



**PANCYPRIAN INSURANCE**

## **SOLVENCY AND FINANCIAL CONDITION REPORT AS AT 31ST DECEMBER 2018**

April 2019

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## 1 Summary

### 1.1 Purpose of the report

The purpose of this report is to satisfy the public disclosure requirements under the new, harmonised EU-wide regulatory regime for Insurance Companies (Solvency II) which came into effect on 1 January 2016. The elements of the disclosure relate to business and performance, system of governance, risk profile, solvency valuation and capital management. This document is the second Solvency and Financial Condition Report to be published by Pancyprian Insurance Ltd.

### 1.2 Overview of the Company

#### Business and Performance

Pancyprian Insurance Ltd (PIL) was incorporated in Cyprus in 1992. It is the fourth largest general insurance company in Cyprus in terms of gross written premium. Even though it underwrites a wide-range of insurance products, the company mainly focuses on motor, fire and liability business (comprises of 89% of its portfolio). It underwrites business across all the non-occupied areas of Cyprus. It is regulated by the Superintendent of Insurance of the Republic of Cyprus.

During the year ended 31 December 2018, the Company generated €29.5m (2017: €28m) of gross written premium. Technical profit for 2018 was €7.1m (2017: €8.7m) and Net profit was €187k (2017: €46k as original presented). The reduction in technical profit since 2017 follows increased claims costs incurred (loss ratio 2018: 62.4%, 2017: 53%). Excluding the write-off of the insurance software under development in 2018 (€1.2m) and the cost of the Early Retirement Scheme in 2017 (€2.8m), that are both considered extraordinary items, the Company's profit for the year for 2018 was €1.4m, which is lower by 51% compared to the profit for 2017 of €2.8m (as originally presented), mainly due to the increase in claims incurred expenses.

#### System of Governance

The Company has established a robust and sound system of governance enabling the prudent and effective control and management of the Company. The ultimate authority is the Board of Directors, supported by its two subcommittees (the Investment, Risk Management and Reserves Committee and the Audit Committee) and the Management of the Company. The governance structure sets out clear accountabilities and responsibilities across all the functions of the Company and in particular the key functions (Actuarial, Compliance, Risk Management and Internal Audit).

The key functions are integrated within the organizational structure and involved in the decision-making of the company ensuring that the business, capital and risk strategies are fully aligned to achieve the strategic objectives set by the Board of Directors whilst ensuring the risk profile of the Company remains within the approved risk tolerance.

Some of functions have been outsourced, however, rigorous checks are performed to ensure that outsourcing providers have the ability and capacity to deliver the required functions and activities to high levels of standards.



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### Solvency and Capital position

The Company maintains at all times sufficient own funds to cover both the solvency capital requirement and minimum capital requirement with an appropriate buffer. The balance sheet of the Company for the year ended 31 December 2018 is set out below:

€m	Statutory accounts	Solvency II value
Total assets	59.4	53.8
Total liabilities, including technical provisions	42.1	37.0
Own funds	17.3	16.8

The Company enjoys a healthy solvency and capital position as demonstrated in the table below (all figures as at 31st December 2018):

€m	
Solvency capital requirement (SCR)	12.4
Minimum capital requirement (MCR)	3.9
Eligible own funds to cover both SCR and MCR – All Tier 1unrestricted	16.8
Surplus capital	4.4

The Company does not make any volatility or matching adjustments and does not use any transitional arrangements (neither transitional adjustment to the relevant risk-free interest rate term structure nor transitional measure on technical provisions).

The solvency capital requirement of €12.4m is higher than the regulatory minimum capital requirement €3.9m and as such, the Company holds the solvency capital requirement of €12.4m. The Company is fully compliant with both the solvency capital requirement and the minimum capital requirement and has been during the reporting period. Its solvency ratio is 136%.

Despite the fact that the Company's solvency capital requirement has reduced from €14.3m in 2017 to €12.4m in 2018, reflecting the improvement in the risk profile following the review and implementation of the investment strategy, the Company's solvency coverage ratio (SCR) decreased to 136% compared to 145% in 2017. This is due to the reduction of the Company's own funds from €17.6m in 2017 to €16.8m in 2018. In both years, the Company paid a dividend to its shareholders, however, the lower profitability arising from the increase claims activity and old claims revaluations made maintaining the level of own funds.

### Risk Profile

PIL is a general insurance company and as such the key risks faced are underwriting, market and credit risk. Underwriting risk is at the core of any insurance company's business model and it is a risk that is actively sought, accepted and appropriately managed. The Company also has a positive appetite for market risk, for which exposures relate mainly to Company's investment portfolio, as it is a key driver of the financial performance. Credit risk is the risk that debtors (i.e. policyholders and intermediaries owing premiums, reinsurers owing recoveries etc.) and other counterparties (issuers of securities, banking institutions) will be unable to honor their obligations, or unable to honor them in a timely manner.

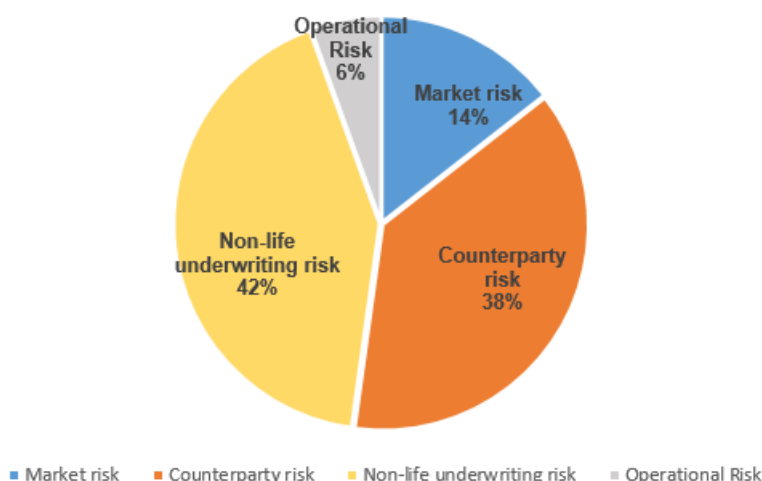
PIL seeks to protect itself against all risks faced by applying strong mitigation techniques. Details of the mitigation techniques are set out in the relevant sections in Section 3: Risk profile.



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The company assesses its risk and capital requirements using the EIOPA's Solvency II Standard Formula, amongst others. The graph below shows the Solvency Capital Requirement (SCR) on a pre-diversified basis allocated by risk type as at Q4 2018:

Solvency capital requirement allocation by risk type



### 1.3 Material changes during 2018

There has been a material change in the underwriting and business profile of the Company in 2018. Following the acquisition of certain assets and liabilities of ex-CCB (Central Cooperative Bank) by the Group (Hellenic Bank), the Company has the potential to acquire a significant part of that clientele. If this materializes, then there will be a significant increase in the underwriting business and especially in the Fire portfolio.

There have been no material changes in the processes, tools, bases, methodologies and assumptions applied by the Company to calculate the regulatory requirements, obligations and reporting. Details of any changes can be found in the individual sections.

There have been material changes in the methodologies and assumptions applied by the Company to calculate the statutory requirements obligations and reporting. The changes are summarized as follows:

1. The Company adopted IFRS 9 "Financial Instruments" on 1 January 2018, which had an effect on the classification and measurement of financial instruments. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt instruments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.
2. The Company changed its accounting policy for the subsequent measurement of investment property, by moving from the cost model to the fair value model, with effect from 1 January 2018.



## 2 Business and Performance

### 2.1 Business

#### 2.1.1 Name and legal form of undertaking

Pancyprian Insurance Company Ltd, was initially founded in 1963 in the UK when there was no legislation on insurance companies in Cyprus in place. It used to provide both life and non-life insurance services. In 1992, a company was incorporated in Cyprus under the name "Pancyprian Insurance Limited" (hereafter the "Company") offering only non-life insurance services and took over the UK Company's portfolio.

#### 2.1.2 Name and contact details of the supervisory authority

The Superintendent of Insurance is the competent authority for the supervision of the insurance sector in the Republic of Cyprus and exercises all the powers granted to him/ her by the Law on Insurance and Reinsurance Services and Other Related Issues of 2017 and 2018 [Law 38(I) 2017] and by the relevant Regulations, for the purpose of protecting the policyholders and the insurance beneficiaries. The supervisor contact details are:

#### Insurance Companies Control Service

**Address:** P.O. Box 23364, 1682 Nicosia, Cyprus

**Telephone Number:** 22602990

**Fax Number:** 22302938

**E-mail:** [insurance@mof.gov.cy](mailto:insurance@mof.gov.cy)

#### 2.1.3 Name and contact details of the parent company's supervisory authority

#### The Central Bank of Cyprus

**Address:** 80 John Kennedy Avenue, 1076 Nicosia, Cyprus

**Telephone Number:** 22714100

**Fax Number:** 22714959

#### 2.1.4 Name and contact details of the external auditor

#### KPMG Limited

Certified Public Accountants and Registered Auditors

**Address:** 14 Esperidon Street, 1087 Nicosia, Cyprus

**Telephone Number:** 22209000

**Fax Number:** 22513294

**Website:** [www.kpmg.com.cy](http://www.kpmg.com.cy)



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### 2.1.5 Holders of qualifying holdings

The Company's shareholders with qualifying holdings are:

- Hellenic Bank Public Company Ltd 99.96%
- Paris Voyazianos 0.04%

### 2.1.6 Company's position within the Group legal structure

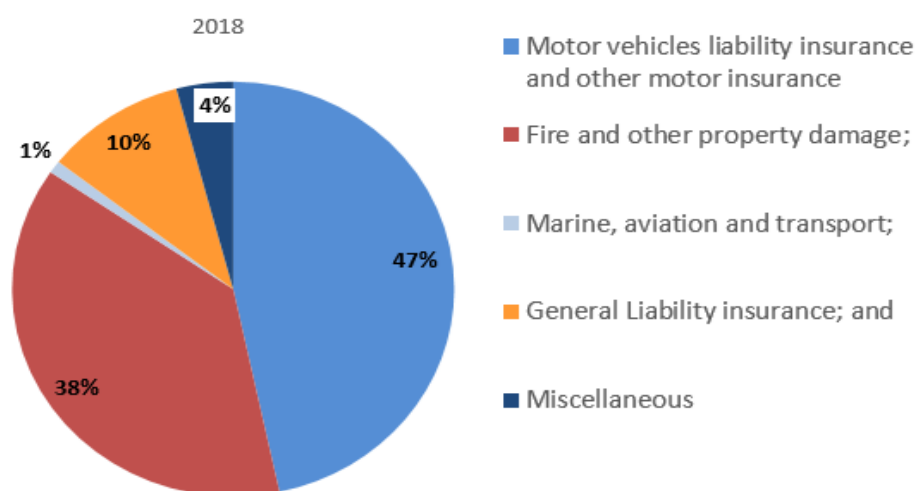
The Company is almost exclusively owned by Hellenic Bank Public Company Ltd since 1999, (owns 99.96% of the Company). It is the 4th largest non-life insurance company in Cyprus holding 7.7<sup>1</sup>% (2017: 7.6%) of the market share of the Cypriot general insurance sector (based on the gross premium written by the general insurance companies, as per 2018 annual Insurance Association of Cyprus public statistics). The Company's income (gross written premium) from insurance activities was approximately €29.5m (2017: €28m) for the year ended 31.12.2018.

### 2.1.7 Material lines of business and material geographical areas

Pancyprian Insurance Ltd offers non-life insurance coverage to individuals and commercial/ corporate clients in the following classes of business:

- Motor vehicle liability insurance and other motor insurance;
- Fire and other property damage (incl. Burglary and CAR);
- General liability insurance;
- Marine, aviation and transport; and
- Miscellaneous (incl. A&H).

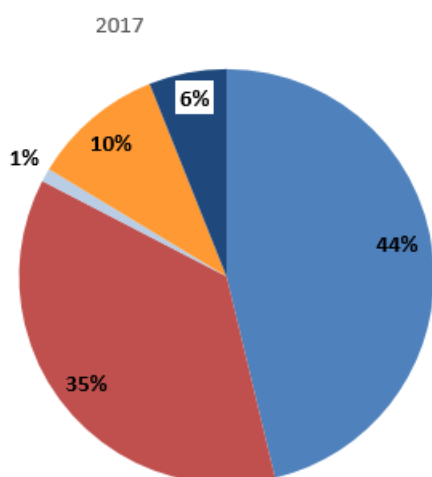
The following charts<sup>2</sup> present 2018 and 2017 Gross Premium Written per class of business:



<sup>1</sup> Excluding A&H (Accident and Health)

<sup>2</sup> For the purposes of the Annual Statutory Financial Statements disclosures, Burglary and CAR types are included within Miscellaneous category and A&H is included in a separate category on its own.





Insurance business is written directly via the Company's branches and head office, via a 66 insurance agents and intermediaries and via Hellenic Bank group branches network (bankassurance), thus accessing a diverse customer base comprising of both retail and commercial customers, thus restricting the distribution channels that can be used.

The company only writes business across the non-occupied areas of Cyprus.

### 2.1.8 Significant business or other events

On 3<sup>rd</sup> of September the Group announced the completion of the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank Ltd ("CCB"). Following that the Company recorded €244k premiums from ex-Cyprus Cooperative Bank ("CCB") customers, as a result of Hellenic Bank's acquisition of CCB.

## 2.2 Underwriting Performance

### 2.2.1 Aggregate level

The underwriting performance information given in this section is on an IFRS basis, as the Company prepares its financial statements in accordance with IFRS as adopted by the European Union.

The Company has generated net revenue from insurance premiums amounting to €19.3m for the year 2018, compared to €18.5m in 2017. With effect from 1 January 2018, the Company changed the accounting policy in relation to the subsequent measurement of investment property, by a change from the cost model to the fair value model. The change to the fair value model was applied retrospectively by the Company in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". As a result, the comparative information was restated. The primary effect of the restatement was to increase profit for the year 2017 from €46k to €197k. The Company's Profit after Tax for the current year is €187.5k. Excluding the write-off of the insurance software under development in 2018 (€1.2m) and the cost of the Early Retirement Scheme in 2017 (€2.8m), that are both considered extraordinary items, the Company's profit for the year for 2018 was €1.4m, which is lower by 51% compared to the profit for 2017 of €2.9m (as originally presented), mainly due to the increase in claims incurred expenses.

Underwriting performance has been positive, with technical profits (before the deduction of administration and other expenses) reported in all lines of business. The reduction in technical profit from €8.7m in 2017 to



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€7.1m in 2018 follows increased claims activity (both severity and frequency) which was evident in both the Company and the market in general.

### 2.2.2 Performance by material line of business

The technical profit (Underwriting Profit before deducting Payroll and Administration expenses) reported for the year ended 31 December 2018 in the annual financial statements was €7.1m (2017: €8.7m) and is analyzed by class of business in the table below:

Class - €'000	2018	% variance	2017
Motor vehicle liability insurance and other motor insurance	2.713	-33%	4.043
Fire and other property damage	3.487	1%	3.446
Marine, aviation and transport	146	-4%	152
General liability insurance	440	-36%	689
Miscellaneous	277	-19%	344
	<b>7.063</b>	<b>-7%</b>	<b>8.673</b>

Ratios	2018	2017
Loss Ratio <sup>3</sup>	(62.4%)	(53.0%)
Combined Ratio	(101.7%)	(95.6%)

## 2.3 Investment Performance

### 2.3.1 Income and expenses arising from investments by asset class

The table below sets out the investment portfolio composition by asset class:

€'000	2018	2017 (Restated)
Available for sale Investments:		
- Cyprus Government Bonds	799	812
- ETFs (Exchange Traded Funds)	930	1,003

<sup>3</sup> **Loss ratio** = Net incurred claims/net earned premium (excl.policy fees), **Combined ratio** = (net incurred claims + expenses (incl. net acquisition costs))/net earned premium (excl.policy fees)



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- Money Market Funds	4,625	5,992
- Mutual Funds	4,837	3,545
Bank Deposits - Fixed Deposits	2,712	3,733
Bank Deposits - Current Accounts	15,334	13,003
Investment Property	2,015	2,623 <sup>4</sup>
	<b>31,252</b>	<b>30,711</b>

The Company's investment Income and Expenses are shown in the following tables:

### Investment Income

€'000	2018	2017 (Restated <sup>4</sup> )
Dividends from Available for Sale Investments	9	12
Interest Income from Bonds	38	71
Interest Income from Banks	27	74
Rental income from investment property	46	67
Net Revaluation gain on investment property	-	74
Share of Profit in Hire Risk Pool	163	162
	<b>283</b>	<b>460</b>

Interest income from Banks in 2018 is lower than 2017 mainly due to the reduction in Bank deposit balances (and shift towards other investment assets) and partly due to the lower interest rates offered by banks (2018: 0,4% - 1,15% 2017 were 1,15% - 1,25%).

<sup>4</sup> With effect from 1 January 2018, the Company changed the accounting policy in relation to the subsequent measurement of investment property, by a change from the cost model to the fair value model. The change to the fair value model was applied retrospectively by the Company in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". As a result, the comparative information was restated. The primary effect of the restatement was to increase profit for the year from €46k to €197k, and net assets from €19.1m to €19.4m.



### Investment Expenses

€'000	2018	2017 (Restated <sup>4</sup> )
Net fair value losses on FVTPL investments	83	-
Net loss on disposal of FVTPL investments	6	-
Net revaluation loss on investment property	118	-
Loss on sale of investment property	6	-
Loss on disposal of available for sale assets	-	1
	<b>213</b>	<b>1</b>

### 2.3.2 Gains and losses recognised directly in equity

#### 2.3.2.1 IFRS 9 “Financial Instruments”

The Company has initially applied IFRS 9 “Financial Instruments”, which replaced IAS 39, from 1 January 2018. Due to the transition methods chosen by the Company in applying IFRS 9, comparative information has not been restated to reflect the requirements of the new standard. Upon transition to IFRS 9, the Company reclassified its investments in quoted funds from the Available-for-sale (AFS) category to the fair value through profit or loss (FVTPL) category, and as a result fair value changes are thereon recorded directly in profit or loss. Investments in sovereign debt securities were classified from AFS to fair value through other comprehensive income (FVOCI) category.

#### Debt investments at FVOCI – under IFRS 9

These assets are measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

#### Available for sale (AFS) financial assets – under IAS 39

AFS assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

### 2.3.3 Investments in securitisation

No investments in securitization instruments.



### **2.4 Performance of other activities**

#### **Other material income and expenses**

There have been no other significant activities undertaken by the Company other than its insurance and related activities.

### **2.5 Any other information**

It should be noted that though, that in 2017, an early retirement scheme had been offered to eligible employees of the Hellenic Bank Group, with a number of PIL employees taking it up. The cost of the early retirement scheme (VRS) was €2.8m.

During 2018, the development of the insurance software was discontinued during 2018, and the software was derecognized from the Company's accounts via a write-off for the amount of €1.2m.



### 3 System of Governance

#### 3.1 General information on the system of governance

The Company is committed to implementing a sound governance framework through which objectives are set and the means of attaining these objectives and monitoring performance is determined. The Board of Directors (BoD) has the ultimate responsibility to ensure a prudent governance structure and a robust and sound risk management framework.

The Company's administrative, management and supervisory body ("AMSB") comprises by the BoD, the Executive Committee and key functions such as Risk Management, Actuarial, Compliance and Internal Audit.

The Company's corporate governance framework is based on the "three lines of defense model" which supports the implementation of a robust internal control system and is aligned with the 'four eye principle' that the Company complies with.

The Company's organizational structure enables changes in strategic objectives, operations, or in business environment within appropriate time period. These are designed to:

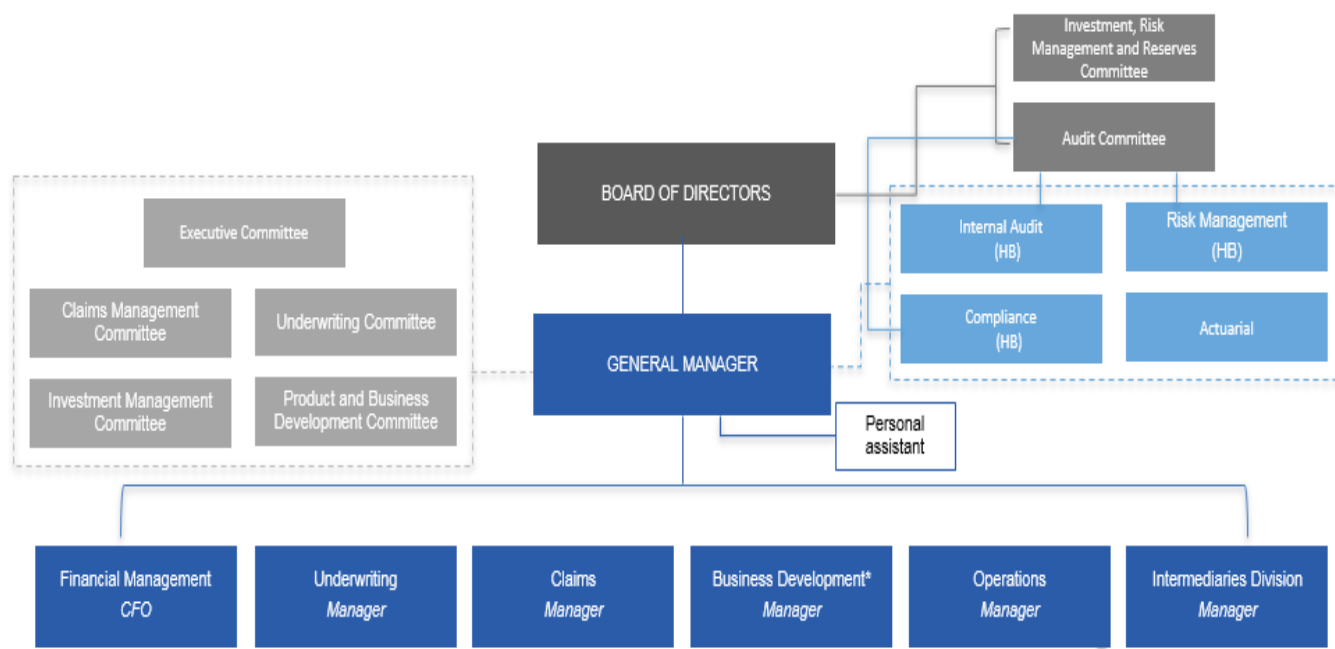
- Enable segregation of duties and reporting lines and responsibilities.
- Facilitate efficient and appropriate disclosures to the BoD, the Executive Committee and other key staff as needed.
- Manage conflicts of interest.
- Ensure the prudent and effective management of the Company.

The three lines of defense are embedded within the organizational structure and reporting lines, in order to enforce an effective internal control system.

The Executive Committee, through the General Manager has the day to day responsibility for the implementation of the BoD's strategy objectives and goals and reports to the BoD in the form of planned meetings or ad-hoc meetings, communications and disclosures as required and appropriate.

The Business units of the Company have the responsibility for the implementation of the BoD's strategy and goals in their business operations and report to the General Manager. The key control functions are administratively independent from any other operation of the Company and are directly reportable to the Board through its Committees.

The organizational structure of the Company is presented in the diagram below:



### 3.1.1 The structure of the Board of Directors (BoD)

#### BoD's main roles and responsibilities

The BoD retains the ultimate responsibility for the sound and prudent management of the Company. It organizes and directs the affairs of the Company in a manner that seeks to protect the interests of its stakeholders ensuring the long development and growth of the Company, maximizing benefits of the shareholders, while complying with the regulatory and supervisory requirements.

The BoD sets the Company's strategy and objectives and oversees the Executive Committee's performance. In this respect, it reviews and assess the Company's strategic and business planning through the appropriate outputs and disclosures submitted by Executive Committee and maintain honest and open debate with the General Manager and the Executive Committee.

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

The main responsibilities of the BoD are the following:

- Provides entrepreneurial leadership and direction and applying best practices within a sound internal controls framework for the efficient assessment and effective management of risks;
- Ensures the establishment of the appropriate Company arrangements in relation to the applicable laws and regulations;
- Ensures the establishment of the appropriate Company arrangements for the prevention of Money Laundering & Terrorist Financing; Bribery and corruption;
- Sets the business and risk prevention strategies and goals for the Company ensuring the appropriate arrangements are in place to achieve its objectives;



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- Ensures that the corporate governance framework and overall business objectives and strategies are reviewed at least annually and remain proper and current in light of any material changes in the organizational structure, activities or strategy of the Company as well as any regulatory or other external factors;
- Ensures the adequacy of policies and procedures and actively participate in the process for the appointment, dismissal and succession of the Senior Management;
- Ensures that the Senior Management's knowledge and expertise remain appropriate given the nature of the business and its risk profile;
- It monitors whether the Senior Management is managing the affairs of the Company in accordance with the strategies and policies set by the Board, and the Company's risk appetite, corporate values and corporate culture;
- Sets the tone from the top through its behavior and actions promoting transparency in the decision-making process, Company culture, values and ethics throughout the Company.
- Acts in the best interest of the company exercising due care and skill and in accordance to the internal regulations and expectations of the shareholders and the regulatory authorities.
- Ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory requirements.

### *Investment, Risk Management and Reserves Committee (IRRC)*

The Committee, is an advisory Committee to the BoD, assists with the formulation of the Company's overall investment and risk strategies and policies ensuring the efficient and effective management of significant business risks. The Committee is responsible for designing and implementing the Company's Investment and Risk Management Framework and ensuring the Company's overall system of internal control operates effectively and monitors and reviews risk exposures and breaches. In respect of its responsibilities relating to reserves, the Committee is responsible for their review and the recommendation to the BoD for approval.

### *Audit Committee*

The Committee is accountable to the BoD and assists the BoD in meeting its responsibilities by ensuring an effective system of internal control and compliance are in place and ensure its external financial reporting obligations are met, including its obligations under applicable laws and regulations. It is directly responsible on behalf of the BoD for the selection, oversight and remuneration of the external auditor.

### **3.1.2 Key functions' main roles and responsibilities**

The following section provides a summary of the authority, resources and operational independence of the key functions.

- Internal Audit Function ("IAF") – independent of any other function with operational responsibilities, reporting to the BoD through the Audit Committee. The IAF is responsible for evaluating the adequacy and effectiveness of the internal control systems and other elements of the system of governance.
- Compliance Function – independent of any other function with operational responsibilities, reporting to the BoD through the Audit Committee. It is responsible for the establishment and maintenance the proper framework and policies for the on-going and timely prevention, handling, management and monitoring of compliance risk. The function is subject to audit by the Internal Audit Function.
- Actuarial Function – reports to the BoD via the IRRC and the General Manager. It is responsible for the calculation and adequacy of technical provisions, including ensuring the assumptions applied, are valid and consistent. Furthermore, it advises the Senior Management and the BoD of the Company on the overall underwriting policy and the reinsurance arrangements and contributes to the effective implementation of the risk-management system.





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- Risk Management Function ("RMF") – it has a direct reporting line to the BoD via the IRRC. It is responsible for the identification, measurement and management and reporting of the key risks that the Company faces. In order to facilitate the most effective operation and the objectivity of the risk management system, the RMF is operationally independent of risk-taking functions.

### 3.1.3 Material changes in the system of governance over the reporting period

There have been no changes to the system of governance over the reporting period.

### 3.1.4 Remuneration policy and practices for the BoD and employees

The Company adopts the Remuneration policy of the Group (Hellenic Bank).

The Group's Remuneration Policy applies to the Company as a whole without exception. A focus is placed on those roles where the individual interests and those of the undertaking are more likely to raise potential conflicts.

#### Principles of the remuneration policy

The remuneration of all staff employed by the Company complies with the Group's principles:

- Be in line with the Company's business and risk strategy, risk profile, objectives, values, risk management practices and long-term entity wide interests and performance.
- Consider both financial and non-financial performance.
- Comprehensively and properly reflect the individual and the Company's performance.
- Take appropriate account of the material risk including the relevant time horizons.
- It is subject to a central and independent internal review, at least annually, in terms of compliance and implementation.
- It links the amount of reward/ variable remuneration given with measurable performance criteria.

The following general principles also apply:

- The remuneration of employees involved in risk-taking activities such as underwriting, reinsurance ceding or investment management activities, is designed so as not to encourage unauthorized or unwanted risk-taking that exceeds the level of risk tolerated by the Company and is consistent with and promotes sound and effective risk management. It is structured and managed in a way that does not allow any possibility of manipulation.
- The design of the remuneration policy is such that it does not have an adverse effect on the long-term interests of the Company and aligns the objectives of the Company and its personnel with a long-term view. Hence, the remuneration structure is based on a long-term view of the Company's financial performance rather than on short-term results.
- The remuneration of all employees is based on an assessment of the individual's performance against objectives.

#### Share options, shares or variable remuneration components

Not applicable.

#### Supplementary pension or early retirement schemes

Not applicable.

### 3.1.5 Material transactions with persons of influence

Hellenic Bank (HB)



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The key business transactions conducted by PIL and HB are the following:

- Underwriting HB insurance policies
- HB is a tied agent and as such receives commission for its services

### Directors and Senior Management

All transactions of Directors and Senior Management with the Company are done in the ordinary course of business. All transactions are done at an arm's length basis.

## 3.2 Fit and proper requirements

### 3.2.1 Skills, knowledge and expertise

The Company ensures that all persons who effectively run the Company or have other key functions are fit to provide a sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

### 3.2.2 Fitness and propriety assessment

#### ***Fitness***

In assessing the fitness of a person his/hers professional competence and capability are considered.

The assessment of professional competence covers the assessment of the competence in terms of Senior Management and in the area of business activities carried out by the Company (technical competence).

This assessment is based on the person's previous experience, knowledge, and professional qualifications and should demonstrate due skill, care, diligence and compliance with the relevant standards for the area sector they have worked in.

The Company will have regard to whether the person is competent, and demonstrate, through experience and training; they are able to perform the key functions. Any previous dismissal or suspensions from employment, including for drug or alcohol abuses, are also considered.

All individuals must maintain their competence for the role they fulfil. Group's HR function is responsible for ensuring that all individuals receive appropriate training for maintaining their competence.

With regards to the BoD, the collective knowledge, competence and experience of its members, at a minimum includes:

- Market knowledge, i.e. an awareness and understanding of the wider business, economic and market environment in which the Company operates.
- Business strategy and business model, i.e. an appropriately detailed understanding of the Company's business strategy and model.
- System of governance, i.e. the awareness and understanding of the risks the Company is facing and the capability of managing them. Furthermore, the ability to assess the effectiveness of the Company's arrangements to deliver effective governance, oversight and controls in the business.
- Financial analysis, i.e. the ability to interpret the Company's financial information, identify key issues, put in place appropriate controls and take necessary measures based on this information.
- Regulatory framework and requirements, i.e. an awareness and understanding of the regulatory framework in which the Company operates, and the regulatory requirements and expectations relevant to it and the capacity to adapt to changes which stem from the regulatory framework without delay.



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- When changes occur within the BoD, e.g. replacement of one of its members, the undertaking is expected to be able to demonstrate that the collective knowledge of the members of the BoD is maintained on an adequate level so that the sound and prudent management of the undertaking will continue.

### ***Propriety***

In assessing the propriety of a person, the Company assesses its honesty, integrity, reputation and financial soundness.

The Company takes into account convictions for criminal offences, adverse findings in civil proceedings, or disciplinary actions by regulators in Cyprus or abroad.

The criteria include an assessment of reasons to believe from past conduct that the person may not discharge their duties in line with applicable rules, regulations and guidelines. Such reasons may arise from criminal antecedents, financial antecedents, and supervisory experience with that person or past business conduct. This approach does not imply that all previous infringements will automatically result in a failure to meet the requirements, but rather than they will be assessed on a case by case basis by the Company before an appointment and application to the supervisory authority is made.

At application, criminal records checks will be performed for approved persons, and other selected roles. Annual criminal records checks of approved persons will not be conducted. Approved persons will self-certify that they remain proper.

The Company will also consider whether the person has a debt that remains outstanding or was not paid within a reasonable period and/or has been involved in bankruptcy proceedings or other insolvency arrangements.

The Company requires a number of criteria to the 'fit and proper' tests to be met. The key criteria are:

- Relevant criminal offences
- Relevant disciplinary or administrative offences
- Current or pending investigations or enforcement actions, the imposition of administrative sanctions for non-compliance with provisions governing banking, financial, securities or insurance activity, securities markets, securities or payment instruments or any financial services legislation.

All individuals under the scope of the Fit and Proper requirement must comply with regulatory requirements, as well as the Company's requirements and policies. Individuals in scope of the fit and proper requirement are required to self-certify to Human Resources on an annual basis their continuing fitness and propriety if any changes occur.

They should promptly inform Human Resources if they think their fitness and propriety has changed adversely. They should also inform Compliance if it is possible they have breached or will breach the Code of Standards or other regulatory requirements.

If they contravene the Company's policies and Code of Standards or requirements of the regulatory regime, they may be subject to disciplinary action by the Company. In addition, they may be disciplined by the regulator. In deciding whether an individual is responsible for a breach, the Company will consider whether the action was deliberate, or whether the behaviour was below the standard which would be reasonable in all the circumstances.



### 3.3 Risk management system (including ORSA)

#### 3.3.1 Risk management system description

##### 3.3.1.1 Strategies

The Company's risk management strategy is clearly defined and well documented. It sets the Company's risk management objectives, key risk management principles, overall risk appetite and assignment of responsibilities for risk across all the activities of the Company.

The Company's risk management strategy is fully aligned with the overall business strategy set by the BoD.

##### 3.3.1.2 Processes

Appropriate processes and procedures enable the Company to identify, assess, manage, monitor and report the risks it is or might be exposed to.

The Risk Management system is effective and well-integrated into the organizational structure and in the decision-making process of the Company with proper consideration of the persons who effectively run the Company or have other key functions.

The Risk Management process is comprised of the following stages below:

- Risk identification
- Risk measurement
- Risk monitoring and reporting
- Risk mitigation

##### 3.3.1.3 Reporting procedures

The Risk Management function is an independent function of the Company which means it has a direct reporting line to the Company's IRRC and the BoD.

Risk reporting is performed through three different types of reports:

- Business and management reports (regular communication to the Senior Management for the performance of each type of risk).
- Board and Committee reports (quarterly and annual reporting with respect to the Company's solvency position and risk exposure).
- Disclosure and reporting reports (all regulatory reporting information that must be submitted to the regulator).

#### 3.3.2 Risk management function effectiveness

**Risk identification:** is the first step of the risk management process which identifies and records all material risk exposures that arise from the Company's activities. All risks identified and reported in the Company's risk register and are the ORSA process. Risk identification is applicable for both existing and emerging risks.

**Risk measurement:** is the assessment of the materiality of the Company's risks (i.e. their impact on capital or earnings and whether it is above or below the threshold set by the Company). The materiality is usually assigned based on an assessment of risk, using a range of materiality thresholds based on the impact or risks on solvency, earning, liquidity and the reputation of the Company, amongst others. The main risk assessment tools used are the standard formula solvency capital requirement, stress and scenario testing, the risk register and other qualitative assessments.



**Risk monitoring and reporting:** is undertaken in the context of the overarching limit structure, and any limit breaches must be quickly and promptly escalated to the required parties. The Risk Management function has the responsibility to ensure that all material risk exposures are monitored on an ongoing basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the Company's IRRC.

**Risk mitigation:** The Company designs and implements controls to prevent or detect the occurrence of an identified risk event or to mitigate its severity. The control activities are documented in the risk register.

### 3.3.3 Risk management system implementation and integration

The Risk Management as part of the Company's System of Governance, aims at facilitating the implementation of the Risk Management System of the Company. The mission of the Risk Management is the efficient and effective management of risks in accordance with the risk appetite of the Company.

The Risk Management Function and its associated reporting lines are free from influences that may compromise their ability to undertake their duties in an objective, fair and independent manner.

The Risk Function reports to the BoD through the IRRC (Investments, Risk Management and Reserves Committee), through which it is possible to escalate issues and act independently from the management. It also cooperates with other business functions to carry out its role. By adhering to this principle, the management of risks within the Company remains independent from all risk-taking activity.

### 3.3.4 ORSA process

ORSA is a component of the overall risk management and control system of the Company. This allows the risk management function to take into account all the risks associated with the Company's business strategies and the required level of capital that the Company needs to cover such risks. ORSA policy documents all the steps, processes and procedures employed by the Risk Management function to identify, assess, monitor, manage and report the short and long term risks the Company faces or it is likely to face and determines the own funds necessary to ensure that the Company's solvency position is met at all times.

#### 3.3.4.1 ORSA implementation process

The Company follows the steps below in order to implement ORSA:

1. *Identify the driving factors before ORSA planning*– Such factors include the size and complexity of the Company, its importance to sector, proportionality issues, internal governance issues, supervisory perceptions, etc.
2. *Identify and classify risks, including governance* - The Company identifies the material risks facing the organization. This exercise includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic, business risks, etc. The assessment is done using the impact and probability of the risk occurring.
3. *Assessment and measurement of material risks through different approaches including stress testing* – The Company collects data, quantifies and aggregates risks using different approaches such as Value at Risk and stress testing.
4. *Capital Allocation* – According to the risk profile, the Company determines the necessary capital over and above the SCR.
5. *Prepare capital planning for the next 3 years* – Based on the capital allocation projections, the Company prepares a capital plan for the following 3 years. These plans depend on strategic objectives, financial projections and assumptions for future economic growth.



6. *Stress testing and scenario analysis* – The Company applies stress and scenario analysis to the forward-looking capital plan and develops actions that can be taken in unforeseen circumstances in the future.
7. *Communication and documentation of results* – The Company presents the results of the process to the BoD, and the Executive Committee and prepares the ORSA report
8. *Confirm that the ORSA process is embedded in the decision making of the Company* - The Company confirms that the above procedure is not independent from the “business as usual” process of the Company. The RMF reports the key risks and any stress tests so that the BoD and the Executive Committee make decisions upon the results of these procedures.

### *Stress Testing*

The Risk management function carries out stress tests (either sensitivity or scenario analysis) that are used as the basis of the ORSA exercise. The stress testing scope and frequency is compatible with the principle of proportionality, taking into account the nature, scale and complexity of the business, the financial condition of the Company and the external environment.

The purpose of these tests is to measure the impact of any change in the risks including establishing a proper management of any change that happens, monitoring and measuring prospective changes in the risk situation and determining any consequences. The Risk management function in cooperation with other business areas identifies the key areas on which the stress tests will be performed. The identification is performed by considering the Company's exposure to internal, such as a change in business plan, and external factors, such as certain possible events with negative effects or a deterioration of economic conditions. Internal and external factors taken into consideration are clearly described in the ORSA report.

The primary task of the Risk management function is the identification of the key risk factors that should be stressed in order to assess the Company's stressed risk position. Stress tests are defined within the Company's portfolio characteristics and assumed risks (in line with the actual external environment). For each stress test performed the Risk management function assess the adequacy of established mitigating measures as well as additional compensating measures. Based on the Risk management function assessment, the Management and the BoD review the stress testing outcome and develop the short and long-term capital management plan allowing for the business strategy and risk tolerance.

### **3.3.4.2** *ORSA integration into the organizational structure and decision-making processes*

ORSA covers all the operations of the organization and all business units of the Company. The BoD is the body that bears ultimate responsibility for the ORSA, its application and embedment within the Company's day to day procedures. The roles and responsibilities for the ORSA are presented in the table below:

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





Responsible Body / Function	Responsibility
Investment, Risk Management and Reserves Committee (IRRC)	<ul style="list-style-type: none"> <li>- Recommendation for improvements of systems, procedures and processes, and adaptation as necessary in accordance with ORSA results.</li> <li>- Review and challenge of the annual ORSA report of the Company and recommendation for approval to the BoD.</li> <li>- Review and challenge of the risk quantification and stress testing performed in the ORSA process.</li> <li>- Review and challenge the results of the Pillar 1 capital calculation and the quality of the data used.</li> </ul>
Executive Committee	<ul style="list-style-type: none"> <li>- Dissemination of information on risk strategies and procedures to the employees concerned.</li> <li>- Ensuring that there is adequate expertise and knowledge amongst the employees and officers of the Company to successfully carry out the different tasks required by ORSA.</li> <li>- Understanding of the ORSA of the Company.</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>- Preparation of the Risk Management policies and procedures.</li> <li>- Identification and monitoring of key risks faced by the Company.</li> <li>- Establishment of methods for risk monitoring and measurement.</li> <li>- Coordination of the preparation and implementation of the ORSA.</li> <li>- Quantification and run of the stress test scenarios and analysis of the results.</li> <li>- Recommendation for capital allocation for Pillar 2 and capital projections</li> <li>- Provision of ORSA training to senior manager and staff.</li> <li>- Provision of technical assistance to the ORSA process owners with regards to key technical areas e.g. valuation issues, re-insurance issues, stress testing, etc.</li> </ul>
Actuarial Function	<ul style="list-style-type: none"> <li>- Provision of technical assistance to the ORSA process owners with regards to key technical areas e.g. valuation issues, re-insurance issues, stress testing, etc.</li> <li>- Responsible for producing the SII compliant technical provisions and calculating the standard formula capital requirements (both current and projected).</li> </ul>
Finance Function	<ul style="list-style-type: none"> <li>- Preparation of financial projections in accordance with the strategic plan approved by the BoD.</li> <li>- Preparation of Pillar 1 capital planning and projection of own funds based on the planning.</li> </ul>



Responsible Body / Function	Responsibility
Internal Audit Function	<ul style="list-style-type: none"><li>- Independent review of the final ORSA report.</li><li>- Confirm that the process followed is according to the BoD requirements as set out in the policies and procedures Policies of the Company.</li><li>- Review the risk assessment, stress testing and capital allocation exercises performed and confirm their compliance with the policies and procedures approved by the BoD.</li><li>- Review the quality of the data used in the ORSA and its reconciliation with other records.</li></ul>
Compliance Function	<ul style="list-style-type: none"><li>- Provide support and assistance on compliance matters as appropriate ensuring adherence to the regulatory obligations. Ensure the timely submission of ORSA annual report.</li></ul>
Other Departments	<ul style="list-style-type: none"><li>- Compliance and cooperation with the request for collection of data for the implementation of the ORSA and preparation of the ORSA report</li><li>- Participation in the risk assessment exercise and support to the Risk Management Function</li><li>- Provision of information and adoption of all risk management policies and procedures approved by the BoD</li><li>- Provision of timely and accurate data</li><li>- Inform the control functions (risk management, internal audit, compliance and actuarial) of any facts relevant to the performance of their roles.</li></ul>

### 3.3.4.3 ORSA review and approval

The ORSA report is produced on an annual basis. The document is submitted to the IRRC for review and then to the BoD for final approval.

The assessment will be repeated immediately following any significant changes to the internal or external environment that the Company operates.

The 2018 annual ORSA report was submitted to the regulator in December 2018.

### 3.3.4.4 Interaction between capital management activities and risk management system

The Company uses the EIOPA standard formula to calculate the required solvency capital and to assess the overall solvency needs, on a quarterly basis. The standard formula is widely used internally as it represents the main metric for the ongoing management of risk and capital. Given the characteristics of the Company's portfolio, the Company is confident that the risk capital as calculated by the standard formula is generally at least equal to the actual underlying risk of the Company. Furthermore, the ranking of risks as quantified by the standard formula represents the expectations of the management which provides additional comfort about the merits in adopting this approach.

A three-year base case projection of the Solvency II Balance Sheets and Solvency Capital Requirements ('SCR') is produced using the standard formula. The results are subjected to a range of scenario testing that is reviewed by management and challenged by the BoD and, where appropriate, potential management actions are noted, and conclusions drawn. Senior management, taking into account the insight from the stress testing outcome, develops the Company's long and short-term capital management plan, whilst considering the business strategy and risk tolerance. This plan includes alternatives to ensure that solvency needs can be met even under unexpectedly adverse circumstances.





### **3.4 Internal control system**

#### **3.4.1 Internal control system description**

The Company's internal control process is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting and non-financial information.
- Compliance with applicable laws and regulations.
- Achievement of the Company's strategy and objectives.

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

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

#### *Control Activities*

The BoD and Executive Committee regularly review actual performance against budgets, forecasts, and prior period results. Executive Committee is involved in developing performance plans and targets and measures and reports results against those plans and targets. Head of business units and functions at all business areas review standard performance and exception reports, analyse trends, and measure results against targets on a regular basis.

The Company's Information Security Policy sets the appropriate framework for the effective management and protection of the Company's data against possible and potential initial and external threats. Key data and programs are appropriately backed up and maintained for business continuity purposes. The Company maintains documented systems operations and has a formal procedure for acquiring and maintaining software programs. Access to the systems, programs and data is controlled, the systems are maintained in a secure environment and applications are appropriately developed and maintained.

### **3.5 Compliance function implementation**

The Compliance function is administratively independent from other departments of the Company and possesses discretionary autonomy to create, enhance, review and modify its existing risk management or executive competencies. It is directly supervised by the Audit Committee and the BOD and reports to the General Manager of the Company on operational matters.

Compliance function assists Management in the effective management of compliance risk and maintains the right of unobstructed, immediate and direct access to the Audit Committee or the BOD, whenever deemed necessary.

Additionally, the Compliance function is responsible, in accordance with its monitoring and controls testing duties, for establishing, creating, modifying, enhancing any controls it deems appropriate in order to eliminate or mitigate existing and newly identified risks.

### **3.6 Internal audit function**

#### **3.6.1 Internal audit function implementation**

The work of the Internal Audit Unit (IAU) is based on its Charter approved by the BoD. The IAU authority to unrestricted information, its operating principles, its responsibilities, reporting requirements as well as the



Internal Auditors' code of conduct, quality assurance and improvement program, are all laid out in the IAU Charter.

### 3.6.2 Independence and objectivity

In accordance with the Group Internal audit charter, the IAU is independent from business and operational units. The Head of Group Internal audit reports directly to the Chair of the Audit Committee and via the Audit Committee to the BoD. According to the charter, the IAU has direct access to the Audit Committee and its Chairperson and Executive Management regarding matters that the IAU believes are significant to require immediate attention of the Audit Committee and its chairperson and the CEO.

## 3.7 Actuarial Function

The Actuarial function reports directly to the BoD through the IRRC. The Actuarial function holder is an internal employee of the Company whereas the Company's Certified Actuary is outsourced to an external party who is responsible to sign off the adequacy of technical reserves.

The Actuarial function is responsible to:

- Calculate the technical provisions on a quarterly basis.
- Ensure the accuracy of the assumptions and methodology applied during the calculation of technical provisions.
- Assess the adequacy and quality of data used during the calculation of technical provisions.
- Compare best estimate with case by case reserves.
- Inform the BoD about the reliability and adequacy of technical provisions.
- Express an opinion for the overall underwriting and reinsurance policy.
- Contribute to the effective implementation of the risk management system.

The Actuarial function produces at least on an annual basis the Actuarial Function Report which covers the responsibilities stated above. The latest actuarial report for the year end 2018 was submitted to the IRRC on March 2019.

## 3.8 Outsourcing

### 3.8.1 Outsourcing policy

The Company's outsourcing procedure is in line with the Group's policies and procedures.

The Company at all times ensures of the "good fame", integrity and adequacy in the provision of the required services of the Service Provider prior to the establishment of any written outsourcing agreement or Service Level Agreements (SLA) between the service provider and itself. A confidentiality agreement is always included in the agreements. In case of outsourcing critical or important function(s) (i.e. risk management, actuarial, compliance, internal audit), the Company notifies the regulator in writing of the provisions of the agreement or changes to existing arrangements. Such agreements become effective upon approval by the regulator

When choosing a service provider for any critical or important functions or activities the Company ensures that:

- A detailed examination is performed to ensure that the potential service provider has the ability and capacity and any authorization required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs;



- The service provider has adopted all means to ensure that no explicit or potential conflict of interests with the Company impairs the needs of the outsourcing undertaking;
- It enters into a written agreement (SLA) with the service provider which clearly allocates the respective rights and obligations of the undertaking and the service provider;
- The general terms and conditions of the outsourcing agreement are authorised and understood by the Company's General Manager (or BoD for critical or important functions or activities);
- The outsourcing does not represent a breach of any data protection regulation or any other laws;
- The service provider is subject to the same provisions on the safety and confidentiality of information relating to the Company or to its policyholders or beneficiaries that are applicable to the Company.

To ensure that the outsourcing of any critical or important functions or activities does not lead to a material impairment of the quality of the Company's governance system:

- The Company ensures that the service provider has in place an adequate risk management and internal control system;
- The outsourced activities are adequately included in the Company's risk management and internal control system;
- The Company establishes a contractual right to information about the outsourced activities and a contractual right to issue instructions concerning the outsourced activities;
- The Company ensures that the service provider has in place a contingency plan that will be activated in case of unavailability or emergency;
- The Company ensures that its own contingency plan will be successfully activated in order to handle service provider's unavailability.

### 3.8.2 Critical or Important operational functions outsourced

The Company has outsourced the Risk Management, Compliance and Internal Audit Functions to Hellenic Bank and uses the consulting services of Lux Actuaries and Consultants.

The Company employs the services of a specialized road and accident assistance provider as well as surveyors and loss adjusters for underwriting and claim handling.

### 3.9 Adequacy of the system of governance

In light of the Company's nature, scale and complexity, the system of governance and in particular the critical functions are considered adequate. It is important that all key persons fulfil the fit and proper requirement tests that have been applied by the Company.

### 3.10 Any other information

Not applicable.



### 4 Risk Profile

PIL is one of the largest general insurance companies operating in Cyprus. Its core business is underwriting and as such underwriting risk is one of its key sources of risk. Strong risk mitigation techniques are applied though, thus significantly reducing the impact on the capital requirements.

The table below shows the Solvency Capital Requirement (SCR) on a pre-diversified basis allocated by risk type as at Q4 2018:

Solvency capital requirement allocation by risk type



#### 4.1 Underwriting Risk

##### 4.1.1 Risk assessment

The main risk assessment tools used by PIL are the standard formula solvency capital requirement calculation (discussed in more detail in section 6.2), stress and scenario testing (discussed in more detail in section 4.7), the risk register and other quantitative and qualitative assessments. There has been no material change in the tools, parameters or assumptions used since the previous year.

##### 4.1.2 Material exposures/risks

Underwriting risk is defined as the risk of loss or adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. PIL's mainly underwrites property, motor and liability business (94% of the total gross premiums written as at 31<sup>st</sup> Dec 2018, and 93% as at 31<sup>st</sup> Dec 2017). The mix of business written remains broadly similar to previous years, both in terms of lines of business written and also by geographical location. As such, no material changes have been noted in respect of the underwriting profile, but a small increase is noted in respect of the underwriting risk profile reflecting the continued soft rating environment.

##### 4.1.3 Risk Concentration

PIL's book of business is generally well-diversified:

- Geographical split: risks written across Cyprus.
- Distribution channels: business written directly, via a number of agents and using bancassurance, thus accessing a diverse customer base.



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- Reinsurance: PIL manages its exposure to any one risk and catastrophic events using reinsurance.

As such, no material risk concentrations have been identified.

### 4.1.4 Risk Mitigation

#### 1. Portfolio Monitoring

The senior management of the Company receives and reviews:

- Regular reports on the gross written premium, risks written and incurred claims (including large loss claims reserves); and
- Regular detailed profitability analyses and reviews are undertaken both by internal employees and external consultants.

#### 2. Clear delegation of underwriting and claims authorities

There is clear delegation of underwriting and claims authorities within the Company and peer review requirements, with the most complex risks and claims requiring review and sign-off by the Underwriting Committee and Claims Management Committee respectively. This ensures that the risks and claims are assessed by personnel of appropriate experience and expertise. It also ensures that the premium charged reflects the characteristics of each risk and appropriate claim provisions are held.

#### 3. Reinsurance

PIL uses reinsurance to protect against claims volatility. Each class of business has its own reinsurance treaty and facultative reinsurance is used if a risk falls outside the reinsurance treaties and the Company's risk appetite. A detailed analysis is undertaken on an annual basis to assess the most appropriate reinsurance structure in accordance to the business, capital and risk strategies of the Company. Experienced brokers and other external consultants are at times engaged to review the reinsurance structure of the Company and advise on its optimization and the Actuarial Function issues an opinion on the reinsurance arrangements on an annual basis. The credit rating and the financial condition of the key reinsurance counterparties are reviewed on a quarterly basis (currently "A"-rated or better), so that corrective action is taken in the event of a deterioration in their financial quality.

#### 4. Market and emerging risks/trends monitoring

A number of PIL's senior employees participate in market committees (for example, the IAC, ICPAC and MIF and their subcommittees), thus closely monitoring the market and emerging risks /trends and participating in the discussion to address common market issues faced.

#### 5. Conservative reserving approach and claims management

To protect against the risk of under reserving, the Company, amongst others:

- Adopted a conservative reserving philosophy.
- The management receives and reviews regular reports on incurred claims, particularly large claims and of future premium.
- Sets out clear delegation of claims authorities and peer review (as discussed above)

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

### 4.1.5 Risk Sensitivity

Risk sensitivity and Stress and Scenario testing is discussed in section 4.7.



### 4.1.6 Any other material information

No other material information.

## 4.2 Market risk

### 4.2.1 Risk assessment

The main risk assessment tools used by PIL are the standard formula solvency capital requirement calculations (discussed in more detail in section 6.2), stress and scenario testing (discussed in more detail in section 4.7) the risk register and other qualitative assessments. There has been no material change in the tools, parameters or assumptions used since the previous year.

### 4.2.2 Material exposures/risks

Market risk is defined as the risk of loss or of adverse change in the financial position of the Company resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Market risk mainly includes exposures to equity risk, property risk, spread risk and concentration risk.

The Company's market risk exposures mainly arise from its investments to the local Cypriot banks and Collective Investment Undertakings (CIU), exchange-traded funds (ETFs), money market funds (MMFs) and mutual funds (MFs) and the property held for investment and own use.

The Company has further strengthened its processes and controls relating to its investment allocation and management, thus improving the risk profile of its investment portfolio.

### 4.2.3 Risk Concentration

The Company has some risk concentration that arises in respect of the cash deposits in Hellenic Bank, due to its strategic relationship with the Company. However, the Company invests in ETFs, MMFs and MFs which enables a level of diversification that may not have been possible through direct investments.

### 4.2.4 Risk Mitigation

Market risk is mitigated through the investment policy adopted by the Company which safeguards against exposure to risky asset classes and ensures minimum diversification limits.

Furthermore, the management of the Company reviews the market values along with the credit rating and the financial condition of the key counterparties at least quarterly, ready to take action in the event of a deterioration in the credit quality.

The Investment Management Committee reviews investment related information regularly to ensure that the portfolio is invested in line with the investment guidelines and the risk appetite of the Company. Furthermore, external financial advisors are appointed to provide independent investment advice.

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

### 4.2.5 Risk Sensitivity

Risk sensitivity and Stress and Scenario testing is discussed in section 4.7.

### 4.2.6 Prudent Person Principle

The Solvency II regulations require investment of assets in accordance to the "Prudent Person Principle". In light of this, the Company has aligned its investment policy and framework with this principle.



The Company regularly reviews the financial condition of its investment counterparties and ensures that the currency and duration of assets is appropriate to the duration of its liabilities, avoiding excessive reliance on any one counterparty or asset class or geographical location. In particular, before investing in CIUs and other funds, due diligence is performed on the underlying fund holdings and enquiries are made on the availability of data on these holdings on a look through basis. This is to ensure that the Company is satisfied that it will be possible to properly identify, measure, monitor, manage, control and report on their underlying risk and be able to perform the required solvency capital calculations. The Company has not invested in derivatives or other inadmissible financial instruments.

#### 4.2.7 Any other material information

No other material information.

### 4.3 Credit risk

#### 4.3.1 Risk assessment

The main risk assessment tools used by PIL are the standard formula solvency capital requirement calculations (discussed in more detail in section 6.2), stress and scenario testing (discussed in more detail in section 4.7), the risk register and other qualitative assessments. There has been no material change in the tools, parameters or assumptions used since the previous year.

#### 4.3.2 Material exposures/risks

Credit risk is defined as the risk of loss, or of adverse change in the financial situation of the Company resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurers are exposed to, in the form of counterparty default risk, or spread risk, or market risk concentrations.

PIL credit risk exposures mainly arise from:

- Premium debt (insurance receivables);
- Banking and market exposures (invested assets); and
- Reinsurance debt.

The credit risk relating to the counterparty default type II is improved significantly as a result of the reduction of receivables due to:

- Implementation of the new credit collection policy; and
- New methodology application to calculate receivables that reflect more accurately the overdue balances.

There have been no major changes to the reinsurance panel or the premium debt counterparties, the credit rating of the reinsurance counterparties and the counterparty risk appetite and as such the credit risk profile in respect of these counterparties remains unchanged.

The Company's premium debt risk has reduced following implementation of the credit collection policy.

#### 4.3.3 Risk Concentration

No material risk concentration as the invested assets and premium and reinsurance debt are well diversified.

#### 4.3.4 Risk Mitigation

The key risk mitigation techniques used are:

- Due diligence on the financial condition of the counterparties before entering into agreement with them;





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- Regular reviews of the credit rating and the financial condition of the key counterparties;
- Regular meetings and communication with the premium counterparties and monitoring of premium debt balances and contract terms;
- A number of reinsurers are used (to ensure credit risk diversification) and all key reinsurance counterparties are reputable and of high financial quality (rated “A-” and higher); and
- The terms and conditions of the reinsurance contracts stipulate exit terms in the event of changes in the financial condition of the counterparties.

The continued effectiveness of the risk mitigation techniques and controls is monitored through the risk register, which is a dynamic list of the risks the Company faces and their controls. The risk register is reviewed and updated continuously as new risks and/or failures in controls are identified.

### 4.3.5 Risk Sensitivity

Risk sensitivity and Stress and Scenario testing is discussed in section 4.7.

### 4.3.6 Any other material information

No other material information.

## 4.4 Liquidity risk

### 4.4.1 Risk assessment

Stress and scenario testing (discussed in more detail in section 4.7) is used to assess the Company's liquidity in the event of severe or extreme scenarios by considering the impact of the scenarios in the earnings of the Company by financial year. There has been no material change in the tools, parameters or assumptions used since the previous year.

### 4.4.2 Material exposures/risks

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

The liquidity risk of the Company is generally very low, with the majority of assets invested in short-terms assets, including cash at bank and listed securities (ETFs, MMFs, MFs, debt securities).

### 4.4.3 Risk Concentration

No material risk concentration has been identified.

### 4.4.4 Risk Mitigation

The Company has developed investment guidelines (reviewed and approved by the relevant Board Committee) which, among others:

- Ensure the duration and currency of the invested assets are consistent with the liabilities' profile;
- Investment in illiquid assets is very limited and with restrictions; and
- Appropriate levels of counterparties and asset diversification are in place.

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





### 4.4.5 Risk Sensitivity

Risk sensitivity and Stress and Scenario testing is discussed in section 4.7.

### 4.4.6 Expected profit in future premiums

There are no future premiums cash-flows within the contract boundaries of unexpired policies and therefore there is no expected profit included for future premiums.

### 4.4.7 Any other material information

No other material information.

## 4.5 Operational risk

### 4.5.1 Risk assessment

The main risk assessment tools used by PIL are the standard formula solvency capital requirement calculations (discussed in more detail in section 6.2), stress and scenario testing (discussed in more detail in section 4.7), the risk register, the loss events log and other qualitative assessments. Qualitative assessments are undertaken to track the developments within the risk profile and review the design and operational effectiveness of the control environment across the key processes. There has been no material change in the tools, parameters or assumptions used since the previous year.

### 4.5.2 Material exposures/risks

The key operational risks that the Company manages are the following:

- Systems risk: the risk of systems and IT infrastructure failure leading to errors in reporting of the data (including pricing) and impacting decision making.
- Cyber/data security: the risk of inadequate systems security leading to financial loss, disruption or damage to the reputation of the Company. It includes hacking of the systems, cyber hostaging and stealing/losing of soft and hard information, amongst others.
- Outsourcing: the risk of outsourced services failing to provide the benefits agreed could lead to reduced profitability, inadequate business processes, regulatory fines, lawsuits and reputational damage.
- Policies and Procedures: Inadequate policies and procedures may lead to the deficiencies in the monitoring or the non-early identification of operational risks such as failures in the systems, breach of outsourcing agreements, amongst others.
- People risks: the risk that inability to attract and recruit employees with appropriate qualifications and competences or failure to provide appropriate training and continuous professional development could lead to lower levels of productivity and profitability and increased levels of errors and mistakes.
- Unintended mis-selling: the risk of causing detriment to customers through sale of products not suited for their needs;
- Legal risk: the risk of failure to properly identify and manage legal exposures; and
- Regulatory risks: the risk of failure to comply with regulatory requirements.

### 4.5.3 Risk Concentration

In light of the wide-range of processes, systems and people this risk covers, no material concentrations have been identified. The importance of a well-functioning IT system should be mentioned though.



### 4.5.4 Risk Mitigation

Operational risk covers a wide range of processes, procedures and systems across the Company, thus appropriate risk mitigation techniques are applied depending on the process or system. These include but are not limited to:

- Regular Internal Audit and external consultants' reviews of the processes, systems and procedures;
- Policies and procedures are documented and available to all employees;
- Regular reviews of policies and procedures documents adherence;
- Performance management and reviews to ensure employees are satisfied with their work and perform to the best of their abilities;
- Regular attendance to seminars both to further develop the employees' knowledge and capabilities (reducing people's risk) and to ensure the Company keeps abreast of any regulatory or technical developments (reducing regulatory risk);
- Legal advice is sought at the earliest opportunity from specialised lawyers, when required;
- Peer review of material work and appropriate underwriting, claims and other authority limits in place;
- Business continuity and disaster scenario planning; and
- Standard templates/policy wordings.

The continued effectiveness of the risk mitigation techniques and controls is monitored through the risk register. The risk register is reviewed and updated continuously as new risks and/or failures in controls are identified.

### 4.5.5 Risk Sensitivity

Risk sensitivity and Stress and Scenario testing is discussed in section 4.7.

### 4.5.6 Any other material information

No other material information.

## 4.6 Other material risks

No other material risks to mention.

## 4.7 Risk sensitivity/Stress and scenario testing (all risks)

### 4.7.1 Methodology and assumptions

Stress and scenario testing considers the financial impact on earnings and capital of a specific event or combination of events. Defining specific events helps to understand and manage the key risks an organization faces and visualize extreme events.

The events were selected by considering the Company's exposure to internal factors, such as a change in business plan, and external factors, such as certain possible events with negative effects or a deterioration of economic conditions.

### 4.7.2 Outcome of the sensitivity testing

The table below sets a description of the ten stress scenarios, the impact of the sensitivity measured as an amount of the solvency capital requirement, and relative impact on the overall solvency coverage ratio for the projected 2018, 2019 and 2020-year ends. The sensitivity and stress scenario testing was performed as part



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of the preparation of the 2018 annual ORSA report in Q3-4 2018, based on the projected year end 2018-2020 planning assumptions.

	Stressed Risk	Scenario	Impact on Solvency Capital requirement - €m			Impact on Solvency coverage ratio (%)		
			2018	2019	2020	2018	2019	2020
1	Underwriting risk	Negative impact on Company's earnings following failure to retain some of its larger risks	-0,3	-0,3	-0,4	0%	-1%	-2%
2	Underwriting risk	Adverse development across all claims experience also impacting future loss ratios	0,5	0,1	-0,1	-24%	-29%	-31%
3	Underwriting risk	Rate changes greater than anticipated (continuously soft rating environment)	0,4	0,1	-0,1	-18%	-25%	-22%
4	Credit risk	Partial reinsurance default	0,1	0,0	0,0	-12%	-6%	-2%
5	Credit Risk	Downgrade of key foreign financial institution by two notches	0,4	0,5	0,5	-3%	-3%	-4%
6	Market Risk	Property stress (due to the illiquid and unmarketable nature of properties)	-0,1	-0,1	-0,1	-9%	-8%	-7%
7	Credit risk	Intermediaries' default, policyholders' debt write off, increase in past-due receivables and reduction in premium volume	-0,8	-1,0	-1,0	3%	1%	-1%
8	Credit Risk	Default of key foreign financial institution	-	-0,4	-0,3	0%	-21%	-19%
9	Market Risk/ Credit risk/ Strategic risk	Provision of bancassurance services by Hellenic Bank no longer possible	-0,4	-0,5	-0,5	2%	1%	0%
10	Market Risk/ Underwriting risk	Counterparty default impacting sales	-0,3	-4,3	-5,9	2%	2%	-5%

The results of the testing above indicate that the Company is sufficiently capitalized and able to withstand an extreme event, as in all scenarios the solvency capital ratios are above the European threshold of 100%. In a couple of the most extreme scenarios, the solvency ratios are below 115% (threshold set by the Insurance Companies Control Service), however, the ratio steadily increases as the Company and/or the market take action to address the consequences of the event.

### 4.8 Any other information

No other material information.



### 5 Valuation for solvency purposes

#### 5.1 Assets

##### 5.1.1 Value of assets

The Company held the following assets as at 31<sup>st</sup> December of 2018 and 2017:

Asset Class (€000)	2018		2017	
	Solvency II	Statutory Accounts	Solvency II	Statutory Accounts (Restated <sup>4</sup> )
Goodwill and PVIF		621		654
Deferred acquisition costs		1,206		1,019
Intangible assets		94		1,181
Property, plant & equipment held for own use	5,153	5,153	5,277	5,277
Property (other than for own use)	2,015	2,015	2,297	2,623 <sup>5</sup>
Bonds	814	799	812	812
Collective Investments Undertakings	10,388	10,392	10,540	10,540
Deposits other than cash equivalents	2,716	2,712	3,733	3,733
Reinsurance recoverables from Non-Life and Health	6,439	10,175	5,695	9,224
Insurance and intermediaries' receivables	9,706	9,706	11,936	11,936
Reinsurance receivables	545	545	258	258
Cash and cash equivalents	15,315	15,334	13,005	13,005
Any other assets, not elsewhere shown	676	676	684	684
<b>Total assets</b>	<b>53,767</b>	<b>59,428</b>	<b>54,237</b>	<b>60,946</b>

##### 5.1.2 Bases, methods and main assumptions

The valuation principles applied to the above assets are consistent with those used in the IFRS accounts, except as disclosed in section below.

<sup>5</sup> Refer to section 1.3



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The bases, methods and assumptions used for the valuation of assets, including any differences in the valuation between Solvency II and IFRS are the following:

- Goodwill and PVIF: They are valued at zero on a SII valuation basis. On an IFRS basis, Goodwill is measured at historical cost less impairment, and PVIF is measured at historical cost less accumulated amortization and impairment losses.
- Deferred Acquisition Cost: Deferred Acquisition Cost is valued at zero on a SII valuation basis.
- Intangible Assets: Intangible Assets are valued at zero on a SII valuation basis. On an IFRS basis, intangible assets are measured at historical cost less accumulated amortization and impairment losses.
- Property, Plant and Equipment held for own use: Land and Buildings are carried at fair value under the revaluation model, based on valuation by external independent valuers, less accumulated depreciation for buildings. All other items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The value of the PPE in the Company's financial statements is the same with Solvency II basis, as the carrying amount of PPE approximates its fair value.
- Property (Other than for own use): With effect from 1 January 2018, the Company changed the accounting policy in relation to the subsequent measurement of investment property, by a change from the cost model to the fair value model. The change to the fair value model was applied retrospectively by the Company in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". As a result, the comparative information in the financial statements was restated. Therefore, the value of the investment property under Solvency II and IFRS basis is the same as it is based on their fair value. Before 1 January 2018, investment property was measured under IFRS at historical cost less accumulated depreciation and impairment losses. Even though the fair value of the property based on the external independent valuers as at 31<sup>st</sup> December 2017 is €2.6m, the value of the property included on a Solvency II basis was the same as the value recorded in 2017 financial statements under the cost model.
- Bonds and Collective Investment Undertakings: Assets include investments in quoted debt securities (bonds) and funds, including Exchange Traded Funds, Money Market Funds and Mutual Funds. The Company has initially applied IFRS 9 "Financial Instruments", which replaced IAS 39, from 1 January 2018. Upon transition to IFRS 9, the Company reclassified its investments in quoted funds from the Available-for-sale (AFS) category to the fair value through profit or loss (FVTPL) category. Investments in sovereign debt securities were classified from AFS to fair value through other comprehensive income (FVOCI) category. Under both Solvency II and IFRS basis (both under IAS 39 and IFRS 9), these assets are measured at fair value. The value of the investments in the Company's financial statements is not the same as with Solvency II basis, the difference is that Solvency II basis amount includes the accrued interest of Government bonds.
- Deposits other than Cash Equivalents: These relate to short-term fixed deposits with banks. They are initially measured at fair value, and subsequently measured at amortized cost, equivalent to the face value plus accrued interest. Carrying amount approximates fair value. The value of the deposits in the Company's financial statements is not the same as with Solvency II basis, the difference is that Solvency II basis amount includes the accrued interest of deposits other than cash equivalents.
- Reinsurance recoverables from Non-Life and Health: These represent the reinsurer's share of the portion of gross premiums written which is to be earned in subsequent financial years, and the reinsurer's share of the outstanding claim reserves/provisions. Under IFRS, the unearned premiums reserve is calculated by apportioning premiums written over the period to which the policy relates on a time apportionment basis, while the reinsurance share of the claims reserves and is based on reinsurance treaties in place and actuarial modelling. Solvency II valuation is described in section 5.2. below.



- Insurance and intermediaries' receivables: Insurance and intermediaries' receivable balances represent outstanding premiums owed from policyholders and intermediaries and loans to agents. Outstanding premiums and loans are measured initially at the fair value of the consideration receivable, and subsequently at amortised cost, less any provision for impairment. Carrying amount of the balances approximates their fair value. The value of insurance and intermediaries' receivables in the Company's financial statements is the same with Solvency II basis.
- Reinsurance receivables: Represent the amounts due from Reinsurers (debit balances), and are measured on initial recognition at the fair value of the consideration received or receivable. Subsequently, they are measured at amortised cost, less any provision for impairment. Carrying amount approximates fair value.
- Cash and Cash Equivalents: They represent mainly bank deposits to current accounts. They are initially measured at fair value, and subsequently measured at amortized cost, equivalent to the face value plus any accrued interest. Carrying amount approximates fair value. The value of the deposits in the Company's financial statements is not the same as with Solvency II basis since the balance in financial statements includes the accrued interest of Government bonds, and fixed deposits other than cash equivalents.
- Any other Assets not elsewhere shown: They comprise of amounts receivable from Hire Risk Pool, intercompany balance with Hellenic Bank Public Company Ltd and other receivables. They are measured on initial recognition at the fair value of the consideration received or receivable. Subsequently, they are measured at amortised cost, less any provision for impairment. Carrying amount approximates fair value. The value of other assets in the Company's financial statements is the same with Solvency II basis.

## 5.2 Technical Provisions

### 5.2.1 Uncertainty in the technical provisions

Uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. Uncertainties exist in the most critical assumptions used for the calculation of Technical provisions. The most critical assumption in the calculation of the claims provision and premium provision is the assumed development for the liability claims and claim ratio respectively, where the Company monitors the experience of claims on a frequent basis and revises the assumed development and claim ratio accordingly where necessary, to reflect the most recent experience and reduce the level of uncertainty.

The highest uncertainty in the outstanding claim reserves exists within the liability classes. Specifically, Motor BI-Excess €250k has a wide range of possible outcomes as a result of the small number of historical claims available for statistical analysis and the unpredictable development of each individual claim. Adequate margins have been implicitly allowed in the selection of development factors to reflect the uncertainty inherent in each class of business.

### 5.2.2 Technical provisions, Best Estimate and Risk Margin

The table below sets out the gross and net claims and premium provisions and the corresponding recoverables, as well as the risk margin by line of business and in aggregate as at 31<sup>st</sup> December 2018:



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TECHNICAL PROVISIONS (€'000)	Gross			Reinsurance Recoverables		Net		
	Claims Provision	Premium Provision	Risk Margin	Claims Provision	Premium Provision	Claims Provision	Premium Provision	Risk Margin
Medical expense insurance	-	-	-	-	-	-	-	-
Income protection insurance	106	228	13	56	126	50	102	13
Workers' compensation insurance	-	-	-	-	-	-	-	-
Motor vehicle liability insurance	12,728	4,411	646	754	0	11,974	4,411	646
Other motor insurance	984	1,447	131	0	0	984	1,446	131
Marine, aviation and transport insurance	67	54	10	39	24	28	30	10
Fire and other damage to property insurance	2,668	2,153	155	1,971	704	697	1,448	155
General liability insurance	5,253	899	193	2,242	366	3,012	534	193
Credit and suretyship insurance	-	-	-	-	-	-	-	-
Legal expenses insurance	-	-	-	-	-	-	-	-
Assistance	-	-	-	-	-	-	-	-
Miscellaneous financial loss	133	55	10	108	50	25	5	10
<b>Total</b>	<b>21,939</b>	<b>9,247</b>	<b>1,155</b>	<b>5,170</b>	<b>1,270</b>	<b>16,770</b>	<b>7,976</b>	<b>1,155</b>

The total gross best estimate of technical provisions amounts to €32.341k, with total reinsurance recoverables amounting to €6.440k. The total net technical provisions amount to €25.901k.





### 5.2.3 Bases, methods and main assumptions used

#### Premium Provision

The calculation of best estimate of premium provision relates to the present value of all future cashflows arising from future events, over the remaining duration of the unexpired policies. Such cashflows mostly relate to future claims, administration expenses and reinsurance.

Premium provision is determined on a prospective basis taking into account the expected cash inflows and cash outflows as well as the time value of money. The expected cashflows were estimated by applying appropriate ratios to the premium earned at each projection month up to expiry of all in-force policies. The conditions rendering this method valid are met, namely:

- it can be expected that the combined ratio remains stable over the run-off period of premium provision
- a reliable estimate of the combined ratio can be made
- the unearned premium provision is an adequate exposure measure for estimating future claims and expenses during the unexpired risk period

For the purposes of the premium provision valuation we assumed that “Expenses” include all expense items, except acquisition costs as allocated to each line of business.

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

In accordance with SII framework, the best estimate of technical provisions must correspond to the probability weighted average of future cashflows. Some weight was therefore placed on loss scenarios with low probability but high cost which are not captured under the usual methodologies. To quantify the impact of ENIDs (Events Not in Data) is achieved through the frequency severity method. The following events have been examined:

- Natural catastrophe loss scenario: This has been applied for each line of business as calibrated in Standard Formula. Company's net loss is limited to its net retention. The probability of occurrence was set to 0.75% which includes sufficient margins of prudence accommodating any shortfall of the standard formula.
- Other scenarios that impact premium provision: Events that expected to impact the premium provision of the company such as changes in legislation, changes in policy terms and conditions, etc. The aggregated impact of these scenarios was estimated to be in line with a tail event as implied by the standard formula for the calculation of reserve risk charge. The probability of occurrence was uplifted from 0.5% to 0.75% as a further margin of prudence.

#### Claims Provisions

The provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from these events have been reported or not. Thus, the claims provisions is determined by discounting the Claims Reserves (Case by Case (OSLR) + IBNR + IBNER+ ULAE) to allow for the time value of money plus an allowance for ENIDs.

- IBNER: captures the expected inadequacy of case estimates of outstanding claims. The methods used to calculate this reserve is Chain Ladder on paid and incurred claims, the Loss Ratio method and the Bornhutter Ferguson method. The methods capture both IBNR and IBNER reserves. The IBNER was established by subtracting the IBNR calculation from the total reserve.
- IBNR: was determined by applying the Delay method (Average Cost per Claim).





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- ULAE: Unallocated loss adjustment expense reserve (ULAE) has been used and provides the cost of processing and settling outstanding and IBNR claims. ULAE has been calculated using the Classical Paid-to-Paid ratio method. The ratio of ULAE has been estimated separately for each line of business as the ratio of calendar year paid ULAE to calendar year paid losses. This ratio was applied to the IBNR reserve and 50% of that ratio to the IBNER reserve. This reflects the assumption that 50% of the ULAE is incurred when new claims are set up and the remaining 50% is spent upon settlement.
- ENIDs: the scenarios that impact claim provision such as changes in legislation, latent claims, and changes in court awards. The ENIDs are quantified through a frequency severity method of a range of scenarios. The aggregate impact of these scenarios was estimated to be in line with a tail event as implied through the standard formula for the calculation of reserve risk. The probability of occurrence was uplifted from 0.5% to 0.75%.

### **Risk Margin**

The risk margin is designed to ensure that the value of technical provisions is equivalent to the amount that a third-party undertaking would be expected to require in order to take over and meet the Company's insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the Company's reinsurance obligations over their lifetime thereof. The Company applies Method 2 as specified in Guideline 61 of "EIOPA Guidelines on the valuation of technical provisions" and the risk margin is allocated to the individual lines of business using the simplification outlined in Guideline 63 of the EIOPA guidelines on the valuation of technical provisions.

### **Assumptions**

The main assumptions used for solvency valuation purposes are the following:

- Expenses used for the calculation of Premium Provision include expense items, except acquisition costs as allocated to each line of business;
- Large claims transferred to a "Large Loss" pool and treated as "once large always large";
- Lapse /cancellation rates used for the Premium provision calculation have been derived on the assumption that historical experience will be representative for future lapse/cancellation rates
- The main assumption for the derivation of reinsurance cost is that the ratio of the reinsurance premium for non-proportional covers to the gross premiums will remain relatively unchanged.
- For bodily injury, a threshold of €250k has been set in order to define the triangulation method;
- 50% of ULAE applied on IBNR and 50% on IBNER and case reserves;
- 50% of ULAE is incurred when new claims set up and 50% is spent upon settlement;
- Cost-of-capital is set to 6%;
- Euro risk free curve (no volatility adjustment) as published by EIOPA has been used for discounting; and
- No discounting has been allowed for IFRS results;
- Claims reserve follows a lognormal distribution and the confidence interval range lies between the 5<sup>th</sup> and 95<sup>th</sup> percentile.

There have been no material changes in the assumptions made in the calculation of the technical provisions over the reporting period.



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### 5.2.4 Material differences in the bases, methods and main assumptions

The methodology for calculating the IBN(E)R reserve of Motor BI Claims remained unchanged compared to YE2017.

Prior Methodology applied before YE2017 assumed separate Analysis of Large and Attritional Claims using the Chain Ladder, whereas in the new methodology applied from YE2017 onwards the development of Large Claims was capped to €250k and analysed together with Attritional Claims. The development above €250k was analysed using the Frequency Severity Method.

This above change was necessary because no large claims have been reported to the company for accident years 2017 and 2018. This compromises the results of chain ladders for large claims. The new methodology generates higher results compared to the prior methodology.

The large claims threshold for Employers liability has changed from €175k in YE2017 to €100k in YE2018 which is consistent with the excess of loss deductible. The impact of this change was immaterial.

No other material changes in valuation methods compared to the previous valuation occurred.

### 5.2.5 Matching and volatility adjustments

No matching or volatility adjustments have been applied in the calculation of Solvency II technical provisions.

### 5.2.6 Transitional risk-free interest rate-term structure

No transitional risk-free interest rate-term structure has been applied in the calculation of Solvency II technical provisions.

### 5.2.7 Transitional deductions

No transitional deductions have been applied in the calculation of Solvency II technical provisions.

### 5.2.8 Recoverables

Reinsurance Recoverables represent the difference between gross and net provisions. The methodologies described above apply on both gross and net basis. In order to estimate gross reserves, we ignore any inflow related to the existence of reinsurance. In order to estimate the net reserves, the projections allow also for any cashflows related to reinsurance (RI premium, RI claims, RI commissions). A reduction of reinsurance recoverables has been made to allow for expected losses due to the default of a counterparty. The probability of default is derived from that used in the counterparty default risk under the standard formula depending on the credit quality of each reinsurer.

### 5.2.9 Material assumption changes

No material assumption changes have been applied during the reporting period for the calculation of technical provisions.

## 5.3 Other liabilities

### 5.3.1 Value of other liabilities

The Company held the following liabilities as at 31<sup>st</sup> December of 2018 and 2017:



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Liabilities (€000)	2018		2017	
	Solvency II	Statutory Accounts	Solvency II	Statutory Accounts (Restated*)
Liabilities				
Technical provisions – non-life	32,341	36,762	29,928	34,041
Technical provisions – non-life (excluding health)	31,994		29,597	
Technical provisions calculated as a whole	0		0	
Best Estimate	30,852		28,323	
Risk margin	1,142		1,274	
Technical provisions - health (similar to non-life)	348		332	
Technical provisions calculated as a whole	-		-	
Best Estimate	334		315	
Risk margin	13		17	
Deferred Commission from RI	-	776	-	728
Deferred tax liabilities	208	208	147	190 <sup>6</sup>
Debts owed to credit institutions	135	135	89	89
Insurance & intermediaries payables	1,749	1,749	1,776	1,776
Reinsurance payables	2,029	2,029	1,888	1,888
Any other liabilities, not elsewhere shown	506	468	2,837	2,837
<b>Total liabilities</b>	<b>36,969</b>	<b>42,165</b>	<b>36,666</b>	<b>39,773</b>

<sup>6</sup> Refer to section 1.3



### 5.3.2 Material differences in the bases, methods and main assumptions

- Technical Provisions: IFRS valuation takes into account the estimated cost, allocated and unallocated, of claims incurred but not settled of claims incurred but not yet reported to the company as at the reporting date. The technical provision calculations are based on a number of generally acceptable actuarial methods, including the Chain Ladder, Loss Ratio, Bornhuetter-Ferguson, Delay (average cost per claim) and Classical Paid-to-Paid ratio methods. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Solvency II valuation is described in section 5.2. above.
- Deferred Commission from reinsurance: Deferred commission income from reinsurance is valued at zero on a SII valuation basis.
- Deferred Tax Liability: It relates primarily to temporary differences arising on the measurement of non-financial assets (PPE) held by the Company, between tax and IFRS purposes. The calculation is based on the current tax rates in Cyprus. The value of the deferred tax liability in the Company's financial statements is the same with Solvency II basis.
- Insurance & intermediaries' payables: They relate to outstanding agents' commissions due, premiums received in advance and motor insurers' fund liabilities. They are initially measured at the fair value of the consideration payable, and are subsequently measured at amortized cost. The carrying amount of the payables approximates their fair values. The value of the payables in the Company's financial statements is the same with Solvency II basis.
- Reinsurance payables: Represent the amounts due to Reinsurers (credit balances), and are measured on initial recognition at the fair value of the consideration paid or payable and are subsequently measured at amortized cost. Carrying amount approximates fair value.
- Any other liabilities, not elsewhere shown: Other liabilities include accrued expenses, taxes payable and other creditors balances due. The value of these other liabilities in the Company's financial statements is the same with Solvency II basis.

### 5.4 Alternative methods for valuation

No alternative methods for valuation used.

### 5.5 Any other information

No other material information regarding the valuation of assets and liabilities for solvency purposes.



## 6 Capital Management

### 6.1 Own Funds

#### 6.1.1 Objectives, policies and processes

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

#### 6.1.2 Own funds description

The table below presents the structure and amount of own funds on a Solvency II basis as at 31<sup>st</sup> December 2018 and 31<sup>st</sup> December 2017:

Own Funds (€'000)	2018	2017
<b>Basic own funds</b>		
Ordinary share capital (gross of own shares)	6,751	6,751
Share premium account related to ordinary share capital	2,878	2,878
Reconciliation reserve	7,169	7,942
<b>Total basic own funds after deductions</b>	<b>16,798</b>	<b>17,571</b>

€'000	2018	2017
<b>Total ancillary own funds</b>	0	0
<b>Available and eligible own funds</b>		
Total available own funds to meet the SCR/	16,798	17,571
Total available own funds to meet the MCR	16,798	17,571
Total eligible own funds to meet the SCR	16,798	17,571
Total eligible own funds to meet the MCR	16,798	17,571
<b>SCR</b>	<b>12,350</b>	<b>12,006</b>
<b>MCR</b>	<b>3,990</b>	<b>3,726</b>



## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

Ratio of Eligible own funds to SCR	136%	146,4%
Ratio of Eligible own funds to MCR	421%	471,6%

All own funds are Tier 1 unrestricted and eligible to cover MCR and SCR and are expected to remain as such over the planning period.

The reduction in own funds is driven by higher than expected claims activity and old claims revaluations.

### 6.1.3 IFRS and Solvency II balance sheets

The key material differences between the IFRS and Solvency II balance sheets are mainly attributed to the following:

1. Goodwill, PVIF and other intangible assets are valued at zero on a SII valuation basis
2. DAC and Deferred Reinsurance Commissions are valued at zero on a SII valuation basis
3. The Risk Margin is only allowed for in the Solvency II Technical Provisions.
4. The differences between the Gross and Net of Reinsurance Technical Provisions under the Solvency II and the IFRS valuation arises mainly from the fact that under the Solvency II valuation contrary to IFRS there is:
  - a. Recognition of anticipated profits on unearned premiums (UPR is replaced by Premium Provision)
  - b. Removal of prudency margins
  - c. Allowance for negative reserves

### 6.1.4 Own funds subjected to transitional arrangements

No own funds are subjected to transitional arrangement.

### 6.1.5 Ancillary own funds

No ancillary own funds.

### 6.1.6 Items deducted from own funds

No items are deducted from own funds.

### 6.1.7 Availability and transferability restrictions of own funds

No restrictions in the availability and transferability of own funds.

## 6.2 Solvency Capital Requirement and Minimum Capital Requirement

### 6.2.1 Amounts of SCR and MCR

The Solvency Capital Requirement (SCR) of the Company as at 31<sup>st</sup> December 2018 is €12,4m and the Minimum Capital Requirement is €4m. The SCR has been submitted to the supervisory authorities and the Company awaits for their feedback.

### 6.2.2 Amount of SCR split by risk modules

The table below shows the amount of the SCR split by standard formula risk modules as at 31<sup>st</sup> December 2018 and 31<sup>st</sup> December 2017:



## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

Solvency capital requirement - €000	2018	2017
Market risk	2,442	3,322
Counterparty default risk	6,452	6,019
Life underwriting risk	0	0
Health underwriting risk	449	282
Non-Life underwriting risk	7,144	6,723
<b>Sum of risk components</b>	<b>16,486</b>	<b>16,346</b>
Diversification effects	-3,699	-3,877
<b>Diversified risk</b>	<b>12,787</b>	<b>12,470</b>
Intangible asset risk	0	0
Operational risk	936	878
Adjustments	-1,372	-1,342
<b>Solvency capital requirement</b>	<b>12,350</b>	<b>12,006</b>

There has been no material change in the tools, parameters or assumptions used to calculate the SCR since the previous year.

### 6.2.3 Simplifications/specific parameters

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.

### 6.2.4 Information on the inputs used to calculate the MCR

The inputs used to calculate the MCR of the Company are set out in the table below:

Line of business	Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Income protection insurance and proportional reinsurance	€0.3m	€0.3m
Motor vehicle liability insurance and proportional reinsurance	€17.1m	€10.6m
Other motor insurance and proportional reinsurance	€2.4m	€3.4m





Line of business	Net (of reinsurance /SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Marine, aviation and transport insurance and proportional reinsurance	€0.1m	€0.1m
Fire and other damage to property insurance and proportional reinsurance	€4.8m	€3.7m
General liability insurance and proportional reinsurance	€6.2m	€1.9m
Miscellaneous financial loss insurance and proportional reinsurance	€0.01m	€0.0m

### 6.2.5 Material changes to the SCR and MCR

The solvency capital requirement for 2018 remains broadly consistent to 2017 (2018: €12.4m, 2017: €12.0m) with improvements noted in the market and credit risk profiles following the implementation of the investment strategy, the continuous efforts of the Company to transact with better credit quality counterparties and implementation of the credit collection policy, offset by changes in the reinsurance exposures.

The minimum capital requirement remains broadly consistent to 2017 at €3.9 (2017: €3.7m).

### 6.3 Duration-based equity risk sub-module option

The equity risk sub-module is not used by the Company for the calculation of its Solvency Capital requirements.

### 6.4 Internal model

An internal model is not used by the Company for the calculation of its Solvency Capital requirements and its Minimum Capital requirements.

### 6.5 Non-compliance with the MCR and/or SCR

The Company is compliant with both the Solvency Capital Requirement and the Minimum Capital Requirement.

### 6.6 Any other information

No other material information regarding the capital management of the Company.



## 7 Appendices

### 7.1 Abbreviations

Acronym	Definition / Description
AFS	Available-For-Sale
AMSB	Administrative, Management, and Supervisory Body
BoD	Board of Directors
CAR	Contractors all Risk
CCB	Cooperative Central Bank
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIU	Collective Investment Unit
DAC	Deferred Acquisition Cost
ECL	Expected Credit Loss
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not In Data
ETF	Exchange Traded Funds
FVTPL	Fair Value Through Profit or Loss
FVOCI	Fair Value through Other Comprehensive Income
HB	Hellenic Bank
IAF	Internal Audit Function
IAS	International Accounting Standard
IAU	Internal Audit Unit
IBNER	Incurred but Not Enough Reported
IBNR	Incurred but Not Reported
ICPA	Institute of Certified Public Accountants
IFRS	International Financial Reporting Standard
IRRC	Investment, Risk Management and Reserves Committee



# PANCYPRIAN INSURANCE

Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

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IT	Information Technology
MCR	Minimum Capital Requirement
MF	Mutual Funds
MFF	Money Market Fund
MIF	Motor Insurers' Fund
OCI	Other Comprehensive Income
ORSA	Own Risk and Solvency Assessment
OSLR	Outstanding Loss Reserve
PIL	Pancyprian Insurance Limited
PVIF	Present Value of Acquired in-Force policies
RI	Reinsurance
RMF	Risk Management Function
SCR	Solvency Capital Requirement
SLA	Service Level Agreement
ULAE	Unallocated Loss Adjustment Expense
UPR	Unearned Premium Reserve
QRTs	Quantitative Reporting Templates



### 7.2 QRTs

#### S.02.01.02 - Statement of Financial Position

		Solvency II value
		C0010
<b>Assets</b>	<b>R0010</b>	
Goodwill	<b>R0020</b>	
Deferred acquisition costs	<b>R0030</b>	
Intangible assets	<b>R0040</b>	0
Deferred tax assets	<b>R0050</b>	
Pension benefit surplus	<b>R0060</b>	5,152,622
Property, plant & equipment held for own use	<b>R0070</b>	15,933,027
Investments (other than assets held for index-linked and unit-linked contracts)	<b>R0080</b>	2,015,000
Property (other than for own use)	<b>R0090</b>	
Holdings in related undertakings, including participations	<b>R0100</b>	
Equities	<b>R0110</b>	
Equities - listed	<b>R0120</b>	
Equities - unlisted	<b>R0130</b>	814,101
Bonds	<b>R0140</b>	814,101
Government Bonds	<b>R0150</b>	
Corporate Bonds	<b>R0160</b>	
Structured notes	<b>R0170</b>	
Collateralised securities	<b>R0180</b>	10,387,765
Collective Investments Undertakings	<b>R0190</b>	
Derivatives	<b>R0200</b>	2,716,161
Deposits other than cash equivalents	<b>R0210</b>	
Other investments	<b>R0220</b>	
Assets held for index-linked and unit-linked contracts	<b>R0230</b>	
Loans and mortgages	<b>R0240</b>	
Loans on policies	<b>R0250</b>	
Loans and mortgages to individuals	<b>R0260</b>	
Other loans and mortgages	<b>R0270</b>	6,438,515
Reinsurance recoverables from:	<b>R0280</b>	6,438,515
Non-life and health similar to non-life	<b>R0290</b>	6,256,032
Non-life excluding health	<b>R0300</b>	182,483
Health similar to non-life	<b>R0310</b>	
Life and health similar to life, excluding health and index-linked and unit-linked	<b>R0320</b>	
Health similar to life	<b>R0330</b>	
Life excluding health and index-linked and unit-linked	<b>R0340</b>	
Life index-linked and unit-linked	<b>R0350</b>	
Deposits to cedants	<b>R0360</b>	9,705,543
Insurance and intermediaries receivables	<b>R0370</b>	545,052
Reinsurance receivables	<b>R0380</b>	
Receivables (trade, not insurance)	<b>R0390</b>	
Own shares (held directly)	<b>R0400</b>	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	<b>R0410</b>	15,315,258
Cash and cash equivalents	<b>R0420</b>	676,239
Any other assets, not elsewhere shown	<b>R0500</b>	53,766,256
<b>Total assets</b>		



# PANCYPRIAN INSURANCE

## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

	Solvency II value
	C0010
<b>Liabilities</b>	
Technical provisions – non-life	
Technical provisions – non-life (excluding health)	
Technical provisions calculated as a whole	
Best Estimate	R0510 32,341,100
Risk margin	R0520 31,993,550
Technical provisions calculated as a whole	R0530 0
Best Estimate	R0540 30,851,557
Risk margin	R0550 1,141,993
Technical provisions - health (similar to non-life)	
Technical provisions calculated as a whole	
Best Estimate	R0560 347,550
Risk margin	R0570 0
Technical provisions - life (excluding index-linked and unit-linked)	
Technical provisions - health (similar to life)	
Technical provisions calculated as a whole	
Best Estimate	R0580 334,313
Risk margin	R0590 13,237
Technical provisions - life (excluding health and index-linked and unit-linked)	
Technical provisions calculated as a whole	
Best Estimate	R0600 .
Risk margin	R0610 .
Technical provisions calculated as a whole	
Best Estimate	R0620 .
Risk margin	R0630 .
Technical provisions calculated as a whole	
Best Estimate	R0640 .
Risk margin	R0650 .
Technical provisions calculated as a whole	
Best Estimate	R0660 .
Risk margin	R0670 .
Technical provisions – index-linked and unit-linked	
Technical provisions calculated as a whole	
Best Estimate	R0680 .
Risk margin	R0690 .
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	
Subordinated liabilities	
Subordinated liabilities not in Basic Own Funds	
Subordinated liabilities in Basic Own Funds	
Any other liabilities, not elsewhere shown	
<b>Total liabilities</b>	R0700 208,135
<b>Excess of assets over liabilities</b>	R0710 .
	R0720 .
	R0730 .
	R0740 .
	R0750 .
	R0760 .
	R0770 .
	R0780 208,135
	R0790 .
	R0800 135,386
	R0810 .
	R0820 1,749,240
	R0830 2,029,004
	R0840 .
	R0850 .
	R0860 .
	R0870 .
	R0880 505,794
	R0900 36,968,659
	R1000 16,797,597

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

[illegible]

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

		Home Country	Country (by amount of gross premiums written) - non-life obligations					Total for top 5 countries and home country (by amount of gross premiums written) - non-life obligations
		C0010	C0020	C0020	C0020	C0020	C0020	C0070
R0010			-	-	-	-	-	
		C0080	C0090	C0090	C0090	C0090	C0090	C0140
<b>Premiums written</b>								
Gross - Direct Business	R0110	30,938,366						30,938,366
Gross - Proportional reinsurance accepted	R0120	46,918						46,918
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	10,952,903						10,952,903
Net	R0200	20,032,381						20,032,381
<b>Premiums earned</b>								
Gross - Direct Business	R0210	29,927,823						29,927,823
Gross - Proportional reinsurance accepted	R0220	58,454						58,454
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	10,689,740						10,689,740
Net	R0300	19,296,537						19,296,537
<b>Claims incurred</b>								
Gross - Direct Business	R0310	13,348,610						13,348,610
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340	2,221,770						2,221,770
Net	R0400	11,126,840						11,126,840
<b>Changes in other technical provisions</b>								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non- proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500	-						-
<b>Expenses incurred</b>								
Other expenses	R1200							1,028,768
Total expenses	R1300							1,028,768



## S.17.01.02 - Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
	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	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	.	0	.	0	.	0	.	0	.	.	.	0	.	.	.	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	.	0	.	0	.	0	.	0	.	.	.	0	.	.	.	0
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
Gross	R0060	.	227,998	.	4,410,870	.	1,446,390	.	54,381	.	2,152,622	.	899,325	.	.	.	9,246,681
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	.	126,167	.	0	.	0	.	23,912	.	704,363	.	365,657	.	.	.	1,269,777
Net Best Estimate of Premium Provisions	R0150	.	101,831	.	4,410,870	.	1,446,390	.	30,469	.	1,448,259	.	533,668	.	.	.	7,976,904
Claims provisions																	
Gross	R0160	.	106,315	.	12,728,043	.	983,696	.	67,185	.	2,667,490	.	5,253,377	.	.	.	21,939,189
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	.	56,316	.	753,843	.	0	.	38,853	.	1,970,513	.	2,241,561	.	.	.	5,168,743
Net Best Estimate of Claims Provisions	R0250	.	49,999	.	11,974,205	.	983,696	.	28,332	.	696,977	.	3,011,816	.	.	.	16,770,451
Total Best estimate - gross	R0260	.	334,313	.	17,138,913	.	2,430,086	.	121,566	.	4,820,112	.	6,152,702	.	.	.	31,185,870
Total Best estimate - net	R0270	.	151,830	.	16,385,075	.	2,430,086	.	58,801	.	2,145,236	.	3,545,484	.	.	.	24,747,355
Risk margin	R0280	.	13,237	.	646,350	.	130,603	.	9,658	.	155,033	.	190,409	.	.	.	1,155,230
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0290	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Best estimate	R0300	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Risk margin	R0310	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Technical provisions - total																	
Technical provisions - total	R0320	.	347,550	.	17,785,263	.	2,560,689	.	131,224	.	4,975,145	.	6,343,111	.	.	.	32,341,100
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	.	182,483	.	753,838	.	0	.	62,765	.	2,674,876	.	2,607,218	.	.	.	6,438,515
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	.	165,067	.	17,031,425	.	2,560,689	.	68,459	.	2,300,269	.	3,735,893	.	.	.	25,902,585



# PANCYPRIAN INSURANCE

## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

### S.19.01.21 - Non-Life Insurance Claims Information

#### Gross Claims Paid (non-cumulative)

(absolute amount)

Line of business **Z0010** Total Non-Life Business

Accident year / Underwriting year **Z0020** Accident year [AY]

		Development year																In Current year	Sum of years (cumulative)
Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +	C0170	C0180
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		
Prior	R0100																4,169	R0100	4,169
N-14	R0110	4,573,235	2,671,870	599,978	532,972	367,892	167,907	690,239	239,484	107,050	25,821	904	2,771	-2,000	11,236	0		R0110	9,989,359
N-13	R0120	4,518,673	3,422,039	639,060	348,578	350,566	421,651	287,646	277,749	3,982,542	20,612	0	0	158,515	3,570			R0120	14,431,203
N-12	R0130	4,688,757	2,088,125	869,808	239,893	370,337	163,292	264,492	127,091	136,046	299,500	0	10,193	0				R0130	9,257,534
N-11	R0140	5,953,620	2,825,113	627,402	186,427	291,157	268,800	307,965	321,186	1,415,442	26,352	-2,446	0					R0140	12,221,018
N-10	R0150	6,598,415	3,011,742	859,003	169,603	1,006,486	713,518	100,016	330,074	254,970	101,509	6,781						R0150	13,152,118
N-9	R0160	9,185,566	4,317,854	1,147,117	593,549	516,911	116,454	402,587	940,911	366,788	228,730							R0160	17,816,469
N-8	R0170	8,556,363	4,259,961	558,309	694,010	168,480	503,903	83,074	241,249	67,397								R0170	15,132,747
N-7	R0180	8,943,563	4,481,942	937,138	227,258	135,273	184,089	26,779	95,193									R0180	15,031,235
N-6	R0190	9,020,414	4,335,176	304,187	248,228	339,378	2,065,269	141,878										R0190	16,454,530
N-5	R0200	7,180,930	2,194,130	213,178	199,909	184,680	141,803											R0200	10,114,631
N-4	R0210	5,783,603	2,232,427	266,130	71,187	51,647												R0210	8,404,994
N-3	R0220	5,571,127	2,305,958	137,553	855,706													R0220	8,870,343
N-2	R0230	5,341,222	2,571,278	464,835														R0230	8,377,335
N-1	R0240	5,744,057	3,002,803															R0240	8,746,860
N	R0250	6,541,931																R0250	6,541,931
Total																		R0260	174,546,475



# PANCYPRIAN INSURANCE

## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

### Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Development year

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +	Year end (discounted data)
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350	C0360
Prior	R0100																R0100
N-14	R0110													68,020	67,852		R0110
N-13	R0120											0	5,575	265			R0120
N-12	R0130										371,685	112,095	98,972				R0130
N-11	R0140									102,419	47,378	46,807					R0140
N-10	R0150								200,757	129,276	191,508						R0150
N-9	R0160							883,958	579,897	368,841							R0160
N-8	R0170						1,726,932	2,130,674	2,013,733								R0170
N-7	R0180					1,444,008	1,509,369	1,294,497									R0180
N-6	R0190				1,594,182	1,112,287	975,954										R0190
N-5	R0200			1,533,281	1,394,245	1,107,532											R0200
N-4	R0210		1,680,291	1,386,058	1,499,271												R0210
N-3	R0220	3,509,775	3,126,293	1,735,264													R0220
N-2	R0230	5,521,326	3,040,675	2,131,037													R0230
N-1	R0240	5,318,232	3,114,516														R0240
N	R0250	7,267,055															R0250
Total																	R0260
																	21,913,104

## S.23.01.01 - Own Funds

### Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

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

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

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

### Deductions

Deductions for participations in financial and credit institutions

### Total basic own funds after deductions

### Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

### Total ancillary own funds

### Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

### SCR

### MCR

### Ratio of Eligible own funds to SCR

### Ratio of Eligible own funds to MCR

### Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

### Reconciliation reserve

### Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

### Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	6,751,000	6,751,000	.	.	.
R0030	2,878,409	2,878,409	.	.	.
R0040	.	.	.	.	.
R0050	.	.	.	.	.
R0070	.	.	.	.	.
R0090	.	.	.	.	.
R0110	.	.	.	.	.
R0130	7,168,188	7,168,188	.	.	.
R0140	.	.	.	.	.
R0160	0	.	.	.	0
R0180	.	.	.	.	.
R0220	.	.	.	.	.
R0230	.	.	.	.	.
R0290	16,797,597	16,797,597	.	.	0
R0300	.	.	.	.	.
R0310	.	.	.	.	.
R0320	.	.	.	.	.
R0330	.	.	.	.	.
R0340	.	.	.	.	.
R0350	.	.	.	.	.
R0360	.	.	.	.	.
R0370	.	.	.	.	.
R0390	.	.	.	.	.

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0400	.	.	.	.	.
R0500	16,797,597	16,797,597	.	.	0
R0510	16,797,597	16,797,597	.	.	.
R0540	16,797,597	16,797,597	0	0	0
R0550	16,797,597	16,797,597	0	0	.
R0580	12,350,417	.	.	.	.
R0600	3,990,845	.	.	.	.
R0620	1	.	.	.	.
R0640	4	.	.	.	.

	C0060
R0700	16,797,597
R0710	.
R0720	.
R0730	9,629,409
R0740	0
R0760	7,168,188
R0770	.
R0780	.
R0790	.



## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

### S.25.01.01 - Solvency Capital Requirement – for undertakings on Standard Formula

Article 112	<b>Z0010</b>	No			
		<b>Net solvency capital requirement</b>	<b>Gross solvency capital requirement</b>	<b>Allocation from adjustments due to RFF and Matching adjustments portfolios</b>	
		<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	
Market risk	<b>R0010</b>	2,441,617	2,441,617	0	
Counterparty default risk	<b>R0020</b>	6,452,216	6,452,216	0	
Life underwriting risk	<b>R0030</b>	.	.	.	
Health underwriting risk	<b>R0040</b>	448,535	448,535	0	
Non-life underwriting risk	<b>R0050</b>	7,143,679	7,143,679	0	
Diversification	<b>R0060</b>	-3,698,902	-3,698,902		
Intangible asset risk	<b>R0070</b>	.	.		
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b>	12,787,144	12,787,144		
<b>Calculation of Solvency Capital Requirement</b>		<b>C0100</b>			
Adjustment due to RFF/MAP nSCR aggregation	<b>R0120</b>	0			
Operational risk	<b>R0130</b>	935,576			
Loss-absorbing capacity of technical provisions	<b>R0140</b>	0			
Loss-absorbing capacity of deferred taxes	<b>R0150</b>	-1,372,302			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	<b>R0160</b>	.			
<b>Solvency Capital Requirement excluding capital add-on</b>	<b>R0200</b>	12,350,417			
Capital add-on already set	<b>R0210</b>	.			
<b>Solvency capital requirement</b>	<b>R0220</b>	12,350,417			
<b>Other information on SCR</b>					
Capital requirement for duration-based equity risk sub-module	<b>R0400</b>	0			
Total amount of Notional Solvency Capital Requirements for remaining part	<b>R0410</b>	.			
Total amount of Notional Solvency Capital Requirement for ring fenced funds	<b>R0420</b>	0			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	<b>R0430</b>	0			
Diversification effects due to RFF nSCR aggregation for article 304	<b>R0440</b>	0			
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	<b>R0450</b>	No adjustment			
Net future discretionary benefits	<b>R0460</b>	0			



## Solvency and Financial Condition report as at 31<sup>st</sup> Dec 2018

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

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

MCR <sub>NL</sub> Result	<b>R0010</b>	<b>C0010</b>
		4,634,536.73

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance) written premiums in the last 12 months
	<b>C0020</b>	<b>C0030</b>
Medical expenses and proportional reinsurance	<b>R0020</b> 0.00	0.00
Income protection insurance and proportional reinsurance	<b>R0030</b> 334,313.00	281,688.00
Workers' compensation insurance and proportional reinsurance	<b>R0040</b> 0.00	0.00
Motor vehicle liability insurance and proportional reinsurance	<b>R0050</b> 17,138,913.00	10,642,294.00
Other motor insurance and proportional reinsurance	<b>R0060</b> 2,430,086.00	3,360,725.00
Marine, aviation and transport insurance and proportional reinsurance	<b>R0070</b> 121,566.00	122,985.00
Fire and other damage to property insurance and proportional reinsurance	<b>R0080</b> 4,820,112.00	3,714,778.00
General liability insurance and proportional reinsurance	<b>R0090</b> 6,152,702.00	1,860,502.00
Credit and suretyship insurance and proportional reinsurance	<b>R0100</b> 0.00	0.00
Legal expenses insurance and proportional reinsurance	<b>R0110</b> 0.00	0.00
Assistance and proportional reinsurance	<b>R0120</b> 0.00	0.00
Miscellaneous financial loss insurance and proportional reinsurance	<b>R0130</b> 188,178.00	11,565.00
Non-proportional health reinsurance	<b>R0140</b> .	.
Non-proportional casualty reinsurance	<b>R0150</b> .	.
Non-proportional marine, aviation and transport reinsurance	<b>R0160</b> .	.
Non-proportional property reinsurance	<b>R0170</b> .	.

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

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

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

#### Overall MCR calculation

Linear MCR	<b>R0300</b>	<b>C0070</b>
SCR	<b>R0310</b>	12,350,417.49
MCR cap	<b>R0320</b>	5,557,687.87
MCR floor	<b>R0330</b>	3,087,604.37
Combined MCR	<b>R0340</b>	3,990,844.76
Absolute floor of the MCR	<b>R0350</b>	0.00
<b>Minimum Capital Requirement</b>	<b>R0400</b>	3,990,844.76