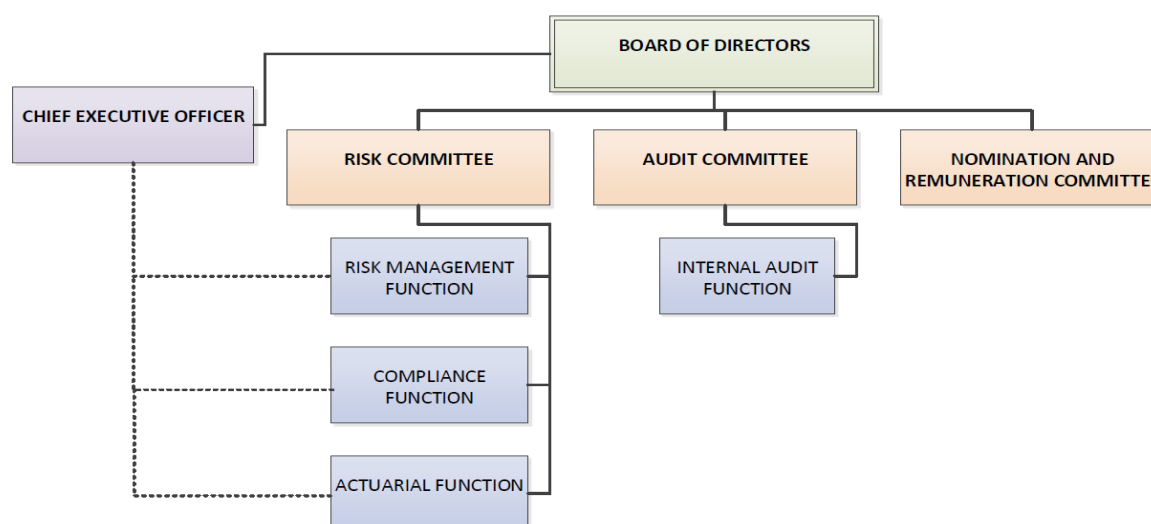
#### B.1.a. Structure of Administrative and Management Body

The oversight of the Company's business and its operations are provided through its governance structure. In this structure the management of risk plays a significant part. Governance starts with the Company's Board, which has overall responsibility for management of the company. The governance structure provides oversight and direction to the Company.

The Risk Management framework is included in the Governance framework which supports the Company's risk culture. The Risk framework covers the Company's business and operational functions and risk areas. It sets out the risk committees, risk reporting and risk controls.

The organisational chart below summarises the Company's System of Governance currently operating for the Company:

Figure B-1: System of Governance



#### B.1.a.1. Board of Directors

The Board has the overall responsibility for the oversight of the management of the Company. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables each of the risks faced by the Company to be assessed and managed. The Board is responsible for promoting the long- term success of the Company whilst securing an appropriate degree of protection for policyholders.

The BOD of the Company consists of the following:

- Frixos Savvides – Chairman, Non-Executive Director
- Kamel Abunahl – Deputy Chairman, Non-Executive Director
- Mehran Eftekhari – Group Corporate Services Director, Non-Executive Director

- Chris Georghiades – Non-Executive Director
- Stavros Stavrou – Non-Executive Director
- Kyriacos Kazamias – Non-Executive Director
- Christos Christodoulou – Chief Executive Officer, Executive Director

### **B.1.a.2. Summary of roles and responsibilities of the Committees**

#### **B.1.a.2.1 Risk Committee**

The Risk Committee is responsible to assist the BOD in fulfilling its oversight responsibilities for the identification, analysis, assessment and management of all the risks which the Company faces in its operation and may impact the assets and liabilities of the Company; in particular, (without limitation) to assist in identifying those risks which may at first seem unlikely or even remote. The independence and objectivity of the Risk Committee shall be maintained at all times.

The Risk Committee has the authority to conduct or authorise investigations into any matters within its scope of responsibility. It has the responsibility to:

- Appoint a Secretary (who will ordinarily be the Chief Risk Officer) to provide guidance and support to the Risk Committee and where necessary, arrange briefing for the members of the Risk Committee or BOD on new developments, laws, regulations, and best practice in the ERM procedures
- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organisation on risk issues. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation
- Seek any information it requires from employees and associated external parties; all of whom are directed to cooperate with the Risk Committee's requests. Meet with Company officers, external auditors, or outside counsel, if necessary
- Gain access to all information in the possession of the Company or within its power to obtain and must submit its findings and reports to the BOD on a periodic or anytime basis.

#### **B.1.a.2.2 Audit Committee**

The Audit Committee (AC) is responsible to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the System of Internal Control, the Audit Process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct. The independence and objectivity of the Audit Committee shall be maintained at all times. The AC should have access to all information and submit its findings and reports to the BOD.

The AC has the authority to conduct or authorise investigations for all matters within its scope of responsibility. It has the responsibility to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by organisation
- Resolve any disagreements between Management and the Auditor regarding financial reporting
- Pre-approve all auditing and non-audit services
- Review and approve the rotation of the external Auditors every 5 years
- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation
- Seek any required information from staff - all of whom are directed to cooperate with the requests - or external parties
- Meet with Company officers, external Auditors, or outside counsel

- Delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full Committee at its next scheduled meeting
- The AC should receive any and all reports including feedback on those reports for work carried out by external bodies, such as the Cyprus Ministry of Finance, External Auditors, outsourced internal Auditors, etc.

#### B.1.a.2.3 Nomination and Remuneration Committee

The Nomination and Remuneration Committee (NRC) is a committee of Non-Executive Directors serving as members of the BOD. The primary functions of the NRC are: to assess the required competencies of BOD members; review the BOD succession plans; evaluate BOD's members' performance; regularly review and make recommendations on:

- Executive remuneration and incentive policies / schemes, including salaries, bonuses and pension plans;
- Recruitment, retention and termination policies for senior management

The NRC has the authority to conduct or authorise investigations into any matters within its scope of responsibility. It has the responsibility to:

- Appoint a Secretary (who will ordinarily be a senior member of staff such as the Head of HR and Administration or above), to provide guidance and support to the NRC and where necessary, arrange briefing for the members of the NRC or BOD on senior appointments
- Appoint, compensate, and oversee the work of any specialised organisation who can advise on engaging and rewarding non-executive directors, executive directors and other senior staff or conduct relevant investigation
- Seek any required information from staff and associated external parties; all of whom are directed to cooperate with the NRC's requests. Meet with Company officers, external advisors, or outside counsel, if necessary
- Gain access to all information in the possession of the Company or within its power to obtain and submit its findings and reports to the BOD on a periodic or anytime basis

#### B.1.a.3. Summary of Roles and Responsibilities of the Key Functions

##### B.1.a.3.1 Risk Management Function

The Risk Management Function is responsible for the measurement and management and reporting of the key risks the Company faces. In order to facilitate the most effective operation and the objectivity of the Risk Management System, the Risk management function is operationally independent and reports directly to the BOD through the Risk Committee.

The RMF is responsible for coordinating all risk management activities and comprises of the Risk Manager and other staff specialised in Risk Management issues. The RMF reports directly to the CEO and, through the Risk Committee, to the BOD.

The duties of the Risk Manager include:

- Assisting Senior Management and the BOD in the effective operation of the Risk Management System, in particular by discussing the results of specialist analysis and quality reviews carried out by the RMF and proposing possible solutions for addressing material system failures that may have been identified
- Maintaining a Company-wide and aggregated view on the risk profile of the Company
- Reporting details on risk exposures and advising the BOD, through the Risk Committee, on Risk Management matters in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments

- Assisting the BOD and Senior Management with capital and resource allocation decisions and facilitating Risk Assessments
- Ensuring that there are sufficient and appropriate tools and methods in place for predicting, identifying, assessing, monitoring, controlling and reporting the Company's risks
- Reviewing the section of the Pillar 3 reports that relates to the RMF, after being prepared by the RMF staff and submitting it to Finance Function of the Company for review. Further details on the contents of this section can be found in the Disclosure and Reporting Manual for Pillar 3
- Coordinates all Risk Management activities across the Company and ensures the correct implementation of Risk Policies

At the same time, the other RMF officers are responsible for:

- Designing and performing the specialised analyses and quality reviews of the Company's Risk Management System, and reporting their results to the Risk Manager
- Monitoring, on a day-to-day basis, the Risk Management System, and bringing to the attention of the Risk Manager any issues of concern
- Identifying, assessing and monitoring existing and emerging risks
- Regularly evaluating the design and operational effectiveness of the Risk Management System to identify, measure, monitor, manage and report the risks to which the Company is exposed
- Preparing the section of the Pillar 3 reports that relates to the RMF and submitting it to the Risk Manager for review, as per the Disclosure and Reporting Manual for Pillar 3
- Updating the RMF manual
- Monitoring compliance by the Company's Senior Management and staff with all established risk policies and procedures

The Function is subject to audit by the Internal Audit Function.

#### B.1.a.3.2 Compliance Function

The Compliance Function is responsible for the establishment and application of suitable procedures for the purpose of achieving a timely and on-going compliance of the Company with the existing legal and regulatory framework. In order to facilitate the most effective operation and the objectivity of the risk management system, the Compliance Function is operationally independent and reports directly to the BOD through the Risk Committee.

The Compliance Function is responsible to ensure that all actions undertaken by the Company are, at all times, in compliance with all applicable laws and regulations. In line with best practice, it is also responsible to take measures to monitor the compliance of the Company with internal strategies, policies, processes and reporting procedures (including agreed exposure limits and operating principles/instructions). Its principal role is to identify, assess, monitor and report the compliance risk exposure of the Company.

In order to assess the possible impact of significant changes in the legal environment that the Company operates in, as well as identify and assess the compliance risk that could arise from such changes, the Compliance Function is responsible to monitor projected revisions of legislation and plans to introduce new regulation and assess their potential impact on the Company, in addition to monitoring the relevant court decisions.

Moreover, the Compliance Function is responsible to ensure that the Company acts in accordance with all other applicable laws and regulations, whether insurance-specific or not. This includes informing Senior Management, the BOD and all affected functions of any changes in existing legislation and any new laws and regulations. Other applicable laws and regulations may address issues on intermediation, bankruptcy, sales practices, cover's commencement and termination, policy



terms and conditions, data protection, discrimination, international sanctions, insurance fraud, health and safety in the workplace, etc.

Furthermore, the Compliance Function is responsible to assess the appropriateness of the Company's compliance procedures and guidelines, follow up identified deficiencies promptly and make suggestions for improvements as necessary. To assist both Management and personnel with compliance issues, the Compliance Function draws guidelines and procedures that provide support with relation to the compliance with external regulatory requirements and internal policies and procedures. In addition, it is actively involved in the product development process by providing its advice on the potential effect of new products, services and markets from a compliance point of view reviewing agreements designated for such products.

The function is subject to audit by the Internal Audit Function.

#### B.1.a.3.3 Internal Audit Function

The Internal Audit Function is responsible for evaluating the adequacy and effectiveness of the Internal Control System (ICS) and other elements of the system of governance. The Internal Audit function of the Company is fully independent and reports to the BOD through the AC.

More specifically the Internal Audit Function has the following responsibilities:

- To regularly monitor the performance and effectiveness of the ICS and to reliably and frequently update Senior Management on the state of affairs in respect of the audits under process, notably in terms of how correct and consistent the implementation of the policies and procedures adopted by the BOD and/or local Senior Management has been
- To conduct general or sample ex-post audits of the functions and transactions of the Company, in order to verify that all regulations, operational procedures and preventative control mechanisms governing each type of transactions and the safeguarding of assets are stringently applied, and that the Company is in compliance with the Institutional Framework governing its operation
- To evaluate compliance and the efficiency of risk control / management procedures and to estimate the potential loss (not necessarily quantify, but qualify) that the Company might incur as a result of its exposure to risk
- To evaluate the efficiency of the Company's accounting and information systems, to systematically monitor the implementation of the operational and accounting controls and the rules applied in the collection, processing, management and secure storing of data and information, to verify the reliability of accounting data and statements produced
- To evaluate the efficiency of the organizational structure and reporting lines, as well as a sound ICS in order to ensure that the segregation of duties and the business continuity operates effectively
- To prepare a report on the outsourcing of activities in accordance with the risk based plan. There should be a list of key outsourced activities and associated risks, where the regulator and the auditor should have the right to review agreements of outsourced activities
- To evaluate the adequacy of mechanisms set by the BOD for the definition of targets and subsequently the evaluation of the extent to which the Company achieves its targets
- To carry out special investigations and special audits in situations where it is possible to relate with suspected fraud. The Internal Auditor may be asked by Senior Management or the BOD to carry out such investigations. In addition, special investigations should be performed in the case where a Unit is consolidated or in any other instance the Departments/Functions/Units are set for restructuring, expansion, undertaking new /additional tasks and in general where any Department / Function changes its procedures which may have an impact on the current controls of that Unit
- To prepare, at least on an annual basis, a risk assessment and audit plan

- To assess, at least on an annual basis, the need to operate in jurisdictions or through complex structures that reduce transparency ('know your customer principle') and report any weaknesses to the BOD
- To assess the risk management procedures (risk identification and evaluation of the existing mechanisms of identification, measurement, monitoring, analysis, correction, elimination, recording and reporting)
- To assess the data upon which the Company has calculated its Pillar 1 and Pillar 2 solvency requirements as well as the data that the actuarial function has used for the valuation of the technical provisions
- To assess the compliance procedures followed by the Company
- To assess the Internal Governance System, as well as the Company's Business Continuity and Disaster Recovery Plans and perform an overall assessment of the Company's readiness in implementing the plan
- To review and provide an independent opinion on the ORSA
- To report to the Audit Committee in relation to the following matters:
  - The responsibilities of the Internal Audit Function and/or emerging methodologies and/or compliance issues which may affect the purpose and scope of the Internal Audit work
  - Information on the status and results of the audit activities relating to the defined mission and scope of the Internal Audit Function (to the extent that these can be quantifiable through the use of Key Performance Indicators). An annual report should be prepared and submitted summarizing the Internal Audit Function operations
  - All major observations emanating from the audits carried out. Such report should be prepared on a quarterly basis and should also be submitted to the CEO

#### B.1.a.3.4 Actuarial Function

The Actuarial Function advises the Senior Management and the Risk Committee on the valuation of technical provisions, reinsurance adequacy, underwriting policy, capital adequacy and other matters of technical nature. The Actuarial Function reports directly to the BOD through the Risk Committee.

The Actuarial Function is responsible for coordinating all actuarial activities and comprises of the Head of the Actuarial Function and other staff specialised in actuarial issues. The Head of the Actuarial Function reports to the BOD through the Risk Committee and has the overall responsibility for all the actuarial issues outlined in the Company's policies.

More specifically, the duties of the Actuarial Function include:

- Coordinate the calculation of technical provisions
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions
- Compare best estimates against experience
- Inform the Senior Management and the BOD of the reliability and adequacy of the calculation of technical provisions
- Oversee the calculation of technical provisions in cases where approximations are used in the calculation of best estimates
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the Risk Management System, in particular with respect to the risk modelling underlying the calculation of the capital requirements and to the Own Risk and Solvency Assessment ( ORSA )

The function is subject to audit by the Internal Audit Function.



**B.1.b. Changes in System of Governance**

There were no material changes to the System of Governance.

**B.1.c. Remuneration Policy**

Remuneration is intended to attract, retain and motivate employees to achieve the objectives of the Company, to align to its values and to operate within its risk appetite and Risk Management Framework.

Fixed Remuneration packages are offered to all staff from the Company and they include:

1. Salary
2. Annual Leave
3. Contribution to Social Insurance Fund
4. Participation in Company's Medical Scheme
5. Participation in Company's Group Life Insurance
6. Participation in Provident Fund Scheme

There is also a variable remuneration component offered by the Company to key staff members that includes:

1. Performance Related Pay - a monthly payment to staff for the over achievement of their goals and for performing better than expected.
2. Discretionary Bonus on an annual basis to members of staff who have more than 100% achievement of the individual goals and the Line Manager(s) confirms behaviours that demonstrate in practice the values of the Company.

There is no entitlement for Company options and shares to any staff member.

The Company maintains a Provident Fund Scheme as part of the fixed Remuneration package of the staff. This is a defined contribution scheme where both the employee and the Company contribute.

**B.1.d. Other material transactions**

None.

## **B.2. Fit and Proper requirements**

### **B.2.a. Skills, knowledge and expertise requirements**

The following individuals and functions fall into the scope of the Fit and Proper requirements:

- BOD (executives and non-executives)
- CEO
- Compliance Function Holder
- Actuarial Function Holder
- Risk Management Function Holder
- Internal Audit Function Holder
- Senior Managers responsible for significant business operations:
  - Financial Controller
  - Operations Manager
  - Claims Manager
  - Head of HR and Administration
  - IT Manager
  - Business Development Manager
  - Credit Control Manager

For the above identified individuals, Supervisory Authority approval is required before the appointment of the position. The BOD maintains ultimate responsibility to notify the supervisory authority of the key functions identified in the Company, and the individuals that are in scope of the fit and proper requirement, ensure they are fit and proper and seek approval from the Supervisor with regards to the Fitness and Propriety of the individuals stated above.

The Compliance Function has established processes for notifying the Supervisory Authority of the above, of any changes to the individuals that hold the Fit and Proper requirements and of any successors in case they no longer fulfil the Fit and Proper requirements.

The Compliance Function is committed to provide these notifications in a timely manner and with sufficient information to the Supervisory Authority for conducting an assessment.

The Compliance Function has the responsibility for monitoring the regulatory requirements on the fit and proper requirement and informs the BOD and key function holders of any changes to the information that needs to be submitted.

The above identified individuals are required to comply with the requirements set by the Supervisory Authority and the Code of Standards defined by the Company. Individuals in scope of the requirement inform the Human Resources Department if their Fitness and Propriety is adversely affected and Compliance if they believe they have breached any regulatory requirements.

### **B.2.b. Assessing Fitness and Proprietary**

In accordance with Supervisory requirements, the Company requires its BOD, Senior Management and holders of Key Functions to be Fit and Proper, to adhere to the Principles and Code of Ethics and Conduct and achieve competence.

The Company has defined and documented specific criteria to assess the Fitness and Propriety of its BOD, Senior Management and holders of Key Functions. Generic criteria exist as well as specific

criteria for the role of each member. All individuals under the scope of the Fit and Proper requirement must comply with regulatory requirements, as well as the Company's requirements and policies. The following controls are performed upon appointment:

- Credit search - No Bankruptcy Certificate
- Identity check
- Sanctions Screening
- Criminal Records (DBS) check – Certificate of clean criminal record
- Educational and Professional Certificates

Individuals in scope of the Fit and Proper requirement are required to self-certify to Human Resources on an annual basis their continuing Fitness and Propriety. They should promptly inform Human Resources if they think their Fitness and Propriety has changed adversely. In case where they believe that, there was a possible breach or there will be a breach of the Code of Standards or other Regulatory Requirements, they should also inform the Compliance. In case there is no compliance with the Company's policies and Code of Standards or requirements of the regulatory regime, they may be subject to disciplinary action by the Company. In addition, they may be disciplined by the Regulator. In deciding whether an individual is responsible for a breach, the Company will consider whether the action was deliberate, or whether the behaviour was below the standard which would be reasonable in all the circumstances.

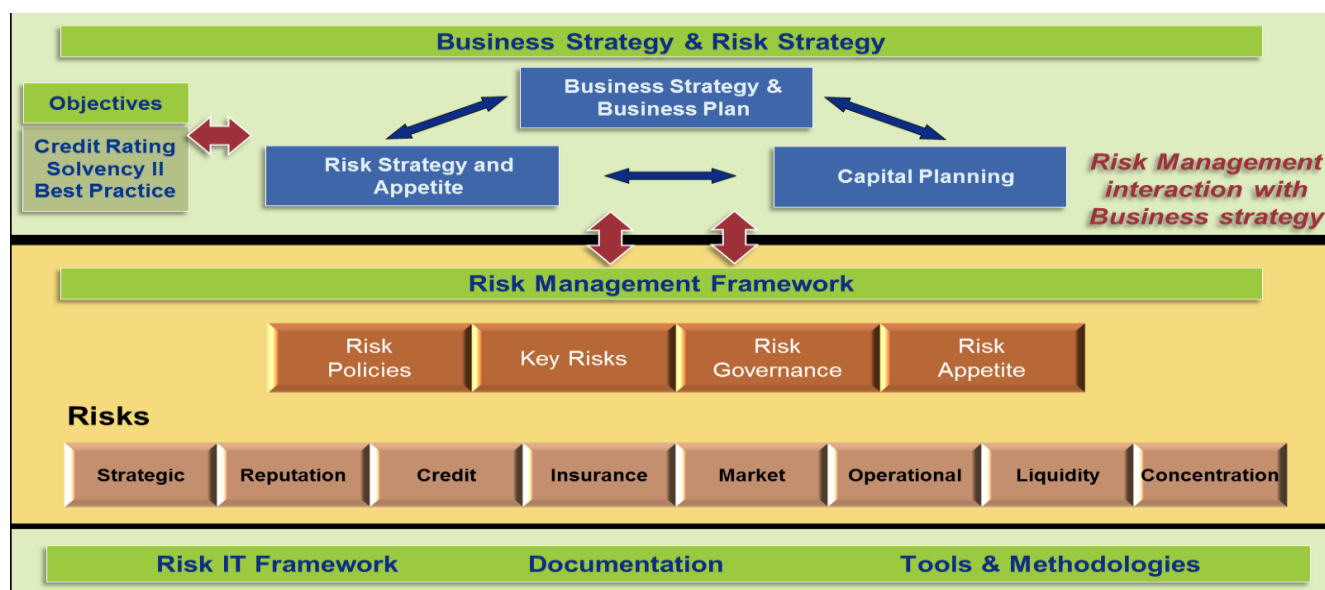
### **B.3. Risk Management System including the Own Risk and Solvency Assessment**

#### **B.3.a. The Risk Management System**

The Company has adopted Risk Management policies and procedures in order to achieve its business and financial strategy without exceeding its risk appetite as defined by considering both internal and external constraints set by its BOD, the Group, regulators and other Stakeholders.

The Company's Risk Management Framework, as illustrated below, is an embedded part of the business and fully interacts with the strategic and business planning and the Capital Management Process.

*Figure B-2: The Risk Management System*



As demonstrated by the risk framework, Risk Management is embedded within the Company's strategic and operational processes, both as a standalone framework for the management of key risks and as an input in key strategic and business processes.

The Risk Management Framework establishes the mechanism and strategy through which the Company manages risk, taking into account its business objectives and vision (both short term and long term), as well as its overall risk appetite. In this way, the risk strategy sets the principles for Risk Governance, which in turn feed into the Company's organizational structure for the forming of business functions and Committees, the assignment of roles and responsibilities and the definition of lines of reporting.

The business objectives reflect minimum requirements (Regulatory Compliance such as Solvency II), international best practices, as well as long term strategic objectives (credit rating).

### B.3.b. The Risk Management Process

Risk Management is a continuous process that is used in the implementation of the Company's overall strategy and allows an appropriate understanding of the nature and significance of the risks to which it is exposed, including its sensitivity to those risks and its ability to mitigate them.

The Company's Risk Management process comprises of four stages:

#### B.3.b.1. Risk Identification

Risk Identification is the first stage in the risk management process. This is the process followed by the Company to identify and record all material risk exposures that arise from its activities. Risks are identified and registered both formally, through the periodic review of the Company's Risk Register, and informally as they arise in the course of business.

Risk identification is performed for both existing and emerging risks.

##### B.3.b.1.1 Risk Measurement

Once risks are identified and registered by the business areas, the business areas undertake the task of assessing the materiality of these risks and measuring their impact. Assessment and measurement of the risks is performed using both qualitative and quantitative methods.

The qualitative assessment refers to the high level assessment of risks based on expert judgment, prior experience, benchmarking and the qualitative estimation of severity and impact of adverse events. This analysis assesses the inherent and net or residual (after mitigation) risk position of the Company, based on the analysis of internal and external factors and other inputs, depending on their relevance to the risks examined and the controls in place for their mitigation. The qualitative assessment of risk enables a better understanding of the risks and their potential impact. This assessment is performed jointly by the RMF and the business units and is documented in the Company's risk register.

The quantitative assessment refers to the detailed measurement of the risks involved using appropriate quantification techniques, which are more advanced than those used in the qualitative assessment.

In order to measure the capital requirements of risks the Company's quantification techniques focus on the Solvency II standard formula and stress testing.

#### B.3.b.1.2 Risk Monitoring and Reporting

Monitoring risk exposures is a joint responsibility between all three lines of defense in the Risk Management Framework, consisting of prudent and regular review of risk metrics and exposures. All risk monitoring is undertaken in the context of the overarching limit structure, and any limit breaches are quickly and promptly escalated to the required parties.

The RMF is responsible to ensure that risk exposure information is communicated to Senior Management through formal and informal reporting in a timely manner to enable informed decision making.

#### B.3.b.1.3 Risk Mitigating / Transfer

Risks arising from Company's activities are monitored and controlled through the use of risk limits.

The Company takes into consideration techniques to mitigate risks such as the use of reinsurance, premium rate reviews, authority/limits and concentration limits. Reinsurance is used to mitigate the risk that profits and available capital are adversely affected by natural or man-made catastrophes, large losses or accumulations of losses.

The Company's Risk Management process capabilities are supported through the following:

- Risk Management education and training of all staff and management
- Use of an internationally recognized Risk Management Software for the reporting and monitoring of risks and the performance of the Risk Control Self- Assessment (RCSA) process using approved policies for the Risk Definition Process and the Likelihood and Impact factors
- Risk Review and an overall formal review of the Risk Registers developed in one to one sessions between the risk function and the heads of departments. The Risk Review takes place regularly and the Risk Register produced is quite comprehensive and touches all the risk areas the Company is exposed to. There are continuous enhancements of the scope and level of depth of the Risk Reviews
- Sensitivity and stress testing of financial projections, major decisions, etc.

The Risk Governance of the Company forms an integral part of the Risk Management Framework and is organized 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, including the BOD, Senior Management, RMF and Business Units.

The specific responsibilities of key bodies in the risk management framework are summarized below:

*Table B-1: Responsibilities of key bodies in the Risk Management Framework*

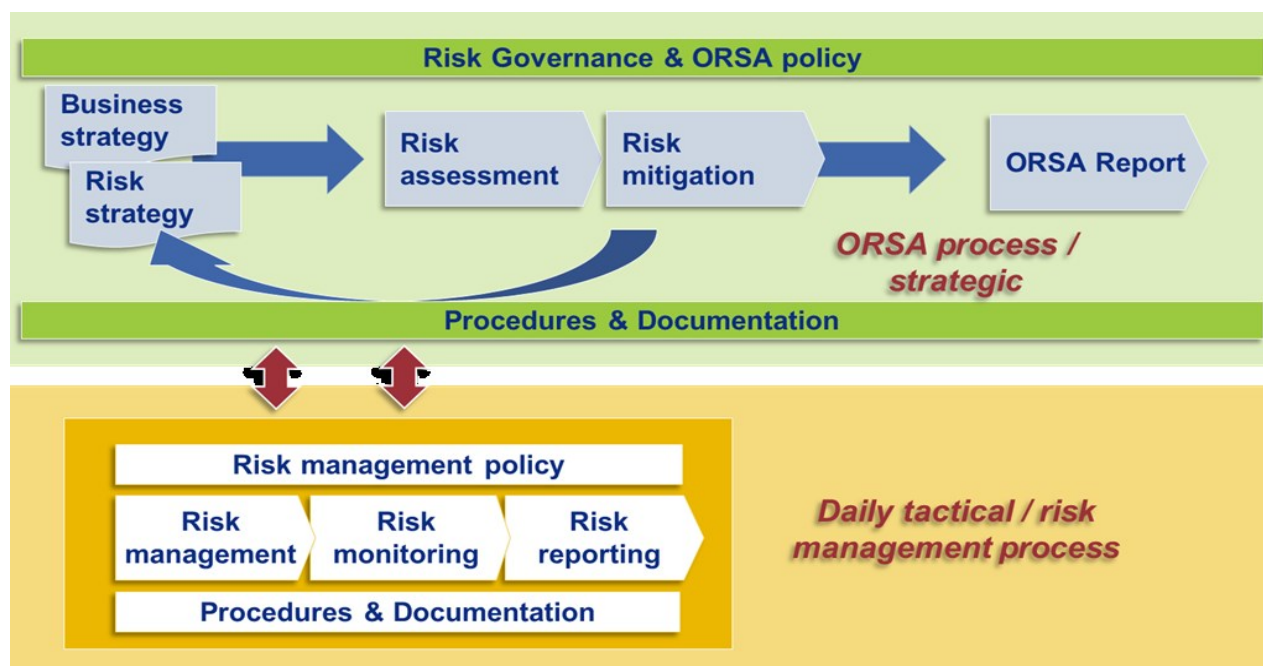
Body / Function	Roles in the Risk Management Framework
BOD	<ul style="list-style-type: none"> <li>The responsibility for the approval and periodic review of the risk profile and risk appetite, as well as the risk strategy and the policies for managing risks, lies with the BOD, so as to ensure that the 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>
Risk Committee	<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 Manuals of the Company and pre-approves any required changes, and subsequently forwards the updated Manual to the BOD for final approval</li> <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>
Risk Management Function	<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</li> <li>Provides regular reporting to the Senior Management and Risk Committee</li> <li>Monitors the risk profile of the Company against the BOD's Risk appetite</li> </ul>
CEO and Senior Management with risk taking capacity	<ul style="list-style-type: none"> <li>The Company's Senior Management (i.e. CEO, Financial Controller, Operations Manager, etc.) is responsible for the implementation of the Risk strategy, as this has been approved by the BOD</li> <li>They also have the responsibility to apply the framework in their day to day activities</li> </ul>
Business Units	<ul style="list-style-type: none"> <li>The individual business units under the direction of their Managers have the responsibility to know and apply the requirements of the risk strategy and Manuals in their area of business</li> </ul>
Actuarial Function	<ul style="list-style-type: none"> <li>The Actuarial Function is a specialised function that advises the Senior Management and the Risk Committee on the valuation of technical provisions, reinsurance adequacy and underwriting policy</li> </ul>
Compliance Function	<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>
Internal Audit Function	<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</li> </ul>

### B.3.c. ORSA Process

#### B.3.c.1. Process conduct

The ORSA process is illustrated in the diagram below:

Figure B-3: The ORSA Process



#### B.3.c.2. The ORSA Integration

The ORSA covers all the operations of the organization and all business units of the Company.

The BOD is the body that bears ultimate responsibility for the ORSA, its application and embedment within the Company's day to day procedures. The roles and responsibilities for the ORSA are presented in the table below:

Table B-2: The roles and responsibilities for the ORSA

Body / Function	Responsibility
BOD	<ul style="list-style-type: none"> <li>Definition of corporate objectives and risk strategies, definition of the Company's risk profile, which will be used as a significant input to the ORSA</li> <li>Approval of the budget/business plan</li> <li>Establishment of a suitable ICS, especially with regards to the ORSA</li> <li>Understanding, review, challenge and approval of the annual ORSA report of the Company</li> </ul>



Body / Function	Responsibility
<b>Risk Committee</b>	<ul style="list-style-type: none"> <li>Review and challenge of the annual ORSA report of the Company and recommendation for approval to the BOD</li> <li>Recommendation for improvements in systems, procedures and processes, and adaptation as necessary in accordance with ORSA results</li> </ul>
<b>Senior Management</b>	<ul style="list-style-type: none"> <li>Dissemination of information on risk strategies and procedures to the employees concerned</li> <li>Ensuring that there is adequate expertise and knowledge amongst the employees and officers of the Company to successfully carry out the different tasks required</li> <li>Understanding of the ORSA of the Company</li> </ul>
<b>Risk Management Function</b>	<ul style="list-style-type: none"> <li>Preparation of the Risk Management policies</li> <li>Identification and monitoring of key risks faced by the Company</li> <li>Establishment of methods for risk monitoring and measurement</li> <li>Coordination of the preparation and implementation of the ORSA</li> </ul>
<b>Actuarial Function</b>	<ul style="list-style-type: none"> <li>Provision of technical assistance to the ORSA process owners with regards to key technical areas e.g. valuation issues, re-insurance issues, stress testing, etc.</li> <li>Calculation of several results required for ORSA.</li> </ul>
<b>Finance Function</b>	<ul style="list-style-type: none"> <li>Preparation of financial projections in accordance with the strategic plan approved by the BOD</li> <li>Preparation of financial projections in accordance with the stress tests</li> <li>Preparation of Pillar 1 capital planning and projection of own funds based on the planning</li> </ul>
<b>Departments</b>	<ul style="list-style-type: none"> <li>Compliance and cooperation with the request for collection of data for the implementation of the ORSA and preparation of the ORSA report</li> <li>Participation in the risk assessment exercise and support to the RMF</li> <li>Adoption of all risk management policies and procedures approved by the BOD</li> </ul>

### B.3.c.3. ORSA Review and Approval Frequency by the Board of Directors

The ORSA Supervisory Report is produced and approved by the BOD once a year (normally right after the closure of the 3rd quarter) following the completion and approval of the Company's Business Plan.

### B.3.c.4. Determining Own Solvency Needs

The Company assesses the appropriateness of the standard formula calculation of the SCR. This confirms that the risk profile does not materially deviate from the assumptions underlying the standard formula calculation of the SCR and provides justification for any residual deviations.

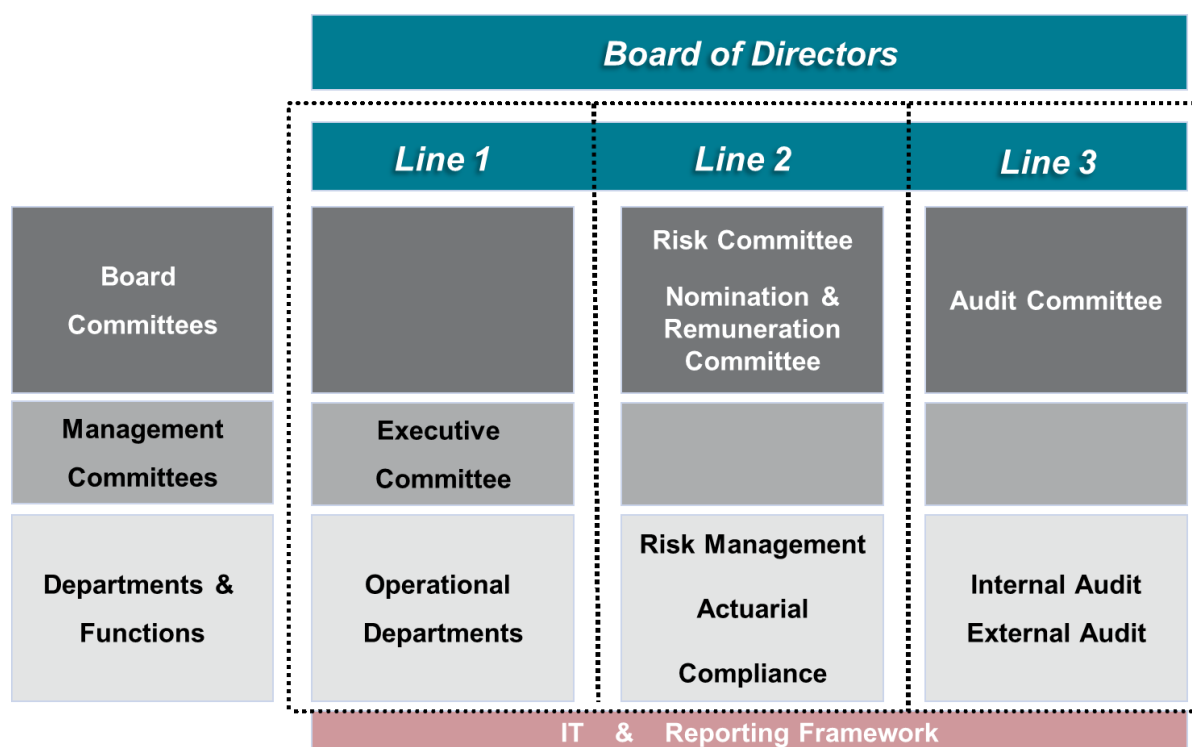


## B.4. Internal Control System

### B.4.a. Description of Internal Control System

The Governance Framework for the management of risks within the Company is based on the “Three lines of defense model”, as illustrated in the diagram below.

Figure B-4: Internal Control System



The three lines of defence support the implementation of a robust ICS and is aligned with the ‘four eye principle’ that the Company is required to comply with under Article 41 (1) of the Solvency II Directive, i.e. the Company is effectively run by at least two persons. The Company’s three lines of defence framework can be summarized as follows:

- 1<sup>st</sup> Line of defence: Business operations - The 1st Line of defence relates to the management of risks at the points where they arise. Risk Management at this level consists of appropriate checks and controls, incorporated in the relevant procedures and the guidelines that are set and approved by the Executive Management with the assistance of the Risk Management Function
- 2<sup>nd</sup> Line of defence: Risk Control - The 2nd Line of defence concerns mainly the Risk Management activities that are carried out by the Risk Management Function, the Actuarial Function and the Compliance Function which are integrated into the organizational structure as independent functions which report directly to the Risk Committee of the BOD.
- 3<sup>rd</sup> Line of Defence: Independent Assurance - The 3rd line of defence concerns the activities of Internal Audit that provides an independent assurance to the BOD, on the performance and effectiveness of the Risk Management Framework within the Company. The Internal Audit is integrated into the organizational structure as a fully independent function which reports directly to the Audit Committee of the BOD.

IT & Reporting Framework - The Company is continuously enhancing its IT & Reporting Framework which provides support to all three lines of defense in the performance of their activities. The Group’s Business Intelligence solution has been implemented which provides extensive Management and

Risk information to the BOD, the Management and the Operational Departments. Key information is available in real-time, directly from the operational systems and can be accessed on-line from anywhere in the world.

To assist with managing its risks, the Company is using the Group's Governance Risk and Compliance (GRC) System supported by SAP GRC. The system is one of the top ranked GRC systems internationally.

The overall oversight of the Risk Management activities is performed at BOD level (i.e. the approval of the strategic management of risk and capital). The BOD is responsible for ensuring that the implemented Risk Management Framework is suitable, effective and proportionate to the nature, scale and complexity of the risks inherent in the business. The BOD is also responsible for the approval of any periodic revision of the main strategies and business policies of the Company in terms of Risk Management.

#### **B.4.b. Compliance Function**

The Company adopts the following principles with respect to the operations of the Compliance Function:

1. The operation of the Compliance Function is assigned to a person/function who/which is independent from other significant functions of the Company and where there might be possible conflicts of interest
2. The Compliance Function has a formal status within the Company to give it appropriate standing and authority
3. The Compliance Function reports to the BOD through the Risk Committee and to the CEO
4. The Compliance Function must be able to carry out its responsibilities on its own initiative in all areas of the Company in which compliance risk exists and reports any irregularities or possible breaches without fear of retaliation or dissatisfaction from Management
5. The Compliance Function should be undertaken by a person that has the necessary qualifications, experience and professional qualities to carry out its duties

The Compliance Function staff possesses the following skills and capabilities in order to be able to perform the tasks as rigorously and appropriately as possible:

1. Familiarity with legislative structures and with the regulatory framework applicable to companies in the insurance sector, in order to be able to easily understand and interpret laws and regulations
2. Ability to apply critical thinking and challenge Company Senior Management and staff on compliance issues
3. Good communication skills, discretion and tact as they may often need to discuss issues with other Company staff and explain complicated regulations to persons who are not familiar with legal terminologies
4. Good interpersonal skills in order to develop strong relationships with Supervisory Authorities and clients
5. Integrity, a questioning mind, neutrality and independence of judgement

The roles and responsibilities of the Compliance Function have been analysed in a previous section of this report.

## **B.5. Internal Audit Function**

### **B.5.a. Implementation**

The roles and responsibilities of the Internal Audit Function have been analysed in a previous section of this report.

### **B.5.b. Independence and Objectivity**

In accordance with the Solvency II Article 48 of the Insurance Law, the Internal Audit Function shall be objective and independent from any operational functions. The Internal Audit needs to be independent from the organizational activities audited and carry out its assignments with impartiality. The principle of independence entails that the Internal Audit Function should only operate under the oversight of the administrative, management or supervisory body, reporting to the Audit Committee. At the same time, it has to be ensured that the Internal Audit Function is not subject to instructions of the administrative, management or supervisory body when performing the audit and when evaluating and reporting the audit results.

Having regard to the principle of proportionality, in large undertakings and in undertakings with more complex risk profiles, the establishment of an Audit Committee is considered necessary.

Internal Audit staff is expected to apply the following Code of Ethics, based on Institute of Internal Auditors (IIA) Standards:

- Respect the confidentiality of all information received in the course of their duties
- Shall not use such information for personal gain and shall not knowingly allow any other person to use such information for personal gain
- Shall perform the responsibilities of Internal Auditor with proficiency (knowledge, skills and other competencies) and due professional care
- Shall exhibit objectivity while performing internal audit work and communicate possible threats to objectivity or independence within the normal chain of command
- Shall examine and review all the factual evidence and information prior to the release of the Reports of any Internal Audit work
- Shall not be involved in any illegal activity, or engage in acts that are discreditable and shall immediately communicate any such matters which come to his/her attention to the appropriate officer
- Shall act with high standards of conduct and professionalism at all times, in order to maintain the good image for him/herself and for the Company
- Shall not accept gifts or any other service of material amount, from a physical person or legal entity in relation to his/her duties, which may be or presumed to be bribery

To conclude, during the execution of internal audit work, the Internal Audit staff of the Company is expected to apply the following principles:

- Integrity, which establishes a trust towards the internal audit work and the Auditors' judgement
- Objectivity in gathering and evaluating of evidence and in the assessment of all relevant circumstances in forming judgements
- Confidentiality, in the use and protection of information acquired in the course of their duties
- Competency, through continuous professional development and gaining the necessary knowledge, skills and experience for their audit engagements and the continuous quality improvement of their work

## B.6. Actuarial Function

The Company outsources specific actuarial tasks to the Group Actuarial and Risk Department of Nest Investments (Cyprus) Ltd. The team is responsible to support the business and meet the requirements of the Actuarial Function. The actuarial team is headed by the Group Chief Actuary and Risk Manager, who is also a staff of the Group Actuarial and Risk Department of Nest Investment (Cyprus) Ltd.

The Chief Actuary is a Fellow of the Society of Actuaries and is an Approved Person as per the SII requirements.

The Actuarial Function is responsible for coordinating all actuarial activities and comprises of the Head of the Actuarial Function and other staff specialised in actuarial issues. The Head of the Actuarial Function reports to the BOD through the Risk Committee.

The function is subject to audit by the Internal Audit Function.

The roles and responsibilities of the Actuarial Functions have been analysed in a previous section of this report.

## B.7. Outsourcing

### B.7.a. Description of the policy

The Company considers that any activities that are fundamental to its ability to carry out its core business are likely to be critical or important.

The Company considers the following activities to be critical or important and further decides on the allocation of the relative resources:

- The pricing of insurance products
- The investment of assets or portfolio management
- Claims Handling
- Provision of regular actuarial support
- Provision of data storage
- Provision of ongoing, day-to-day systems maintenance or support
- Issuing offices

When choosing a service provider for any critical or important activity, the Company ensures that:

- A detailed examination is performed to ensure 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 Company'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 provider
- It enters into a written agreement with the service provider which clearly allocates the respective rights and obligations of the Company and the service provider
- The general terms and conditions of the outsourcing agreement are authorised and understood by the CEO or BOD
- The outsourcing does not represent a breach of any data protection regulation or any other laws
- The service provider is subject to the same provisions on the safety and confidentiality of information relating to the Company or to its policyholders or beneficiaries, that are applicable to the Company

In addition, the Company ensures that the outsourcing of any critical or important activities does not lead to a material impairment of the quality of the Company's Governance System and further any outsourcing service provider does not lead to an increase in the Company's operational risk.

In order to get the final approval for the outsourcing service, a detailed examination is performed to allow the Company to understand the main risks that might arise from the outsourcing and identify the most suitable strategies for the mitigation/management of these risks and ensure that the service provider has the ability, capacity and any authorisation required by Law to perform the outsourced activities reliably and professionally. For this purpose, an internal assessment is performed by the Head of Operations and reviewed and approved by CEO. Additionally, approval is required by the BOD.

## B.7.b. Functions and Activities Outsourced

Table B-3: Outsourced activities

Outsourced Activity	Description of outsourced service	Jurisdiction
Actuarial Activities	Actuarial services	Cyprus
Road Assistance	Accident care and road assistance	Cyprus
Home Assistance	Technical assistance for home services	Cyprus
Medical Assistance	Medical Claims handling abroad	Greece
Loss Adjusters	Loss Estimators for both motor non-motor business	Cyprus
Data Storage	Policy documents are scanned and stored	Cyprus
Investment Advisors	Provides advice to the Investment Committee	Cyprus
Servers and Systems Maintenance	Software and hardware maintenance agreements	Cyprus, Greece
Claims Handling	Issuing offices that have an agreement with the Company to handle claims up to a certain maximum amount	Cyprus
Issuing offices	Authority to underwrite business in the name and on account of the Company	Cyprus

## B.8. Any other information

### B.8.a. Adequacy of the System of Governance

It is considered that the system of governance in place is effective and provides a sound and prudent management of risks faced by the Company. The Company's organisational structure supports the strategic objectives and operations of the Company and ensures that the BOD is able to take business decisions with a full appreciation of the impact on risk exposures and assess compliance with the Company's appetite.

### B.8.b. Any other material information

None.

# C. Risk Profile



This section of the report is produced as per the requirements of **Article 295: Risk profile**.

As described in the Risk Management section of the report the Company employs a pre-defined risk management process that involves the following steps:

1. Risk Identification
2. Risk Measurements
3. Risk Monitoring and Reporting
4. Risk Mitigation

## C. Risk Profile

As described in the Risk Management section of the report the Company employs a pre-defined risk management process that involves the following steps:

5. Risk Identification
6. Risk Measurements
7. Risk Monitoring and Reporting
8. Risk Mitigation

Risks are identified and registered both formally, through the periodic review of the Company's risk register, and informally as they arise in the course of business. To measure the capital requirements of risks the Company's quantification techniques focus on the Solvency II standard formula including stress testing. There were no changes in the methodologies used to assess these risks compared to the previous reporting date.

It is confirmed that the standard model adequately represents the risk profile of the Company and no internal model is required given the nature, scale and complexity of the risks of the Company.

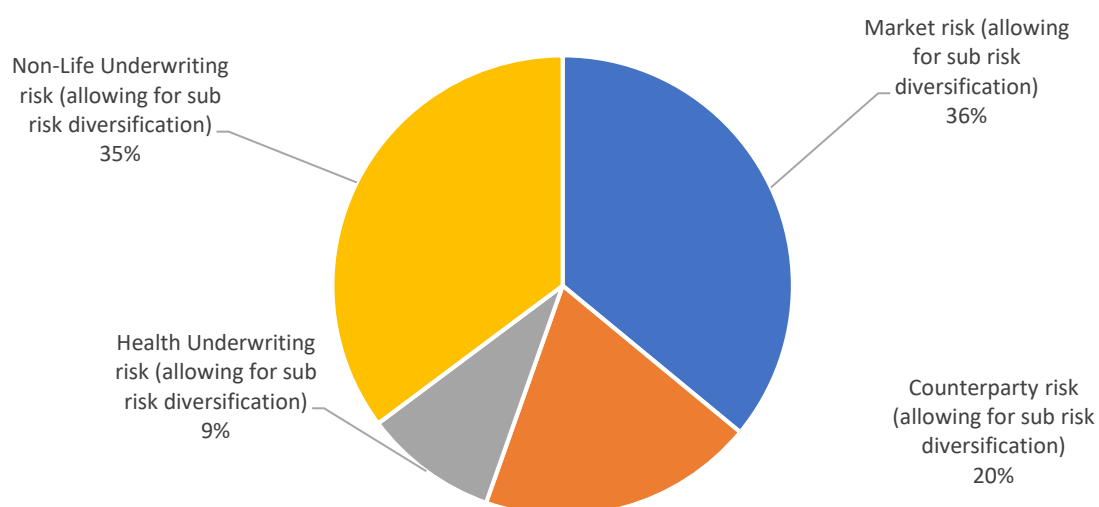
Monitoring risk exposures is undertaken in the context of the overarching limit structure, and any limit breaches are quickly and promptly escalated to the required parties.

Risks arising from Company activities are monitored and controlled through the use of risk limits. The Company takes into consideration techniques to mitigate risks such as the use of reinsurance, premium rate reviews, authority/limits and concentration limits. Reinsurance is used to mitigate the risk that profits and available capital are adversely affected by natural or man-made catastrophes, large losses or accumulations of losses.

Based on the type of business the Company writes and its asset exposures it is exposed primarily to Market Risk and Underwriting Risk (Non-Life and Health) and to a lower extend to Counterparty Risk.

The diagram that follows summarizes the undiversified risk profile of the Company as at the valuation date:

Figure C-1: Company Risk profile 2018





There were no significant changes in the material risks of the Company. The table below shows a comparison between the risk profile of the Company for years 2018 and 2017:

*Table C-1: Company Risk Profile 2018 v/s 2017*

Risk allocation	%	%
	31/12/2018	31/12/2017
Market risk (allowing for sub risk diversification)	36%	35%
Counterparty risk (allowing for sub risk diversification)	20%	21%
Health Underwriting risk (allowing for sub risk diversification)	9%	9%
Non-Life Underwriting risk (allowing for sub risk diversification)	35%	35%

The assessment of the capital requirements to cover these risks is analysed in Section E of this report. In the subsequent Sections of part C of this report, the exposure of the Company to:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

is analysed separately in relation to:

- Risk Assessment
- Risk Concentration
- Risk Mitigation

Risk Sensitivity of other material risks is analysed in a separate section at the end of Section C.

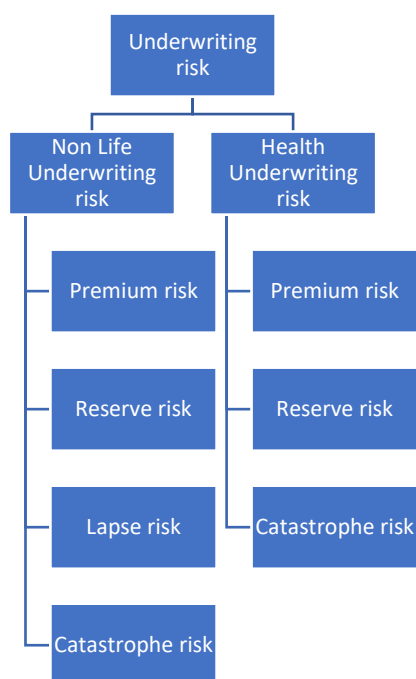


## C.1. Underwriting Risk

Based on the type of business the Company writes, it is exposed to Non-Life Underwriting risk and Health Underwriting risk.

The Company assesses these risks using the standard formula part of Solvency II dealing with underwriting risk:

Figure C-2: Underwriting Risk Model

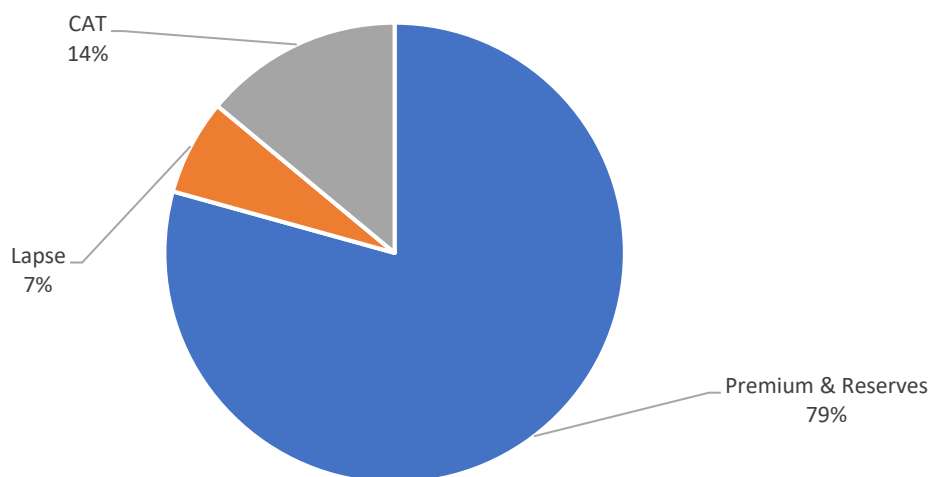


This includes an assessment of the risks resulting from:

- **Premium and Reserve Risk:** a random change in the volume of premiums and reserves of the Company:
  - Premium Risk: arises from the failure of pricing, product or strategy. It is the risk that the planned loss and expense ratios for future accident years materialise differently from expected. It includes the risk of losses due to the potential timing, frequency and severity of covered loss events differing from that assumed at the time of underwriting and pricing a risk. It arises during market and/or investment cycles where there is pressure on pricing margins, which results in being unable to charge an appropriate price without undermining its market position.
  - Reserve Risk: arises if the eventual reserve requirement is greater than that currently held. It represents the difference between the actual versus expected variability in the timing or amount of loss costs.
- **Lapse risk (on applicable for non-health business):** a 40% lapse shock on the company policies.
- **Catastrophe risk:** Natural and manmade extreme / exceptional events which arise from the failure to manage risk aggregation or accumulation that may result in an increased exposure to natural or manmade catastrophe losses.

Within the Non-Life Underwriting risk the allocation of risk capital is shown in the chart that follows:

Figure C-3: Non-Life Underwriting Risk allocation of Risk Capital 2018



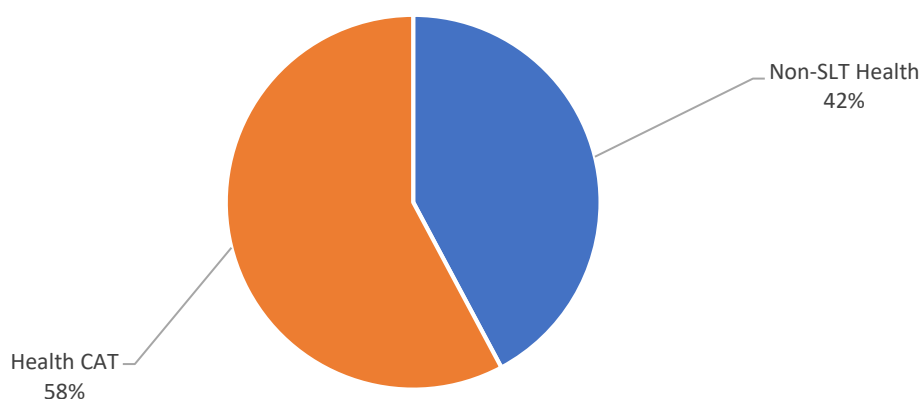
Insurance risk concentration occurs due to the concentration of an insurance operation in a particular industry or insurance peril. It may also occur as a result of a correlation between individual insured perils.

The major risk contributor in the Non-Life Underwriting Risk is the Premium and Reserves part of the module which is driven by the level of reserves and the premium written. This means that the lines that are driving the capital requirements and hence the risk concentrations are the lines in which the company writes a lot of business and these are:

- Motor Business
- Fire and Theft
- Third Party Liability

Within the Health Underwriting Risk the allocation of the capital requirements is as follows:

Figure C-4: Health Underwriting Risk allocation of Risk capital 2018



The business driving these capital requirements is the medical business.

To manage the underwriting risks the company is monitoring and controlling the risks it is undertaking by performing a number of activities:

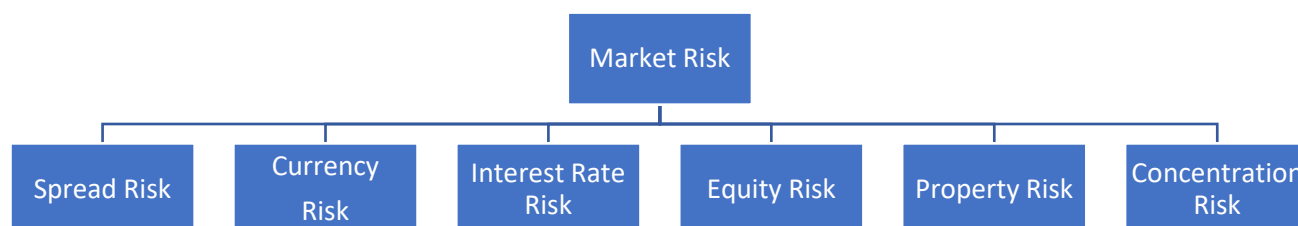
- Setting strict pricing guidelines relevant to each line of business
- Employing strict approval and underwriting authorities
- Employing underwriting guidelines, procedures & authority matrices
- Monitoring of accumulations by cresta zone, geographic locations etc.
- Reviewing of the coverage provided for natural catastrophes
- Pricing risk through the purchase of reinsurance
- Portfolio reinsurance
- Creating reports to review claims
- SLAs with loss adjusters
- Running a claims committee to review claims
- Running an underwriting committee to review large risks
- Strategic plans to control volume of business

The Risk Committee actively monitors the effectiveness of the Risk Mitigation techniques through processes and deliverables including the Risk Register, Stress and Scenario Tests and Risk Indicator Reporting.

## C.2. Market Risk

Market risk is the risk that the Company is adversely affected by movements in the fair value of its financial assets arising from market movements, such as credit spreads, interest rates and foreign exchange rates or other price risks.

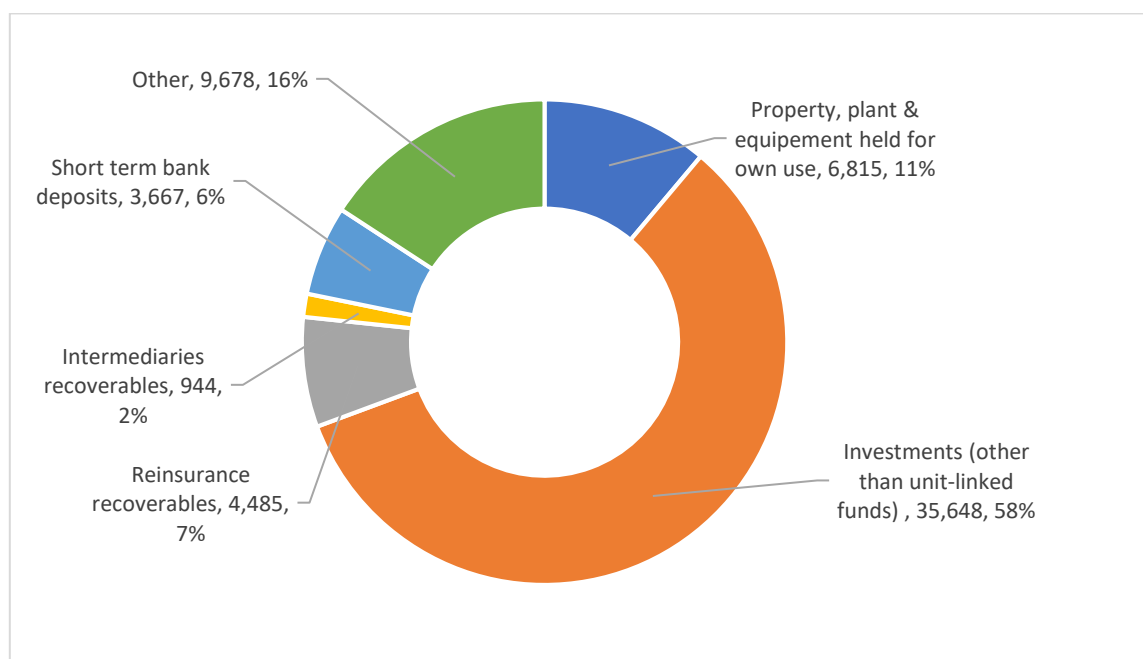
The Company assesses Market Risk using the standard formula part of Solvency II dealing with Market Risk:



Based on the type of assets the Company invests in, it is exposed to Market Risk. The total Company asset exposure is €61,2M on a SII basis.

This is allocated as follows (all monetary figures are in million euros):

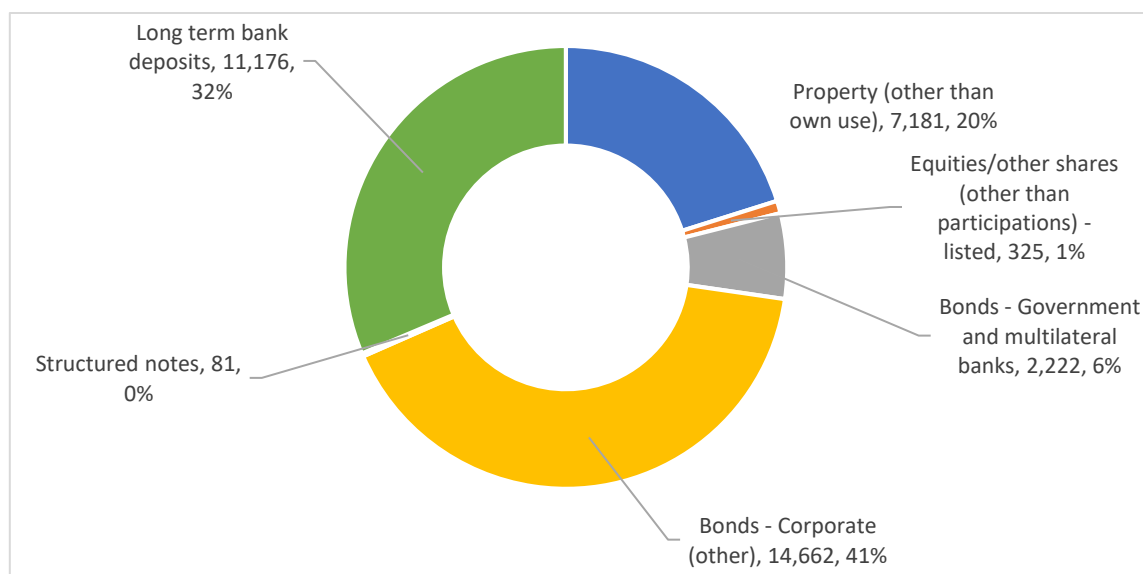
Figure C-5: Asset Portfolio 2018



Based on the diagram above the major asset component is Investments (Other than Unit Linked).

Investments (Other than Unit Linked) make up the 58% of the total assets and is analysed as follows:

Figure C-6: Analysis of Investments (Other than Unit Linked) 2018

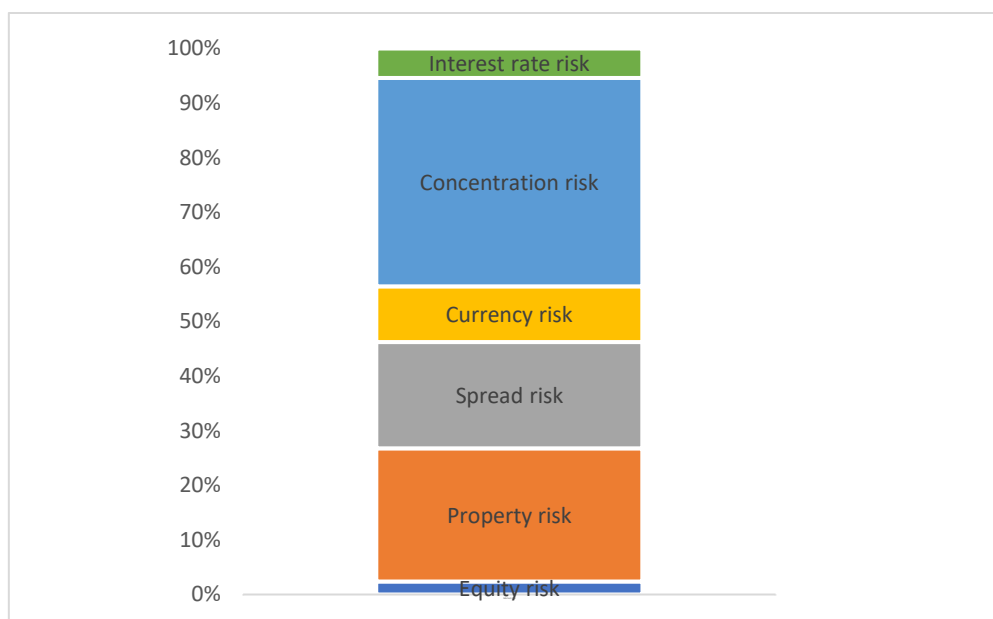


To assess Market Risk the Company is using the standard model of Solvency II. This includes an assessment of the capital requirements resulting from:

- Spread Risk - financial loss due to the increase in the spread that an asset trades relative to a comparable government bond
- Currency Risk - financial loss due to the change in value of currency exchange rates
- Interest Rate Risk - financial loss arising due to changes in the level of interest rates
- Equity Risk - financial loss due to changes in prices of equities, mutual funds and equity-linked capital market instruments
- Property Risk - financial loss arising due to changes in real estate prices
- Concentration Risk - financial loss arising due to the concentration of assets in a particular asset class and / or Counterparty

The major sub risks within Market Risk is the Concentration risk and Property risk:

Figure C-7: Market Risk Profile 2018



The Company is exposed to concentration risk as a result of large individual exposures within its investment portfolios. The major exposure within concentration risk is the Company's exposure to deposits in the Bank of Cyprus.

On the other hand, property risk arises from the company's exposure to properties in Nicosia and Limassol. A sizeable part of the property risk comes from the Head office of the Company.

To manage market risk the Company invest in assets appropriate to the term, nature and currency of its liabilities such that to maximize investment returns. It also manages Market risks by:

- Employing a well-defined investment strategy
- Monitoring of the asset portfolio to avoid asset concentrations
- Monitoring the solvency position prior to agreeing any changes in the assets
- Any material changes to the assets have to be approved by the BOD

The Company monitors the effectiveness of the Risk Mitigation techniques documented risk taking authorities, defined risk limits and minimum standards.

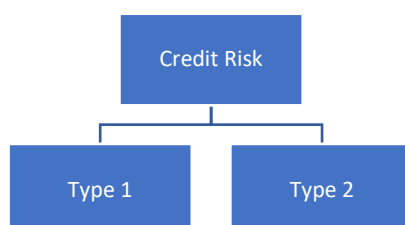
The BOD of the Company approves Company's Risk Appetite which contains the risk appetite for Market Risk.

The Company's investment management policy also ensures the Company's compliance with the Prudent Person Principle as per Article 132 of the Directive 2009/138/EC.

### C.3. Credit Risk

Counterparty Default Risk (Credit Risk) is defined as the change in the value of assets and liabilities caused by unexpected default or deterioration in the credit standing of independent counterparties and debtors.

The Company assesses Credit Risk using the standard formula part of Solvency II dealing with Credit Risk:



This involves an assessment of Credit Risk on both asset and liability side of its balance sheet.

Credit Risk is categorized as:

- Type 1 - involves exposures to counterparties that are non-diversifiable and usually rated e.g. reinsurance arrangements, cash at bank etc.
- Type 2 - involves diversifiable and unrated exposures e.g. receivable from intermediaries, policyholder etc.

The Company is exposed to Credit Risk through its deposits in Banks and the reinsurance treaties that it maintains. These are classified Type 1 exposures. As at the valuation date Type 1 exposures are primarily driven by the exposures of the Company to its reinsurers.

The Type 1 Credit Risk exposures are primarily mitigated through diversification of the credit institutions e.g. Banks and the Reinsurance providers. Moreover the choice of the Counterparty is based on its credit rating and any decisions on this have to be approved by the BOD of the Company. Reinsurance selection is also based on:

- Financial analysis for selecting reinsurance program
- Participate in the reinsurance selection process
- Financial analysis for selecting reinsurance program

The Company is also exposed to Credit Risk through its investments in related Companies of the Group and its receivables from policyholders and intermediaries. These are the so-called Type 2 exposures.

The Type 2 Credit Risk exposures are mitigated through internal procedure that ensures the minimization of the period that any receivables remain outstanding. Credit Risk of Premium receivables is also managed through:

1. Credit Policy & Procedures
2. Monitoring of outstanding premiums
3. Credit Control Report
4. Problematic debts
5. Update the Collections Procedure
6. Credit Control Committee
7. Credit Scoring System

## C.4. Liquidity Risk

Liquidity Risk arises through the possible inability of the Company to meet its obligations as they fall due. These obligations are predominantly the payment of claims from the covered business.

This type of risk is not explicitly assessed by the standard formula of SII. Hence to assess Liquidity Risk the Company is performing its own qualitative assessment through the ORSA. The goal of the Company is to maintain sufficient liquidity to manage its day to day operations in the short, medium and long term as well as sufficient buffer of liquid assets for covering sudden liquidity demands that may arise.

Moreover, 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.



## C.5. Operational Risk

Operational Risk is the risk of loss arising in the Company from its people, processes, systems or the external environment which is a natural consequence of its business operations.

Operational Risks are assessed by the Company through the standard model of SII. This involves assessing Operational Risk through assessing the Company earned premium, provisions and expenses.

Over and above, the Company has in place an Enterprise Risk Management Framework to systematically perform internal assessment of its risks of people, processes, systems or the external environment affecting the business.

Indicative list of Operational Risks together with mitigating actions for the Company include:

Table C-2: Operational risks 2018

Risk	Response	Response Description
<b>Efficiency of risk management system</b>	Group Risk Management Requirements	Company complies with Risk Management requirements of the Group.
	Risk Committee Role	Risk Committee oversees the Risk Management framework.
	GRC software implementation	GRC software full implementation for the Company which enables the CEO, BOD and the Group Risk Management to review all activities of the Risk Management Framework and ensure its effectiveness.
<b>Failure of building facilities</b>		
	BCP & Disaster Recovery	Ensure that the BCP is active and tested. Disaster Recovery is completed by IT and it is a major requirement of the BCP.
<b>Risk of a potential crisis event</b>		
	Crisis Management Plan	Preparation and Implementation of Crisis Management Plan.
	Disaster Recovery Plan	Disaster Recovery Plan in place.
<b>Inadequate standard of customer service</b>		
	Departmental Manual	Standard of service based on the procedures documented in the Departmental Manual.
	Complaints Handling policy	Complaints handling policy in place.
	SLAs for Customer Service	SLAs are in place which are based on Company policy and procedures.
	Monitoring of Customer Service	Monitoring of standard of service provided to customers, to service providers, to agents, etc. every three months.
<b>Inadequate employee performance</b>	Educational Seminars	Organize internal educational seminars related to customer service and best practices.
	Performance appraisal procedure	Performance appraisal procedure as per HR Manual. Staff development and training as per HR Manual. Use of Performance Appraisal System on an annual basis.
	Training Programs	Trainings specific to training needs of individual employees which are aligned to their targets. Company Training plan prepared annually and revised when needed. Training plan is approved by CEO and BOD.
	Recruitment procedure	Comprehensive recruitment procedure and job description as per HR Manual. Recruitment procedure documented and approved by CEO and BOD.

<b>Health and Safety risks to people</b>	Health & Safety Policy and Manual	Health and Safety Policy and Manual in place.
	Emergency and Evacuation Procedures Manual	Emergency and Evacuation Procedures Manual in place with testing and training taking place.
	Medical examination as per recruitment procedure	Medical examinations are performed as per recruitment procedure.
<b>Network Failure</b>		
	Internet Service providers	2 different internet service providers for connectivity redundancy with wireless data option.
	Connection in case of failure	Redundant firewall, redundant switches backup UPS that prevent downtime. Load balancer switches to operate connection in case of failure.
	Power Generator	Power Generator in place, up and running in 10 seconds.  Every 6 months there is a test process in place.  Full load test including maintenance done once a year.
<b>Unavailability of Database Server</b>		
	Hardware health & Servers Inspection	Hardware good condition and inspection of servers through checking of log files and visual inspection.
	Automated Servers Controls	Automated controls on servers, monitor health in order to predict pending failure.
	Redundant Servers & Disaster recovery	Redundant servers are now working in a virtual environment in Nicosia h/o, where in case of local hardware failure of a single host, another host can take the operation of the virtual machines. Furthermore, the disaster recovery site in Limassol operates a duplicated virtual environment of the Nicosia h/o, with daily replications of all systems. The production database of the insurance system is also replicated in a dedicated host in Limassol (outside of DR center) and to another host in ARO.
	3rd DR site	Enable a 3rd DR site, preferably at cloud data center where there is high security both virtual and physical. All production systems can be replicated there as well as without additional cost (except the cloud provider fees).
<b>Risks to information security (external)</b>		
	Public/private network ports	Closed all un-used public/private network ports through firewall.
	2nd in-line content filtering / threat prevention / anti-virus device, firewall	2nd in-line content filtering / threat prevention / anti-virus device and firewall in place.
	PGP, VPN, Firewall	Data encryption through PGP, secure communication through VPN. A second Firewall has been installed in series with the Company's primary firewall to monitor all inbound / outbound connections. Reports are automatically generated to monitor any unwanted network activity. Unused network ports have been blocked from both firewalls and also clients have been blocked for certain ports from being used in case a client PC has been infected with virus. Everything is documented in IT Manual.
	Block all unused ports on firewall	Block all unused ports on firewalls and prevent certain applications and content from activating/displayed.
	Branches connection	All branches connect via VPN to head office to go under the same security policies and control activities.
	Penetration testing in black box mode by certified authority	Penetration testing in black box mode by certified authority.  This will be planned following the full implementation of the new insurance system.
	Internal Penetration testing	Internal Penetration testing on on-going basis.

<b>Physical impairment of property assets</b>	Fire Suppression System, Fire/Smoke/Humidity sensors	Independent electronic equipment friendly, placed in the server room, fire suppression system sensitive to temperature, smoke and humidity in addition to floor's fire detection system.  In addition there is a dedicated water drainage pump in the server room.
	Server	Long password protected servers set to automatically lock after idle period. Server racks are locked from all sides, server room is locked with logbook attached and no input/output device is connected on the servers.  All kind of server virtual centre remote access is password protected.
	Previous building's security systems	Suggest to utilize one of the previous building's security systems for a dedicated server room security & protection.  New access system has been implemented in the new building and the previous building's security systems were not utilized due to age.
	Key lock on server racks & datacentre entrance	Physical key lock on server racks and datacentre entrance.

## C.6. Other Material Risks

The information provided in this section of the report provide a fair view of the risk profile of the Company as at the valuation date. There is a number of other risks that the Company is facing, and these are appropriately managed.

The Company has also performed the following stress tests as reported in the Company's 2018 ORSA report:

*Table C-3: Stress tests 2018*

Scenario	Details
<b>Market Risk</b>	
Property Stress	Reduction of the market value of the Company's property assets
Sovereign & Corporate Bonds	Deterioration of credit spreads of sovereign and corporate bonds with the resulting impact on their market value
Equity Stress	Reduction of the market value of equities
<b>Credit Risk</b>	
Default of main local Bank	Default of the main local Bank of the Company by total exposure (current accounts, term deposits, equities, etc)
Default of top 5 direct customers	Default of the top 5 direct customers of the Company by premium volume
Default of top reinsurer	Default of the top reinsurer of the Company by total exposure
Deterioration of credit standing of reinsurers	Deterioration of the credit standing of all of the Company reinsurers
<b>Insurance Risk</b>	
Loss Ratio increase	Deterioration of the Loss Ratio of the Company
Reserve deficiencies	Increase of technical provisions due to various reasons (increase in inflation expectations, court inflation, legal costs inflation, etc)
Man-made catastrophes	Impact of man-made catastrophes
Natural Catastrophes	Impact of natural catastrophes
<b>Strategic/Reputational Risk</b>	
Loss of most important intermediary	Loss of most important intermediary with resulting impact on premium volume expectations
Written Premium reduction	Failure to meet business plan premiums
Written Premium increase	Exceed the business plan premiums
Policy cancellations	Impact of mass policy cancellations
<b>Liquidity Risk</b>	
Large Claim payment	Impact of large claims on the liquidity of the Company
Accumulation of claims due to single event	Impact of accumulation of claims on the liquidity of the Company
Policy cancellations	Impact of policy cancellations on the liquidity of the Company

## C.7. Any other information

None.

# D. Valuation for Solvency Purposes



This section of the report is produced as per the requirements of **Article 296: Valuation for Solvency Purposes**.

The section provides an analysis of the following:

- Assets
- Technical Provisions
- Other Liabilities
- Alternative Methods for Valuation
- Any other information

## D. Valuation for Solvency Purposes

### D.1. Assets

#### D.1.a. Valuation of Assets

##### D.1.a.1. Summary of the Valuation of Assets

As at the valuation date the total value of Company assets is €65,9M on an IFRS basis and €61,2M on a SII basis. The total difference of €4.7M is analysed in a subsequent section of this report.

The table that follows shows the valuation of the Company assets under an IFRS and Solvency II basis as at the valuation date:

Table D-1: Assets valuation: IFRS and Solvency II 2018

Assets	€ '000 IFRS 31/12/2018	€ '000 SII 31/12/2018	Difference
<b>Other intangible assets</b>	<b>811</b>	<b>0</b>	<b>811</b>
<b>Property, plant &amp; equipment held for own use</b>	<b>6,815</b>	<b>6,815</b>	<b>0</b>
<b>Investments (other than assets held for unit-linked funds)</b>	<b>35,648</b>	<b>35,648</b>	<b>0</b>
Property (other than own use)	7,181	7,181	0
Equities/other shares (other than participations) - listed	325	325	0
Bonds - Government and multilateral banks	2,222	2,222	0
Bonds - Corporate (other)	14,662	14,662	0
Structured notes	81	81	0
Deposits other than cash equivalents	11,176	11,176	0
<b>Reinsurance recoverables</b>	<b>5,672</b>	<b>4,485</b>	<b>1,187</b>
Reinsurance share of TP - non-life excluding health	5,672	4,404	1,268
Reinsurance share of TP - health similar to non-life	0	82	-82
<b>Intermediaries recoverables</b>	<b>944</b>	<b>944</b>	<b>0</b>
<b>Insurance recoverables (excluding Intermediaries)</b>	<b>4,898</b>	<b>4,898</b>	<b>0</b>
<b>Deferred acquisition costs</b>	<b>2,647</b>	<b>0</b>	<b>2,647</b>
<b>Receivables (trade, not insurance)</b>	<b>77</b>	<b>77</b>	<b>0</b>
<b>Cash and cash equivalents</b>	<b>13</b>	<b>13</b>	<b>0</b>
<b>Short term bank deposits</b>	<b>3,667</b>	<b>3,667</b>	<b>0</b>
<b>Amounts due in respect of called but unpaid capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Any other assets, not elsewhere shown</b>	<b>4,690</b>	<b>4,690</b>	<b>0</b>
<b>Total assets (excluding other financial sector assets of groups)</b>	<b>65,883</b>	<b>61,238</b>	<b>4,645</b>

##### D.1.a.2. Bases, Methods and Assumptions

The Company recognizes and values its assets in accordance with the International Financial Reporting Standards (IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, and adjusts the valuation of certain assets in accordance with Solvency II methodologies.

The management of the Company is required to make estimates and assumptions that affect the reported amounts of assets. The following bases, methods and assumptions are used for valuation of each of the following material classes of assets:



#### D.1.a.2.1 Intangible Assets

Intangible Assets are measured at cost less accumulated amortisation and any impairment in value. Amortisation is calculated on cost on a straight-line basis over the estimated useful life of the assets, of five years for computer software and for recruitment bonuses. At each reporting date the carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. When the carrying values exceed the estimated recoverable amount, intangible assets are written down to their recoverable amount.

The Intangible assets are valued at zero for Solvency II purposes because they cannot be sold separately and because there is no quoted market price in an active market for the same or similar intangible assets.

#### D.1.a.2.2 Property, Plant and Equipment

Owner-occupied property is property held by the Company for use in the supply of services or for administrative purposes.

Owner-occupied property is initially measured at cost and subsequently measured at fair value. Valuations are carried out annually by independent qualified values using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to retained earnings.

The buildings are depreciated at an annual rate of 2%.

Equipment is measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on cost at a straight-line basis over its estimated useful life, using the following annual rates:

*Table D-2: Depreciation*

Item	Depreciation
<b>Furniture and office equipment</b>	10%/ 20%
<b>Computer equipment</b>	20%
<b>Motor vehicles</b>	15%
<b>Leasehold improvements</b>	25%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### D.1.a.2.3 Investment Property

The investment property, comprising of land and office buildings, is held for long term rental yields and is not occupied by the Company. All property is shown at valuation carried out by independent professionally qualified valuers at 31 December 2018 in accordance to IFRS 13. Fair value of the properties is determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices and other relevant information generated by market



transactions involving identical or comparable (i.e. similar) assets. Certain properties, classified as level 3, are shown at fair value determined by using the income capitalisation method.

#### D.1.a.2.4 Investments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The subsequent measurement of Financial Assets depends on their classification as follows:

1. Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. These investments are initially recorded at fair value. Subsequent to initial recognition, they are measured at fair value. Changes in fair value are recorded in the income statement. The structured notes (unlisted structured products) and the equity shares in Bank of Cyprus (which were acquired as a result of the conversion of the Bank's deposits in accordance with the relevant decrees of the Central Bank) are included in this category.
2. Available-for-sale (AFS) financial investments: AFS investments include equity investments and debt instruments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt instruments classified as AFS are non-derivatives that are either designated in this category if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term or not classified in any of the other categories.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income (OCI) and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the income statement. The government bonds, the corporate bonds and the listed equity shares (other than the equity shares in Bank of Cyprus which were acquired as a result of the conversion of the Bank's deposits in accordance with the relevant decrees of the Central Bank) are included in this category.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either in the principal market for the asset or in the absence of a principal market, in the most advantageous market for the asset; the principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

All the investments of the Company are valued at Level 1 with the exception of the structured notes that are classified as Level 2 because they represent unlisted structured products which are linked to listed equities and which are converted into cash or equity shares upon redemption, and their value was derived from the prices of the underlying listed equities.

#### D.1.a.2.5 Deposits other than cash equivalents

Deposits other than cash equivalents consist of cash at banks in term deposits with an original maturity of zero to twelve months from the date of acquisition.

#### D.1.a.2.6 Reinsurance Recoverables

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The impairment loss is recorded in the income statement.

The Reinsurance recoverables are valued at a different basis for Solvency II purposes as explained further in the section below.

#### D.1.a.2.7 Insurance Premium Receivables

Insurance receivables represent premiums receivable from intermediaries and from policyholders. They are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

#### D.1.a.2.8 Deferred Acquisition Costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Deferred

Acquisition Costs (DAC) for general insurance and health products are amortised over the period in which the related revenues are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. DAC are derecognised when the related contracts are either settled or disposed of.

The Deferred Acquisition Costs are valued at zero for Solvency II purposes because they are released as future profits from the premium reserves.

#### D.1.a.2.9 Short term Bank Deposits

Short term bank deposits consist of cash at banks in current accounts.

#### D.1.a.2.10 Other assets (Other debtors and prepayments)

This category includes receivables from related companies, prepayments and deposits, amounts receivable from Insurance pools and cash in hand other than notes and coins. Other debtors and prepayments represent balances that are repayable during the normal course of the Company's operations and are interest-free.

**D.1.b. Assets: Valuation for Solvency purposes v/s Valuation in Financial Statements**

All assets on the Solvency II Balance Sheet are valued on the same basis as in the financial statements.

The only differences in the values of assets between the two bases are:

- the exclusion of “Other Intangible Assets” and “Deferred Acquisition Costs”; and
- the revaluation of the “Reinsurance Recoverables”

In relation to the Reinsurance recoverables, the SII value (€4.5m) is lower than the IFRS value (€5.7m). A reconciliation of the difference is shown below:

Table D-3: SII v/s IFRS Reinsurance Asset 2018

Technical Reserves (Reinsurance)	€'000 IFRS 2018	€'000 SII 2018	€'000 Difference
<b>Best Estimate</b>	<b>5,672</b>	<b>4,485</b>	<b>-1,187</b>
<b>Premium reserves</b>	<b>1,744</b>	<b>587</b>	<b>-1,157</b>
Unearned Premium Reserve	1,744	1,744	0
Unexpired Risk Reserve	0	0	0
future losses/profits	0	-1,159	-1,159
discounting	0	2	2
<b>Claims reserves</b>	<b>3,929</b>	<b>3,918</b>	<b>-10</b>
undiscounted	3,929	3,903	-26
discounting	0	15	15
<b>Risk Margin</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Reins. default adjustment</b>	<b>0</b>	<b>-20</b>	<b>-20</b>
<b>TOTAL</b>	<b>5,672</b>	<b>4,485</b>	<b>-1,187</b>

The table below shows that at the valuation date the IFRS reinsurance asset is €5,672 and the SII reinsurance asset amount to €4,485K. The €1,187K difference is accounted as follows:

Table D-4: Reconciliation between SII and IFRS Reinsurance Asset

Item	€'000
<b>IFRS Reinsurance Asset</b>	<b>5,672</b>
Less release of reinsurance share of UPR	-1,157
Less reinsurance share of prudence in Claim provisions	-26
Plus Discounting	15
Less Reinsurance Default Adjustment	-20
<b>SII Reinsurance Asset</b>	<b>4,485</b>

## D.2. Technical Provisions

### D.2.a. Valuation of Technical Provisions

Solvency II requires the Company to set up technical provisions on a fair value basis; that is the current amount undertakings would have to pay if they were to transfer their (re)insurance obligations immediately to another undertaking.

Moreover, technical provisions are calculated separately for each homogeneous risk group to achieve an accurate valuation of technical provisions. For this purpose the Company segments its (re)insurance obligations into homogeneous risk groups, and as a minimum by line of business. These homogeneous groups are defined by the SII regulation and the company fully complies with the suggested segmentation.

#### D.2.a.1. Summary of Valuation of Technical Provisions

Technical Provisions (TP) are taken as the sum of Best Estimate Liability (BEL) and Risk Margin (RM). The total technical provision as at the valuation date for the Company is €32.5m. This is broken down into a BEL of €31.7m and a RM €0.8m.

The technical provision results as at the valuation date for the relevant SII segments are shown in the table that follows, separately for Direct, Inwards proportional reinsurance and inwards non-proportional reinsurance:

Table D-5: Technical provisions for homogenous Risk groups

Type	SII Segment	Gross BEL 31/12/2018 €'000	RM 31/12/2018 €'000	Gross TP 31/12/2018 €'000
Direct	Income protection insurance	473	12	486
Direct	Medical expense insurance	2,601	68	2,669
Direct	Motor vehicle liability	15,933	388	16,321
Direct	Motor, other classes	4,024	107	4,131
Direct	Marine, aviation, transport (MAT)	39	1	39
Direct	Fire and other property damage	4,163	36	4,199
Direct	Third-party liability	4,466	116	4,583
Direct	Assistance	0	0	0
Direct	Miscellaneous	3	0	3
Inwards Proportional	Income protection insurance	41	1	42
Inwards Proportional	Marine, aviation, transport (MAT)	0	0	0
Inwards Proportional	Fire and other property damage	4	0	4
Inwards non Proportional	Non-proportional casualty reinsurance	1	0	1
<b>Total</b>		<b>31,748</b>	<b>729</b>	<b>32,477</b>

### D.2.a.2. Bases, Methods and Assumptions

As described above technical provisions are taken as the sum of Best Estimate Liability (BEL) and Risk Margin (RM). These items are further explained below:

#### 1. Best Estimate Liability (BEL)

The BEL calculation corresponds to the probability weighted average of future cash-flows taking account of the time value of money. This is as defined in the SII technical specifications.

The cash flows that make up the BEL components as at the valuation date is the total of the following items:

- Claim reserves - the cash-flow projections relate to claim events having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims). The cash-flow projections comprise all future claim payments as well as claims administration expenses arising from these events. Historical experience was used to project the Ultimate Future Cost of claims by employing a number of actuarial approaches e.g. Claims Development Factor Method modelling,
- Premium Reserves - the cash-flow projections relate to claim events occurring after the valuation date and during the remaining in-force period (coverage period) of the policies held by the undertaking (recognised policies). The cash-flow projections comprise all future claim payments and claims administration expenses arising from these events, cash-flows arising from the ongoing administration of the in-force policies and expected future premiums stemming from recognised policies falling within the contract boundary.

The time value of money is allowed by discounting using the risk-free yield curve for Euros (€) published by EIOPA.

#### 1. Risk Margin (RM)

The risk margin is calculated by projecting the solvency capital requirement (SCR) for the run-off of existing business for 'non-hedgeable' risks. A prescribed cost of capital charge of 6% is applied and the result is then discounted at the risk-free rate to determine the risk margin.

The value of the RM is calculated in total and is then allocated to the lines of business (SII segments) based on the BEL requirement of each line.

### D.2.b. Uncertainty in Technical Provisions

In calculating the TPs uncertainty can arise from the following:

1. Outstanding Claims Reserve – while information about claims is generally available, assessing the cost of settling the claim is subject to some uncertainty.
2. "IBNR" – this is generally subject to a greater degree of uncertainty than say Outstanding Claims Reserve since the nature of the claims is not known at the time of reserving.
3. URR - this is uncertain as the claims have not yet been incurred, but are expected to be incurred on the business which the Company has written.
4. Risk margin – the risk margin, being the margin payable to transfer the business to another insurance carrier, is uncertain due to the requirement to forecast future solvency capital requirements over the period of a run off.

### D.2.c. Liabilities: Valuation for Solvency purposes vs Valuation in Financial Statements

The tables that follow show a comparison between the liabilities as calculated for IFRS and SII purposes:

Table D-6: SII v/s IFRS Gross liabilities 2018

Liabilities	€'000 IFRS 31/12/2018	€ '000 SII 31/12/2018
<b>Gross technical provisions – non-life (excluding health)</b>	<b>36,867</b>	<b>29,332</b>
TP calculated as a whole (Best estimate + Risk margin)	36,867	0
Best Estimate	0	28,674
Risk margin	0	658
<b>Gross technical provisions - health (similar to non-life)</b>	<b>0</b>	<b>3,145</b>
TP calculated as a whole (Best estimate + Risk margin)	0	0
Best Estimate	0	3,074
Risk margin	0	71
<b>Total</b>	<b>36,867</b>	<b>32,477</b>

Table D-7: SII v/s IFRS Gross Liabilities 2018

Technical Reserves (Gross)	€'000 IFRS 2018	€'000 SII 2018	€'000 Difference
<b>Best Estimate</b>	<b>36,867</b>	<b>31,748</b>	<b>5,119</b>
<b>Premium reserves</b>	<b>12,731</b>	<b>8,094</b>	<b>4,636</b>
Unearned Premium Reserve	12,731	12,731	0
Unexpired Risk Reserve	0	0	0
future losses/profits	0	-4,669	4,669
discounting	0	33	-33
<b>Claims reserves</b>	<b>24,136</b>	<b>23,654</b>	<b>482</b>
undiscounted	24,136	23,555	581
discounting	0	99	-99
<b>Risk Margin</b>	<b>0</b>	<b>729</b>	<b>-729</b>
<b>Reins. default adjustment</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>36,867</b>	<b>32,477</b>	<b>4,390</b>

The table below shows that at the valuation date the IFRS liabilities amount to €36,867K and the SII liabilities amount to €32,477K.



Breaking down the Best estimate liabilities into their subsequent parts the technical provisions can also be represented as follows:

Table D-8: SII v/s IFRS Gross Liabilities 2018

Technical Reserves (Gross)	€'000 IFRS 31/12/2018	€'000 SII 31/12/2018	€'000 Difference
<b>Total provision after the valuation date</b>	<b>12,731</b>	<b>8,094</b>	<b>4,636</b>
Future Claims		6,470	
Admin expenses		1,082	
Claims management expenses		509	
Unearned Premium Reserve	12,731		
Discounting		33	-33
<b>Total provision prior to the valuation date</b>	<b>24,136</b>	<b>23,654</b>	<b>482</b>
O/S claims	20,054	20,054	0
IBNR	3,530	3,047	483
Claim Expenses	553	454	98
Discounting		99	-99
<b>Risk Margin</b>		<b>729</b>	<b>-729</b>
<b>Total Technical provisions</b>	<b>36,867</b>	<b>32,477</b>	<b>4,390</b>

The €4,390K difference is accounted as follows:

Table D-9: Reconciliation between SII and IFRS liabilities 2018

Item	€'000 2018
<b>IFRS Liabilities</b>	<b>36,867</b>
Less Release of UPR from the use of expected loss ratios	-6,260
Plus allowances for future expenses	1,591
Less Release of prudence in the Incurred But not Reported provisions	-483
Less Release of prudence in the claim settlement costs	-98
Plus Discounting	131
Plus Risk Margin	729
<b>SII Technical provisions</b>	<b>32,477</b>

The starting point in calculating the SII technical provisions is the IFRS liabilities. Thereafter the IFRS liabilities are adjusted as follows:

1. Expected loss ratios are used to calculate the expected losses from unearned business. These are derived utilizing the actuarial best estimate ultimate loss ratio assumptions with adjustments made to allow for future expected inflation. This accounts to a release of €6,260K from the premium reserves.
2. An explicit allowance for future expenses is made. This accounts to an increase in the provision by €1,591K
3. The prudence build in the Incurred But not Reported (IBNR) reserves is removed. This accounts to a decrease of €483K in the claim reserves

4. The prudency build in the claim settlement costs is removed. This accounts to a decrease of €98K in the claim reserves
5. No discount rate is used under IFRS whereas under Solvency II the Company must discount liabilities at the risk-free rate. This accounts for €131K increase in the liabilities.
6. The IFRS methodology for the valuation of technical provisions does not include the Solvency II concepts of the risk margin or transitional measures. The Risk Margin has an increasing effect on the IFRS liabilities of €729K.

#### **D.2.d. Transitional measures: Matching Adjustment**

Given the nature of the Company liabilities the valuation of technical provisions for solvency purposes does not use the matching adjustment.

#### **D.2.e. Transitional Measures: Volatility Adjustment**

The valuation of technical provisions for solvency purposes does not use the volatility adjustment.

#### **D.2.f. Transitional measures: Risk Free Interest Rate**

The Company does not use the transitional measures on interest rates.

#### **D.2.g. Transitional measures: Impact**

Not applicable.

#### **D.2.h. Recoveries from reinsurance and special purpose vehicles**

##### **D.2.h.1. Recoveries**

The Company does not use any special purpose vehicles.

The Company reinsures its business through proportional and excess of loss reinsurance arrangements. This reduces the technical provision by lowering the BEL and consequently reducing the Capital Requirements, through building the reinsurance recoveries as an asset.

The table below shows a summary of the reinsurance recoveries on various segments written by the Company:

Table D-10: Gross and Net BEL 2018

Type	Segment	€ '000 SII Gross BEL 31/12/2018	€ '000 SII Net BEL 31/12/2018	€ '000 SII Reinsurance BEL 31/12/2018
Direct	Income protection insurance	473	459	14
Direct	Medical expense insurance	2,601	2,533	68
Direct	Motor vehicle liability	15,933	14,488	1,445
Direct	Motor, other classes	4,024	4,018	6
Direct	Marine, aviation, transport (MAT)	39	23	15
Direct	Fire and other property damage	4,163	1,329	2,834
Direct	Third-party liability	4,466	4,351	116
Direct	Assistance	0	0	0
Direct	Miscellaneous	3	3	0
InProp	Income protection insurance	41	35	6
InProp	Marine, aviation, transport (MAT)	0	0	0
InProp	Fire and other property damage	4	2	2
InNonProp	Non-proportional casualty reinsurance	1	1	0
<b>Total</b>		<b>31,748</b>	<b>27,243</b>	<b>4,505</b>

The total reinsurance BEL includes €20K for Reinsurance default adjustments. If this were to be subtracted from the Reinsurance BEL the total Reinsurance BEL would have been €4,485K rather than €4,505K which ties back to the Reinsurance assets in the balance sheet.

It should be noted that reinsurance will decrease the capital requirements of the Company through its mitigating effect on underwriting risk including catastrophe events. However, reinsurance will also increase the capital requirements of the Company by absorbing capital to allow for the credit risk of the reinsurer through the counterparty default risk module of the standard formula. This has been analyzed in the Risk profile section of the report.

## D.3. Other Liabilities

### D.3.a. Valuation of Other Liabilities

#### D.3.a.1. Summary of the valuation of Other Liabilities

The table that follows analyses the valuation of the liabilities booked by the Company that related to liabilities other than technical provisions.

Table D-11: Summary of the valuation of Other liabilities 2018

Liabilities	€ '000 IFRS 31/12/2018	€ 000 SII 31/12/2018	Difference
Cash deposits from reinsurers	1,018	1,018	0
Insurance and intermediaries payables	1,385	1,385	0
Reinsurance accounts payable	377	377	0
Deferred tax liabilities	170	0	170
Provisions other than technical provisions	676	150	526
Payables (trade, not insurance)	1,018	1,018	0
Any other liabilities (excluding subordinated liabilities), not elsewhere shown	1,380	1,380	0
<b>Total liabilities (excluding other financial sector liabilities of groups)</b>	<b>6,024</b>	<b>5,328</b>	<b>696</b>

#### D.3.a.2. Bases, methods and assumptions

The Company recognizes and values its other liabilities in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law, and adjusts the valuation of certain liabilities in accordance with Solvency II methodologies.

The management of the Company is required to make estimates and assumptions that affect the reported amounts of liabilities. The following bases, methods and assumptions are used for valuation of each of the following material classes of other liabilities

##### D.3.a.2.1 Cash Deposits from Reinsurers

This category includes payables to reinsurers for premium reserve retained. They are repayable during the normal course of the Company's operations and bear interest rate according to the terms of each treaty.

##### D.3.a.2.2 Provisions other than Technical Provisions

This category includes amounts payable to Group Insurance pools and deferred acquisition income. They are repayable during the normal course of the Company's operations and are interest-free.

The Deferred acquisition income is valued at zero for Solvency II purposes because it is released as future profits from the premium reserves.

##### D.3.a.3. Trade Payables (Other creditors and accrued expenses)

This category includes other creditors and accrued expenses which do not relate to insurance operations as well as employee contributions payable to the government. They represent balances that are repayable during the normal course of the Company's operations and are interest-free.

#### **4.3.1.4. Insurance and intermediaries payables**

This category includes commissions payable to intermediaries in relation to insurance operations. They represent balances that are repayable during the normal course of the Company's operations and are interest-free.

#### **D.3.a.5. Other Liabilities**

This category includes other creditors and accrued expenses which relate to insurance operations as well as payables to claimants and Motor Insurers Fund. They represent balances that are repayable during the normal course of the Company's operations and are interest-free.

#### **D.3.b. Other Liabilities: Valuation for Solvency Purposes v/s Valuation Financial Statements**

All other liabilities on the Solvency II balance sheet are valued on the same basis as in the financial statements.

The only difference in the values of other liabilities between the two bases is the exclusion from Solvency II of "Deferred tax liabilities" of €0.2m and the exclusion of deferred acquisition income of €0.5m from "Provisions other than technical provisions".

#### **D.4. Alternative methods for valuation**

The Company does not use any other methods of valuation.

#### **D.5. Any other material information**

##### **Going Concern**

The Company's management has assessed the ability of the Company to continue as a going concern entity. In making this assessment, the Company's management has also considered the current economic situation in Cyprus and the potential impact this may have on the Company's operating environment and financial position.

The management have a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

# E. Capital Management



This section of the report is produced as per the requirements of **Article 297: Capital Management**.

The section provides an analysis of the following:

- Own Funds
- SCR and MCR
- Use of the duration-based equity risk sub-module in the calculation of the SCR
- Differences between the standard formula and any internal model used
- Non-compliance with the MCR and non-compliance with the SCR
- Any other information

## E. Capital Management

### E.1. Own Funds

#### E.1.a. Own Funds Management

Capital management focuses on ensuring that there is sufficient coverage of both the regulatory capital requirements (MCR and SCR) as well as the economic capital targets set. The Company sets out target capital parameters and strategy to be maintained over a three-year business planning horizon. The intention of the plan is to ensure the Company meets regulatory capital requirements and other business expectations whilst also optimizing capital efficiency.

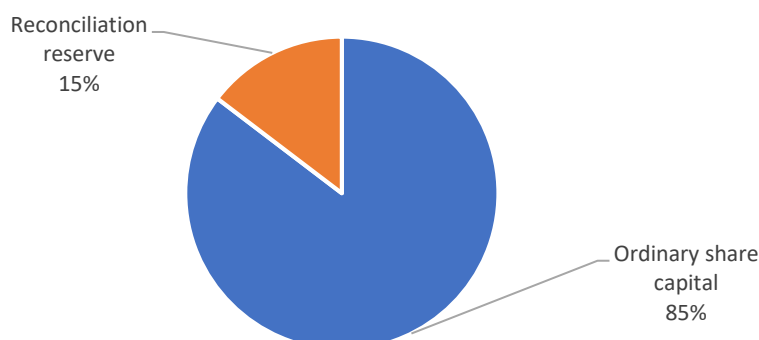
- The Solvency Capital Level must be 105% of all capital requirements at all times and over the business plan period
- The Solvency Capital Level must be 125% of the Pillar 1 Capital Requirement at all times and over the business plan period

#### E.1.b. Structure, Amount and Quality of Owned Funds

The total amount of Own Funds as at the valuation date is €23,4m compared to €21,9m in 2017.

The total amount of eligible own funds is classified as Tier 1 (unrestricted) capital as it is made up of Ordinary share capital (gross of own shares) and Reconciliation reserve. The illustration that follows shows the breakdown of the Own Funds into Ordinary shares and the reconciliation reserve as at the valuation date:

Figure E-1: Analysis of basic own funds for 2018



#### E.1.c. Basic Own Funds to cover the SCR

The total amount of Own Funds as at the valuation date is €23,4, and is classified as Tier 1 (unrestricted) capital as which means that all the amount of available capital can be used to support the SCR.

#### E.1.d. Basic Own Funds to cover the MCR

The total amount of Own Funds as at the valuation date is €23,4m and is classified as Tier 1 (unrestricted) capital as which means that all the amount of available capital can be used to support the MCR.



**E.1.e. Differences between equity in financial statements and excess of assets over liabilities as calculated for solvency purposes**

The difference is fully explained by the Reconciliation reserve.

**E.1.f. Basic own-fund item subject to transitional arrangements**

There were no basic own-fund items that are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC

**E.1.g. Ancillary Own Funds**

There were no ancillary Own-fund items

**E.1.h. Deductions from Own Funds**

There were not deductions from Own Funds.

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

### E.2.a. SCR and MCR Results

The SCR of the Company as at the valuation date was €16.9m. The MCR of the Company as at the valuation date was €4.8m.

Table E-1: SCR and MCR results 2017 and 2018

Capital	€ '000 31/12/2018	€ '000 31/12/2017
Solvency Capital requirement	16,913	15,971
Minimum Capital Requirement	4,819	4,207

### E.2.b. SCR Split by Risk Modules

The undertaking applies the standard formula. The underlying Company risks have been described in section C of this report. The valuation methodologies for the Assets and the Liabilities have been described in section D of this report.

In this section the capital requirements assessed under the standard formula of SII are provided.

The SCR is the amount of funds that the Company is required to hold in line with the Solvency II Directive. The SCR calculation is a formula based figure calibrated to ensure that all quantifiable risks are taken into account.

The assessment of the SCR using the standard formula approach is based on a modular approach separately assessing each applicable risk. These are then aggregated in the standard formula using correlation matrices, both at the submodule and the main module level. An intangible asset module is then added (uncorrelated) to give the BSCR. The operational risk component and adjustments for risk absorbing effect of future profit sharing and deferred taxes are then allowed for, to give the overall SCR.

The coverage ratio of the Company as at the valuation date is 139% compared to 137% in 2017. This is summarized below:

Table E-2: Coverage ratio for 2017 and 2018

	€ '000 31/12/2018	€ '000 31/12/2017
<b>BSCR</b>	15,886	15,037
<b>Operational Risk</b>	1,027	934
<b>SCR</b>	16,913	15,971
<b>Available Capital</b>	23,433	21,873
<b>Surplus</b>	6,521	5,902
<b>Coverage</b>	<b>139%</b>	<b>137%</b>

The SCR for each risk module is also analyzed separately as per below:

Table E-3: SCR split by risk modules and sub Risk Modules for 2017 and 2018

	€ '000 2018	€ '000 2017
<b>Market risk (allowing for sub risk diversification)</b>	<b>8,143</b>	<b>7,560</b>
Interest rate risk	749	309
Equity risk	331	926
Property risk	3,370	3,066
Spread risk	2,697	2,302
Currency risk	1,408	490
Concentration risk	5,282	5,014
<b>Counterparty risk (allowing for sub risk diversification)</b>	<b>4,395</b>	<b>4,504</b>
Type 1	2,816	2,204
Type 2	1,869	2,609
<b>Health Underwriting risk (allowing for sub risk diversification)</b>	<b>2,125</b>	<b>1,913</b>
SLT Health (similar to life technique) underwriting risk	0	-
Non-SLT Health	1,126	868
Health CAT	1,543	1,501
<b>Non-Life Underwriting risk (allowing for sub risk diversification)</b>	<b>7,970</b>	<b>7,416</b>
Premium & Reserves	7,509	6,841
Lapse	636	547
CAT	1,323	1,579
<b>Total Capital Required (allowing for sub risk diversification)</b>	<b>22,633</b>	<b>21,393</b>
<b>Diversification benefit between risk modules</b>	<b>6,747</b>	<b>6,356</b>
<b>BSCR</b>	<b>15,886</b>	<b>15,037</b>
<b>Operational Risk</b>	<b>1,027</b>	<b>934</b>
<b>SCR</b>	<b>16,913</b>	<b>15,971</b>
<b>Available Capital</b>	<b>23,433</b>	<b>21,873</b>
Total capital (per SII balance sheet)	61,238	53,252
Less Total technical provisions	32,477	27,227
Less Other Liabilities	5,328	4,152
<b>Surplus</b>	<b>6,521</b>	<b>5,902</b>
<b>Coverage</b>	<b>139%</b>	<b>137%</b>

### E.2.c. Simplified Calculations

The Company is not making any simplified calculations.

### E.2.d. Undertaking- specific parameters

The Company is not using undertaking- specific parameters pursuant to Article 104(7) of Directive 2009/138/EC.

### E.2.e. Use of the third subparagraph of Article 51(2) of Directive 2009/138/EC;

Not applicable.

### E.2.f. Impact of any undertaking-specific parameters

Not applicable.

**E.2.g. Information on the inputs used by the undertaking to calculate the MCR***Table E-4: MCR coverage ratio for 2017 and 2018*

	Euros '000 31/12/2018	Euros '000 31/12/2017
Linear MCR	4,819	4,207
SCR	16,913	15,971
MCR cap (45% of SCR)	7,611	7,187
MCR floor (25% of SCR)	4,228	3,993
MCR absolute floor	3,700	3,700
MCR	4,819	4,207
<b>Coverage</b>	<b>486%</b>	<b>520%</b>

**E.2.h. Any material change to the SCR and MCR over the reporting period**

Not applicable.

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

The Company did not use the duration-based equity risk sub-module for the calculation of its Solvency Capital Requirement.

**E.4. Differences between the Standard Formula and any internal model used**

The Company used the standard formula for its solvency assessment i.e. did not use an internal model for the calculation of the Solvency Capital Requirement.

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

There was no breach of the Minimum Capital Requirements or Solvency Capital Requirements during the reporting period as the company available capital was higher than both the SCR and the MCR.

**E.6. Any other information**

None.

# Annex A.

# Quantitative

# Reporting Templates



## Annex A – Quantitative Reporting Templates

This Annex lists the annual quantitative templates submitted to the local Regulator on behalf of the Company for the valuation date.

The following templates are reproduced in this annex:

*Table 0-1: QRTs required*

Code	Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
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 non-life insurance or reinsurance activity

**S.02.01.02 - Balance Sheet**

		Solvency II value
		C0010
<b>Assets</b>		
Intangible assets	<b>R0030</b>	0
Deferred tax assets	<b>R0040</b>	0
Pension benefit surplus	<b>R0050</b>	0
Property, plant & equipment held for own use	<b>R0060</b>	6,815,496
Investments (other than assets held for index-linked and unit-linked contracts)	<b>R0070</b>	35,648,040
Property (other than for own use)	<b>R0080</b>	7,181,000
Holdings in related undertakings, including participations	<b>R0090</b>	0
Equities	<b>R0100</b>	325,143
Equities - listed	<b>R0110</b>	325,143
Equities - unlisted	<b>R0120</b>	0
Bonds	<b>R0130</b>	16,965,547
Government Bonds	<b>R0140</b>	2,222,337
Corporate Bonds	<b>R0150</b>	14,661,949
Structured notes	<b>R0160</b>	81,261
Collateralised securities	<b>R0170</b>	0
Collective Investments Undertakings	<b>R0180</b>	0
Derivatives	<b>R0190</b>	0
Deposits other than cash equivalents	<b>R0200</b>	11,176,350
Other investments	<b>R0210</b>	0
Assets held for index-linked and unit-linked contracts	<b>R0220</b>	0
Loans and mortgages	<b>R0230</b>	0
Loans on policies	<b>R0240</b>	0
Loans and mortgages to individuals	<b>R0250</b>	0
Other loans and mortgages	<b>R0260</b>	0
Reinsurance recoverables from:	<b>R0270</b>	4,485,387
Non-life and health similar to non-life	<b>R0280</b>	4,485,387
Non-life excluding health	<b>R0290</b>	4,403,748
Health similar to non-life	<b>R0300</b>	81,639
Life and health similar to life, excluding health and index-linked and unit-linked	<b>R0310</b>	0
Health similar to life	<b>R0320</b>	0
Life excluding health and index-linked and unit-linked	<b>R0330</b>	0
Life index-linked and unit-linked	<b>R0340</b>	0
Deposits to cedants	<b>R0350</b>	0
Insurance and intermediaries receivables	<b>R0360</b>	5,841,956
Reinsurance receivables	<b>R0370</b>	0
Receivables (trade, not insurance)	<b>R0380</b>	76,824
Own shares (held directly)	<b>R0390</b>	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	<b>R0400</b>	0
Cash and cash equivalents	<b>R0410</b>	3,680,189
Any other assets, not elsewhere shown	<b>R0420</b>	4,690,021
<b>Total assets</b>	<b>R0500</b>	61,237,913



Liabilities	Solvency II value	
	C0010	
Technical provisions – non-life	<b>R0510</b>	32,476,866
Technical provisions – non-life (excluding health)	<b>R0520</b>	29,332,212
Technical provisions calculated as a whole	<b>R0530</b>	0
Best Estimate	<b>R0540</b>	28,674,025
Risk margin	<b>R0550</b>	658,187
Technical provisions - health (similar to non-life)	<b>R0560</b>	3,144,654
Technical provisions calculated as a whole	<b>R0570</b>	0
Best Estimate	<b>R0580</b>	3,074,091
Risk margin	<b>R0590</b>	70,563
Technical provisions - life (excluding index-linked and unit-linked)	<b>R0600</b>	0
Technical provisions - health (similar to life)	<b>R0610</b>	0
Technical provisions calculated as a whole	<b>R0620</b>	0
Best Estimate	<b>R0630</b>	0
Risk margin	<b>R0640</b>	0
Technical provisions – life (excluding health and index-linked and unit-linked)	<b>R0650</b>	0
Technical provisions calculated as a whole	<b>R0660</b>	0
Best Estimate	<b>R0670</b>	0
Risk margin	<b>R0680</b>	0
Technical provisions – index-linked and unit-linked	<b>R0690</b>	0
Technical provisions calculated as a whole	<b>R0700</b>	0
Best Estimate	<b>R0710</b>	0
Risk margin	<b>R0720</b>	0
Contingent liabilities	<b>R0740</b>	0
Provisions other than technical provisions	<b>R0750</b>	149,659
Pension benefit obligations	<b>R0760</b>	0
Deposits from reinsurers	<b>R0770</b>	1,018,001
Deferred tax liabilities	<b>R0780</b>	0
Derivatives	<b>R0790</b>	0
Debts owed to credit institutions	<b>R0800</b>	0
Financial liabilities other than debts owed to credit institutions	<b>R0810</b>	0
Insurance & intermediaries payables	<b>R0820</b>	1,385,257
Reinsurance payables	<b>R0830</b>	376,638
Payables (trade, not insurance)	<b>R0840</b>	1,017,584
Subordinated liabilities	<b>R0850</b>	0
Subordinated liabilities not in Basic Own Funds	<b>R0860</b>	0
Subordinated liabilities in Basic Own Funds	<b>R0870</b>	0
Any other liabilities, not elsewhere shown	<b>R0880</b>	1,380,414
<b>Total liabilities</b>	<b>R0900</b>	37,804,419
<b>Excess of assets over liabilities</b>	<b>R1000</b>	23,433,494

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

		Line of Business for: <b>non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)</b>												Line of Business for: <b>accepted non-proportional reinsurance</b>				Total	
		Medical ex- pense insur- ance	Income protection insurance	Work- ers' compen- sation insur- ance	Motor vehicle liability insur- ance	Other motor insurance	Marine, avi- ation and transport insur- ance	Fire and other damage to property insur- ance	General lia- bility insur- ance	Credit and surety- ship insur- ance	Legal ex- penses insur- ance	Assis- tance	Miscella- neous finan- cial loss	Health	Casualty	Marine, aviation, transport	Prop- erty		
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		
Premiums written																			
Gross - Direct Business	R0110	5,632,600	502,306	0	13,795,394	4,517,733	204,970	6,168,646	4,161,314	0	0	75,851	130,166	-	-			35,188,980	
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	3,124	66,712	0	0	0	0	0	-	-			69,836	
Gross - Non-proportional reinsurance accepted	R0130													0	17,400	0	0	17,400	
Reinsurers' share	R0140	262,997	23,272	0	418,905	705,845	158,394	4,289,873	203,966	0	0	33,064	65,207	0	0	0	0	6,161,523	
Net	R0200	5,369,603	479,034	0	13,376,489	3,811,888	49,700	1,945,485	3,957,348	0	0	42,787	64,959	0	17,400	0	0	29,114,693	
Premiums earned																			
Gross - Direct Business	R0210	5,633,158	493,000	0	13,314,108	4,307,891	192,271	6,101,952	3,879,074	0	0	73,525	135,805					34,130,784	
Gross - Proportional reinsurance accepted	R0220	0	13,793	0	0	0	3,587	74,916	0	0	0	0	0					92,296	
Gross - Non-proportional reinsurance accepted	R0230													0	19,860	0	0	19,860	
Reinsurers' share	R0240	262,997	23,459	0	418,905	707,740	149,392	4,242,327	195,769	0	0	33,436	75,493	0	0	0	0	6,109,518	
Net	R0300	5,370,161	483,334	0	12,895,203	3,600,151	46,466	1,934,541	3,683,305	0	0	40,089	60,312	0	19,860	0	0	28,133,422	
Claims incurred																			
Gross - Direct Business	R0310	4,961,383	655,566	0	7,322,254	2,095,621	18,760	1,842,130	845,875	0	0	780	10,360					17,752,729	
Gross - Proportional reinsurance accepted	R0320	0	0	0	0	0	0	14,124	0	0	0	0	0					14,124	
Gross - Non-proportional reinsurance accepted	R0330													0	4,887	0	0	4,887	
Reinsurers' share	R0340	123,497	0	0	345,172	1,979	11,672	1,344,163	42,850	0	0	0	21	0	0	0	0	1,869,354	
Net	R0400	4,837,886	655,566	0	6,977,082	2,093,642	7,088	512,091	803,025	0	0	780	10,339	0	4,887	0	0	15,902,386	
Changes in other technical provisions																			
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0	0	0	0					0	
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0	0	0	0					0	
Gross - Non- proportional reinsurance accepted	R0430													0	0	0	0	0	
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net	R0500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Expenses incurred	R0550	1,294,292	160,865	0	5,196,953	1,757,450	73,429	2,512,075	1,586,261	0	0	22,126	51,335	0	0	0	0	12,654,786	
Other expenses	R1200																		0
Total expenses	R1300																		12,654,786

**S.05.02.01 - Premiums, claims and expenses by country**

Table 0-2

		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
	R0010		BH					
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
Gross - Direct Business	R0110	35,188,980	0	0	0	0	0	35,188,980
Gross - Proportional reinsurance accepted	R0120	0	69,836	0	0	0	0	69,836
Gross - Non-proportional reinsurance accepted	R0130	0	17,400	0	0	0	0	17,400
Reinsurers' share	R0140	6,120,647	40,876	0	0	0	0	6,161,523
Net	R0200	29,068,333	46,360	0	0	0	0	29,114,693
<b>Premiums earned</b>								
Gross - Direct Business	R0210	34,130,784	0	0	0	0	0	34,130,784
Gross - Proportional reinsurance accepted	R0220	0	92,296	0	0	0	0	92,296
Gross - Non-proportional reinsurance accepted	R0230	0	19,860	0	0	0	0	19,860
Reinsurers' share	R0240	6,047,705	61,813	0	0	0	0	6,109,518
Net	R0300	28,083,079	50,343	0	0	0	0	28,133,422
<b>Claims incurred</b>								
Gross - Direct Business	R0310	17,752,729	0	0	0	0	0	17,752,729
Gross - Proportional reinsurance accepted	R0320	0	14,124	0	0	0	0	14,124
Gross - Non-proportional reinsurance accepted	R0330	0	4,887	0	0	0	0	4,887
Reinsurers' share	R0340	1,856,310	13,044	0	0	0	0	1,869,354
Net	R0400	15,896,419	5,967	0	0	0	0	15,902,386
<b>Changes in other technical provisions</b>								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non- proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
Net	R0500	0	0	0	0	0	0	0
<b>Expenses incurred</b>	R0550	12,654,776	10	0	0	0	0	12,654,786
<b>Other expenses</b>	R1200							0
<b>Total expenses</b>	R1300							12,654,786

## S.17.01.02 - Non-Life Technical Provisions

## Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole

## Technical provisions calculated as a sum of BE and RM

## Best estimate

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

## Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

## Total Best estimate - gross

## Total Best estimate - net

## Risk margin

## Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

## Technical provisions - total

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

	Direct business and accepted proportional reinsurance									Accepted non-proportional reinsurance	Total Non-Life obligation
	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional casualty reinsurance	
	C0020	C0030	C0050	C0060	C0070	C0080	C0090	C0120	C0130	C0150	C0180
R0010	0	0	0	0	0	0	0	0	0	0	0
R0050	0	0	0	0	0	0	0	0	0	0	0
R0060	522,697	131,750	3,970,446	1,543,882	18,302	1,132,099	752,671	2,620	18,842	1,089	8,094,398
R0140	12,692	14,274	48,589	0	7,226	476,496	19,234	151	5,706	0	584,368
R0150	510,005	117,476	3,921,857	1,543,882	11,076	655,603	733,437	2,469	13,136	1,089	7,510,030
R0160	2,078,136	341,509	11,962,604	2,480,033	20,434	3,035,096	3,713,715	143	22,048	0	23,653,718
R0240	54,673	0	1,389,544	6,144	7,866	2,346,930	95,862	0	0	0	3,901,019
R0250	2,023,463	341,509	10,573,060	2,473,889	12,568	688,166	3,617,853	143	22,048	0	19,752,699
R0260	2,600,833	473,259	15,933,050	4,023,915	38,736	4,167,195	4,466,386	2,763	40,890	1,089	31,748,116
R0270	2,533,468	458,985	14,494,917	4,017,771	23,644	1,343,769	4,351,290	2,612	35,184	1,089	27,262,729
R0280	59,700	10,863	365,729	92,366	889	95,654	102,522	63	939	25	728,750
R0290	0	0	0	0	0	0	0	0	0	0	0
R0300	0	0	0	0	0	0	0	0	0	0	0
R0310	0	0	0	0	0	0	0	0	0	0	0
R0320	2,660,533	484,122	16,298,779	4,116,281	39,625	4,262,849	4,568,908	2,826	41,829	1,114	32,476,866
R0330	67,365	14,274	1,438,133	6,144	15,092	2,823,426	115,096	151	5,706	0	4,485,387
R0340	2,593,168	469,848	14,860,646	4,110,137	24,533	1,439,423	4,453,812	2,675	36,123	1,114	27,991,479

**S.19.01.21 - Non-Life insurance claims****Gross Claims Paid (non-cumulative)**

(absolute amount)

Year		Development year											In Current year Sum of years (cumulative)	
		0	1	2	3	4	5	6	7	8	9	10&+	C0170	C0180
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		
Prior	R0100											0	R0100	0
N-9	R0160	124,348	109,490	2,658	20,464	2,412	1,079	0	0	0	18,400		R0160	18,400
N-8	R0170	1,084,741	619,132	250,926	70,186	189,368	64,543	202,050	18,992	29,032			R0170	29,032
N-7	R0180	2,416,055	1,247,879	180,941	246,905	182,633	132,201	21,565	57,309				R0180	57,309
N-6	R0190	3,762,716	1,544,527	403,592	26,175	53,317	127,369	162,049					R0190	162,049
N-5	R0200	4,933,839	2,098,062	240,840	267,224	117,537	215,582						R0200	215,582
N-4	R0210	5,583,603	2,566,090	329,230	83,529	214,738							R0210	214,738
N-3	R0220	6,254,429	2,118,620	462,469	261,760								R0220	261,760
N-2	R0230	7,173,723	2,648,595	437,305									R0230	437,305
N-1	R0240	8,608,402	3,286,876										R0240	3,286,876
N	R0250	8,664,127											R0250	8,664,127
Total													R0260	13,347,178
														69,939,634

**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	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		
Prior	R0100											0	R0100	0
N-9	R0160	0	0	0	0	0	0	0	0	0	1,506		R0160	1,512
N-8	R0170	0	0	0	0	0	0	0	0	53,347			R0170	53,585
N-7	R0180	0	0	0	0	0	0	0	123,190				R0180	123,720
N-6	R0190	0	0	0	0	0	0	782,115					R0190	785,542
N-5	R0200	0	0	0	0	0	1,614,904						R0200	1,621,776
N-4	R0210	0	0	0	0	3,821,096							R0210	3,836,956
N-3	R0220	0	0	0	1,782,740								R0220	1,790,551
N-2	R0230	0	0	2,524,996									R0230	2,536,031
N-1	R0240	0	2,980,174										R0240	2,993,258
N	R0250	9,871,028											R0250	9,910,787
Total													R0260	23,653,718

**S.23.01.01 - Own Funds Table 0-3****Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

Ordinary share capital (gross of own shares)	R0010
Share premium account related to ordinary share capital	R0030
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040
Subordinated mutual member accounts	R0050
Surplus funds	R0070
Preference shares	R0090
Share premium account related to preference shares	R0110
Reconciliation reserve	R0130
Subordinated liabilities	R0140
An amount equal to the value of net deferred tax assets	R0160
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions****Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand	R0300
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310
Unpaid and uncalled preference shares callable on demand	R0320
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370
Other ancillary own funds	R0390

**Total ancillary own funds****Available and eligible own funds**

Total available own funds to meet the SCR	R0500
Total available own funds to meet the MCR	R0510
Total eligible own funds to meet the SCR	R0540
Total eligible own funds to meet the MCR	R0550

**SCR****MCR****Ratio of Eligible own funds to SCR****Ratio of Eligible own funds to MCR****Reconciliation reserve**

Excess of assets over liabilities

	Total	Tier 1 - unrestricted	Tier 1 - re-restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	20,000,000	20,000,000		0	
R0030	0	0		0	
R0040	0	0		0	
R0050	0		0	0	0
R0070	0				
R0090	0		0	0	0
R0110	0		0	0	0
R0130	3,433,494	3,433,494			
R0140	0		0	0	0
R0160	0				0
R0180	0	0	0	0	0
R0220	0				
R0230	0	0	0	0	
R0290	23,433,494	23,433,494	0	0	0
R0300	0			0	
R0310	0			0	
R0320	0			0	0
R0330	0			0	0
R0340	0			0	
R0350	0			0	0
R0360	0			0	
R0370	0			0	0
R0390	0			0	0
R0400	0			0	0
R0500	23,433,494	23,433,494	0	0	0
R0510	23,433,494	23,433,494	0	0	
R0540	23,433,494	23,433,494	0	0	0
R0550	23,433,494	23,433,494	0	0	
R0580	16,912,824				
R0600	4,818,747				
R0620	138.555%				
R0640	486.298%				

**C0060**

R0700	23,433,494

Own shares (held directly and indirectly)	R0710	0	
Foreseeable dividends, distributions and charges	R0720	0	
Other basic own fund items	R0730	20,000,000	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
<b>Reconciliation reserve</b>	R0760	3,433,494	
<b>Expected profits</b>			
Expected profits included in future premiums (EPIFP) - Life business	R0770	0	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	0	
<b>Total Expected profits included in future premiums (EPIFP)</b>	R0790	0	

**S.25.01.21 - SCR – for undertakings on Standard Formula**

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
Market risk	R0010 8,143,476		-
Counterparty default risk	R0020 4,394,548		
Life underwriting risk	R0030 0		-
Health underwriting risk	R0040 2,125,399		-
Non-life underwriting risk	R0050 7,969,585		-
Diversification	R0060 -6,747,472		
Intangible asset risk	R0070 0		
<b>Basic Solvency Capital Requirement</b>	R0100 15,885,536		

**Calculation of Solvency Capital Requirement**

Operational risk	R0130 1,027,288
Loss-absorbing capacity of technical provisions	R0140 0
Loss-absorbing capacity of deferred taxes	R0150 0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160 0

**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	R0400 0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410 0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420 0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430 0
Diversification effects due to RFF nSCR aggregation for article 304	R0440 0



**S.28.01.01 - MCR – only life or 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> 4,207,088

		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>	2,533,468	5,369,603
Income protection insurance and proportional reinsurance	<b>R0030</b>	207,786	458,984
Workers' compensation insurance and proportional reinsurance	<b>R0040</b>	0	0
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b>	12,915,924	14,494,916
Other motor insurance and proportional reinsurance	<b>R0060</b>	4,017,771	3,811,888
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b>	20,011	49,253
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b>	1,029,303	1,957,627
General liability insurance and proportional reinsurance	<b>R0090</b>	4,351,291	3,957,348
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b>	0	0
Legal expenses insurance and proportional reinsurance	<b>R0110</b>	0	0
Assistance and proportional reinsurance	<b>R0120</b>	2,612	42,787
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b>	27,555	35,184
Non-proportional health reinsurance	<b>R0140</b>	0	0
Non-proportional casualty reinsurance	<b>R0150</b>	1,089	17,400
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b>	0	0
Non-proportional property reinsurance	<b>R0170</b>	0	0

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

	<b>C0040</b>
MCR <sub>L</sub> Result	<b>R0200</b> 0

		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>	0	
Obligations with profit participation - future discretionary benefits	<b>R0220</b>	0	
Index-linked and unit-linked insurance obligations	<b>R0230</b>	0	
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b>	0	
Total capital at risk for all life (re)insurance obligations	<b>R0250</b>		0

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b> 4,818,747
SCR	<b>R0310</b> 16,912,824
MCR cap	<b>R0320</b> 7,610,771
MCR floor	<b>R0330</b> 4,228,206
Combined MCR	<b>R0340</b> 4,818,747
Absolute floor of the MCR	<b>R0350</b> 3,700,000
<b>Minimum Capital Requirement</b>	<b>R0400</b> 4,818,747

**End of report**



## Independent Auditor's Report

The Board of Directors of Trust International Insurance Company (Cyprus) 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 Trust International Insurance Company (Cyprus) 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

The above QRTs are collectively referred to for the remainder of this report 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, the Commission Delegated Regulation (EU) 2016/467, the relevant EU Commission's Implementing Regulations and the relevant Orders of the Superintendent of Insurance (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.

#### Emphasis of Matter

We draw attention to the 'Valuation for solvency purposes' and the 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of preparation. The Solvency and Financial Condition Report is prepared in compliance with the Framework, and therefore in accordance with a special purpose financial reporting framework. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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PricewaterhouseCoopers Ltd, PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia  
P O Box 21612, CY-1591 Nicosia, Cyprus  
T: +357 - 22 555 000, F: +357 - 22 555 001, [www.pwc.com.cy](http://www.pwc.com.cy)

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## **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.

### **Other Matter**

This report, including the opinion, 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.

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

Nicosia, 2 May 2019