# Hansard Europe DAC
# Solvency and Financial Condition Report (“SFCR”)
**(for the financial year ended 30 June 2021)**

**Contents**

# EXECUTIVE SUMMARY

## INTRODUCTION AND PURPOSE

This document addresses obligations associated with the annual public disclosure of the solvency and financial condition of Hansard Europe DAC ('HEdac' or the 'Company') at 30 June 2021.

The Solvency II Directive was transposed into Irish Law as the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) and the legislation entered into force on 1 January 2016. This report is intended to assist clients in understanding the capital position of HEdac since the implementation of the legislation by covering the following areas:

A. Business and Performance
B. System of Governance
C. Risk Profile
D. Valuation for Solvency Purposes
E. Capital Management

### BUSINESS AND PERFORMANCE

#### BACKGROUND

HEdac is an Irish regulated insurance company authorised to conduct unit linked life assurance business. Unit linked means that the value of the products is directly linked to the value of underlying investments chosen by the policyholder or their appointed advisers, or where applicable, by asset managers selected by the policyholders and appointed for that purpose by the Company, within each policy.

The Company does not offer or provide investment advice and is classified as a 'Low' risk firm under the CBOI's Probability Risk and Impact SysteM (PRISM) risk rating. The Company was officially reduced from 'Medium Low' risk to 'Low' risk on 5 June 2020.

The Company closed to new business with effect from 30 June 2013, as the consequence of a strategic review. The focus of the Board and Management Team since that date has remained the orderly run-off of the existing book of policies, in line with their contractual terms and conditions.

#### BUSINESS STRATEGY

As at 30 June 2021 the Company remains in run-off and continues to have a short to medium term strategic view focussed on servicing the existing book of business. The Company's strategic objectives are: -

- To administer the existing book of business in line with policy terms and conditions and with due regard to all applicable governance and conduct obligations pursuant to home and host state regulatory environments
- To manage policyholder relationships effectively, prudently and ethically
- To maintain robust governance arrangements which ensure there is effective oversight of the Company's activities and capital management, proportionate to the nature, scale and complexity of the business and which continue to promote and communicate an appropriate risk and compliance culture at all levels

Over time the volume of policies will continue to diminish, as policies mature or are surrendered. As a consequence, the expected performance, year-on-year, will reflect a reducing level of assets under management, concurrent with the run off of the book.

The Company is required to hold sufficient assets to match its policyholder liabilities at all times and a primary responsibility of the Board is to ensure that the Company's capital remains adequate to cover the required solvency for the nature and scale of the business, and the expected operational requirements of the business. Several mechanisms are in place to evaluate capital adequacy on a continuing basis. The outcome of those evaluations indicate that the Company's capital is adequate at this time and for the expected requirements in the short to medium term.

## BUSINESS PERFORMANCE

The Company prepares its financial statements on a UK GAAP basis (FRS 101 Reduced Disclosure Framework). The Company's pre-tax loss has reduced to £0.6m in 2021 from £2.4m in 2020, primarily as a result of the prior year including the impairment of the remaining deferred acquisition cost asset.

Section A of this document contains further details relating to HEdac's business and performance.

## SYSTEM OF GOVERNANCE

The Company has in place a robust governance framework that supports and enables delivery of the stated strategic objectives

The Company's Board has ultimate responsibility for all governance matters, supported by designated governance and control functions, which are appointed to monitor and manage the business.

Section B of this document contains further details relating to HEdac's System of Governance.

## RISK PROFILE

HEdac is a unit-linked business with no investment guarantees. The main risk categories to which the Company is exposed to are market risk and life risks.

Market risk is a significant risk for HEdac since the majority of in-force business is unit-linked business and the Company derives a large part of its revenues from related asset values. A significant component of market risk which HEdac is exposed to is associated with the uncertainty related to foreign exchange fluctuations. For example, where HEdac has written business in currencies other than Sterling (its presentational and functional currency) it is exposed to foreign exchange risk as the value of the income streams from those policies fluctuate in Sterling terms with the exchange rate.

Life Risk is a significant risk for HEdac. The significant components of this are lapse risk caused by policyholder behaviours being different to expected and expense risk caused by expenses being higher than expected.

At 30 June 2021, the Company's solvency capital requirement under the Solvency II regime was £3.9m, which is £0.9m lower than the start of the reporting period.

Section C of this document contains further details relating to HEdac's risk profile.

## VALUATION FOR SOLVENCY PURPOSES

The HEdac Solvency II Balance Sheet is constructed in line with the Solvency II rules and guidance.

On a Solvency II basis, at 30 June 2021 HEdac's total assets were £111.6m and total liabilities were £100.5m.

Total assets on a Solvency II basis at 30 June 2021 were as reported in the statutory financial statements (UKGAAP FRS101 basis). The Deferred Income Reserve is excluded from the valuation of liabilities for solvency purposes.

Section D of this document contains further details relating to valuation for solvency purposes.

## CAPITAL MANAGEMENT

The strategy for managing capital is to ensure sufficient capital exists within HEdac to meet the Solvency II Solvency Capital Requirement (SCR) and Solvency II Minimum Capital Requirement (MCR), with a capital buffer to protect against unexpected adverse events. The target solvency coverage for HEdac is set at 150% of SCR.

HEdac uses the Solvency II Standard Formula to calculate the SCR. The SCR computed at 30 June 2021 was £3.9m (2020: £4.8m) and the MCR was £3.2m (2010: £3.4m).

HEdac's Solvency II Own Funds value at 30 June 2021 was £11.1m (2020: £8.9m), all of which are Tier 1 own funds.

At 30 June 2021, HEdac's solvency coverage ratio was 287% (2020: 187%).

HEdac carries out regular reviews of the capital requirements and solvency coverage as part of capital management and risk monitoring.

Refer to Section E below for further details relating to HEdac's capital management.

The Company's financial year runs to 30 June each year and results are reported in Pound Sterling.

## A: Business and Performance

### A.1 Business

HEdac is a Regulated unit-linked life assurance private company, limited by shares. The Company's operating address is:
Hansard Europe DAC,
Ground Floor,
6 Exchange Place, IFSC,
Dublin 1
D01 T9C2
Ireland

Its registered office is:
Hansard Europe DAC,
IFSC,
25/28 North Wall Quay,
Dublin 1
D01 H104,
Ireland.

The Central Bank of Ireland ("CBOI") is responsible for financial supervision of the Company. The CBOI's address is:
Central Bank of Ireland,
PO Box No 559,
New Wapping Street,
North Wall Quay
Dublin 1
Ireland

The Company's external auditor is KPMG, Chartered Accountants and Statutory Audit Firm and their address is:
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
D01 F6F5
Ireland

KPMG replaced the Company's previous auditors, Pricewaterhouse Coopers, with effect from 1 July 2020.

The Company is wholly owned by Hansard Global plc ("HG plc"), an Isle of Man holding company, listed on the London Stock Exchange. Dr Leonard S. Polonsky (British), holds ownership/beneficial interest of shares in Hansard Global plc above 25%. All other shareholders own less than 25%.

The Company's financial year end is 30 June. The Company is closed to new business and continues to operate, administering its existing policies in line with their contract terms and conditions. Policy administration services are outsourced to Hansard Administration Services Limited ("HASL"), an authorised insurance manager within the Group, based in the Isle of Man.

The registered address of Hansard Global plc is:
55 Athol Street
PO Box 192
Douglas
Isle of Man
IM99 1QL

**A.2 Underwriting Performance**
Existing policyholders are located principally in the European Union. The five most significant countries being Belgium, the Netherlands, France, Denmark and Luxembourg; the majority of the Company's policyholders are British expatriates currently residing outside the UK.

New premiums received during the year, relate to regular annual premiums on existing policies, and occasionally a small amount of top-up premiums.

Under International Financial Reporting Standards (IFRS), the Company's Unit-linked Contracts are classed as Investment Linked Contracts for financial reporting purposes. Investment Linked contract premiums are not included in the profit and loss account but are reported as deposits to investment-linked contracts and are included in the linked liabilities in the balance sheet.

Movement in technical provisions for Linked Liabilities:
The following table summarises the movement in liabilities under investment-linked contracts during the year:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Deposits to investment-linked contracts | **2,321** | 2,553 |
| Deductions from contracts | **(15,798)** | (13,367) |
| Change in provisions for investment-linked contract liabilities | **8,864** | (9,468) |
| Movement in year | **(4,613)** | (20,282) |
| At beginning of year | **93,982** | 114,264 |
| | **89,369** | 93,982 |

Change in provisions for investment-linked contract liabilities include dividend and interest income and net realised and unrealised gains and losses on financial investments held to cover financial liabilities.

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Contractually due to be settled within 12 months | **4,400** | 5,100 |
| Contractually due to be settled after 12 months | **84,969** | 88,882 |
| | **89,369** | 93,982 |

**A.3 Investment Performance**

The Company does not provide asset selection advice. The investments linked to insurance policies are selected by policyholders, or their appointed advisers, or where applicable, by asset managers selected by the policyholders and appointed for that purpose by the Company. The assets are owned by the Company. The Company is required to maintain assets to match its policyholder liabilities at all times.

The following investments, cash and cash equivalents, and other assets (net of other payables) are held to cover technical provisions for linked liabilities.

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Equity securities | **1,547** | 1,226 |
| Investments in collective investment schemes | **81,920** | 81,438 |
| Fixed income securities | **109** | 2,990 |
| Deposits and money market funds | **5,793** | 8,328 |
| **Net financial assets held to cover financial liabilities** | **89,369** | 93,982 |

The Company has no investments in securitisation.

Where assets are suspended and no market value is available, a “fair value” has been calculated. Fair value is assessed using valuation techniques based on available relevant information and an appraisal of all associated risks (see section D.1).

The value of assets under management is affected by asset and currency performance, as well as policies maturing or surrendering each year. As the Company is closed to new business, this results in a reducing profile year on year.

Investment income comprises dividends, interest and other income receivable, realised gains and losses on investments and unrealised gains and losses. Movements are recognised in the profit and loss account in the period in which they arise. Dividends are accrued on the date notified. Interest is accounted for on a time proportion basis using the effective interest method.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Technical account** | **Non-technical account** | Technical account | Non-technical account |
| | **£'000** | **£'000** | £'000 | £'000 |
| Dividend income | **266** | **-** | 339 | - |
| Interest income | **(33)** | **28** | (12) | 117 |
| | **233** | **28** | 327 | 117 |
| Net (losses)/gains on realisation of investments | **(10,403)** | **-** | 18 | - |
| Investment income | **(10,170)** | **28** | 345 | 117 |
| Unrealised (losses)/gains on investment | **18,808** | **14** | (9,748) | 11 |
| Investment return | **8,638** | **42** | (9,403) | 128 |

The unit linked insurance policies are valued by reference to their linked asset values at any point in time. The performance of the policies therefore depends on the performance of the assets selected and the application of policy related charges in line with the policy's contractual terms and conditions.

**A.4 Performance of Other Activities**
The Company's only activity is that of unit-linked life insurance company.

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

| | 2021 | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Contract fee income | **1,847** | 1,965 |
| Fund management charges | **1,064** | 1,099 |
| | **2,911** | 3,064 |

Operating costs of the Company excluding director's fees and auditor fees are charged through the Technical Account of the Profit and Loss Statement.

| **Net operating expenses** | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Acquisition costs | **37** | 2,032 |
| Administrative, investment and other expenses | **3,213** | 3,521 |
| | **3,250** | 5,553 |

Net operating expenses during the year ended 30 June 2021 have decreased primarily due to lower acquisition costs as the remaining deferred costs asset was impaired in the prior financial year.

Results and Dividends

The total comprehensive loss after tax for the year was £0.6m compared to a loss of £2.4m in the previous financial year. No dividends were paid during the year to 30 June 2021 (2020: £nil).

**A.5 Any Other Information**

During the financial year the Company's main focus has been to continue to implement its strategy, which is to protect the interests of policyholders and other stakeholders and ensure an orderly wind-down of the business whilst maintaining the financial and commercial stability of the Company.

The Company is subject to a number of legal actions primarily with regard to asset performance. The majority of the assets on the Company's balance sheet are held in respect of unit-linked contracts, where the Policyholder, or their appointed advisor, or the appointed asset manager, has selected the assets to be linked to their policies.

The Company does not provide asset selection advice and is robustly defending these cases.

## B: System of Governance

### B.1 General Information on the System of Governance

The Company is classified as a Low Risk firm under the CBOI's 'Probability Risk and Impact SysteM' risk-based framework for the supervision of regulated firms and is subject to the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015.

B.1.1 Overview:

The Company's Board of Directors carry responsibility for the oversight of the business and sets its strategy and risk appetite. With effect from 1 July 2013 the Board sits as a minimum Board of five members, consistent with the Company's Corporate Governance obligations and with the approval of the Central Bank of Ireland. All members of the Board sit as members of the Risk Committee. The Audit Committee consists of two independent non-executive directors and one executive director. During the year ended 30 June 2021 the Board of Directors was constituted as follows: -

Board of Directors:

G S Marr LLB (Chairman) – resigned 30 June 2021
T N Davies MAcc, FCA
C G Long FSAI (Independent)
C N Cormican FCCA Dip IFR
G M Easton MA FIA Dip IOD (Independent) - appointed Chairman 30 June 2021
D G Peach BSc, FCA (GB), FCT (GB) (Independent) - appointed 30 June 2021

Company Secretary:

E Penrose ACG

The Board retains primary responsibility for the corporate governance arrangements of the Company and for the adequacy and effectiveness of those arrangements at all times. Pursuant to these responsibilities the Board has completed an annual review of the Company's governance arrangements and associated Committee structures in accordance with the standards and obligations imposed by the Corporate Governance Requirements for Insurance Undertakings 2015.

The review has confirmed that the Committees and Control Functions established by the Board, to assist in the discharge of its obligations are fit for purpose in substance and form and have operated effectively throughout the year under review. Each Committee operates according to defined terms of reference and reports to the Board at each Board meeting. The Chair of each Committee is an Independent Non-Executive Director:

- Audit Committee (Chairman: G M Easton – resigned 30 June 2021, Chairman D G Peach appointed 30 June 2021)
- Risk Committee (Chairman: C G Long)

The Audit Committee assists the Board in discharging its responsibilities for:

- The integrity of the Company's financial statements;
- The effectiveness of the Company's internal controls;
- The Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;

- The effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system; and
- Monitoring the effectiveness, independence and objectivity of the external auditor.

The Risk Committee assists the Board in discharging its responsibilities for:
- The effectiveness of the Company's risk management systems;
- The implementation of the Company's risk strategy and maintenance thereof;
- The oversight of Solvency II developments;
- The oversight of investment issues;
- The timely reporting of material deviations from defined risk appetite; and
- Monitoring the effectiveness, independence and objectivity of the Risk function.

Additionally, there is an Investment Committee, which is a sub-committee of the Risk Committee. The duties and responsibilities of the Investment Committee are primarily to assist the Board and/or the Risk Committee in the discharge of their respective statutory duties and oversight responsibilities in respect of shareholder funds and policyholder funds within the overall risk appetite and control framework of the Company.

B.1.2 Independent Control Functions:

The Company has established the four key independent control functions required under the Corporate Governance Requirements for Insurance Undertakings 2015 - Risk Management, Compliance, Actuarial and Internal Audit. These functions are responsible for providing oversight of, and challenge to, the business and for providing assurance to the Board in relation to the Company's control framework.

B.1.2.1: Chief Risk Officer:

The Group Head of Risk and Compliance is appointed directly to the HEdac Chief Risk Officer (CRO) Role; associated service provision is the subject of a formal outsourcing arrangement with Hansard Global plc. The CRO oversees the implementation and effective operation of the Company's Risk Management Policy, reporting to the Board Risk Committee and the Company's General Manager. The responsibilities of the Chief Risk Officer include:
- Oversight of the smooth-running of the Company's Enterprise Risk Management framework (ERM) and adherence to the associated policy and procedural obligations
- Establishing and maintaining the Company's governance, risk management and internal control arrangements associated with the capture and reporting of risk events and 'near misses'
- To direct activities associated with identification and analysis of new and emerging risks, such that these can be assessed, and material issues reported to the Board Risk Committee, who will determine whether the issue is of such significance that it needs to be reported to the Company's regulator
- To ensure that the annual ORSA is prepared and submitted to the Board Risk Committee who engage with the process and recommend outputs to the Board for strategic consideration.

B.1.2.2: Compliance Officer:

The Group Head of Risk and Compliance is appointed directly to the HEdac Head of Compliance Role; associated service provision is the subject of a formal outsourcing arrangement with Hansard Global plc and encompasses responsibility for the implementation of the Company's Compliance Policy and effective processes. The Head of Compliance reports to the Board Risk Committee and the Board, and raises issues as they arise, to the Company's General Manager. The responsibilities of the Head of Compliance include:

- The reporting of significant instances of non-compliance with external obligations or associated internal policy or procedural arrangements to the Board Risk Committee and the Company's management
- Monitoring compliance within the Company and its service providers, making recommendations where change is required, and to maintain the Company's Breach Register
- Monitoring the external environment to identify, analyse and assess regulatory change and to inform the Company and its service providers where such changes have implications for the Company's strategy, planning, organisation or activities.

The Risk Committee oversees the 'risk based' Compliance Monitoring Plan and outcomes thereof.

B.1.2.3: Head of Actuarial Function (HoAF):

The Group Chief Actuary is appointed directly to the HoAF role. The HoAF provides oversight of the Company's Actuarial Function. The responsibilities of the HoAF and the Actuarial Function, in line with guidance from the Central Bank of Ireland and the Society of Actuaries, include, but are not limited to the following matters:

- Coordinating the calculation of the firm's technical provisions
- Assessing the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in Solvency II
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions against the data quality standards as set in Solvency II
- Continuous monitoring of the solvency position of the Company and the required level of statutory reserves
- Reporting on the solvency position of the Company

The provision of advice and support to the Company on the ORSA process, including the financial consequences of stresses and scenarios and the impact of management actions

B.1.2.4: Head of Internal Audit:

The Internal Audit function provides independent and objective assurance in respect of the Company's processes, as carried out by its service providers with due regard to the adequacy of the governance, risk management and internal control framework. Audits are conducted within a Board approved 'Internal Audit Charter' framework. The Head of Internal Audit has a reporting line to the Company's Chair of the Audit Committee. The Audit Committee oversees the Board approved 'risk based' Audit Plan and outcomes thereof.

Internal Audit Reports highlight any significant control failings or weaknesses identified and the impact they have had, or may have and the actions and timings which management have agreed to take to rectify them. In addition to its regular reporting the Internal Audit Department prepares an annual report for the Audit Committee, which provides a balanced assessment of the effectiveness of the Company's systems of risk management and internal controls, in accordance with the department's professional accountabilities and statements and the findings of their audits during the year.

B.1.3 Other Control Functions:

In addition to the Control Function roles discussed above the Company also has: -

- An Executive level General Manager, based in the Head Office in Dublin, with primary responsibility for oversight and control of outsourced service provision and the effectiveness of day to day operation of the governance, risk management and internal control frameworks of the Company, according to the authorities delegated by the Board
- A Money Laundering Reporting Officer (a Pre-approved Control Function), and a Data Protection Officer, with both roles outsourced to Group employees. This is considered appropriate by the Board given the dependence for operational administration processing on Group Service providers.
- The Group Chief Finance Officer, who is also a Director of the Company is appointed as Head of Investments
- A Chief Information Officer, who was appointed on 4 October 2020.

All other functions, and policy administration and support processes, are outsourced to Group companies. The Company also outsources its investments dealing and custody to a stock broker firm, Capital International Ltd (CIL). CIL outsources custody to Pershings in the UK. All are subject to regular and on-going service reviews that are minuted and circulated to relevant committees.

B.1.4 Remuneration, Employee Benefits and Practices

The Company provides a range of benefits to employees, including contractual salary, life cover, permanent health insurance and paid holiday arrangements. Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The Company pays contributions based on a percentage of salary determined by length of service into Personal Retirement Savings Accounts on behalf of its employees (defined contribution plans). Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. The assets of the plan are held separately from the Company in independently administered funds. Employees contribute additional voluntary contributions to suit their circumstances.

The Company does not offer any bonuses or incentives based on Company performance. Therefore, its remuneration practices are considered to promote sound and effective risk management and do not encourage excessive risk taking. The Group operates an annual bonus plan for employees based on Group and individual performance, which includes employees of the Company.

B.1.5 Material Transactions

Other than payment for services for outsourced functions, and contracted employee salaries and benefits mentioned above, there were no material transactions with the Shareholder, with persons who exercise a significant influence on the undertaking and with members of the administrative, management or supervisory body.

**B.2 ‘Fit and Proper’ Requirements**

The Company has adopted a Fitness and Probity Policy, which sets out the due diligence checks that must be performed in the following areas and which aligns with the Central Bank of Ireland’s Fitness and Probity Standards, and guidance thereon. These include:

- Identification (copy of passport)
- Compliance with the minimum competency code, where relevant
- Professional qualification(s)
- Continuous Professional Development
- Interview and application
- References
- Record of previous experience
- Record of experience gained outside the State
- Concurrent Responsibilities
- Individual Questionnaire for PCF related roles

The recruitment process of a candidate for a Control Function role includes the following:

- A written job description outlining the duties and responsibilities of the role;
- An assessment of the level of fitness and probity required for the role, on the basis of the formally documented job description and person specification;
- A process (i.e. number and diversity of interviews) that matches the person with the requirements of the role;
- Due diligence checks - Verification of identity, relevant qualifications, experience, references and professional memberships, concurrent responsibilities (where applicable)
- Application for regulatory assessment and approval

For Pre-approved Control Functions (PCFs), appointment by the Company’s Board is contingent upon prior approval of the appointment by the CBOI. An annual review cycle operates via which all PCFs and Control Function role holders must formally attest their continuing fitness and propriety and the good governance of functional and operational activities falling within their span of control.

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

The Company has a Risk Management Framework Policy which sets out the overall scope of, responsibilities for, and approach to risk management. This Policy aims to clearly and concisely detail the overall ERM Framework approved by the Board, under which the Company’s risk management activities, processes and procedures are to be directed and controlled. The Board recognises the need to ensure that the risk management system is effective and well-integrated into the Company’s structure and decision-making processes, with clear accountability and ownership for risk management, in particular as this extends to services provided under outsourcing arrangements.

The Company’s ERM Framework is built upon the ‘three lines of defence’ model, which addresses how specific duties relating to risk management and internal control are assigned and coordinated between front line Management (first line), Risk and Compliance monitoring functions (second line) and the independent assurance services of internal audit (third line). Each of the three lines plays a distinct role within the overarching governance framework.

The ERM Framework seeks to add value through embedding risk management and effective internal control systems and acknowledges the significance of operating culture and values in relation to risk management and their impact on the overall effectiveness of the internal control framework.

The main policy objectives of the ERM framework are:

<u>Performance objectives:</u>
The efficiency and effectiveness of activities, use of assets and other resources and protecting the Company from loss. The ERM framework seeks to ensure that personnel, including those providing services on an outsourced basis, are working to achieve business objectives with efficiency and integrity, without unintended or excessive cost, or placing other interests before those of the Company.

<u>Information Objectives:</u>
The preparation and provision of timely, reliable and relevant reports needed for substantive, informed decision-making. Information objectives also address the need for reliable annual accounts, financial statements and other financial-related disclosures, including regulatory returns; reports to external parties and stakeholders. The ERM framework seeks to ensure the information received by management, the Board of Directors, Shareholders and regulators is of sufficient quality and integrity that recipients can rely on the information in making decisions.

<u>Compliance Objectives:</u>
The ERM framework seeks to ensure that all organisational activities and outputs comply with applicable laws and regulations, supervisory requirements and internal policies and procedures. The result is a risk management strategy, which is led by the Board whilst being embedded in the Company's business systems, strategy and policy setting processes and the normal working routines and activities of the Company. Consequently, risk management is an intrinsic part of the way business is conducted and allows the Company to respond quickly to evolving risks, which may arise internally or externally.

The ERM Framework promotes the pursuit of its overarching objectives through focus on five interrelated elements, which enable the management of risk at strategic, programme and operational level to be integrated, so that layers of activity support each other. The five interrelated elements are defined as:

- Management oversight and the control culture
- Risk recognition and assessment
- Control activities and segregation of duties
- Information and communication

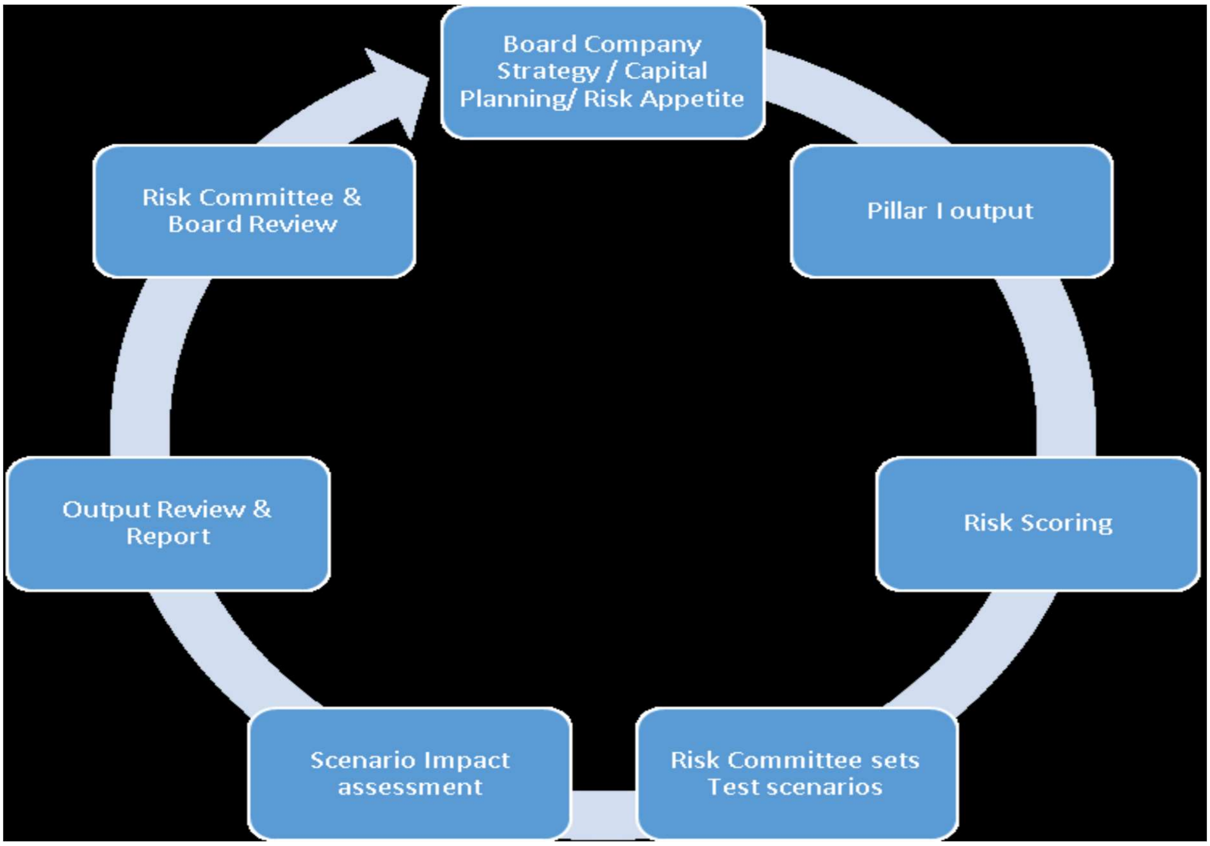
- Monitoring activities and correcting deficiencies

Risk management processes are undertaken on both a bottom-up and top-down basis. The top-down aspect involves the Board assessing, analysing and evaluating what it believes to be the principal risks facing the Company. The bottom-up approach involves the identification, review and monitoring of current and forward-looking risks on a continuous basis at functional and divisional levels, with analysis and formal reporting to the Group Operational Risk Committee and Group Executive Risk Committee, on a quarterly basis and onward analytical reporting to the Board Risk Committee. The terms of reference of the Board Risk Committee are published on the Group's website.

The ERM framework is intended to reduce, but cannot eliminate the range of possibilities, which might cause detriment to the Company. Similarly, the ERM Framework cannot provide protection with certainty against any failure of the Company to meet its business objectives, or guard against material errors, losses, fraud, or breaches of laws and regulations. Risk management is an integral part of the Company's corporate agenda; the Company's ERM Framework enables the Board and management to understand and appropriately manage and mitigate the risks associated with the Company's objectives over the short, medium and longer term, together with the overall level of risk embedded within functional and operational processes and activities, including those which are the subject of outsourcing arrangements. Taking all of these factors into account the ERM Framework is intended to provide reasonable assurance that the Company will conduct its business in an orderly and legitimate manner on a continuing basis and that reasonably foreseeable circumstances will not prevent or limit the Company from achieving its business objectives. The Board Risk Committee receives regular reporting from the Company's Chief Risk Officer in relation to the outcome of the periodic risk assessments undertaken by management in line with the ERM Framework.

Every year and on an ad-hoc basis, as necessary, the Company prepares an ORSA. The ORSA enables the Board to assess its capital adequacy and make appropriate strategic decisions in light of its assessments of risks and the potential impacts of the risk environment. The Board requires that the ORSA process produces meaningful reports on the adequacy of the Company's capital and risk sensitivities that can be used in shaping strategy and risk appetite. The ORSA process is a cyclical process (depicted at figure 1, below), reliant upon: -

- Board strategy, policies and plans;
- The Solvency II Pillar I Balance Sheet standard model results, and base assumptions used;
- The ERM process and its outputs, which identifies the key risks;
- The Board Risk Committee who review, challenge and approve the test scenarios including the ORSA output;
- The Actuarial Function who run the tests on the Balance Sheet, for capital adequacy and produce the resultant output;
- The Risk Function, Actuarial Function and Management who assess the outputs and prepare the reports;
- The Risk Committee and Board's assessment of the output and resultant capital, strategy and risk appetite review;
- ORSA Reporting to the Company's regulator, the Central Bank of Ireland.




The Board reviews the ORSA report and considers appropriate action for the business such as:

- Decisions in relation to capital
- Reassessment of risk profile and appetite
- Additional risk mitigation actions
- Reassessment of investment strategy

The results and conclusions contained in the ORSA Report and the Board's resultant actions and decisions, are communicated to all relevant staff, including outsourced control functions, once the report has been considered and approved by the Board.

The Board determined that the Solvency II Standard Formula would be used to calculate the required solvency capital and to assess overall solvency needs. A base case projection of the Solvency II Balance Sheets and Solvency Capital Requirements (SCR) position is produced using the standard formula, as well as actuarial and key run-off assumptions. The results are subjected to a range of scenario testing that is reviewed by management and challenged by the Board and, where appropriate, potential management actions are noted and conclusions drawn

Assessments to date indicate that the Company is adequately capitalised.

**B.4 Internal Control System**

The Internal Control Framework for the Company has three elements:

(a) Board-level Controls - The Board Manual, policies, reports and minutes of Board and Board Committee meetings form the principal framework, within which the Board operates.

(b) Independent Control Functions - Please refer to details set out at Section B1.

(c) Controls over Outsourced Activities - The Company requires that any outsourcing partner, whether they are a Group Company, or a third-party service provider, must maintain its control environment to at least the same standards as the Company maintains, adhere to the Company's policies and procedures, and employ fit and proper people in its control functions. Key Performance Indicators (KPI's) are set, and the Company requires regular service reporting and attestations (on the Service Level Agreement and related KPI's) to its General Manager and the Board, including certification to the Board from its main service providers on the fitness and probity of its Control Functions. Immediate reporting is required should any material incident, breach, or exposure occur.

The Head of Internal Audit, through the planned and commissioned reviews of the Company's processes and those of its service providers, provides an opinion via the Internal Audit Annual Report on the adequacy of the internal control framework of the Company's business.

<u>B.4.1 Operation of Compliance Function</u>

The Compliance Function is part of the Company's overall corporate governance structure. The function is outsourced to HG plc and is a control function of the Company. The Compliance Function is responsible for the provision of guidance, support and advice in respect of the regulatory environment and the Company's compliance obligations, on a continuing basis and for the monitoring, managing, and reporting of the Compliance risks to which the Company is or may be exposed. Compliance auditing occurs to independently assess and verify that the Company and its service providers are adhering to their obligations. Compliance reports are issued to the Board Risk Committee assessing the effectiveness and adequacy of compliance within the Company and its service providers. The Board Risk Committee reports its activities and recommendations to the Board of Directors. The activities of the Compliance function are subject to periodic review by Internal Audit.

Management of the Company, and its service providers, are responsible for notifying the Compliance function of any breach of applicable laws and regulations that fall within the scope of their responsibilities. Upon receipt of notification, the Compliance Officer records the relevant breach item in the Company's breach register and discusses remedial actions with the management concerned. Where a breach is classified as material, reporting must be made to the General Manager and to the Board Risk Committee. The Breach Register is reviewed with the General Manager in service meetings, and breaches are reported to the Board Risk Committee on a quarterly basis.

**B.5 Internal Audit Department**

The Internal Audit function operates in accordance with the Chartered Institute of Internal Auditors for UK and Ireland's International Professional Practices Framework and other relevant codes of conduct and is independent from the operational functions. The Internal Audit function constitutes an integral element of the Company's control framework but does not hold any executive responsibilities or any accountability for risk management or systems of internal control, other than to appraise their effectiveness.

As an independent, objective assurance and consulting activity the Internal Audit function provides analysis and evaluation of the adequacy, effectiveness, efficiency and quality of risk management, internal control and governance systems and processes.

The primary role of the Internal Audit Department is to assist the Audit Committee, the Board and Management team to protect the assets, reputation and sustainability of the Group. It does this by:-

- Assessing whether all significant risks are identified and appropriately reported by Management and the Group Risk Department to the Board and Management Team
- Assessing whether risks are adequately controlled, having reference to risk appetite
- Challenging Management to improve the effectiveness of governance, risk management and internal controls
- Assessing whether the management of risk is integrated into organisational culture
- Evaluating whether the Group and its subsidiaries are acting with integrity in their dealings with customers and interactions with relevant markets
- Evaluating the management of capital and liquidity risks
- Evaluating whether primary risks associated with key corporate events are adequately addressed and reported and whether the information used to inform decision making on these issues is fair, balanced and reasonable
- Assessing the design and operating effectiveness of organisational policies and processes, including whether the outcomes achieved are in line with the objectives, risk appetite and values of the Group

Internal Audit findings and recommendations are reported to management, who must respond to those findings and recommendations within mutually agreed timeframes.

The Audit Committee considers internal audit plans proposed by the Head of Internal Audit, reporting, resourcing and performance. Any matters of concern that cannot be resolved through normal channels are escalated to the Board.

The purpose, scope, authority and responsibilities of the Head of Internal Audit and Internal Audit function are set out in full within the Internal Audit Charter, which has been approved and ratified by the Board and which is reviewed and updated on an annual basis, or more frequently, if required.

As the Internal Audit function is outsourced to Hansard Group plc, regular service meetings occur to ensure appropriate oversight of this outsourced service. Function attestations and service level reporting are provided at those meetings.

The Internal Audit Department, via the Head of Internal Audit, reports directly to:

- The Chief Executive Officer, HG plc – for administrative purposes
- The Chair of the Hansard Europe Audit Committee.

The dual reporting arrangements protect both the organisational status and the objectivity required to maintain the authority and independence of the Internal Audit Department, allowing the Head of Internal Audit direct and unrestricted access to senior management and the Board.

The effectiveness of the Internal Audit Department as an assurance service depends upon its independence from the day-to-day operations of the business, which allows the objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The Head of Internal Audit is required to provide confirmation to the Company's Board, on at least an annual basis, of the organisational independence of the Internal Audit Department. This confirmation is undertaken through reporting to the Audit Committee and relevant representations by the Chairman of the Audit Committee to the Board.

At least annually, an assessment of the overall effectiveness of the governance, risk management and internal control frameworks, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the HEdac's risk profile is presented to the Company's Audit Committee.

The Internal Audit Function undertook five monitoring reviews during the year, selected via the risk-based approach to planning based on the Groups strategic objectives and risk specific to HE.

**B.6 Actuarial Function**

The Actuarial services to support the business are outsourced to the Group Actuarial Department in the Dublin branch of Hansard Administration Services Ltd. The HoAF oversees the work of the actuarial function.

The key responsibilities of the actuarial function include:

- Co-ordination of the calculation of technical provisions. This consists of assessing the sufficiency of the provisions, assessing the uncertainty in the estimates and justifying the differences between successive periods.
- Review the appropriateness of the models and assumptions, consider the sufficiency and quality of data, and interpret deviations of best estimates against experience. There is also a requirement to consider the verifiability of assumed management actions.
- The Actuarial Function must produce an annual report for the Board. The report should cover all of the information necessary for the Board to form its own opinion on the adequacy of technical provisions and on the underwriting and reinsurance arrangements.
- In addition to responsibilities in relation to the technical provisions, and the requirements to express opinions on underwriting policy and reinsurance arrangements, the HoAF contributes to the effective implementation of the risk management system of the Company. In particular:
    - In relation to the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), the HoAF reviews the output of the model used by the Company to calculate the SCR and MCR. Specifically, any perceived or possible inconsistencies or issues identified in the model results are raised.
    - ORSA - the Chief Risk Officer and the HoAF establish the requirements of the audience for the ORSA report, agree how the requirements will be satisfied and agree the format of the ORSA reports, the supporting appendices and working papers.

## B.7 Outsourcing

The Company outsources and enters into outsourcing arrangements only where there is a sound commercial basis for doing so, and where the risk can be effectively managed. A due diligence process is undertaken prior to any final decision being made as to whether to outsource a material business activity. This addresses all material factors that would impact on the potential service provider's ability to perform the business activity.

The Company has established an Outsourcing Policy to form the requirements for identifying, justifying and implementing material outsourcing arrangements. This Policy, which was included as part of the Company's Run Off Plan, approved by the CBoI, has been adopted by the Company and sets out the following:

- Definition of outsourcing and material outsourcing
- Risk mitigation strategies
- Board and management responsibility
- Business Case
- Due Diligence
- Business Continuity Management (BCM)
- Contractual Agreements
- Management and control of the Outsourcing Relationship
- Offshoring
- Consideration of outsourcing PCF roles, if required
- Final Approval

The Company's outsourcing arrangements are subject to quarterly and annual review and the findings of this report are presented to and considered by the Board.

The following is a list of the critical or important operational functions the Company has outsourced together with the jurisdiction in which the service providers of such functions or activities are located.

| MATRIX OF HANSARD EUROPE DAC'S OUTSOURCED AGREEMENTS | | | | | |
|---|---|---|---|---|---|
| **Service or Activity Outsourced** | **Relationship Manager** | **Internal / Externa** | **Jurisdiction** | **Outsourcing Provider** | **Critical / Important** |
| Marketing, Print Production, Product Maintenance | General Manager | Internal | Isle of Man | HDSL | Yes |
| Actuarial | | | | HASL | |
| Head of Actuarial function (PCF48) | | | | | |
| Operations - Policy Administration Services (including broker support and client services, management of CIL relationship) | | | | | |
| Tax Compliance and Reporting | | | | | |
| Finance Services - Periodic & Ad-Hoc Internal and External Reporting | | | | | |
| Head of Finance function (PCF11) | | | | | |
| Chief Information Officer role (PCF49) | | | | | |
| Systems (hardware storage, networking, Business Continuity services) | | | | | |
| Legal & Co Sec | | | | HG plc | |
| Compliance | | | | | |
| Risk | | | | | |
| MLRO | | | | | |
| DPO | | | | | |
| Internal Audit | | | | | |
| HR | | | | | |
| Head of Internal Audit function (PCF13) | | | | | |
| Head of Compliance with responsibility for Anti-Money Laundering and Counter Terrorist Financing Legislation (PCF15) | | | | | |
| Chief Risk Officer role (PCF14) | | | | | |
| Head of Compliance (PCF12) | | | | | |
| Custody, dealing and investment administration services | General Manager | External | Isle of Man | Capital International Ltd | |

<u>Outsourcing providers:</u>
HDSL = Hansard Development Services Limited
HASL = Hansard Administration Services Limited
HG plc = Hansard Global plc

### B.8 Any Other Information

The Company has assessed its corporate governance system and has concluded that it effectively provides for the sound and prudent management of the business, which is proportionate to the nature, scale and complexity of the operations of a Company which is closed to new business.

## C. Risk Management Framework

### C1. Risk Management Principles

The risk management principles adopted by the Company include:

- **Universe of Risk Categories**
  A universe/list of Risk Categories is included in the Board Approved RAS taking into account recommendations by the Risk Committee and Chief Risk Officer, detailing the categories of material inherent risk to which the Company is or could be exposed in the pursuit of its business objectives and corporate strategies. Risk identification, measurement, monitoring, managing and reporting under the ERM are based on the risks that the Company faces.

- **Definition of Individual Risk Categories**
  To enable a common understanding within the Company of which risks should be, or should not be, included in a specific risk category, a definition of each Risk Category, which in total comprises the risk universe, is included in the Board Approved RAS. The RAS is reviewed by the Risk Committee and approved by the Board on a regular basis.

- **ERM Workbooks**

  All of the Company's risks form part of a specific Risk Category in the Company's Universe of Risk Categories and are included in the relevant ERM Workbook utilised for periodic risk assessment of that Risk Category by the respective Local Risk Owner ('LRO'). Unless the Board has determined a specific risk tolerance for individual sub-risks, the LROs determine the appropriate risk tolerances for those sub-risks, which are included in the Risk Category, taking account of the Board's overall Risk Appetite.

### C2. Risk Management Strategy

The Company has a well-defined risk management governance structure which continues to be reviewed and enhanced to provide extra comfort to the Board that risk management techniques are in place and are working effectively and as intended. In addition, the Company continues to hold regular Service Review Meetings with its key outsource partners to ensure all outsourced activities are working in accordance with service level agreements and the relevant obligations and accountabilities which remain with the Board of HEdac.

Internal Audit and Compliance Monitoring activities continue to operate, in line with agreed Board approval, to review the key risk areas to provide further assurance. Issues and improvements identified via these audits are being managed effectively through agreed management action plans.

### C3. Risk appetite

The Risk Appetite is the level of risk, in terms of impact and probability, which the Board is prepared to accept in pursuing its business plans and corporate objectives. The Board has an agreed Risk Appetite statement which is comprehensive and clear to all stakeholders. The Board sets its Risk Appetite at the level of overall risk categories and/or at the level of specific risks (which are sub-risks within a given Risk Category). Where the Board sets its Risk Appetite at an overall risk category level, such Risk Appetite is applicable to the aggregate of the sub-risks within the specific Risk Category. The Company's Risk Appetite over the short, medium- and long-term time horizons is reviewed annually.

To demonstrate whether the Company is being managed in accordance with the Board's approved Risk Appetite, periodic risk appetite tolerance assessments are carried out and reported to the Risk Committee by the Risk Manager, in accordance with requirements as set out in the Policy and the Board's approved Risk Appetite document.

**C4. Risk Tolerance**

Risk tolerances are the maximum level of variation from Risk Appetite that the Board is willing to accept. For some risks within the Company's risk universe, such as reputational and emerging risks, the holding of capital is an inappropriate mitigating measure. In these cases, other risk management processes are appropriate and are in place. The Board has set specific risk tolerances for certain categories of risk based on its business plans and corporate strategy. These are detailed in the Quantitative Risk Appetite Statements (including tolerances and metrics) in the Board Approved RAS.

Governance and risk management mechanisms are sufficiently embedded across the organisation to continually identify, manage, monitor and report movements in HEdac's risk profile, relative to risk appetite, and to identify emerging risks.

In line with the agreed Risk Appetite reporting the risks have been assessed according to the qualitative and quantitative metrics set out within the RAS using data feeds from the relevant business areas.

**C5. Risk Profile**

The risks implicit to the Company have been classified into three main risk categories and then grouped into 8 sub–risk categories. Whilst there is some overlap within sub-risk categories this is considered to strengthen the monitoring of risk appetite as it is reflective of the nature of the risks inherent to the business. The 8 sub-risk categories represent the Company's 'Universe of Risk Categories', being the categories of material inherent risk to which the Company is or could be exposed in the pursuit of its business objectives and corporate strategies. Risk identification, measurement, monitoring, managing and reporting under the Company's ERM Framework are based on the sub-risk categories. The risk and sub-risk Categories are as follows:

**C5.1. Operational Risks**

**C5.1.1. Outsourcing Risks:**

The Company itself adequately manages, monitors and oversees its outsourcing arrangements with relevant reporting to the Board Risk Committee. The approach is based on the following criteria: the quality and terms of outsourced services should be clearly defined. The expense should be appropriate for the service being provided. Financially, the cost of outsourcing should reflect efficiencies in processing and be met from policy margins.

**C5.1.2. Litigation Risks:**

Litigation cases are primarily managed on their respective merit, with due regard for ongoing, as distinct from settlement, expenses, and the implication of the result. New cases are considered on their merits and handled professionally. Financially, the impact of actual or potential litigation is assessed as soon as practical (usually when there is sufficient information to assess the claim).

**C5.1.3. Policyholder Relationship Risks:**

Policyholder relationships are managed with proper regard for the provision of accurate and timely information, due regard for the governing contractual provisions, the prevailing consumer and regulatory environment, and appropriate consideration of individual circumstances, where these are known to the Company. Financially, the costs of handling policyholder relationships are included in the outsourcing tariff

**C5.1.4. Policyholder Asset Risks:**

Policies are linked to assets that are liquid, marketable and capable of administration and in line with the 'Prudent Person Principle': their handling is appropriate. Financially, pricing suspensions cause the deferral of charges and may increase policyholder complaints. Asset acceptability is overseen by the Investment Committee and applied by Capital International. The Investment Committee reports to the Risk Committee.

A majority of the assets on the Company's balance sheet are held in respect of unit-linked contracts where the Policyholder or their mandated agent has selected the assets to be linked to their policies. Solvency II regulations have brought in the **'Prudent Person Principle'** in relation to investing in assets. The Company is required to apply this principle and has ensured that its investment policy and asset acceptability framework are aligned with this Principle, for all new asset choices.

**C5.1.5. Shareholder Asset Risks:**

Shareholder assets are invested with trusted counterparties that meet Group and Company requirements, in line with the Investments and Treasury Management Policy

**C5.2. Regulatory / Legislative Risks**

**C5.2.1. Governance / Conduct Risks:**

The processes, structures and information flows demonstrably support sound and prudent management of the business, including compliance with regulation. The primary financial impact of poor governance is increased expense: other consequences include damage to reputation.

**C5.3. Capital, Solvency and Expense Management Risks**

**C5.3.1. Capital / Solvency Risk:**

The Company seeks to operate such that its solvency is not materially impaired, recognising that most, if not all, of the Company's risks will manifest ultimately as reduced solvency. Significantly, reduced solvency calls into question the ability of the Company to progress without external support.

**C5.3.2. Expense Management Risk:**

Expenses are managed in line with the agreed business plan: the number of policies remitting charges is anticipated in the business plan. The financial impact of worse-than-expected expense performance is reduced solvency.

Overall responsibility for the management of the Company's exposure to risk is vested in the Board. To support it in this role, an enterprise-wide risk management framework is in place comprising risk identification, risk assessment, control and reporting processes. Additionally, the Board has established a number of Committees with defined terms of reference. These are the Audit, Risk, and Investment Committees.

The more significant financial risks to which the Company is exposed are set out below. For each category of risk, the Company determines its risk appetite and sets its investment, treasury and associated policies accordingly.

**C6. Underwriting Risk**

The Company closed to new business 30 June 2013. Top ups to some product lines, with policies in force at closure, continue to be accepted where the legal terms and conditions of the individual policy indicate this to be obligatory.

The Company's strategy, its risk appetite, and the risks it faces are therefore considered in the context of a reducing book of residual business where the assureds are mainly based in various jurisdictions within the European Union.

As a life insurance company, the key element of underwriting risk is mortality risk.

As the Company is closed to new business, no additional new mortality risk underwriting is likely to be required. The mortality risk already accepted by the Company is primarily related to the value of the policyholder benefit – itself determined by the values of the unit funds linked to each policy. There is some mortality risk that is specified in monetary terms.

A Reinsurance arrangement is in place to cover a proportion of the sums at risk on the death of the life assured.

**C7. Market Risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, analysed between price, interest rate and currency risk. The Company adopts a risk averse approach to market risk, with a stated policy of not actively pursuing or accepting market risk except where necessary to support other objectives. However, the Company accepts the risk that the fall in equity or other asset values, whether as a result of price falls or strengthening of sterling against the currencies in which policyholder assets are denominated, will reduce the level of annual management charge income derived from such policyholder assets and the risk of lower future profits.

<u>Sensitivity analysis to market risk</u>

The Company's business is unit-linked and the direct associated market risk is therefore borne by policyholders (although there is a secondary impact as company income is dependent upon the markets, as mentioned above). Financial assets net of liabilities to support Company capital resources held outside unitised funds primarily consist of units in money market funds, cash and cash equivalents, and other assets and liabilities. Cash held in unitised money market funds and at bank is valued at par and is unaffected by movement in interest rates. Other assets and liabilities are similarly unaffected by market movements.

As a result of these combined factors, the Company's financial assets net of liabilities held outside unitised funds are not materially subject to market risk, and movements at the reporting date in equity values have an immaterial impact on the Company's profit after tax and equity. Future revenues from annual management charges may be affected by movements in interest rates, foreign currencies and equity values.

(a) Price Risk - An overall change in the market value of the investment-linked funds would affect the annual management charges accruing to the Company since these charges, which are typically 1% p.a., are based on the market value of policyholder assets under administration. Similarly, due to the fact that these charges are deducted from contracts in contract currency, a change in foreign exchange rates relative to sterling can result in fluctuations in reported fee income and expenses. The approximate impact on the Company's profits and equity of a 10% change in fund values, either as a result of price or currency fluctuations, is £0.1m (2020: £0.1m).

(b) Interest Rate Risk - Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets arising from changes in underlying interest rates. The Company is primarily exposed to interest rate risk on the balances that it holds with credit institutions and in money market funds. A change of 1% p.a. in interest rates will result in an increase or decrease of approximately £0.1m (2020: £0.1m) in the Company's annual investment income and equity. A summary of the Company's liquid assets at the balance sheet date is set out in C3 below.

(c) Currency Risk - Currency risk is the risk that the Company is exposed to higher or lower returns as a direct or indirect result of fluctuations in the value of, or income from, specific assets net of liabilities arising from changes in underlying exchange rates.

Company Foreign Currency Exposures - The Company is exposed to currency risk on the foreign currency denominated bank balances, contract fees receivable and other liquid assets that it holds to the extent that they do not match liabilities in those currencies. The impact of currency risk is minimised by frequent repatriation of excess foreign currency funds to sterling. The Company does not hedge foreign currency cash flows. At the balance sheet date, the Company had exposures in the following currencies:

| | **2021 US$000's** | **2021 €000's** | 2020 US$000's | 2020 €000's |
|---|---|---|---|---|
| Gross assets | **264** | **2,115** | 227 | 2,189 |
| Matching currency liabilities | **(68)** | **(2,385)** | (67) | (1,957) |
| Uncovered currency exposures | **196** | **(270)** | 160 | 232 |
| Sterling equivalent of exposures (£'000) | **142** | **(232)** | 129 | 211 |

The approximate effect of a 5% change in the value of US dollars to sterling is less than £0.1m (2020: less than £0.1m); in the value of the euro to sterling is less than £0.1m (2020: less than £0.1m).

Financial Investments by Currency - Certain fees and commissions are earned in currencies other than sterling, based on the value of financial investments held in those currencies from time to time. The sensitivity of the Company to the currency risk inherent in investments held to cover financial liabilities under investment-linked contracts is incorporated within the analysis set out in (a) above. At the balance sheet date, the analysis of financial investments by currency denomination is as follows:

| **Currency** | **2021** | 2020 |
|---|---|---|
| | **%** | % |
| Euro | **44** | 49 |
| US dollar | **36** | 31 |
| Sterling | **17** | 17 |
| Others | **3** | 3 |
| **Total** | **100** | 100 |

**C8. Credit Risk**

Credit risk is the risk that the Company is exposed to lower returns or loss if another party fails to perform its financial obligations to the Company. The Company has adopted a risk averse approach to such risk and has a stated policy of not actively pursuing or accepting credit risk except when necessary to support other objectives.

The clearing and custody operations for the Company's security transactions are managed through an outsourcing arrangement with one broker, namely Capital International Limited, a member of the London Stock Exchange. At 30 June 2021, substantially all policyholder cash and cash equivalents, balances due from brokers and financial investments are placed in custody with Capital International Limited. These operations are detailed in a formal contract that incorporates notice periods and a full exit management plan. Delivery of services under the contract is monitored by a dedicated relationship manager provided by the Company's service provider, Hansard Administration Services Limited, a fellow wholly owned subsidiary of Hansard Global plc. Both relationships are managed against documented Service Level Agreements and Key Performance Indicators.

The Company has an exposure to credit risk in relation to its deposits with credit institutions and its investments in unitised money market funds. To manage these risks; deposits are made, in accordance with established policy, with credit institutions having a short-term rating of at least F1 or P1 from Fitch IBCA or Moody's respectively and a long term rating of at least A or A3. Investments in unitised money market funds are made only where such fund is AAA rated. Additionally, maximum counterparty exposure limits are set.

At the balance sheet date, an analysis of the Company's own cash and cash equivalent balances and liquid investments was as follows:

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Deposits with credit institutions | **6,688** | 17,691 |
| Investments in money market funds | **14,514** | 4,364 |
| | **21,202** | 22,055 |

**C9. Liquidity Risk**

Liquidity risk is the risk that the Company, though solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost. The Company is averse to liquidity risk and seeks to minimise this risk by not actively pursuing it except where necessary to support other objectives.

The Company's objective is to ensure that it has sufficient liquidity over short- (up to one year) and medium-term time horizons to meet the needs of the business. This includes liquidity to cover regulatory capital obligations as well as working capital to fund day-to-day cash flow requirements. Liquidity risk is principally managed in the following ways:

- Assets of a suitable marketability are held to meet liabilities as they fall due.
- Forecasts are prepared regularly to predict required liquidity levels over both the short- and medium-term.

The Company's exposure to liquidity risk is considered to be low since it maintains a high level of liquid assets to meet its liabilities.

**C10. Other Material Risks**

The key external developments relevant to HEdac's risk and capital profile include the following:

<u>A: Pandemic Environment:</u>

COVID-19 has continued to dominate the landscape throughout the reporting period, presenting societal, economic and corporate disruptions at micro and macro levels on a local and international basis. At a practical level jurisdictional specific 'lockdown' restrictions have continued to necessitate the invocation of business continuity arrangements and maintenance of a remote working environment for the Company and its full spectrum of service providers. These arrangements have continued to be managed smoothly with no adverse events, trends, or business interruptions occurring. The Executive and Operational Risk Committees, under the scrutiny of the Board Risk Committee, have maintained close oversight of business resilience from both prudential and conduct of business perspectives, with the provision of all possible support to the Company's policyholders, staff and wider stakeholder groups and the preservation of business resilience and stability being key priorities. Regular update reporting has been delivered to the Company's regulators throughout the duration of the remote working environment. There remains a lack of visibility in terms of how the environment might develop in the medium term and whilst the Company's risk profile has remained stable throughout the pandemic event this remains under close scrutiny.

B: Regulatory Environment:

HEdac closed to new business 30 June 2013. The Company's strategy, its risk appetite, and analysis of the risks it faces are predicated on the basis of a reducing book of residual business where the assureds are mainly based in various jurisdictions within the European Union (EU). Notwithstanding that position there are a number of factors generated by the continuing evolution of the regulatory environment which have the capacity to influence the Company's risk and capital profile as the book runs off. In particular:

- The profile of the Company's cost base is increasingly influenced by developments in Home and Host State regulatory environments and associated compliance obligations. As the size of the book decreases this can be expected to result in a disproportionate increase in the expense base and unit costs of administering the book. Experience determines that it is reasonable to conclude the cost base will not reduce proportionately with the size of the book.
- As regulatory focus and expectations in respect of conduct risk continue to evolve, exposures may arise either as the consequence of historic weaknesses in the management of conduct risk, which have not been previously identified, or as the result of enhanced consumer awareness and influence. Analysis of movement in risk appetite metrics for the financial year ended 30 June 2021 indicate that it is prudent to consider that the Company's experience in terms of increased litigation exposures might continue and / or deteriorate over time.

C: International Economic and Financial System Developments:

Risks to international financial stability remain elevated. Policy uncertainties, geopolitical tensions and the possibility of greater protectionism could trigger disorder in global financial markets in addition to the residual risks of market volatilities and potential recessionary risks arising as a consequence of the Pandemic environment.

Whilst the Company is less exposed as a closed book to such uncertainties and unit-linked products carry no interest rate risk for the Company any adverse effects on economic, regulatory or financial market conditions and the exacerbating impacts of the Pandemic environment will need to be monitored and assessed on a continuing basis.

In relation to Brexit, the Company has defaulted to the financial services contracts regime (FSCR). This regime allows firms to wind down their existing UK business and exit the UK market over a period of up to 15 years, with the possibility of extending this at a later date under certain circumstances, for contracts of insurance. This permits EEA firms to carry out regulated activities necessary for the performance of pre-existing contracts during that period.

This is the most appropriate route to take given the fact that the Company has been in run off since June 2013 and that there are approximately 70 policyholders impacted by Brexit, who have been contacted and fully informed regarding how their policies will be managed post Brexit.

The Company will continue to comply with all Home/Host state regulations as applicable both now and in the future.

## D: Valuation for solvency purposes

### D.1 Assets

The following table analyses the Company's financial assets at 30 June 2021:

| **Financial Assets (£m)** | **Solvency II value** | | **Statutory accounts value** | |
|---|---|---|---|---|
| **Assets held of index-linked and unit-linked contracts:** | **2021** | **2020** | **2021** | **2020** |
| Equity securities | **1.5** | **1.2** | **1.5** | **1.2** |
| Collective investment schemes | **81.9** | **81.1** | **81.9** | **81.1** |
| Fixed income securities | **0.1** | **3.0** | **0.1** | **3.0** |
| Deposits and money market funds | **5.8** | **8.6** | **5.9** | **8.6** |
| | **89.4** | **93.9** | **89.4** | **93.9** |
| Cash and cash equivalents | **21.2** | **10.0** | **21.2** | **10.0** |
| Deposits other than cash equivalents | **0.3** | **12.1** | **0.3** | **12.1** |
| Debtors | **0.7** | **1.1** | **0.7** | **1.1** |
| Deferred acquisition costs | **0.0** | **0.0** | **0.0** | **0.0** |
| | **111.6** | **117.1** | **111.6** | **117.1** |

There is no material difference between the valuation for solvency purposes and the valuation of assets in the financial statements.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where the Directors determine that there is no active market for a particular financial instrument, fair value is assessed using valuation techniques based on available, relevant, information and an appraisal of all associated risks. This process requires the exercise of significant judgement by the Directors.

IFRS 13 requires the Company to classify fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring that fair value. The hierarchy is as follows:

- Level 1: fair value is determined using quoted prices (unadjusted) in active markets for identical assets.
- Level 2: fair value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value is determined using inputs for the asset that are not based on observable market data (unobservable inputs).

The following table analyses the Company's financial assets and liabilities at fair value through profit or loss, at 30 June 2021:

| **Financial assets at fair value through profit or loss (£m)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Equity securities | **1.5** | **-** | **-** | **1.5** |
| Collective investment schemes | **79.2** | **-** | **2.7** | **81.9** |
| Fixed income securities | **-** | **0.1** | **-** | **0.1** |
| Deposits and money market funds | **5.9** | **-** | **-** | **5.9** |
| **Total financial assets at fair value through profit or loss** | **86.6** | **0.1** | **2.7** | **89.4** |

In total, assets with a fair value of £2.7m are classified as Level 3 as the directors believe that valuations can no longer be obtained for these assets from an observable market price due to suspension in trading of the asset or the asset becoming illiquid.

**D.2 Technical Provisions**

The technical provisions comprise the Best Estimate of the Liabilities ("BEL") and the Risk Margin. At 30 June 2021, the technical provisions are:

| **Technical Provisions (£m)** | **2021** | 2020 |
|---|---|---|
| Best Estimate of Liabilities | **89.9** | 96.7 |
| Risk Margin | **1.0** | 1.3 |
| **Total** | **90.9** | 98.0 |

A. Best Estimate of Liabilities (BEL)

The BEL represents unit linked liability less the projected future surplus from the unit-linked policies plus certain non-linked reserves. The calculations have been performed on a best estimate basis in accordance with Articles 75 to 86 of the Solvency II Directive. The underlying policyholder behaviour assumptions are based on policyholder behaviour experience (e.g. surrenders/lapses, fund choices etc). Economic assumptions have been set consistent with economic conditions prevailing at 30 June 2021. The calculations do not make any allowance for transitional measures.

The main assumption in calculating the future surplus from the unit linked policies is the level and duration of future expenses.

B. Risk Margin

The Risk Margin is an addition to the Best Estimate Liabilities to ensure that the value of the technical provisions is equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations. The risk margin is calculated as the amount of capital needed to support the Solvency Capital Ratio over the lifetime of the business at a prescribed cost of capital rate of 6% per annum.

The technical provisions represent a realistic estimate of the Company's future obligations with an allowance for some deviation for plausible changes in estimation in the form of the risk margin. They are not expected to be sufficient to meet the Company's obligations in all scenarios.

The key sources of uncertainty for the Company are expenses, policyholder behaviour assumptions and potential costs arising out of litigation.

The technical provisions in the financial statements are shown as the technical provisions for linked liabilities amount to £89.4m (2020: £94.0). The difference between the technical provisions in the valuation for solvency (£90.9m) and the financial statements (£89.4m) in relation to the financial year ending 30 June 2021 is the amount of the risk margin and the difference between the unit-linked liability and the BEL. The difference amounts to £1.5m (2020: £4.0m).

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

The Company recovered £1,205 from reinsurance contracts during the year 1 July 2020 to 30 June 2021 (2020: £1,033).

There were no material changes in the assumptions used in the calculation of the technical provisions.

**D.3. Other Liabilities**

Contingent liabilities

For the valuation for solvency purposes, material contingent liabilities have to be recognised as liabilities, unlike IFRS principles under which they are only recognised if the payment of a liability is probable ("more likely than not") and can be estimated reliably. The contingent liabilities in the valuation for solvency purposes are valued on the expected present value of future cash-flows required to settle the contingent liabilities over its lifetime.

For each contingent liability, consideration has been given to the possible exposure of each liability and the likelihood of these outcomes in the determining the value of each contingent liability. The overall amount has been calculated at £3.8m (2020: £4.7m).

All other liabilities

These comprise of insurance and intermediaries payables, £2.2m (2020: £2.5m) and other liabilities £3.6m (2020: £3.0m). No adjustment is required to these valuations for the valuation for solvency purposes as the amounts held under IFRS measurement principles are deemed to be approximations of fair value.

Deferred Income reserve

Under IFRS recognition principles, fees charged for services related to the management of investment-linked contracts are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred. These are amortised over the anticipated period in which services will be provided.

The Deferred Income Reserve (£2.2m) is not relevant for the valuation for solvency purposes.

**D.4 Alternative Methods for Valuation**

The Company does not use any alternative methods for valuation.

## E. Capital Management

### E.1 Own funds

The Company is a single shareholder entity whose issued shares are fully paid up. It has no debt financing, nor does it have any plans to raise debt or issue new shares in the short or medium term.

The Company's own funds are primarily invested in cash deposits or money market funds. There is no intention to change the disposition of own fund items.

The medium-term capital management plan set by the Board is as follows:

- Own funds to be maintained at an agreed level of at least 150% of the SCR
- No capital is planned to be issued in the short or medium term;
- Own fund items (other than the value arising from the existing policies) are invested in bank deposits or cash funds according to a Board approved Treasury Policy.

Own funds are comprised of paid-in ordinary share capital, a paid-up capital contribution and a reconciliation reserve.

| **Own Funds (£m)** | | **2021** | | **2020** |
|---|---|---|---|---|
| Ordinary Share Capital | | 10.1 | | 10.1 |
| Capital Contribution | | 3.0 | | 3.0 |
| | | 13.1 | | 13.1 |
| Difference in the valuation of assets | (0.0) | | (0.0) | |
| Difference in the valuation of technical provisions | (1.5) | | (4.0) | |
| Difference in the valuation of other liabilities | (1.6) | | (2.0) | |
| Total of reserves and retained earnings from financial statements | 1.1 | | 1.8 | |
| Reconciliation reserve | | (2.0) | | (4.2) |
| **Basic Own Funds** | | **11.1** | | **8.9** |

The eligible amount of own funds to cover the Solvency Capital Requirement and the Minimum Capital Requirement is £11.1m. This is comprised entirely of Tier 1 Basic Own Funds.

The following table reconciles the differences (reconciliation reserve) between the equity in the financial statements and the excess of the assets over liabilities as calculated for solvency purposes.

| **Reconciliation of Basic Own Funds to Equity in the financial statements as at 30 June 2021 (£m)** | **2021** | 2020 |
|---|---|---|
| Total Equity in financial statements | **14.2** | **14.8** |
| *Deduct items not recognised in financial statements:* | | |
| Difference between unit linked liabilities and BEL | **(0.5)** | **(2.7)** |
| Contingent Liabilities | **(3.8)** | **(4.7)** |
| Risk Margin | **(1.0)** | **(1.3)** |
| *Add items not recognised in Solvency II Balance Sheet* | | |
| Deferred Income Reserve | **2.2** | **2.8** |
| **Total financial assets at fair value through profit or loss** | **11.1** | **8.9** |

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds. No deductions are applied to own funds and there are no material restrictions affecting their availability and transferability.

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

The amount of the Company's Solvency Capital Requirement at the end of the reporting period is £3.9m (2020: £4.8m).

The table below shows the components of the SCR (using the Standard Formula) at 30 June 2021.

| **SCR Components (£m)** | **2021** | **2020** |
|---|---|---|
| Market Risk analysed by: | | |
| - Equity Risk | 1.6 | 1.4 |
| - Currency Risk | 0.5 | 1.1 |
| - Interest Rate Risk | 0.0 | 0.0 |
| - Concentration Risk | 0.1 | 1.3 |
| - Spread Risk | 0.1 | 0.2 |
| - Market Diversification Benefit | (0.5) | (1.5) |
| Total Market Risk | 1.8 | 2.5 |
| Life Risk analysed by: | | |
| - Lapse Risk | 0.9 | 1.0 |
| - Expense Risk | 1.0 | 1.5 |
| - Catastrophe Risk | 0.0 | 0.0 |
| - Mortality Risk | 0.0 | 0.0 |
| - Longevity Risk | 0.0 | 0.0 |
| - Insurance Diversification Benefit | (0.2) | (0.3) |
| Total Life Risk | 1.7 | 2.2 |
| Total Default Risk | 0.6 | 0.5 |
| Basic Solvency Requirements (‘BSCR’) pre-Diversification | 4.1 | 5.2 |
| Overall Diversification Benefit | (1.0) | (1.3) |
| BSCR | 3.1 | 3.9 |
| Operational Risk | 0.8 | 0.9 |
| Deferred Tax Liability | 0.0 | 0.0 |
| **SCR** | **3.9** | **4.8** |
| **MCR** | **3.2** | **3.4** |

The Company uses EIOPA’s Solvency II Standard Formula. It does not use Company specific parameters and does not use simplified calculations in its computation.

The Minimum Capital Requirement at 30 June 2021 is £3.2m (2020: £3.4m) which is the minimum, calculated from the formula, using the Central Bank of Ireland published exchange rate at 30 June 2021.

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

The Company has not opted to use the duration-based equity risk sub-module, of the Solvency II regulations.

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

The Company applies the Standard formula model and does not use an internal model to calculate 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 Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

### E.6 Any other information

No other information reported.

# Annex 1: Annual Quantitative Reporting Templates

***(all figures are £000's)***

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

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | |
| Property (other than for own use) | **R0080** | |
| Holdings in related undertakings, including participations | **R0090** | |
| Equities | **R0100** | |
| Equities - listed | **R0110** | |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | |
| Government Bonds | **R0140** | |
| Corporate Bonds | **R0150** | |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | |
| Collective Investments Undertakings | **R0180** | |
| Derivatives | **R0190** | |
| Deposits other than cash equivalents | **R0200** | |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | 89,369 |
| Loans and mortgages | **R0230** | |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | |
| Reinsurance recoverables from: | **R0270** | |
| Non-life and health similar to non-life | **R0280** | |
| Non-life excluding health | **R0290** | |
| Health similar to non-life | **R0300** | |
| Life and health similar to life, excluding health and index-linked and unit-linked | **R0310** | |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | |
| Reinsurance receivables | **R0370** | |
| Receivables (trade, not insurance) | **R0380** | 173 |
| Own shares (held directly) | **R0390** | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | **R0400** | |
| Cash and cash equivalents | **R0410** | 21,202 |
| Any other assets, not elsewhere shown | **R0420** | 820 |
| **Total assets** | **R0500** | 111,564 |

| Liabilities | | Solvency II value<br>C0010 |
|---|---|---|
| Technical provisions – non-life | **R0510** | |
| Technical provisions – non-life (excluding health) | **R0520** | |
| TP calculated as a whole | **R0530** | |
| Best Estimate | **R0540** | |
| Risk margin | **R0550** | |
| Technical provisions - health (similar to non-life) | **R0560** | |
| TP calculated as a whole | **R0570** | |
| Best Estimate | **R0580** | |
| Risk margin | **R0590** | |
| Technical provisions - life (excluding index-linked and unit-linked) | **R0600** | |
| Technical provisions - health (similar to life) | **R0610** | |
| TP calculated as a whole | **R0620** | |
| Best Estimate | **R0630** | |
| Risk margin | **R0640** | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | **R0650** | |
| TP calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | |
| Risk margin | **R0680** | |
| Technical provisions – index-linked and unit-linked | **R0690** | 90,867 |
| TP calculated as a whole | **R0700** | |
| Best Estimate | **R0710** | 89,878 |
| Risk margin | **R0720** | 990 |
| Contingent liabilities | **R0740** | 3,810 |
| Provisions other than technical provisions | **R0750** | |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | |
| Derivatives | **R0790** | |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 2,189 |
| Reinsurance payables | **R0830** | |
| Payables (trade, not insurance) | **R0840** | 3,597 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in BOF | **R0860** | |
| Subordinated liabilities in BOF | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | |
| **Total liabilities** | **R0900** | 100,463 |
| **Excess of assets over liabilities** | **R1000** | 11,101 |

**Annex I**
**S.05.01.02**
**Premiums, claims and expenses by line of business**

| | | Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)** | | | | | | | | | | | | Line of business for: | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Health | Casualty | Marine, aviation, transport | Property | Total |
| | | **C0010** | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0110** | **C0120** | **C0130** | **C0140** | **C0150** | **C0160** | **C0200** |
| **Premiums written** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0110** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance | **R0120** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance | **R0130** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0140** | | | | | | | | | | | | | | | | | |
| Net | **R0200** | | | | | | | | | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0210** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance | **R0220** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance | **R0230** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0240** | | | | | | | | | | | | | | | | | |
| Net | **R0300** | | | | | | | | | | | | | | | | | |
| **Claims incurred** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0310** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance | **R0320** | | | | | | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance | **R0330** | | | | | | | | | | | | | | | | | |
| Reinsurers' share | **R0340** | | | | | | | | | | | | | | | | | |
| Net | **R0400** | | | | | | | | | | | | | | | | | |
| **Changes in other technical** | | | | | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0410** | | | | | | | | | | | | | | | | | |
| Gross - Proportional reinsurance | **R0420** | | | | | | | | | | | | | | | | | |
| Gross - Non- proportional reinsurance | **R0430** | | | | | | | | | | | | | | | | | |
| Reinsurers'share | **R0440** | | | | | | | | | | | | | | | | | |
| Net | **R0500** | | | | | | | | | | | | | | | | | |
| **Expenses incurred** | **R0550** | | | | | | | | | | | | | | | | | |
| **Other expenses** | **R1200** | | | | | | | | | | | | | | | | | |
| **Total expenses** | **R1300** | | | | | | | | | | | | | | | | | |

**Annex I**
**S.05.01.02**
**Premiums, claims and expenses by line of business**

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance | Annuities stemming from non-life insurance contracts and relating to insurance obligations | Health reinsurance | Life reinsurance | |
| | | **C0210** | **C0220** | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** | **C0300** |
| **Premiums written** | | | | | | | | | | |
| Gross | **R1410** | | | | | | | | | |
| Reinsurers' share | **R1420** | | | | | | | | | |
| Net | **R1500** | | | | | | | | | |
| **Premiums earned** | | | | | | | | | | |
| Gross | **R1510** | | | 2,321 | | | | | | 2,321 |
| Reinsurers' share | **R1520** | | | 8 | | | | | | 8 |
| Net | **R1600** | | | 2,313 | | | | | | 2,313 |
| **Claims incurred** | | | | | | | | | | |
| Gross | **R1610** | | | 13,161 | | | | | | 13,161 |
| Reinsurers' share | **R1620** | | | 1 | | | | | | 1 |
| Net | **R1700** | | | 13,160 | | | | | | 13,160 |
| **Changes in other technical** | | | | | | | | | | |
| Gross | **R1710** | | | -4,613 | | | | | | -4,613 |
| Reinsurers' share | **R1720** | | | | | | | | | |
| Net | **R1800** | | | -4,613 | | | | | | -4,613 |
| **Expenses incurred** | **R1900** | | | 2,887 | | | | | | 2,887 |
| **Other expenses** | **R2500** | | | | | | | | | |
| **Total expenses** | **R2600** | | | | | | | | | 2,887 |

**Annex I**
**S.12.01.02**
**Life and Health SLT Technical Provisions**

| | | Insurance with profit participation | Index-linked and unit-linked insurance | | | Other life insurance | | | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | Accepted reinsurance | **Total (Life other than health insurance, incl. Unit-Linked)** | Health insurance (direct business) | | | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Contracts without options and guarantees | Contracts with options or guarantees | | Contracts without options and guarantees | Contracts with options or guarantees | | | | | Contracts without options and guarantees | Contracts with options or guarantees | | | |
| | | **C0020** | **C0030** | **C0040** | **C0050** | **C0060** | **C0070** | **C0080** | **C0090** | **C0100** | **C0150** | **C0160** | **C0170** | **C0180** | **C0190** | **C0200** | **C0210** |
| **Technical provisions calculated as a whole** | **R0010** | | | | | | | | | | | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | **R0020** | | | | | | | | | | | | | | | | |
| **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| **Best Estimate** | | | | | | | | | | | | | | | | | |
| **Gross Best Estimate** | **R0030** | | | 89,878 | | | | | | | 89,878 | | | | | | |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | **R0080** | | | | | | | | | | | | | | | | |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | **R0090** | | | 89,878 | | | | | | | 89,878 | | | | | | |
| **Risk Margin** | **R0100** | | 990 | | | | | | | | 990 | | | | | | |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| Technical Provisions calculated as a whole | **R0110** | | | | | | | | | | | | | | | | |
| Best estimate | **R0120** | | | | | | | | | | | | | | | | |
| Risk margin | **R0130** | | | | | | | | | | | | | | | | |
| **Technical provisions - total** | **R0200** | | 90,867 | | | | | | | | 90,867 | | | | | | |

**Annex I**
**S.23.01.01**
**Own funds**

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 10,122 | 10,122 | | | |
| Share premium account related to ordinary share capital | R00 | | | | | |
| Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | R00 | | | | | |
| Subordinated mutual member accounts | R005 | | | | | |
| Surplus funds | R007 | | | | | |
| Preference shares | R00 | | | | | |
| Share premium account related to preference shares | R011 | | | | | |
| Reconciliation reserve | R0130 | -2,022 | -2,022 | | | |
| Subordinated liabilities | R014 | | | | | |
| An amount equal to the value of net deferred tax assets | R016 | | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R018 | 3,000 | 3,000 | | | |
| **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 | R02 20 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R02 | | | | | |
| **Total basic own funds after deductions** | R02 | 11,101 | 11,101 | | | |
| **Ancillary own funds** | | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R03 | | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | R031 0 | | | | | |
| Unpaid and uncalled preference shares callable on demand | R03 | | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R03 | | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R03 | | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R035 | | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R03 | | | | | |
| Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R037 | | | | | |
| Other ancillary own funds | R03 | | | | | |
| **Total ancillary own funds** | R04 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R050 | 11,101 | 11,101 | | | |
| Total available own funds to meet the MCR | R051 | 11,101 | 11,101 | | | |
| Total eligible own funds to meet the SCR | R054 | 11,101 | 11,101 | | | |
| Total eligible own funds to meet the MCR | R055 | 11,101 | 11,101 | | | |
| **SCR** | R058 | 3,870 | | | | |
| **MCR** | R06 | 3,175 | | | | |
| **Ratio of Eligible own funds to SCR** | R06 | 286.87% | | | | |
| **Ratio of Eligible own funds to MCR** | R06 | 349.65% | | | | |

| | | C0060 | |
|---|---|---|---|
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | R070 | 11,101 | |
| Own shares (held directly and indirectly) | R071 | | |
| Fore seeable dividends, distributions and charges | R072 | | |
| Other basic own fund items | R073 | 13,122 | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R074 | | |
| **Reconciliation reserve** | [illegible] | -2,022 | |
| **Expected profits** | | | |
| Expected profits included in future premiums (EPIFP) - Life business | R077 | | |
| Expected profits included in future premiums (EPIFP) - Non- life business | R078 | | |
| **Total Expected profits included in future premiums (EPIFP)** | R079 | | |

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

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| Market risk | R0010 | 1,830 | | |
| Counterparty default risk | R0020 | 649 | | |
| Life underwriting risk | R0030 | 1,699 | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | -1,119 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | R0100 | 3,059 | | |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 811 |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | |
| Capital requirement for business operated in accordance with Art. 4 of Directive | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 3,870 |
| Capital add-on already set | R0210 | |
| **Solvency capital requirement** | R0220 | 3,870 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirement for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

| | | Yes/No |
|---|---|---|
| **Approach to tax rate** | | C0109 |
| Approach based on average tax rate | R0590 | 3 - Not applicable as LAC DT is not used (in this case R0600 to R0690 are not applicable) |

| | | LAC DT |
|---|---|---|
| **Calculation of loss absorbing capacity of deferred taxes** | | C0130 |
| LAC DT | R0640 | |
| LAC DT justified by reversion of deferred tax liabilities | R0650 | |
| LAC DT justified by reference to probable future taxable economic profit | R0660 | |
| LAC DT justified by carry back, current year | R0670 | |
| LAC DT justified by carry back, future years | R0680 | |
| Maximum LAC DT | R0690 | |

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

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

| | | C0010 |
|---|---|---|
| $MCR_{NL}$ Result | R0010 | |

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

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

| | | C0040 |
|---|---|---|
| $MCR_L$ Result | R0200 | 636 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| Obligations with profit participation - guaranteed benefits | R0210 | | |
| Obligations with profit participation - future discretionary benefits | R0220 | | |
| Index-linked and unit-linked insurance obligations | R0230 | 89,878 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | | |
| Total capital at risk for all life (re)insurance obligations | R0250 | | 9,141 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | 636 |
| SCR | R0310 | 3,870 |
| MCR cap | R0320 | 1,741 |
| MCR floor | R0330 | 967 |
| Combined MCR | R0340 | 967 |
| Absolute floor of the MCR | R0350 | 3,175 |

| | | C0070 |
|---|---|---|
| **Minimum Capital Requirement** | R0400 | 3,175 |