HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report 2016

HSBC Insurance

The HSBC Group

HSBC Life Assurance (Malta) Ltd. is a fully owned subsidiary of HSBC Bank Malta p.l.c., which is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings p.l.c., headquartered in London. HSBC Group serves customers worldwide from around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,375 at 31 December 2016, HSBC is one of the world's largest financial services organisations.

HSBC Life Assurance (Malta) Ltd.
Registered in Malta: number C18814
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Summary

HSBC Life Assurance (Malta) Limited ("the Company") is authorised to carry on the business of insurance by the Malta Financial Services Authority ("the MFSA") in terms of the Insurance Business Act, 1998 (Chapter 403, Laws of Malta). The principal activity of the Company is to carry on long term business of insurance in and from Malta.

The Company was granted rights to provide services under the Freedom of Services Legislation in terms of the European Passporting Rights in several European countries and is also licensed to offer business of insurance in Jersey, Channel Islands.

The Company has an established system of governance in place, including the Board of Directors ("Board") as well as a number of Board and Business Management Committees, which contribute to the sound and prudent management of the Company.

The Solvency Capital Requirement ("SCR") coverage ratio as at 31 December 2016 position was 265%, with own funds of €65.5 million and a SCR of €24.7 million.

The objective of the business' capital management strategy is to maintain sufficient own funds to cover the SCR and Minimum Capital Requirement ("MCR") with an appropriate buffer. The Company currently maintains a high solvency ratio to ensure policyholder obligations can be met under stressed conditions and also to support the financial strain from new business initiatives.

The Company carries out regular review of the solvency ratio as part of the Company's risk monitoring and capital management system. No material changes to the Company's risk profile were reported during Financial Year ("FY") 31 December 2016.

The Solvency and Financial Condition Report ("SFCR") has been prepared to satisfy the requirements of Article 304 of the EU Commission Delegated Regulation 2015/35 ("CDR") and Articles 51 & 53 – 55 of the Solvency II Directive 2009/138/EC ("Solvency II Directive").

This document aims to provide the information required in accordance with Article 36 of the Solvency II Directive. In line with this, the document contains information on the Company's system of governance, business, valuation principles, risk profile and capital structure.

Statement of Directors’ responsibilities in respect of the Solvency and Financial Condition Report (“SFCR”)

The Directors are responsible for ensuring the SFCR has been properly prepared in all material respects in accordance with the Malta Financial Services Authority (“the MFSA”) rules and Solvency II Regulations.

The Directors are required to ensure that the Company has a written policy in place (Reporting and Disclosure Policy) to ensure the ongoing appropriateness of any information disclosed and the MFSA expects that the Directors should be satisfied that:

– throughout the financial year, the Company has complied in all material respects with the requirements of the MFSA rules and Solvency II Regulations as applicable to the Company; and
– it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue to comply in future.

The SFCR was approved by the Board of Directors on 12 May 2017 and was signed on its behalf by:

Stuart J Fairbairn

Director of HSBC Life Assurance (Malta) Limited
12 May 2017

A. Business and performance

A.1 Business

A.1.1 *The name and legal form of the undertaking*

The Company is a limited liability company domiciled and incorporated in Malta. Its registered office is:

80 Mill Street
Qormi QRM 3101
Malta

A.1.2 *Financial supervision*

The Company is authorised by the Malta Financial Services Authority ("the MFSA"). The registered offices are as follows:

Malta Financial Services Authority
Notabile Road
Attard BKR 3000
Malta

As the Company does not form part of an insurance group, it is treated as a solo legal entity for Solvency II reporting purposes. Therefore, insurance group supervision is not applicable.

A.1.3 *External auditor*

PricewaterhouseCoopers is the Company's auditor for the financial year commencing 1 January 2016. The auditor's contact details are as follows:

PricewaterhouseCoopers
78, Mill Street
Qormi QRM 3101
Malta

A.1.4 *Ownership and group structure*

The Company is a wholly owned subsidiary of HSBC Bank Malta p.l.c., the registered address of which is 116, Archbishop Street, Valletta, Malta.

The Company's ultimate parent Company is HSBC Holdings p.l.c., the registered office of which is 8, Canada Square, London E14 5HQ, United Kingdom.

The proportion of ownership interest held in the Company by HSBC Holdings p.l.c. is 70.03% and HSBC Bank Malta p.l.c. ("HBMT") is 100%. The proportion of voting rights is the same.

A.1.5 *Principal business activities*

The Company is authorised to carry on the business of insurance by the MFSA, regulated by the Insurance Business Act, Cap 403. The principal activity of the Company is to carry on long term business of insurance in and from Malta.

The Company was granted rights to provide services under the Freedom of Services Legislation in terms of the European Passporting Rights in several European countries and is also licensed to offer business of insurance in Jersey, Channel Islands.

A.1.6 *Material lines of business and material geographical areas where the insurer carries out business*

The Company's primary business is to carry on the business of long term business of insurance in and from Malta. The operations are restricted to Class I Life and Annuity and Class III Linked long term insurance.

On 30 November 2014, the Company completed a Portfolio Transfer Transaction with HSBC Life (Europe) Limited ("HLE"), a subsidiary of HSBC Holdings p.l.c., based in Ireland. The Company acquired the insurance and investment policy book of HLE, consisting mainly of unit-linked investment policies sold across the European Union ("EU") under the Freedom of Services provisions. The portfolio also includes a closed book of life protection business.

A. Business and performance (continued)

The Company's main lines of business are split into the following Solvency II lines of business:

- Insurance with Profit Participation
- Index-linked and Unit-Linked insurance
- Other Life Insurance

Further details on the classification and types of insurance contracts underwritten by the Company can be found in Note 3.1 of the Company's 2016 Annual Report ("Audited Financial Statements"). The Company prepares its Financial Statements in accordance with IFRS.

A.1.7 *Significant events*

There have been no significant events which had a material impact on the Company during 2016. The Company's fully owned subsidiary, HSBC Insurance Management Services (Europe) Limited, whose principal activities were to carry on, undertake and transact the business of managing, administering, advising and servicing of insurance and reinsurance companies, was merged with the Company with an effective accounting date of 1 January 2016, in line with Registrar of Companies' approval following the surrender of the subsidiary's license.

A.1.8 *Performance of other activities*

The Company does not have any financial or operational leasing arrangements in place.

A.2 Underwriting performance

A.2.1 *Analysis of underwriting performance*

The breakdown of the underwriting performance of the Company as at 31 December 2015 and 2016 by the Solvency II line of business is provided in the tables below:

	Insurance with profit participation		*Index-linked and unit-linked insurance*		*Other life insurance*		*Total*	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Premiums written								
Gross	**21,521**	23,443	**30,194**	77,679	**13,898**	13,501	**65,613**	114,622
Reinsurers' share	**–**	–	**–**	–	**4,543**	4,589	**4,543**	4,589
Net	**21,521**	23,443	**30,194**	77,679	**9,355**	8,912	**61,070**	110,033
Claims incurred								
Gross	**21,837**	23,488	**165,603**	152,742	**367**	4,419	**187,807**	180,649
Reinsurers' share	**18**	51	**–**	–	**176**	3,502	**194**	3,554
Net	**21,818**	23,437	**165,603**	152,742	**191**	916	**187,613**	177,095
Changes in other technical provisions								
Gross	**9,698**	13,469	**(41,666)**	(29,347)	**5,521**	(4,546)	**(26,448)**	(20,423)
Reinsurers' share	**–**	–	**–**	–	**2,971**	(2,576)	**(2,971)**	(2,576)
Net	**9,698**	13,469	**(41,666)**	(29,347)	**2,550**	(1,970)	**(29,419)**	(17,848)
Total expenses incurred	**1,645**	1,817	**2,921**	3,435	**3,705**	3,831	**8,270**	9,082

The explanation of the differences seen as at 31 December 2015 and 2016 is summarised below:

- The decrease in the gross written premium is attributable to a one-off single premium investment related to the acquired portfolio during 2015 and the lower new business in the with-profits product. Aside from this, premium written remained broadly equivalent to the previous year.
- The claims incurred are largely represented by maturities and surrenders of the investment products, particularly in relation to the acquired portfolio which is in run-off. There were no material changes observed over 2016.
- The changes in other technical provisions for index-linked and unit-linked insurance include the movements of the value of the policies representing the change in the value of the underlying assets.
- The reduction in expenses over the prior year are largely due to the favourable exchange rates which rendered lower costs charged in Sterling.

A.3 Investment performance

A.3.1 *Analysis of investment performance*

The Company invests in a variety of asset classes, namely bonds, equities and investment funds, cash and deposits, property and derivatives. These investments are either assets held for index-linked and unit-linked funds or investments held to back up insurance liabilities as well as shareholders' funds.

The investment returns as at 31 December 2015 and 2016 is summarised by asset type below:

	Bonds (including structured notes)	*Equities (including investment funds)*	*Cash and deposits*	*Mortgages and Loans*	*Property*	*Derivatives*	*Total*
	2016	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Dividends	–	**4,451**	–	–	–	–	**4,451**
Interest	**29,342**	**252**	**38**	**(175)**	–	–	**29,457**
Rent	–	–	–	–	**92**	–	**92**
Realised/unrealised gains and losses	**34,407**	**40,830**	**1,829**	**(497)**	**185**	**(78)**	**76,676**
Total	**63,749**	**45,533**	**1,867**	**(672)**	**277**	**(78)**	**110,676**

	Bonds (including structured notes)	*Equities (including investment funds)*	*Cash and deposits*	*Mortgages and Loans*	*Property*	*Derivatives*	*Total*
	2015	2015	2015	2015	2015	2015	2015
	€000	€000	€000	€000	€000	€000	€000
Dividends	–	5,273	–	–	–	–	5,273
Interest	28,067	280	105	(353)	–	–	28,099
Rent	–	–	–	–	104	–	104
Realised/unrealised gains and losses	9,280	24,504	689	(1,642)	(77)	35	32,789
Total	37,347	30,057	794	(1,995)	27	35	66,265

The higher investment returns in 2016, against 2015 was largely the result of market value movements of investments underlying the unit-linked business, which does not have any impact on the profits of the company. All unit-linked gains or losses are offset by an equal movement in policyholders' liabilities.

A.3.2 *Information on gains and losses recognised directly in equity*

The breakdown of the gains and losses recognised directly in equity is summarised on the table below:

	2016
	€000
Policyholders' investment portfolio	**(74)**
Shareholder's investment portfolio	**(80)**

A.3.3 Information on investments in securitisation

The Company does not have any investments in securitisations.

A.4 Performance of other activities

A.4.1 *Other material income and expenses*

The comparison of other material income and expenses between 31 December 2015 and 2016 are presented in the table below:

	2016	2015
	€000	€000
Investment Contract Fee Income		
Fixed fees, change in deferred income and annual management charges on transferred portfolio	**2,575**	3,361

Investment contracts fee income comprise of fixed fees and the change in deferred income relating to commission income from fund management based fees and front end fees. The decrease over 2015 is due to a reduction in the annual management charges on a portfolio which is in run-off.

A.5 Any other information

There is no other material information regarding business and performance that has not been disclosed in sections A.1 – A.4 above.

B.1 General Information on the system of governance

B.1.1 *Structure of the administrative, management or supervisory body*

The Board of Directors represents the Company's administrative, management and supervisory body ("Board"). The Board is the focal point of the governance system and is ultimately accountable and responsible for the Company's risk appetite, strategy and performance.

The Board and Management have a statutory responsibility to manage risk and capital requirements to prevailing regulatory and Solvency II standards, encompassing any outsourced suppliers or support functions that provide services to the Company.

At the time of publication of this report, the Board consisted of 9 directors. Board meetings are held at least quarterly in Malta, with all members being invited. The quorum necessary for the transaction of business shall be such that the number of directors constitute a majority of the Board.

It is the Board's responsibility to review the Company's overall strategy, business planning processes and the performance of key functions. In addition, the Board is responsible for the approval of the Company's Board policies and the approval of the persons responsible for key functions, in line with Solvency II requirements. Furthermore, the Board is responsible for the approval of the Annual Operating Plan ("AOP"), the Audited Financial Statements, the Solvency and Financial Condition Report, the Regular Supervisory Report, the Actuarial Function Report and the Annual and Quarterly Quantitative Reporting Templates and National Statistics Templates.

The Committee structure of the Company comprises of the Board, the Audit and Risk Committee and a number of other Management Committees, with the main purpose of:

– maintaining high standards of corporate governance;

– running the business in an efficient and effective manner; and

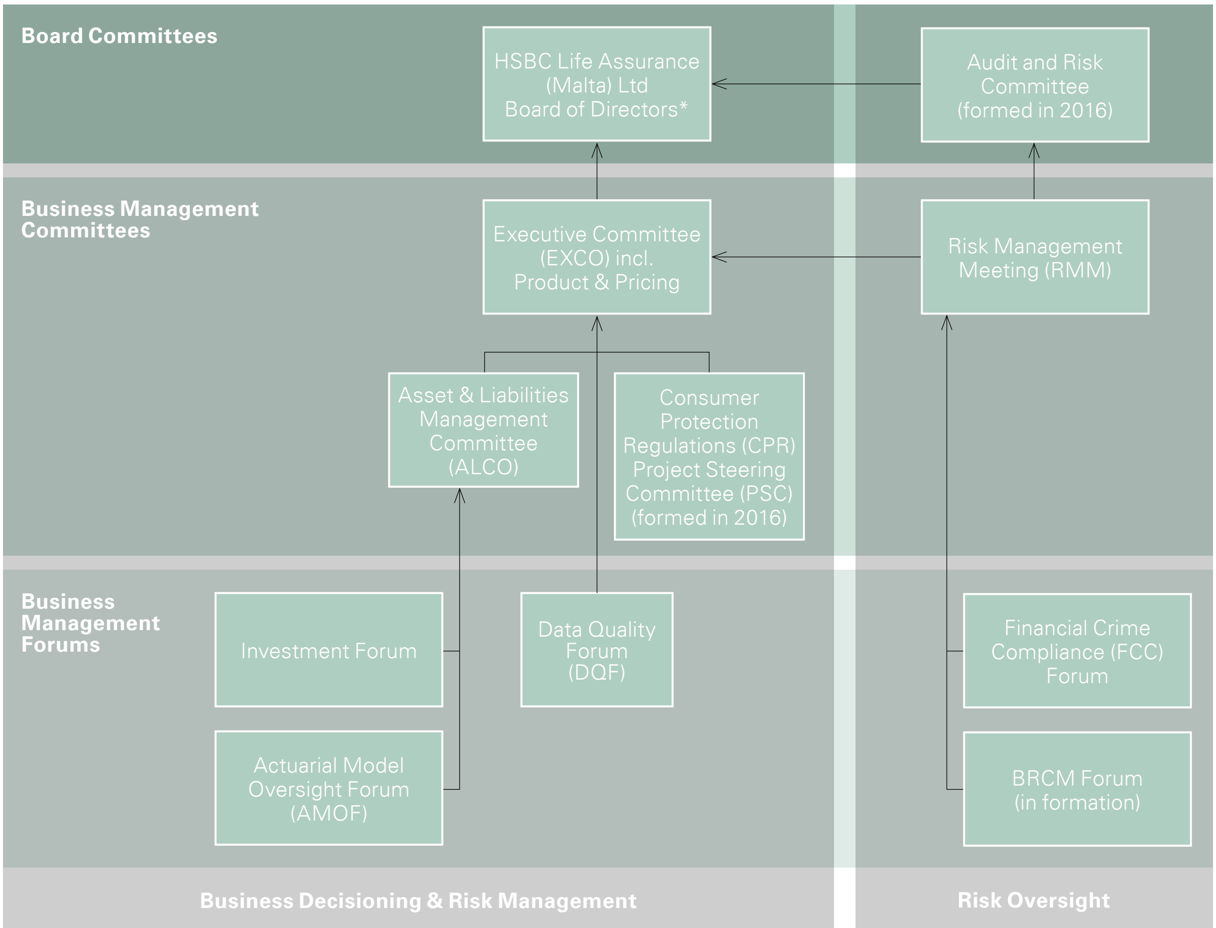
– aligning the Company's governance structures to the risks they carry.

The Board also acts as the Company's Remuneration Committee in line with Solvency II requirements.

B. System of Governance (continued)

The Company's 2016 Committee structure is presented in the diagram below:

HSBC Life Assurance (Malta) Ltd. Goveranance Structure



**The Board of Directors is acting as Remuneration Committee for Solvency II requirements.*

B.1.1.1 Board Committees

The Audit and Risk Committee acts on the Board's behalf with the primary purpose of protecting the interests of the Company's shareholders and customers. The Committee is accountable to the Board and has a non-executive responsibility for oversight and advice to the Board regarding financial reporting, high level risk related matters and governance.

B.1.1.2 Business Management Committees

– The Executive Management Committee ("EXCO") executes the first line management responsibility, including oversight of the activities of other first line Committees. The EXCO operates as a direct Management Committee under the authority of the Board and is responsible for the overall monitoring and delivery of strategy as well as the implementation of processes as agreed with Retail Banking and Wealth Management ("RBWM"), Commercial Banking ("CMB") and Group Insurance.

– The Risk Management Meeting ("RMM") is a meeting of members of the EXCO, convened specifically in respect of matters concerning risks within or impacting the Company's business and performance, including the monitoring of the adequacy and effectiveness of the Company's Risk Management Framework. The RMM is established to provide recommendations and advice, as requested, to the Chief Risk Officer ("CRO") in the exercise of his/her powers, authorities and discretions in relation to the enterprise-wide management of all risks, and to the policies and guidelines for the management of such risks. The Parent Committee of the RMM is the Audit and Risk Committee.

- The Asset and Liabilities Management Committee's ("ALCO") primary responsibility is to report to and advise the EXCO on all matters pertaining to the balance sheet (asset and liabilities) and investment of insurance monies. The ALCO is also responsible for the management of balance sheet assets, associated risks and earnings (including adherence to economic and regulatory capital requirements) to achieve performance objectives within prescribed risk parameters.

- The Consumer Protection Regulations ("CPR") Project Steering Committee was established in 2016 to deal specifically with the implementation of Insurance related regulations, specifically PRIIPS, MiFiD II, IDD and the MFSA Conduct of Business Rulebook.

B.1.1.3 Risk Management

The Company has a risk management strategy designed to enable the Company to:

- understand and manage the most significant risks faced by the Company;

- take effective decisions around business opportunities; and

- determine the allocation of risk-based capital.

It is based on the 'Three Lines of Defence Model' and is integrated into the Company's organisational structure and decision-making processes. Its main objective is to identify, measure, monitor, manage and report on the inherent risks in order to safeguard the interests of shareholders, customers and staff whilst achieving the Company's commercial objectives.

B.1.1.4 The Three Lines of Defence Model

- First Line of Defence: This is provided by Management and staff who are responsible for the day to day management, control and reporting of risk exposures. Risk exposures are monitored against risk appetite and risk tolerance limits, and key performance indicators, set by the Company. Stress and scenario testing are also performed to assess the adequacy of mitigation plans in place. Key risk issues are reported to the RMM, the EXCO and, ultimately, to the Board. The Actuarial Function also forms the first line of defence.

- Second Line of Defence: The Risk Management Function ("RMF") provides oversight of all categories of risk exposure to ensure that the risks and any interdependencies are managed effectively and in a timely manner. The RMF is responsible for the identification, measurement and management and reporting of the key risks to which the Company is or may be exposed. The Compliance Function also forms part of the second line of defence.

- Third Line of Defence: This comprises of the Internal Audit Function and the Audit & Risk Committee, which provides independent assurance to management and to the Board with respect to the design and operation of the Risk Management, Governance and Internal Control processes. External audit provides an additional Third Line of Defence.

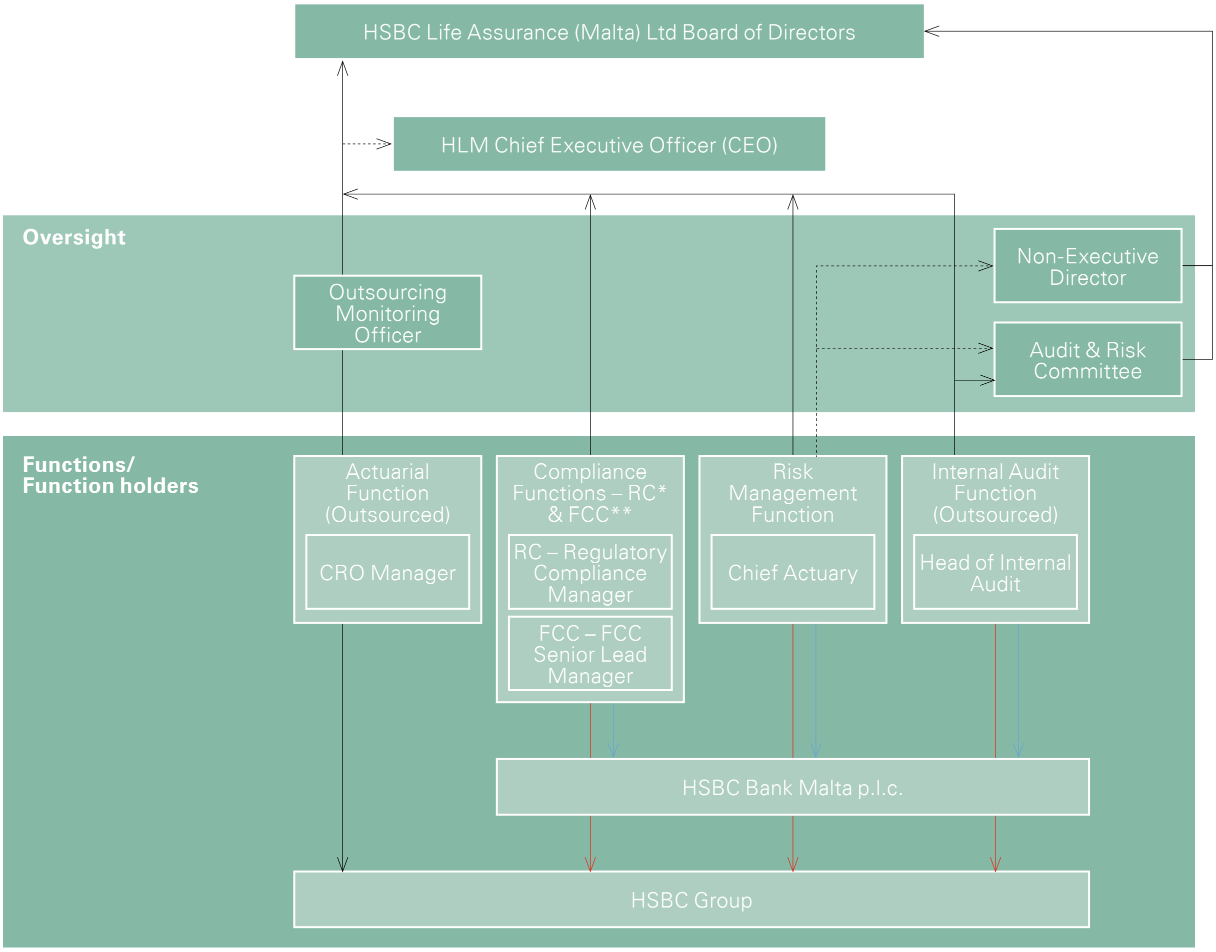
B.1.1.5 Key Functions

The Company has established the four key functions required under Solvency II, namely the Actuarial, Compliance, Risk Management and Internal Audit Functions.

None of the key functions are carried out directly by the Board or its Committees, but instead they are entrusted to key function holders who have direct reporting lines to the Board.

B. System of Governance (continued)

The Company's reporting lines of the key function holders are illustrated in the diagram below:



**RC – Regulatory Compliance Function*
***FCC – Financial Crime Compliance Function*

Notes:
Red straight line – Functional manager reporting
Blue straight line – Entity manager reporting
Black dotted line – Indirect reporting
Black straight line – Direct reporting

A description of the roles and responsibilities of the key functions is presented below:

1. Actuarial Function:

The Actuarial Function is outsourced to HSBC Group and headed by the appointed Chief Actuary who reports into Group Chief Actuary. The Chief Actuary currently has a direct reporting line to the Board and his responsibilities including, but not limited to, the determination of the technical provisions that are held on the Company's balance sheets and the calculation of the SCR. The Chief Actuary is also responsible for the oversight of duties in relation to key risk management and risk mitigation processes, including data accuracy, claims management processes, underwriting processes and reinsurance arrangements in place. The Company's Chief Investment Officer ("CIO"), a qualified actuary, has been designated as the person responsible for the oversight of the outsourced Actuarial Function.

2. Compliance Function:

The Regulatory Compliance ("RC") Manager heads up the Company's RC Function and is responsible for advising the Company's Board, Management and relevant personnel on compliance matters, including requirements imposed by insurance laws and regulations, as well as company-specific provisions adopted in order to comply with the Solvency II Directive and other applicable laws and regulations under Solvency II. The RC Manager also provides an assessment of possible impacts of any changes in the regulatory environment and how these are expected to effect the operations of the Company.

3. Risk Management Function:

The CRO heads the RMF and leads the Company in identifying, assessing and monitoring risks faced by the Company and ensures that appropriate actions are identified and taken in the case of any potential or actual risks faced by the Company. The CRO is also accountable for ensuring that the business operates within its agreed risk appetite and risk tolerance limits, and that an effective Risk Management Framework, which is aligned to HSBC Group Policies and industry best practice, is in place. The preparation of the annual Own Risk and Solvency Assessment ("ORSA") Report and the implementation of the Risk Management Policy also falls under the CRO's responsibility.

In this respect, the CRO is explicitly accountable to the Board and its Committees with respect to the monitoring of the adequacy and effectiveness of the Company's Risk Management System. A Non-Executive Director has been designated as the person responsible for the oversight of the Risk Management Function on behalf of the Board.

4. Internal Audit Function:

The Company's Internal Audit Function is outsourced to the Internal Audit Function of HBMT and is supported by the HSBC Group Audit team. The Internal Audit Function provides independent assurance to the Board and the Company's Audit and Risk Committee with respect to the effectiveness of the Company's risk management, governance and internal control processes. It enables the Company's Management to accomplish its objectives by providing an independent, objective and constructive view of the Company's processes. The Internal Audit Function is accountable for proposing and implementing a risk-based Audit Plan and programme of work, which is approved by the Audit & Risk Committee on an annual basis, covering key risks, emerging risks, horizon risks and regulatory obligations. The Company's Audit and Risk Committee has been designated as the body responsible for the oversight of the independence and performance of the Internal Audit Function.

B.1.2 Material changes in the system of governance

The table below presents the Directors resignations and appointments which took place in 2016 and 2017:

RESIGNATIONS	APPOINTMENTS
Paul A Steel – 30/03/2016	**Harpal Karlcut – 09/08/2016**
Nicolas H Taylor – 31/05/2016	**Daniel Robinson – 09/09/2016**
James Allardice – 01/08/2016	**Ingrid Azzopardi – 16/01/2017**
Geoffrey L Brooks – 30/09/2016	**Stuart Fairbairn – 17/02/2017**

During the course of the year, the Company changed the scope of the Audit Committee to also include Risk and subsequently renamed it to the Audit and Risk Committee, with the first meeting held on 16 February 2017.

The Solvency II Project Committee was disbanded following the successful implementation on 1 January 2016, however during the course of 2016, the Company set up a Consumer Protection Regulation Committee to oversee the transition and embedding of upcoming regulations such as PRIIPS, MIFID II, IDD and the MFSA Conduct of Business Rulebook.

B.1.3 Remuneration Policy

The Company's Remuneration Policy is designed to reward competitively the achievement of long-term sustainable performance, attract and motivate the very best people who are committed to maintaining a long-term career with the Company.

This policy is a supplement to HBMT's Remuneration Policy and covers the principles and standards specific to the Company in relation to remuneration awards and arrangements in addition to HBMT's Remuneration Policy.

The scope of the Company's Remuneration Policy is to ensure that its remuneration standards and arrangements promote sound and effective risk management and not to encourage risk-taking that exceeds the risk tolerance limits of the Company. The policies apply to all employees seconded to the Company and contain specific arrangements that account for tasks and remuneration arrangements in place for the Board, persons running the business, those having key functions and those individuals whose professional activities within the Company have a material impact on the risk profile ("Material Risk Takers").

This policy is owned by the CEO and approved by the Board. The Board establishes the policy's general principles and has the oversight of the implementation of the policy. The Board acts as the Company's Remuneration Committee and is responsible for the establishment of these principles through the approval of the Remuneration Policy.

The Company is required to identify 'the administrative or supervisory body, persons who effectively run the undertaking or have other key function and other categories of staff whose professional activities have a material impact on the undertaking's risk profile', which are collectively referred to as the Solvency II-identified staff and are classified in the following four categories:

- Board Members;
- EXCO Members;
- Management that require MFSA's pre-approval, Significant Influence Functions ("SIF") holders and key function holders; and
- Material Risk Takers.

Further to the above, Material Risk Takers are identified as employees who:

- demonstrate the ability to take material risks;
- demonstrate the ability to influence material risk taking; and
- are responsible for specific activities which have a material impact on the risk profile of the Company, despite not being part of the Company but are part of HSBC Group.

B.1.3.1 Components of Remuneration

The Company's remuneration policy consists of both fixed and variable components, as described below:

1. Fixed Pay

The purpose of the fixed pay is to attract and retain employees by paying market competitive rates for the role, skills and experience required. These payments are fixed and do not vary with performance. Salary is determined, calculated and paid in line with internal policies and procedures set by the Company, and based on the level of complexity and accountability of the role as described in the corresponding role profile, with the focus on total compensation competitiveness within internal peer group and the external market.

2. Variable Pay

The main aim of annual awards is to drive a reward performance and risk based culture within the Company. These are based on annual financial and non-financial measures consistent with the medium to long-term strategy of the HSBC Group, shareholder interests and adherence to HSBC values. A portion of the annual award may be deferred, in the form of HSBC Shares, typically vesting over a period of at least 3 years. The annual variable pay award is discretionary, and is determined and paid in line with internal policies and procedures set by the Company.

B.1.3.2 Performance Criteria

Employee's individual performance results and achievements are assessed through the Performance Management process. At the beginning of the performance year, both financial and non-financial goals are set for each employee and formalized through the 'performance scorecard framework'. The progress towards the set goals is the basis for the performance assessment by the employee's manager at the end of the performance year. The assessment is discretionary rather than formulaic. The assessment takes into account behavioural aspects of how the performance goals were reached and uses the 'HSBC Values and Business Principles Behaviour Guide' as a reference.

As a result of this assessment, the employee is assigned a performance rating based on a 4-rating scale. Employees are awarded a separate 'HSBC Values' rating which influences their overall performance rating where appropriate.

B.1.3.3 Supplementary pension or early retirement schemes for members of the administrative, management or supervisory body

The Company's remuneration policy does not include any supplementary pension or early retirement schemes for Board or other key function holders.

B.1.4 Material Transactions with Shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory board.

On 30 December 2016, the Company paid an interim dividend of €8 million to its parent, HBMT, following approval by the Board on 15 December 2016.

During 2014, the Company entered into a subordinated loan agreement with the immediate parent for an amount of €11.5 million of which €3.3 million was repaid during 2015. During 2016, the balance of €8.2 million was fully repaid.

All other related party transactions are presented in Note 27 in the Audited Financial Statements.

B.2 Fit and proper requirements

B.2.1 Description of the fit and proper requirements of the Company

The fit and proper principles are applicable to all staff engaged in the Company's business and should be adhered to in all circumstances.

The fit and proper assessment is carried out to assess an individual's suitability to perform a specific function. It will vary depending upon the function performed and will include consideration of personal characteristics, level of competence, professional qualifications, knowledge and experience. In particular the assessment will consider:

– Honesty

– Integrity

– Reputation

– Competence

– Capability

– Financial soundness

The Company has in place a Fit and Proper Policy, which applies to all staff, with the applicability varying depending on the person's role within the Company. All breaches of this policy should be reported to Management and to the Chief Operating Officer ("COO"), for further action.

First line management is responsible for ensuring overall compliance with the policy and its adequate implementation. The COO is responsible for providing assurance to the Board, on at least an annual basis that the terms of the policy are being complied with and are still relevant. The RMF is responsible for the oversight of the application of the Fit and Proper requirements. As part of the recruitment process, the Chief Operating Officer should be kept informed of the selection process to ensure that the provisions of this policy are adhered to at all times.

Solvency II presents the following definition of the terms 'Fit' and 'Proper'.

– Individuals are considered to be 'Fit' if their professional qualifications, knowledge and experience are adequate to enable the sound and prudent management of the Company. An assessment of whether an individual is 'Fit' shall involve assessing whether the individual's professional qualifications, knowledge and experience as a whole is appropriate to his/her role within the Company's business.

– Individuals are considered to be 'Proper' if the individuals are of good repute and integrity. An assessment of whether an individual is 'Proper' shall include a person's honesty, reputation and financial soundness. This will include, checks on criminal convictions, disciplinary offences and supervisory/regulatory aspects.

In order for persons to meet the stipulated fit and proper requirements, they are required to have and demonstrate the necessary qualities which will allow them to perform their duties and carry out the responsibilities pertaining to their role within the Company. These qualities relate to the integrity demonstrated in personal behaviour and business conduct, soundness of judgement and a sufficient degree of knowledge, relevant experience and professional qualifications.

The COO should maintain an up-to-date register of the designated fit and proper persons and ensure changes are reported to the CEO and the RC Manager. Moreover, employees are required to notify their line manager and the RC Manager in the event of change to their fitness and/or propriety. The RC Manager shall notify the MFSA of any necessary and relevant changes.

The persons responsible for the execution of the key functions considered by Management to be important or critical in the system of governance, are presented in the table below. These include the key functions required under Solvency II (Risk Management, Compliance, Internal Audit, Actuarial) and the Finance Function.

While all employees are required to be fit and proper, the table below sets out the roles which are considered to require enhanced fit and proper checks. The table also provides a description of the Company's specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the Company or have other key functions. This list together with the names of people performing these functions is maintained in the Fit and Proper Register.

<table>
<tr><th colspan="2">FIT AND PROPER ROLES</th><th>SHOULD BE INCLUDED IN F&P REGISTER</th><th>MFSA APPROVAL REQUIRED</th><th>MINIMUM EXPERIENCE REQUIREMENT</th></tr>
<tr><td colspan="4">The Board</td><td rowspan="14">Insurance experience (or similar role in financial services):
Not less than 5 years during the last 7 years
or
Insurance managerial experience (or similar role in financial services): not less than 3 years during the last 7 years
or
In case of non-qualified personnel adequate practical experience in insurance</td></tr>
<tr><td>1</td><td>Chairman of the Board & Other Board Members</td><td>Yes</td><td>Yes</td></tr>
<tr><td>2</td><td>Chief Executive Officer (CEO)</td><td>Yes</td><td>Yes</td></tr>
<tr><td colspan="4">Heads of Key Functions</td></tr>
<tr><td>3</td><td>Chief Risk Officer (CRO)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>4</td><td>Approved Actuary</td><td>Yes</td><td>Yes</td></tr>
<tr><td>5</td><td>Chief Financial Officer (CFO)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>6</td><td>Head of Internal Audit</td><td>Yes</td><td>Yes</td></tr>
<tr><td>7</td><td>Head of Regulatory Compliance (Compliance Officer)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>8</td><td>Money Laundering Risk Officer (MLRO)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>9</td><td>Chief Operating Officer (COO)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>10</td><td>Chief Underwriter & Claims</td><td>Yes</td><td>Yes</td></tr>
<tr><td>11</td><td>Head of Actuarial Function</td><td>Yes</td><td>Yes</td></tr>
<tr><td>12</td><td>Chief Investment Officer</td><td>Yes</td><td>Yes</td></tr>
</table>

B. System of Governance (continued)

The minimum additional qualifications required for individuals holding key functions are detailed below:

KEY FUNCTIONS	QUALIFICATION
Risk Management Function	– Risk Management qualification from a reputable professional or tertiary education institution; or – Financial services qualification from a reputable professional or tertiary education institution; or – Engineering/Scientific qualification from a reputable professional or tertiary education institution.
Compliance function	– Legal qualification from a reputable professional or tertiary education institution; or – Financial services compliance qualification from a reputable professional or tertiary education institution; or – Other financial services qualification from a reputable professional or tertiary education institution.
Internal Audit function	– Internal/Quality auditing qualification from a reputable professional or tertiary education institution; or – Financial services (including accounting) qualification from a reputable professional or tertiary education institution; or – Scientific qualification from a reputable professional or tertiary education institution.
Actuarial function, where the insurance undertaking carries on with-profits business and/or life insurance business with guarantees	– Fellow of the Institute and Faculty of Actuaries (UK); or – Actuarial qualifications of similar standing from a reputable institute
Underwriting function for undertakings carrying on life business	– Insurance qualification from a reputable professional or tertiary education institution; or – Medical/Paramedical qualification from a reputable professional or tertiary education institution; or – Legal qualification from a reputable professional or tertiary education institution; or – Risk Management qualification from a reputable professional or tertiary education institution.
Claim function	– Insurance qualifications from a reputable professional or tertiary education institution; or – Legal qualifications from a reputable professional or tertiary education institution; or – Financial services qualifications from a reputable professional or tertiary education institution.
Anti-Money Laundering/Combating the Financing of Terrorism function (where applicable)	– Financial services qualification from a reputable professional or tertiary education institution; or – Legal qualification from a reputable professional or tertiary education institution; or – Anti-Money Laundering qualification from a reputable professional or tertiary education institution.
Investment Function	– Financial services qualification from a reputable professional or tertiary education institution.
Finance/Accounting	– A university degree with honours in accountancy or accountancy qualification gained from a reputable professional institution. In addition, the applicant must have been awarded the Certified Public Accountant (CPA) certification or its equivalent.
Information Technology function	– IT qualification from a reputable professional or tertiary education institution.

The requirement for fit and proper extends to the Board, which in addition to individual assessments, collectively should contain the qualifications, knowledge and experience to be able to provide for the sound and prudent management of the undertaking. The knowledge should be taken both on an individual and collective level, ensuring that the knowledge is diversified and sufficient across the Board.

B.2.2 Fit and proper assessments

This section sets out the processes and procedures undertaken by the Company for assessing the fitness and the propriety of the persons who effectively run the Company or are responsible for key functions.

B.2.2.1 Initial fit and proper assessment

As part of the initial fit and proper assessments undertaken at the start of employment, the Company follows the company-specific guidelines setting out the minimum checks for all new Company employees, including, where appropriate, identity checks, criminal record checks, credit checks, verification of employment history and confirmation of educational and professional qualifications. Enhanced fit and proper checks are required for key function holders, which are also subject to MFSA approval. These include financial checks, external directorship and conflict of interest checks, a civil litigation check, media research checks and regulated position history checks.

B.2.2.2 Ongoing fit and proper assessments

Ongoing fitness and propriety checks are undertaken, at a minimum, as part of the annual appraisal process, whereby the line manager confirms that the individual is fulfilling their requirements as per his/her job description. All employees are responsible for informing their line manager of any changes in personal circumstance which would impact the routine ongoing assessment of their propriety.

B.2.2.3 Fit and proper re-assessments

1. Non-key function holders

A reassessment of whether an individual is still regarded as fit and proper for the position held should be carried out in at least the following circumstances:

- Situations leading to a reason to believe that an individual will discourage the business from pursuing the business in a way that is consistent with applicable legislation (e.g. through the individual's behaviour);
- Situations leading to a reason to believe that an individual will increase the risk of financial crime (e.g. through money laundering activities or financing of terrorism);
- Situations leading to a reason to believe that the sound and prudent management of the business is at risk (e.g. through Committee reports, behaviour, complaints etc.);
- Where a complaint or report of suspicion is made in respect of an individual who is subject to Fit and Proper requirements; and
- In the event of promotions, material changes or a change in the scope of the individual's roles and responsibilities.

2. Key function holders

The fitness and propriety of employee key function holder needs to be re-assessed (i.e. all checks and enhanced checks to be undertaken anew) in line with the Fit and Proper Policy in cases of:

- Promotions;
- Material changes or a change in the scope of the individual's roles and responsibilities where the new or existing role is a key function role; and
- Appointments on the Board.

The COO is responsible to ensure that the re-assessment against the fit and proper requirements is undertaken when any of these situations arise.

B.2.2.4 Collective Assessment of the Board

The Chairman of the Board, in conjunction with the Company Secretary, should determine the skills required collectively by the Board, considering qualifications, knowledge and experience and any other aspects considered to be relevant in each of the following areas:

- Insurance and Financial Markets;
- Business Strategy and Business Model;
- System of Governance;
- Financial and Actuarial Analysis; and
- Regulatory Framework and Requirements.

The assessment of the Board's fitness should take into account not only the individual assessment for fitness and propriety, but also the assessment of collective skills ensuring that the Board, collectively, has the knowledge of the above areas.

A reassessment of the Board's collective compliance with the fit and proper requirements shall be undertaken by the Chairman of the Board and the Company Secretary when a Board Member resigns or retires and when a new Board Member is elected.

B.2.2.5 Fit and proper assessments with respect to outsourced key functions

When any of the Company's key functions is outsourced, the CEO and COO are required to designate an individual with overall responsibility for the outsourced key function. This individual must satisfy the fit and proper requirements, and possesses sufficient knowledge and experience regarding the outsourced key function. This designated individual should have sufficient knowledge to challenge the performance and results of the service provider. The designated Outsourcing Monitoring Officer ("OMO") is also required to be assessed with respect to the fitness and proprietary in terms of the Fit and Proper Policy. If the OMO is responsible for the oversight of the outsourcing of a key function, the enhanced fitness and propriety checks applicable for key functions also apply. In addition, the designated OMO must be notified to the MFSA and is considered to be the individual responsible for that key function within the Company.

When outsourcing a key function, the OMO is also responsible to ensure that the fit and proper assessments of staff within the service provider are undertaken in line with the Company's Fit and Proper Policy. The OMO for the respective outsourced function or activity is required to obtain written evidence from the service providers, that the fitness and propriety of its employees working in relation to Company matters has been assessed. Detail on the basis of which this assessment has been carried out as well as confirmations of the type of checks and assessments undertaken are also obtained.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

B.3.1.1 Description of the risk management system and processes

The Company's business strategy is to support the HBMT's strategy in Wealth Management by aligning its propositions, distribution, people and operations to make HSBC the trusted provider of customers' financial future. The Company also seeks to diversify its distribution by offering Protection business through locally licensed Brokers.

The overriding risk management objective is to manage the inherent risks within the Company to create value to the business and to safeguard the interests of both policyholders and key stakeholders.

B. System of Governance (continued)

The risk management strategy is closely aligned with the HSBC Group's strategic objectives and business plans and enables:

- an understanding of the most significant risks faced by the Company;
- the determination and allocation of risk-based capital; and
- effective decision making around business opportunities.

The following are the key elements of the Company's risk management strategy:

- Risk management objectives – demonstrate risk management's support of the Company's strategic objectives;
- Risk management principles – agreed principles on risk management which guide implementation of the strategy;
- Risk appetite – framework for managing the risk profile in line with the Company's objectives, including approved risk tolerance limits; and
- Risk governance – Risk management strategy drives the risk governance structure and associated roles and responsibilities.

The RMF governs the overall management of risk exposures to which the Company is or may be exposed to. It encompasses multiple risk types and focuses on optimising the balance and interaction of the different types of risks as well as that between risk and return. The RMF provides an effective and efficient approach to govern and oversee the organisation as well as monitoring and mitigating risks.

The RMF promotes increased risk awareness throughout the Company and facilitates better operational and strategic decision-making, promotes a strong risk culture and ensures that the Company operates in line with the nature and level of risk that stakeholders are willing to take on.

The Board sets the Company's strategy, business plans, performance targets, risk appetite and risk tolerance limits, and in so doing, the Board assumes an essential role in providing the 'tone from the top' to embed the risk culture within the Company.

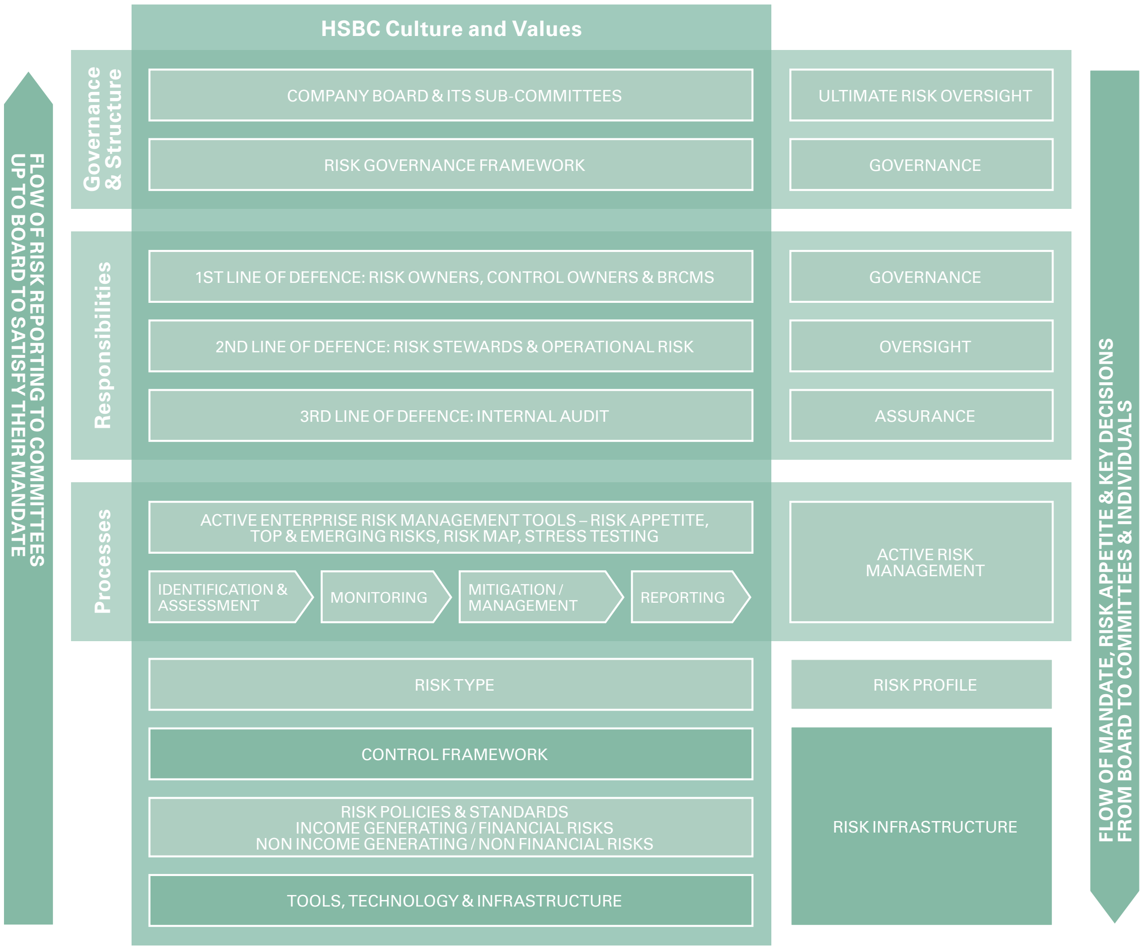
The day-to-day responsibility of the RMF is cascaded through the delegation of individual accountability, with reporting and escalation facilitated through the risk governance structures in place. Policies, procedures and risk limits are appropriately defined to ensure activities remain within the Company's acceptable level of risk.

The identification, measurement, monitoring and reporting of risks is an essential element of both the day-to-day and strategic decision-making processes. This is supported by effective internal control processes and regulatory and compliance awareness to ensure that Solvency II requirements are adhered to at all times.

All employees have a role to play in the Company's risk management strategy. Fundamental to the RMF is the implementation and operation of the Three Lines of Defence Model, which takes into account the Company's business and functional structures. The model delineates management accountabilities and responsibilities with respect to risk management and the Company's internal control system, thereby creating a robust control environment to manage inherent and emerging risks.

B. System of Governance (continued)

The figure below illustrates the Company's risk management framework:



B.3.1.1.1 Risk appetite

The risk appetite is the Board's articulation of accepted and tolerated levels of risk and return on an enterprise wide perspective. The risk appetite provides the anchor between the strategy, risk and finance, enabling Management to optimally allocate capital to finance strategic growth within tolerated risk levels. It provides a view on the medium to long term horizon, and should be used to monitor performance against the AOP.

The Company's risk appetite is established in line with the risk management strategy and objectives. It is expressed in terms of qualitative and quantitative targets which determine how the business will be managed.

The risk appetite contributes significantly to a strong and integrated risk management framework and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment.

Quantitative aspects of risk appetite, monitored through tolerances and limits, are defined within the RAS.

B.3.1.2 Integration of the risk management system into the Company's organisational structure and decision-making processes

Effective risk management is a continuous cycle in which the risks faced by the Company are constantly reviewed and the corresponding risk and control positions maintained accordingly. The following figure demonstrates how the risk management process operates within the Company:

B.3.1.2.1 Risk Identification ("IDENTIFY")

The risk identification element in the above map is the process through which the key risks faced by the business are identified, such that they are quantified, controls developed and the risks monitored and managed.

Identified risks are categorised into a risk category or sub-category to aid effective management and mitigation.

Risk identification includes determination of the category of risk and of the circumstances which would give rise to a loss event. The key categories and sub categories are included in the sections that follow.

B.3.1.2.2 Risk Assessment ("MEASURE OR ASSESS")

The risk assessment process quantifies the materiality and magnitude of the risk, considering both likelihood of occurrence and potential impact.

The quantification of risks, which aids effective 1 in a 200 year event risk management by calculating the capital required to be held for each risk type and provides management with quality information to support effective decision-making through, at least, quarterly calculation of the Company's SCR.

Where appropriate, stress tests and scenario analysis are carried out with regard to all relevant risks to ensure risks are effectively understood and quantified.

B.3.1.2.3 Control and Reporting ("CONTROL, MONITOR AND MANAGE, REPORT")

Control and Reporting requirements are set out with respect to each specific risk exposure.

B.3.1.2.4 Risk management process at an individual risk level

The risk management process for each individual risk is similar to the process set out in B.3.1.2 above.

B.3.2 Own risk and solvency assessment

B.3.2.1 ORSA Process

The overall aim of the ORSA is to demonstrate the adequacy of the Company's capital base, taking into consideration the Company's Dividend Policy, and the Company's resilience to a wide range of outcomes. In particular it aims to:

– Assess the Company's overall solvency needs, taking into account all risks that affect the Company, approved risk tolerance limits and business strategy, both during the calendar year and over the business planning period;

– Test the appropriateness of the Capital Management Framework over the business planning period against the results of stress and scenario testing performed;

– Demonstrate compliance, on a continuous basis, with the capital requirements and requirements relating to technical provisions;

– Analyse the extent to which the Company's risk profile deviates from the assumptions underlying the capital requirements calculated using the Standard Formula;

– Identify areas of Company or customer risk, or matters relating to solvency calculations or model structure, that require further analysis or action and to recommend the next steps in relation to those areas;

– Demonstrate the adequacy and effectiveness of the Management controls in place; and

– Provide evidence that the ORSA is an integral part of the business strategy and business planning process, and is taken into account, on an on-going basis, in the Company's strategic decision-making processes.

B.3.2.2 ORSA Roles and Responsibilities

– The Board is responsible for the overall monitoring of the ORSA process and for challenging its results, together with approving the ORSA Report and approving the ORSA Policy on an annual basis.

– The RMF, as the Second Line of Defence, is responsible for coordinating the execution of the ORSA process, including the drafting of the ORSA Report, reviewing the ORSA Policy and ensuring that the results and conclusions are communicated to all relevant employees. It is also responsible for ensuring that the ORSA process undergoes regular review.

– The Actuarial Function is responsible for assessing compliance with the requirements regarding the technical provisions and the risks arising from the capital requirements calculations.

– The Actuarial Function is also responsible for providing the necessary calculations to the RMF and for providing input into the actuarial aspects of the report. The aforementioned calculations include the actuarial calculations in relation to regulatory capital, economic capital, forward-looking assessments and analysis, as well as stress and scenario analysis.

– The Finance Function is responsible for performing the non-actuarial calculations such as business planning and liquidity planning, and for providing input into the Finance aspects of the report.

The ORSA is prepared by the CRO for consideration by Management and the Board. Based on its conclusions, a number of recommendations are made to Management and the Board.

In light of this, the results of the ORSA form part of the Company's business strategy and are taken into account, on an on-going basis, in the strategic decisions of the Company. In particular, the Company's ORSA results are taken into account in its medium term capital management, business planning and product development and design.

The results of the economic capital calculations produced by the SCR model are used as part of key business decision making processes, the system of governance and the risk management system as outlined below:

– Risk reporting – Economic capital data from the model is a developing component of risk management information to the various Risk and Management Committees;

- Setting of the overall risk appetite – The model is extensively used in the setting of the Company's overall risk appetite (including the setting of underlying risk limits and risk metrics);
- Risk management system – The role and use of the model in relation to the risk management system, includes the establishment of the Company's risk appetite (including the underlying risk limits and risk metrics), quantification of risks, capital assessment, capital allocation, stress testing and scenario analysis;
- Product development and pricing – The model is used to determine key profitability and capital metrics, and facilitates the ongoing monitoring of the profitability of major product lines. The outcome of the monitoring process is subsequently taken into account during future price reviews;
- Reinsurance retention and pricing – The model is used to determine the optimum reinsurance level and provides basis to negotiate the reinsurance premium to be paid to the reinsurer upon renewal of the contract; and
- Experience analysis and basis setting exercise – The model is extensively used during the annual Basis Setting Exercise. The changes to the future assumptions are analysed for their corresponding impact, if any, on the Company's OCR.

B.3.2.3 ORSA Review

The ORSA is performed on a regular basis, at least annually, and without delay following any significant change in the Company's risk profile or external environment. The ORSA Report is subsequently presented to the Board for its approval and should always cover the period since the previous ORSA assessment.

B.3.2.4 Own solvency needs and the interaction between capital and risk management

The capital requirement calculations are based on the Standard Formula, with an additional voluntary capital add-on for the operational risk in line with the Company's Own Capital Requirement ("OCR") calculation. The appropriateness of the Standard Formula vis-a-vis the Company's risk profile is assessed on an annual basis. Risks are identified, quantified and managed though a 'Risk Control Assessment' process, and for each of the material risks, a typical and extreme loss scenario is established. These scenarios then feed into the overall capital requirement calculation.

The Company holds a capital buffer in line with its Capital Management Framework, while also taking into account the Company's Risk Appetite, scenario analysis results, historic volatility and market practice. The Capital Management Framework is directly linked to the RAS and is monitored through the risk management information. The RAS also sets out an appetite for the capital held against each risk category.

B.4 Internal control system

B.4.1 Description of the internal control system

The Company maintains an adequate internal control framework commensurate with the scale and nature of its operations. A proper internal control environment is of fundamental importance and is a process effected by all levels of staff, at all times. The business operates in an efficient manner with proper controls in place to safeguard assets, operations and records in order to manage operational risk within the Company's risk appetite and to preserve the integrity of financial reporting.

Internal controls are subject to regular monitoring and include the following:

- personnel – clear and concise operational procedures available to all personnel to ensure that they can understand and carry out their responsibilities effectively and communicate any problems in respect of non-compliance;
- organisational structure – responsibilities and reporting lines are clearly defined and allocated;
- effective communication lines which enable efficient escalation of information to the appropriate level;
- segregation of duties – areas of potential conflict are identified and mitigated appropriately;
- authorisation and approval – all transactions require authorisation and approval by an appropriate responsible person;
- an established financial control environment includes routine controls such as reconciliations, audit trails, spot checks and physical control with appropriate supervision by management;

– management reporting and accounts are prepared in accordance with Group standards;

– reliable information systems are in place to report all significant activities supported by adequate security and contingency arrangements; and

– business resumption and contingency plans are periodically tested to avoid disruption to business and potential losses.

B.4.2 Implementation of the compliance function

The local compliance function is divided into Regulatory Compliance ("RC") and Financial Crime Compliance ("FCC").

The RC and FCC functions' scope is focused on discharging their roles as Risk Stewards in relation to RC and FCC risks. The RC and FCC functions discharge this role by setting policies and limits in accordance with determined risk appetites in the RC and FCC areas, as well as providing advice, guidance and challenge relating to these risk activities.

The RC and FCC functions also undertake assurance, monitoring and testing activities to provide assurance that relevant policies are adopted and embedded within the first line and on the appropriateness of key RC and FCC risk management processes.

RC and FCC activities do not generally focus on areas where other functions are the relevant Risk Steward. However, the RC and FCC function may be called upon to assist other functions (for example working with HR on regulatory elements of an employee code of conduct, providing advice on remedial action and reporting where a regulatory breach has arisen and supporting activities where other functions identify Compliance Risk (whether RC or FCC risk) as being a secondary risk.

Each of these areas is complemented by a Monitoring and Testing team. Both RC and FCC report regularly to the Company's Risk Management Meeting and to the Board in respect of their advisory and monitoring activities.

B.5 Internal audit function

B.5.1 Implementation of the internal audit function

The Company outsources the provision of Internal Audit services to its parent company, HBMT, under an Intra-Group Service Agreement. Under this agreement, the Company uses the services of the HBMT's Internal Audit team to deliver the agreed Internal Audit Function services, which meet both Solvency II and Group requirements, and are also in line with best practice. The Internal Audit services are delivered in accordance with a multi-year Internal Audit Plan approved by the Audit and Risk Committee covering all key functional areas and providing an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance. A four-year Internal Audit cycle is generally presented to the Audit and Risk Committee for approval.

B.5.2 Independence and objectivity of the internal audit function

The Internal Audit Function, as the Third Line of Defence, is independent of the First and Second Lines of Defence. The function reports to the Audit and Risk Committee, which is also responsible for the oversight of the outsourced Internal Audit Function.

B.6 Actuarial function

B.6.1 Implementation of the actuarial function

The Actuarial Function is outsourced to the HSBC Group and headed by the approved Chief Actuary who reports to the Group Chief Actuary.

The Chief Actuary currently has a direct reporting line to the Board and is responsible for:

– Co-ordinating the calculation of the technical provisions;

– Ensuring the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of technical provisions;

- Assessing the sufficiency and quality of data used in the calculation of technical provisions;
- Comparing the best estimate against experience;
- Informing the governing body of the reliability and adequacy of the calculation of technical provisions;
- Expressing an opinion on the overall underwriting policy;
- Expressing an opinion on the adequacy of reinsurance arrangements; and
- Contributing to the effective implementation of the risk management system, with particular regard to risk modelling by the firm.

The Chief Actuary also has oversight duties in relation to key risk management, risk mitigation techniques, data accuracy, claims management, and underwriting and reinsurance agreements in place.

The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries and continues to comply with the specific professional obligations this requires. The Chief Actuary is supported by Fellows and members of the Institute and Faculty of Actuaries.

The Company's CIO, a qualified actuary, has been designated as the person responsible for the oversight of the outsourced Actuarial Function.

B.7 Outsourcing

The outsourcing standards applied by the Company set out a structured approach to the establishment and management of arrangements with service providers. They have been established to ensure the risk from outsourcing does not impair the Company's financial performance or the soundness of the activities and quality of services to customers.

Service providers are required to meet HSBC Group standards. These include, but are not limited to, the following areas:

- Secure handling of HSBC and customer information;
- Standards of customer care;
- Continuity of service; and
- Compliance with all applicable laws and regulations.

The Outsourcing Policy covers the principles and standards to be applied by the Company when discharging all of its obligations through the outsourcing of functions or any insurance/reinsurance activities.

For the purpose of this policy, the Company classifies its functions/activities as follows:

- Outsourced or Non-Outsourced
- In case of outsourcing, Critical/Important agreements including Key Functions or Non-Critical/ Non-Important agreements.

Any new agreements entered into by the Company should be classified in line with the above.

Agreements falling under Critical/Important functions or activities include:

- the design and pricing of insurance products;
- the investment of assets or portfolio management;
- claims handling;
- the provision of regular or constant Compliance, Internal Audit, accounting, Risk Management or Actuarial support;

B. System of Governance (continued)

- the provision of data storage;
- the provision of on-going, day-to-day systems maintenance or support; and
- the ORSA process.

The following activities cannot be considered Critical/Important operational functions or activities:

- the provision of advisory services to the undertaking and other services, which do not form part of the undertaking's insurance or reinsurance activities, such as legal advice, the training of personnel and the security of premises and personnel;
- the purchase of standardised services, including market information services and the provision of price feeds;
- the provision of logistical support, such as cleaning or catering; and
- the provision of elements of human resources support, such as recruiting temporary employees and processing the payroll.

Outsourcing activities should not be undertaken in such a way as to lead to any of the following:

- materially impairing the quality of the Company's system of governance;
- unduly increasing the Company's operational risk;
- impairing the ability of the MFSA to access all information related to the outsourced functions and activities including carrying out on-site inspections at the business premises of the service provider; and
- undermining continuous and satisfactory service to policyholders.

The Company remains fully responsible when outsourcing any of its functions or activities. The main rationale for outsourcing is to obtain the necessary expertise and resourcing required by the Company. Outsourced Key Functions are also subject to the Fit and Proper requirements and must adhere to the Company's Fit and Proper Policy at all times.

The Company appoints Outsourcing Monitoring Officers ("OMOs") for every outsourcing agreement entered into. The Outsourcing Policy is applicable to all OMOs including employees responsible for the oversight and monitoring of Critical/Important operational functions or activities.

B. System of Governance (continued)

The following table presents detail on the Company's outsourcing of Critical/Important operational functions or activities:

KEY AND CRITICAL OR IMPORTANT FUNCTIONS OR ACTIVITIES						
NO	AGREEMENT	AGREEMENT TITLE	OUTSOURCING MONITORING OFFICER JOB TITLE (OMO)	JURISDICTION OF SERVICE PROVIDER	OMO TYPE	TYPE OF AGREEMENT
1	HSBC Bank plc (HBEU) & HSBC Life Assurance (Malta) Limited	Actuarial Function Agreement	Chief Investment Officer	UK	OMOKF	Key Function
2	HSBC Bank plc & HSBC Life Assurance (Malta) Limited	Internal Audit function Agreement	Chief Risk Officer	Malta	OMOKF	Key Function
3	Lifeware SA & HSBC Life Assurance (Malta) Limited	Data Storage	Chief Operating Officer	Switzerland	OMOCIF	Critical or Important Activities
4	RGA International Reinsurance Company Limited & HSBC Life Assurance (Malta) Limited	Reinsurance incl. Claims Handling	Chief Risk Officer	Ireland	OMOCIF	Critical or Important Activities
5	IT HBMT & HSBC Life Assurance (Malta) Limited	Service Level Agreement for the IGAS system	Chief Operating Officer	Malta	OMOCIF	Critical or Important Activities

As outlined above, key elements of the Company's activities are outsourced to other entities within the HSBC Group and are documented through IGSAs ("Intra-Group Services Agreement") and internal performance level agreements.

The Company has the following Intra-Group outsourcing arrangements:

SERVICE PROVIDER INTERNAL (HSBC GROUP)	DESCRIPTION OF SERVICE OUTSOURCED
1. HSBC Bank Malta p.l.c.	The Company outsources management services to HSBC Bank Malta p.l.c., which include human resources, property services, IT, Legal and Internal Audit.
2. Other HSBC Group Companies	Other Group companies provide actuarial, asset management, investment accounting and unit pricing services to the Company.

B.8 Adequacy assessment of the system of governance

Effectiveness reviews of the Board, the Committees and Forums are completed on an annual basis by the Board/Committee/Forum Secretary. The Board is presented with a 'Corporate Governance Framework Document' once a year for review and approval. The document contains the latest organisation and governance charts, the Board, Committee and Forum Terms of Reference, the Governance and Reporting Calendar and Internal Audit Plan.

The Board confirms that the Company's System of Governance is adequate, taking into account the nature, scale and complexity of the risks inherent in the business.

B.9 Any other information

There is no other material information regarding the system of governance that has not already been disclosed in sections B.1 – B.8 above.

C. Risk profile

C.1 Material risk exposures

C.1.1 Material risk exposures and the corresponding risk assessments

The Company has categorised risks into high level risk classes to facilitate effective management and to introduce consistency in its risk management process. The risks to which the Company is exposed are set out below.

Risks are assessed quantitatively where possible and for most this is done by stressing the risks using the Standard Formula parameters to determine the impact of an extreme event for each risk. This is complimented by other stress testing and management defined scenario analyses. The quantitative assessments are performed on a regular basis and monitored against the Board approved risk appetite and risk tolerance limits. In addition to quantitative assessments, qualitative assessments are performed. A full qualitative assessment of all risk categories takes place annually and this is supported by regular assessments of emerging or increasing risks at the RMM.

The table below sets out the risks to which the Company is exposed and the corresponding quantitative or high level qualitative assessment carried out:

RISK CLASS	SCOPE	SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT) (€'000)
Life Underwriting Risk (including Reserving Risk)	The risk due to uncertainties in the occurrence, amount and timing of insurance liabilities arising through insurance underwriting risks accepted by the Group's insurance operations. It includes claims, lapse and expense risks.	€25,161
Market Risk	The risk of adverse movements in interest rates, market prices, currencies or inappropriate investment practices, causing losses to the Company.	€13,851
Credit Risk	The risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company.	€2,619
Liquidity Risk	The risk that the Company, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.	The Company holds sufficient liquid funds such that no capital is required.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.	€1,939
Strategic Risk	The risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market.	This is assessed through scenario analysis and the conclusion is that there are no solvency issues, however poor strategic execution could lead to lower profits.
Model Risk	The risk that the design or operation of any material Model Application causes outputs to occur which will mislead the management of the Company and cause inappropriate decision making or inadequate capital to be held.	This is in part included within Operational Risk.
New Business Risk	This risk may arise from an insufficient volume of sales in order to cover acquisition costs or from selling more policies than expected leading to a strain on capital resources.	No capital held, but forward looking assessment of this risk indicate no solvency issues, albeit low sales will lead to lower profits.
Group Risk	The risk borne by the Company from its responsibilities to and relationship with other members of the Group, including the activities of other Group members. It has been determined that the Company does not have any explicit Group risk exposures as transactions with the Bank and connected companies are treated as arm's length arrangements and managed accordingly.	This is in part included within Operational Risk.
Conduct Risk	The risk that poor conduct with respect to customers leads to compensation and/or fines from the regulator along with reputational damage.	This is in part included within Operational Risk.
Reputational Risk	The risk that adverse findings are publicised which damage reputation.	This is in part included within Operational Risk.

No material changes in the Company's significant risk exposures and in the measures used to assess such risk exposures have been reported over the reporting period.

C.1.2 Investment of assets in accordance with the 'prudent person principle'

The Company fulfils its obligations of the 'prudent person principle' by way of the policies and practices described below:

C.1.2.1 Asset Liability Matching Principles

– Matching: Non-linked

The Company's approach is to select assets to match net cash flows by duration, nature, currency and liquidity. Asset liability matching ("ALM") mitigates interest rate and liquidity risk exposure. ALM exercises are carried out to:

– assess the suitability of the term and nature of assets held to meet the liability cash flows as they fall due in best estimate and stress conditions;

– identify gaps and any unsuitable assets;

– recommend movements between asset pools to achieve a more appropriate asset allocation (if necessary); and

– identify suitable assets to invest in so as to remove exposure to future unmatched cash flows, hence reducing the volatility of the Company's statutory solvency position and reducing exposure to market risk.

An ALM exercise is performed on a quarterly basis and includes stress testing to assess the suitability of the assets in meeting cash outflows as they fall due.

The quarterly ALM exercise is carried out within the Actuarial Risk and Analytics team ("ARA"), subject to the oversight of ALCO and to review by the Chief Actuary.

– Matching: Unit-linked

The matching strategy for unit-linked funds is to match the unit-linked technical provisions as closely as possible with asset holdings of units in the appropriate underlying funds.

Matching unit linked liabilities is managed through the box management process. This involves reviewing the current units allocated to policies against units available in the unit-linked and determine whether units need to be transferred from shareholder fund. Box limits are approved through the market risk mandate process.

– Matching: With profits

These funds are held to meet a defined liability in respect of underlying insurance policies and the assets held are managed with a view to maximise profits while matching policyholders liabilities with regards to term and currency and that the guaranteed capital value is not unduly put at risk.

C.1.2.2 Investment Strategy (Non-linked and Own Funds)

For the assets backing the technical provisions and own funds, the Company's investment strategy is to maximise return subject to adhering to the Company's risk appetite and the prudent person principle. The key elements of the investment strategy are to:

– ensure sufficient levels of liquid assets are held to meet all claims and expenses arising as part of normal business activity both as they fall due and in a stressed scenario;

– manage interest rate risk and liquidity risk over the long term, primarily through matching net non-linked liabilities on a realistic basis with assets of similar duration, yield and currency;

– cover the (non-negative) technical provisions, SCR and Risk Margin ("RM"), with easily realisable, high quality, low volatility, safe assets;

– limit investment credit risk by investing within the credit rating limits in the Company's latest approved investment credit risk mandate and by limiting exposure to individual counterparties;

- review residual mismatched interest or credit risk exposure and recommend mitigating measures;
- invest only in instruments and funds which are within the approved market risk mandate where we are able to identify, assess and monitor the inherent risks of that investment; and
- subject to the above, choose assets to maximise yields, where possible.

The application of the investment strategy and policy results in investment in liquid high quality assets, short term liquidity fund holdings and cash. There is also low exposure to spread risk and volatility risk.

C.1.2.3 Liquidity risk

The Company manages routine liquidity risk by ensuring sufficient liquid funds are available to cover the expected liabilities. Future cash flows in stressed scenarios are modelled to understand potential liquidity strains, and triggers set to monitor and manage unexpected liabilities. A liquidity contingency plan is set and reviewed annually. Liquidity risk for the Company is immaterial based on the current level of liquid fund.

C.1.2.4 Investment risk management

The Company has processes in place to monitor the ongoing effectiveness of the risk and control framework, and to identify any indications of adverse market, liquidity or credit risk developments or control failures. Monitoring activities involve:

- continuous monitoring of early warning indicators appropriate to the exposure;
- regular review of actual performance or exposure against limits, identifying, managing and escalating any exceptions, as appropriate. This includes monitoring of:
  - *overall exposure against risk appetite;*
  - *duration, quality, currency, yield, and type of asset held against investment policy or ALM criteria;*
  - *levels of liquid funds held against predicted requirement;*
  - *monitoring of trigger points (e.g. to invoke liquidity contingency plan); and*
  - *matched position of linked funds and adherence to box limits.*
- regular assessment and testing of the effectiveness of the key control and monitoring processes identified in the risk register.

The monitoring process includes the production and review of regular reports and analysis, which are considered by both first and second lines of defence. Monitoring information is produced by the first line of defence, and reviewed through the Risk and Audit Committee and ALCO.

Management activities focus on ensuring that the monitoring process operates effectively (i.e. it covers all material risks and remain relevant to the risks faced by the Company), and that issues are appropriately actioned and/or escalated. Oversight of monitoring and management is exercised through the Governance Committees.

Where a risk assessment identifies that any risk falls outside the boundaries of the Company's risk appetite (in particular its long term risk profile or solvency targets), now or projected in the future, further steps are taken to control, transfer or mitigate the risk. If a risk identified as falling outside short term tolerances but remains within the acceptable long term risk profile and the reason for the departure from expected is investigated and understood, a review of short term tolerances may be considered more appropriate than taking action to control, transfer or mitigate the risk.

The Company's risk mitigation approach is to consider the use of such measures which mitigates market and credit risk on a regular basis in the context of the economic and company business environment where required and available on reasonable terms. Such measures should:

– be consistent with the management of market and credit risk exposure against the Company's risk appetite (i.e. taking into account the shareholder appetite for risk/ reward);

– be in accordance with the Company's stated Investment and ALM framework (discussed above); and

– remain effective at mitigating the risks.

The impact on all reporting bases should be considered.

(a) Assessment of non-routine investment activities

Any change to investment policies requires Board approval. The Company does not currently partake in any non-routine investment activity.

(b) Unit-linked and index-linked contracts

Market risk exposures on the linked funds are borne by the policyholders. HLE policyholders have discretion over their investments and the Company checks that these investments are in line with the permitted assets.

Oversight is exercised by the Company over the operations of the asset managers to ensure management is in line with the fund objectives and in compliance with all relevant regulations and guidelines through monitoring against investment management agreements.

(c) Assets not admitted for trading on a regulated financial market

The Company's investment strategy does not permit acquisition of such assets.

(d) Derivatives

The Company does not directly hold currently any derivatives as part of investment strategy or risk mitigating measure. Any new derivatives proposed would be subject to approval of appropriate committees of the Board.

(e) Securitised instruments

Any new investment in securitised instruments would be subject to Board approval. The Company does not currently hold any securitised instruments.

C.2 Material risk concentrations

The Company has a significant concentration risk exposure due to its credit exposure to a single reinsurer. This exposure is accounted for within the capital requirement with respect to counterparty default risk. Scenario analysis on the default of this reinsurer is performed to understand the effect of the materialisation of this risk. Credit support clauses were also included as part of the reinsurance contract entered into at the last tender, which protects the Company in the event of a downgrade in the reinsurer's credit rating.

C.3 Risk mitigation techniques

The key risk mitigating technique undertaken by the Company is reinsurance, which is considered as the transfer of mortality and morbidity risks into counterparty default risk.

The Company's reinsurance strategy is to optimise the use of reinsurance in line with the Company's risk appetite as approved by the Board, effectively managing the relationship between risk transfer, efficient capital management and cost considerations. The Company's approach towards determining the structure, type of reinsurance and selection of the counterparties shall be aligned to the company-specific requirements and HSBC Group guidance.

The reinsurance strategy is clearly set out in the Company's Risk Management Policy and alternative retention levels are assessed as part of the reinsurance placement process.

C.4 Expected profit included in future premiums

The total amount of the expected profit included in future premiums is €26,341,000 as at 31 December 2016 (31 December 2015: €29,475,000).

C.5 Stress testing and sensitivity analysis

During 2016, the Company has conducted seven stress tests which are summarised below. These stress tests were performed using the 31 December 2015 as the base position. In all scenarios, the Company's available capital remains above the SCR.

C.5.1 Creeping Event – Low New Business environment due to enhanced due diligence requirements and High Unemployment

This scenario relates to the impact on new business sales as a result of more onerous client on-boarding and service requirements (enhanced customer due diligence) and a high level of unemployment in Malta.

The solvency ratio remains above 100% throughout the business planning period.

C.5.2 Mild Event – Change in Tax regime forcing foreign business to relocate

This scenario considers a change to the tax regime resulting in foreign businesses relocating outside Malta. This leads to a second order impact on the property values. As the demand for properties decrease arising from the change in the tax regime, the value of properties are expected to decrease accordingly.

The solvency ratio remains above 100% throughout the business planning period.

C.5.3 Extreme Event – EU Zone Crisis and GenRe (Reinsurance) Default

This scenario considers an extreme economic condition. An EU zone crisis would result in the depreciation of Euro by 25% and a fall in EU Equities by 25%. The risk free yields fall by 50bps due to reduction in risk free investment opportunities and the increase in the demand for these investments. The unemployment level is expected to increase impacting the sales of new policies and lapse experience on the existing book in line with 2009 levels. There is an increased risk of EU governments defaulting on their debt obligations which results in an increase of 100bps to the credit spread. Reinsurer default with limited recovery was considered as part of this scenario as well.

The solvency ratio remains above 100% throughout the business planning period.

C.5.4 Half New Business volumes

New business volumes are reduced by half of the planned volumes in each of the years 2016 to 2018. The scenario assumes that the per policy expenses remain unchanged.

The initial expenses allocated to new business that would not be covered due to the lower sales will still need to be accounted for.

The solvency ratio remains above 100% throughout the business planning period.

C.5.5 Double New Business volumes

New business volumes are double the planned volumes in each of the years 2016 to 2018. The scenario assumes that the per-policy expenses are unchanged.

There would be an extra amount of initial expenses allocated to new business that may be surplus to requirements resulting from higher new business sales.

The solvency ratio remains above 100% throughout the business planning period.

C.5.6 EIOPA Low Yield scenario

The low-for-long yield scenario aims at emulating a situation of entrenched secular stagnation where a lack of long-term investment opportunities and permanently low productivity growth is combined with an extended scarcity of risk free assets which drives down yields at all maturities.

The solvency ratio remains above 100% throughout the business planning period.

C.5.7 EIOPA Double Hit scenario

The double-hit scenario is a hypothetical scenario which reflects the European Systemic Risk Board's ("ESRB") assessment of prevailing systemic risks to the European financial system i.e. a further increase in risk premia combined with a continuing low yield environment.

The solvency ratio remains above 100% throughout the business planning period.

C.6 Any other information

There is no other material information regarding the risk profile which has not already been disclosed above.

D. Valuation for solvency purposes

D.1 Assets

D.1.1 Bases, methods and main assumptions used in the valuation of the material classes of assets

D.1.1.1 Investments

The investments of the Company include the following financial asset classes:

a. Investments other than assets held for index-linked and unit-linked funds include the following asset categories:

   – property (other than for own use);

   – listed equities;

   – government bonds;

   – corporate bonds; and

   – investment funds.

b. Assets held for index-linked and unit-linked funds include the following asset categories (grouped together and shown as 'Assets held for index-linked and unit-linked contracts' in the Solvency II balance sheet):

   – equities;

   – government bonds;

   – corporate bonds;

   – investment funds;

   – policyholders loans; and

   – derivatives.

Investments in the Solvency II balance sheet, are financial assets in terms of IFRS. All financial assets designated at fair value through profit or loss are managed, and their performance evaluated, on a fair value basis. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised.

In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight being placed on information that is considered to be more relevant and reliable. Further information on valuation of the assets using IFRS principles can be sourced from Note 3.9 "Financial instruments" of the Company's Audited Financial Statements for the year ended 31 December 2016.

As these assets are reported on a fair value basis in the IFRS financial statements, there are no adjustments required for Solvency II purposes. The Solvency II valuations include accrued interest receivable as at 31 December 2016, where applicable.

There are no differences between the recognition and valuation bases for the assets and there has been no changes to the recognition and valuation bases for the assets.

As the assets are recognised and valued at fair value, the Company has not made any estimations, assumptions and judgments in this respect.

D.1.1.2 Reinsurance recoverables

Reinsurance recoverables represent the reinsurer's share of technical provisions and the valuation information is included in Section D.2 Technical Provisions below.

As the calculation of the reinsurance recoverables is based on the best estimate of future reinsurance claims less reinsurance premiums, the value of reinsurance recoverables is affected by the demographic and economic assumptions underlying the calculation of best estimate liabilities; particularly the morbidity, lapse and interest rate assumptions. There have been some changes to the lapse assumptions over the year, as described in D.2.1.2.6. The interest rate assumptions have changed in line with the risk-free yield curve issued by EIOPA.

When deriving these assumptions, some judgements are necessary, for example determining what period of experience to analyse data over, how to group the data, what credibility criteria to apply to the data, and what assumptions to make in the absence of appropriate data.

D.1.1.3 Receivables

Receivables include the following asset classes:

– Insurance & intermediaries receivables;

– Reinsurance receivables; and

– Receivables (trade, not insurance)

Receivables in the Solvency II balance sheet are financial assets in terms of IFRS. These receivables are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company, upon initial recognition, designates as at fair value through profit or loss. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Receivables are stated after initial recognition at amortised cost less impairment losses. The carrying amount of loans and receivables, including insurance receivables, is considered to be a reasonable approximation of their fair value.

There are no differences between the recognition and valuation bases for the receivables and there has been no changes to the recognition and valuation bases for the receivables.

The Company has not made any estimations, assumptions and judgments in this respect.

D.1.1.4 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with contractual maturity of less than three months. Subsequent to initial recognition, cash equivalents are measured at amortised cost.

There are no differences between the recognition and valuation bases for the cash and cash equivalents and there has been no changes to the recognition and valuation bases for the cash and cash equivalents.

The Company has not made any estimations, assumptions and judgments in this respect.

D.1.1.5 Intangible Assets

The intangible assets of the Company comprise of the following items:

a. Present Value of In Force Business ("PVIF")

PVIF – In the Company's IFRS Balance Sheet, a prudent valuation of future earnings that is expected to emerge from the life assurance in-force business is determined annually. The valuation represents the discounted value of projected future transfers to shareholders from life assurance in-force business, after adjusting for the effective rate of taxation. Assumptions relating to the future mortality, morbidity, persistency and expenses are used to calculate the PVIF and these are based on the experience of the type of business concerned. Gross investment returns assumed are based on the market risk-free rates which are derived from the Euro Swap Curve. Annual movements in the PVIF are recognised in the profit or loss.

b. Computer Software

In the Company's IFRS Balance Sheet, acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

c. Deferred Acquisition Costs

In the Company's IFRS Balance sheet, incremental costs that are incurred in acquiring investment management contracts and creditor protection business are deferred and amortised as the related revenue is recognised. All deferred acquisition costs are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts. Deferred acquisition costs that are not deemed to be recoverable are charged to profit or loss.

Deferred acquisition costs are amortised in profit or loss on a straight line basis over the estimated useful life of the contract.

There have been no difference in the recognition and valuation bases for the intangibles and there has been no changes to the recognition and valuation bases for the intangibles.

The Company has not made any estimations, assumptions and judgments with respect to computer software and deferred acquisition costs.

The Company does not have any financial or operating leasing arrangements in place.

D. Valuation for solvency purposes (continued)

D.1.2 Material differences between the Solvency II and IFRS balance sheets

The table below shows the difference between the Solvency II and IFRS Balance Sheets:

	Solvency II value	*IFRS value*	*Difference*
	€000	**€000**	**€000**
Assets			
Goodwill	–	–	–
Deferred acquisition costs	–	**2,008**	**(2,008)**
Intangible assets	–	**60,171**	**(60,171)**
Deferred tax assets	**59**	–	**59**
Pension benefit surplus	–	–	–
Property, plant & equipment held for own use	**3**	**174**	**(171)**
Investments (other than assets held for index-linked and unit-linked contracts)	**348,248**	**344,382**	**3,866**
Property (other than for own use)	**2,846**	**2,846**	–
Holdings in related undertakings, including participations	–	–	–
Equities	**18,949**	**18,949**	–
Equities – listed	**18,949**	**18,949**	–
Equities – unlisted	–	–	–
Bonds	**292,238**	**288,372**	**3,866**
Government Bonds	**199,566**	**196,949**	**2,617**
Corporate Bonds	**92,671**	**91,423**	**1,249**
Structured notes	–	–	–
Collateralised securities	–	–	–
Collective Investments Undertakings	**34,214**	**34,214**	–
Derivatives	–	–	–
Deposits other than cash equivalents	–	–	–
Other investments	–	–	–
Assets held for index-linked and unit-linked contracts	**1,135,566**	**1,135,566**	–
Loans and mortgages	–	–	–
Loans on policies	–	–	–
Loans and mortgages to individuals	–	–	–
Other loans and mortgages	–	–	–
Reinsurance recoverables from:	**1,359**	**85,947**	**(84,588)**
Non-life and health similar to non-life	–	–	–
Non-life excluding health	–	–	–
Health similar to non-life	–	–	–
Life and health similar to life, excluding index-linked and unit-linked	**1,434**	**85,947**	**(84,512)**
Health similar to life	–	–	–
Life excluding health and index-linked and unit-linked	**1,434**	**85,947**	**(84,512)**
Life index-linked and unit-linked	**(76)**	–	**(76)**
Deposits to cedants	–	–	–
Insurance and intermediaries receivables	**978**	**884**	**95**
Reinsurance receivables	**490**	**490**	**-**
Receivables (trade, not insurance)	**5,317**	**9,384**	**(4,067)**
Own shares (held directly)	–	–	–
Amounts due in respect of own fund items or initial fund called up but not yet paid in	–	–	–
Cash and cash equivalents	**58,493**	**58,493**	–
Any other assets, not elsewhere shown	**58**	–	**58**
Total assets	**1,550,569**	**1,697,498**	**(146,928)**

In view that the Company adopts IFRS as its financial reporting standards, there are no material differences between the Solvency II and IFRS balance sheets with the exception of the Solvency II adjustments outlined below.

a. Deferred acquisition costs:

Deferred acquisition costs are reported as nil in the Solvency II balance sheet as it has no residual value. They can only be recognised in the Solvency II balance sheet at a value other than nil if they can be sold separately and the Company can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. In the Company's IFRS accounts they are accounted for using IFRS principles.

b. Intangible assets:

The IFRS accounts value represents the PVIF and computer software. Under Solvency II, these have nil value. They can only be recognised in the Solvency II balance sheet at a value other than nil if they can be sold separately and the Company can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets.

c. Investments (other than assets held for index-linked and unit-linked contracts):

For Solvency II purposes investment values include the balance of accrued interest income which is included in Receivables.

d. Reinsurance recoverable:

The reinsurance recoverable (also known as the reinsurers' share of technical provisions) in the Solvency II balance sheet differs materially from the IFRS accounts. While under IFRS valuation principles, the technical reserves for life business are recognised in line with IFRS 4, this approach is materially different from the 'Best estimate of Technical Provisions' and 'Risk Margin' approach as required under Solvency II, which is detailed in Section D.2 below. The reinsurers' share of technical provisions are also adjusted to reflect the probability of default of the counterparty and the resulting average loss (net technical provisions after the allowance for defaults).

D.1.3 Off Balance Sheet items

The Company does not have any off-balance sheets assets.

D.2. Technical provisions

D.2.1 Value of technical provisions and the bases, methods and main assumptions

D.2.1.1 Value of technical provisions

The table below shows the breakdown of the technical provisions by the Solvency II lines of business as at 31st December 2016:

Line of Business	*Best Estimate Liability*				
	Gross	*Reinsurance*	*Net*	*Risk Margin*	*Total Net Technical Provisions*
	€000	**€000**	**€000**	**€000**	**€000**
Life (excluding index-linked and unit-linked)					
Non-Linked	(8,387)	1,434	(9,821)	12,226	2,405
With-Profits	322,240	–	322,240	1,010	323,250
Index-linked and Unit-linked					
Index-linked and Unit-linked	1,118,352	(76)	1,118,428	4,413	1,122,841
Total	**1,432,206**	**1,359**	**1,430,847**	**17,649**	**1,448,496**

D.2.1.2 Methodology used to calculate the technical provisions

The methodology used to calculate the technical provisions is in line with the Commission Delegated Regulation (EU) 2015/35 (Delegated Regulation).

The value of technical provisions is calculated as the sum of the Best Estimate of Technical Provisions (also known as the Best Estimate Liability ("BEL") and RM, as described in the following sections.

D.2.1.2.1 Best estimate of technical provisions

The approach taken to calculate the BEL is as follows:

The BEL is valued using a projection model on a policy-by-policy basis, with a provision for some homogeneous policy groupings being made outside the projection model due to low materiality.

Within the projection model, the expected future cash-flows for material items are projected for each policy for the duration of the policy. This includes items such as policyholder premiums, policyholder charges, policyholder claims from adverse events, maturity or surrender benefits, expenses and investment income.

The BEL is calculated on a gross of reinsurance basis as it is defined to exclude the risk mitigating effects from the reinsurance contracts. The cash flows relating to reinsurance (e.g. reinsurance premiums and claim recoveries) are used to calculate the reinsurance recoveries after allowing for a provision for reinsurer default.

The cash-flow projections are based on a number of assumptions which are summarised below. In general,

– the economic assumptions are set on a market-consistent basis.

– the non-economic assumptions (e.g. demographic and expense assumptions) are set on a best estimate basis such that there is an equal probability that experience is more or less favourable than assumed. This corresponds to a probability-weighted average of future cash-flows.

Risk drivers are allowed for at a high level only due to the lack of more granular data. For example, the best estimate assumption of a lapse rate is used rather than allowing for the best estimate of each driver of lapses individually (e.g. markets levels, competitiveness of other products, etc.). For each policy, cash-flows are summed for each month and then discounted back to the valuation date using the risk-free yield curve published by EIOPA (as referred to in Article 44 of the Delegated Regulation) for the calculation of technical provisions.

There are some simplifications used in the modelling of the with-profits business.

D.2.1.3 Risk margin

The approach taken to calculate the RM is as follows:

The RM represents the amount that would theoretically have to be paid to another insurer (in addition to the BEL) to compensate them for taking over the insurance liabilities. It is based on the cost of capital held to support the risks which cannot be readily hedged.

The Delegated Regulation specifies that the RM should be calculated as the unhedgeable SCR in all future years multiplied by 6% (the cost-of-capital rate prescribed by EIOPA) and discounted at the risk-free yield curve published by EIOPA. All risks are considered other than the market risk module in the calculation of the unhedgeable SCR.

The use of simplifications is allowed by the Delegated Regulation to estimate future unhedgeable SCRs, as a full calculation is not justified by the scale and complexity of the business. The following methodology has been adopted:

– The capital requirement for each risk sub-module that currently makes up the unhedgeable SCR is taken.

– The capital requirement for each risk in each future year is estimated using the current figure and appropriate risk driver for scaling.

– The unhedgeable SCR is calculated at the end of the first year, and every following year by aggregating the capital requirements for each of the risk in line with the Standard Formula correlations (as used in the aggregation of the SCR).

– Each year's SCR is multiplied by 6% in order to calculate the cost-of-capital in each future year.

– The future cost-of-capital figures are the discounted back to the valuation date using the risk-free yield curve published by EIOPA to give the RM.

D.2.1.4 Assumptions used to calculate the technical provisions

The assumptions used in the cash-flow projections are as follows:

D.2.1.4.1 Economic assumptions

The economic assumptions used in the valuation basis are internally consistent and consistent with observable, reliable market data:

a. Investment Return

The best estimate assumptions are set equal to the risk-free rates published by EIOPA quarterly.

b. Expense Inflation

The market-consistent estimates of future inflation are derived from the French inflation curve and weighted by the expected salary inflation within the Company. This reflects the proportion of the Company's expenses due to salary costs.

c. Reversionary Bonus rate

The level of reversionary bonuses vary in line with the change in the interest rates reflecting the 90:10 gate bonus philosophy and tax, where appropriate.

d. Discount Rate

The discount rates used are set equal to the risk-free rates published by EIOPA each month.

D.2.1.4.2 Demographic assumptions

The principal demographic assumptions underlying the calculation of the insurance technical provisions are:

1. Mortality

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in this table are adjusted to calculate the best estimate of the mortality assumptions based on the investigations that has been performed on determine the Company's mortality experience, where this is credible.

2. Morbidity (Critical Illness – CI)

An appropriate base table, based on the rate table produced by the Company's reinsurers, is selected for each type of contract. The rates reflected in this table are adjusted to calculate the best estimate of the morbidity assumptions based on the investigations that has been performed to determine the Company's morbidity experience, where this is credible.

3. Persistency

The Company's recent lapse experience is analysed for each major contract type and used to calculate the best estimate of the future persistency assumptions.

4. Renewal expenses

A statistical investigation is performed to determine the current per policy renewal expenses. The current level of per policy renewal expenses is assumed to be an appropriate expense base.

D.2.1.4.3 Taxation

The Company assumes that the application of current tax legislation will not change.

D.2.1.4.4 Loss absorbing capacity of deferred tax

The loss absorbing capacity of deferred tax reduces the capital requirement for each risk. The reduction is estimated using the corporation tax rate of 35% and the gross of tax capital requirement for each risk, with the reduction being capped at the current deferred tax liability.

D.2.1.5 Level of uncertainty associated with the value of technical provisions

Uncertainty primarily relates to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are interest rates, lapse rates, mortality rates, morbidity rates and expenses. The assumptions are reviewed annually, except for the risk-free rates which are updated quarterly, to ensure continued suitability. Any limitations and expert judgements are logged and monitored.

The balance sheets are also affected by volatility in the financial markets, for example the equity and bond markets. Where assets held on the balance sheets are affected, this may increase the value of technical provisions due to the cost of covering guarantees on the with-profits portfolio.

D.2.1.6 Material differences between the Solvency II and IFRS valuations

The financial statements for the Company are based on a different set of assumptions and methods. For the investment business, no technical provisions are held apart for the unit-linked liabilities and the financial statement ignores the PVIF on this line of business.

The technical provisions within the financial statements are based on the methodology underlying the Solvency I reserves prior to the implementation of the Solvency II. The assumptions used to calculate these reserves include a margin for prudence and the calculation method does not allow reserves to be negative or allow an assumption for persistency. In addition, the discount rates was derived from the investment assets supporting the liabilities subject to an adjustment for credit risk.

The PVIF reflects the expected future profit and the release of the reserves within the financial statements.

With the introduction of Solvency II from 1st January 2016 the technical provisions now calculated as the sum of the BEL and RM. The BEL is calculated using the best estimate assumptions and the liabilities can be negative.

The key methodology differences are:

– the removal of prudential margins in the assumptions and the move to best estimate assumptions under Solvency II and the allowance for negative reserves;

– the requirement to hold a RM calculated using cost of capital approach; and

– the deferred tax liability calculated as 35% of the difference in technical provisions net of reinsurance between the IFRS balance sheet and the SII balance sheet (including RM).

D.2.1.7 Matching adjustment to the EIOPA risk-free interest rates

The Company does not apply the matching adjustment.

D.2.1.8 Volatility adjustment to the EIOPA risk-free interest rates

The Company does not apply the volatility adjustment.

D.2.1.9 Transitional risk-free interest rate-term structure

The Company does not apply the transitional risk-free interest rate-term.

D.2.1.10 Transitional deduction

The Company does not apply the transitional deduction.

D.2.1.11 Recoverables from reinsurance contracts and special purpose vehicles

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

The reinsurance recoverables is the present value of the excess of the expected future reinsurance recoveries over the expected future reinsurance premiums payable.

The Company does not have any special purpose vehicles in place.

D.2.1.12 Material changes in assumptions made in the calculation of technical provisions

There are no material changes in the relevant assumptions used to calculate the technical provisions when compared to the previous reporting period.

D.2.1.13 Off Balance Sheet items

The Company does not have any off-balance sheets liabilities.

D.3. Other liabilities

D.3.1 Value of other liabilities, excluding technical provisions

The other liabilities of the Company other than technical provisions comprise of the following items:

- Deferred tax liabilities; and
- Payables

D.3.2 Methods and assumptions used in the valuation of other liabilities, excluding technical provisions

D.3.2.1 Deferred tax liabilities

The deferred tax liabilities is recognised as the temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

D.3.2.2 Payables

The payables of the Company comprise of the following items:

- Insurance & intermediaries payables;
- Reinsurance payables; and
- Payables (trade, not insurance).

Payables are stated at amortised cost in the IFRS financial statements which is deemed to be a reasonable approximation of the fair value and thus no valuation adjustment is required for solvency purposes.

There have been no difference in the recognition and valuation bases for the other liabilities and there has been no changes to the recognition and valuation bases for the other liabilities.

The Company has not made any estimations, assumptions and judgments in this respect.

There are no restrictions on, deductions from or encumbrances on the own funds of the Company.

D.3.3 Material differences between the Solvency II and IFRS Balance Sheets

D.3.3.1 Deferred tax

The corporation tax reporting basis is the IFRS accounts. Any adjustments made to the IFRS balance sheet for the purpose of Solvency II reporting should be considered for related deferred tax adjustments. The adjustments represent valuation changes between the tax basis (IFRS) and solvency basis which will impact the Company's profit or loss account and result in temporary differences. Deferred tax is calculated at the prevailing tax rate on these temporary differences.

D.4 Alternative methods for valuation

For Solvency II purposes, no alternative methods of valuation have been used to value the assets and liabilities aside from those described in the Section D.1.1 above.

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes that has not already been disclosed in sections D.1 – D.4 above.

E.1 Own funds

E.1.1 Objectives, policies and processes employed for managing its own funds

The Company must hold a buffer over the MCR, for the following reasons:

- To enable it to write new business, that is to meet the development costs of new contracts and the capital requirements from writing new business;
- To ensure solvency (without need for capital injection) on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- To protect against regulatory intervention.

The optimum level of capital buffer ensures that:

- A capital injection is not required over the planning time horizon with an acceptable confidence level; and
- Excess capital is not sitting with the Company reducing return on capital to the shareholders.

The SCR and MCR for the company is derived using EIOPA's Standard Formula for the assessment of all risks.

E.1.1.1 Triggers for reviewing the Capital Management Framework

If at any point there are material changes in the Solvency II reporting basis, or in the Company's strategy, or material deviations from the AOP, then dividends should be put on hold and this policy reviewed. It should also be reviewed and approved by the Board on an annual basis.

E.1.1.2 Capital planning period

The business' capital planning period is 5 years.

E.1.1.3 Material changes

The Capital Management Framework changed in 2016 from the Solvency I basis to the Solvency II basis. The latest policy has a target capital level of 200% of the SCR, maintained over the planning period, and a minimum level of 175%.

Apart from the change in Capital Management Framework described above, there have been no other material changes to the objectives, policies and processes for managing the own funds of the Company during the year.

During 2016, the balance on the subordinated loan of €8.2 million was repaid and an €8 million dividend was declared.

E.1.2 Structure, amount and quality of own funds

The Company's Own Funds as at 31 December 2016 comprised only of Tier 1 Basic Own Funds, with no Ancillary Own Funds requiring regulatory approval. As at end of 2015, the inter-company loan balance of €8.2 million was classified as Tier 2 Basic Own Funds for Solvency II purposes and has been fully repaid in July 2016. The Company does not plan to hold further Tier 2 capital in the foreseeable future, which is in line with the Capital Management Framework of the Company.

Basic own funds (Tier 1 and Tier 2)	**2016**	2015	*Difference*
	€000	€000	€000
Ordinary share capital – Tier 1	**27,961**	27,961	–
Reconciliation reserve – Tier 1	**37,515**	42,835	(5,320)
Subordinated Loan – Tier 2	–	8,200	(8,200)
Total – Excess of assets over liabilities	**65,476**	**78,996**	**(13,520)**

The analysis of change for each tier is summarised below:

E.1.2.1 Basic own funds

a. Ordinary share capital (Tier 1)

The Company's ordinary share capital possesses the characteristics as prescribed in Article 71 of the Regulation to be classified as Tier 1 Basic Own Fund items under Solvency II.

There has been no change in the amount of the paid-up ordinary share capital of the Company.

b. Reconciliation reserve: Excess of assets over liabilities (Tier 1)

The reconciliation reserve consists of excess of assets over liabilities less ordinary share capital, which is recognisable as basic own funds in line with Article 88 of the Solvency II Directive. The excess of assets over liabilities is considered to be free from encumbrances and any foreseeable liabilities and is readily available to absorb losses arising from adverse business fluctuations, both on a going-concern basis as well as in the case of winding-up and thus is classified as Tier 1 Basic Own Funds.

The reconciliation reserve arises from the difference in the technical provisions and the reinsurance share of technical provisions (reinsurance recoverables) calculated under Solvency II and IFRS. The changes in the reconciliation reserve from the previous reporting period arises from the difference in the technical provisions and the reinsurance share of technical provisions from the previous reporting year.

The key elements of the reconciliation reserves as at 31 December 2016 is summarised in the table below:

	2016	2015	*Difference*
	€000	€000	€000
Excess of assets over liabilities	**65,476**	78,996	(13,520)
Ordinary Share Capital	**27,961**	27,961	–
Reconciliation Reserve	**37,515**	42,835	(5,320)

c. Subordinated loan (Tier 2)

During 2014, the Company entered into a subordinated loan agreement with the immediate parent for an amount of €11.5 million, of which €3.3 million was repaid during 2015. The subordinated loan balance of €8.2 million was fully repaid in July 2016.

E.1.3 Eligible own funds to cover the SCR and MCR

The table below summarises the Company's Eligible Own Funds used to cover the SCR and MCR as at 31 December 2016:

Eligible own funds (Tier 1 and Tier 2)	**2016**
	€000
Ordinary share capital – Tier 1	27,961
Reconciliation reserve – Tier 1	37,515
Subordinated Loan – Tier 2	-
Excess of assets over liabilities	65,476
SCR	24,729
MCR	11,128
Ratio of Eligible own funds to SCR	265%
Ratio of Eligible own funds to MCR	588%

The Company's basic own fund items are all eligible to cover the SCR and MCR in view that they are Tier 1 Basic Own Fund items.

E. Capital management (continued)

E.1.4 Material differences between Equity under IFRS and the Excess of assets over liabilities under Solvency II

E.1.4.1 Equity versus Excess of assets over liabilities

The table below summarises the difference between the total shareholders' equity in the IFRS statutory accounts and the Excess of assets over liabilities for solvency purposes:

IFRS versus Solvency II	**2016**	2015	*Difference*
	€000	€000	€000
Total shareholders' equity IFRS	**80,889**	84,073	(3,184)
Solvency II adjustments	**(15,413)**	(5,077)	(10,336)
Excess of assets over liabilities	**65,476**	78,996	(13,520)

Refer to Section D.1 above for the material Solvency II adjustments that have been made.

E.1.5 Transitional arrangements

The Company has not applied any transitional arrangements.

E.1.6 Ancillary own funds

The Company does not currently have any ancillary own funds.

E.1.7 Significant restriction affecting the availability and transferability of own funds

The Company does not deduct any items from own funds and has no restrictions on the availability and transferability of its own funds as it is all Tier 1.

E.1.8 Own fund ratios

The Company does not disclose any ratios in addition to the SCR and MCR ratios resented in S.23.01.01 in Appendix 1.

E.1.9 Principal loss absorbency mechanism and trigger point

The principal loss absorbency mechanisms ("PLAM") and trigger point in terms of paragraph (1)(e) of Article 71 of the Delegated Regulations only applies to the following own funds items:

- paid-in subordinated mutual member accounts;
- paid-in preference shares and the related share premium account; and
- paid-in subordinated liabilities.

In view that the Company's strategy is to hold Tier 1 Basic Own Fund Items and does not make use of any of the own funds items listed above, the PLAM and related trigger points are not currently of significant importance.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency and Minimum Capital Requirement as at 31 December 2016

The SCR and MCR of the Company as at 31 December 2016 is presented in the table below:

	2016
	€000
SCR	24,729
MCR	11,128

There are no balances relating to the SCR and MCR which are currently under supervisory assessment. The final amount of the SCR remains subject to supervisory assessment.

E.2.1.1 Solvency Capital Requirement as at 31 December 2016 split by risk modules

The breakdown of the SCR by risk modules as calculated by the Standard Formula is presented in the table below:

Risk Module	**2016**
	€000
Market Risk	13,851
Counterparty Default Risk	2,619
Life Underwriting Risk	25,161
Health Underwriting Risk	–
Undiversified BSCR	**41,631**
Diversification	(9,117)
BSCR	**32,514**
Operational Risk	1,939
SCR before the Loss absorbing capacity of deferred taxes	**34,453**
Loss absorbing capacity of deferred taxes	(9,723)
SCR after the Loss absorbing capacity of deferred taxes	**24,730**

The Company does not use an internal model or undertaking-specific parameters to calculate the SCR.

E.2.1.2 Simplified calculations used for standard formula

No simplifications have been used to calculate the SCR under the standard formula.

E.2.1.3 Undertaking- specific parameters used for standard formula calculations

No undertaking-specific parameters have been used to calculate the SCR under the standard formula calculations.

E.2.1.4 Capital add-on

The Company is not required to hold any additional regulatory capital add-on.

E.2.1.5 Minimum Capital Requirement inputs

The MCR is calculated using the method prescribed by the Solvency II EU Commission Delegated Regulations 2015/35. The inputs used in this calculation are detailed below:

- With-profit obligations relating to the guaranteed benefits;
- With-profit obligations relating to the discretionary benefits;
- Unit-linked obligations;
- Total Capital at risk for all life insurance obligations, after allowing for reinsurance; and
- SCR.

The BEL for non-linked products is set to a minimum of zero in order to avoid reducing the Minimum Capital Requirement, in line with the EU Commission Delegated Regulations 2015/35.

E.2.1.6 Material change to the Solvency Capital Requirement and to the Minimum Capital Requirement

The table below summarised the SCR and MCR as at December 2015 and 2016:

	2016	2015
	€000	€000
SCR	**24,729**	23,715
MCR	**11,128**	10,672

The table above shows that there have been no material changes to the SCR and MCR over the reporting period.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

Duration-based equity risk sub-module has not been applied in the calculation of the SCR.

E.4 Difference between the standard formula and internal model used

The Company does not currently use an internal model to calculate the SCR.

E.5 Non-compliance with minimum capital and solvency capital requirements

The Company has complied with both the SCR and MCR during the year. The ORSA report also shows that the Company will continue to comply with the SCR and MCR through the business planning period.

E.6. Any other information

There is no other material information regarding capital management that has not already been disclosed in sections E.1 – E.5 above.

HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in EUR thousands)

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

GENERAL INFORMATION	
Undertaking name	HSBC Life Assurance (Malta) Ltd
Undertaking identification code	213800PHEXBQ72MHLW71
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	MT
Language of reporting	ENG
Reporting reference date	31 December 2016
Currency used for reporting	EUR
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

LIST OF REPORTED TEMPLATES	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses
S.12.01.02	Life and Health SLT Technical Provisions
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.02.01.01

Balance Sheet

	Solvency II value
	€000
Assets	
Intangible assets	–
Deferred tax assets	**59**
Pension benefit surplus	–
Property, plant & equipment held for own use	**3**
Investments (other than assets held for index-linked and unit-linked contracts)	**348,248**
Property (other than for own use)	**2,846**
Holdings in related undertakings, including participations	–
Equities	**18,949**
Equities – listed	**18,949**
Equities – unlisted	–
Bonds	**292,238**
Government Bonds	**199,566**
Corporate Bonds	**92,671**
Structured notes	–
Collateralised securities	–
Collective Investments Undertakings	**34,214**
Derivatives	–
Deposits other than cash equivalents	–
Other investments	–
Assets held for index-linked and unit-linked contracts	**1,135,566**
Loans and mortgages	–
Loans on policies	–
Loans and mortgages to individuals	–
Other loans and mortgages	–
Reinsurance recoverables from:	**1,359**
Non-life and health similar to non-life	–
Non-life excluding health	–
Health similar to non-life	–
Life and health similar to life, excluding index-linked and unit-linked	**1,434**
Health similar to life	–
Life excluding health and index-linked and unit-linked	**1,434**
Life index-linked and unit-linked	**(76)**
Deposits to cedants	–
Insurance and intermediaries receivables	**978**
Reinsurance receivables	**490**
Receivables (trade, not insurance)	**5,317**
Own shares (held directly)	–
Amounts due in respect of own fund items or initial fund called up but not yet paid in	–
Cash and cash equivalents	**58,493**
Any other assets, not elsewhere shown	**58**
Total assets	**1,550,569**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.02.01.02
Balance Sheet

	Solvency II value
	€000
Liabilities	
Technical provisions – non-life	–
Technical provisions – non-life (excluding health)	–
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions – health (similar to non-life)	–
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions – life (excluding index-linked and unit-linked)	**327,089**
Technical provisions – health (similar to life)	–
TP calculated as a whole	–
Best Estimate	–
Risk margin	–
Technical provisions – life (excluding health and index-linked and unit-linked)	**327,089**
TP calculated as a whole	–
Best Estimate	**313,853**
Risk margin	**13,236**
Technical provisions – index-linked and unit-linked	**1,122,766**
TP calculated as a whole	–
Best Estimate	**1,118,352**
Risk margin	**4,413**
Contingent liabilities	–
Provisions other than technical provisions	**2,400**
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	**22,447**
Derivatives	–
Debts owed to credit institutions	–
Financial liabilities other than debts owed to credit institutions	–
Insurance & intermediaries payables	**6,550**
Reinsurance payables	**1,301**
Payables (trade, not insurance)	**2,540**
Subordinated liabilities	–
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	–
Any other liabilities, not elsewhere shown	
Total liabilities	**1,485,093**
Excess of assets over liabilities	**65,476**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.05.01.02

Premiums, claims and expenses by line of business

Life	*Line of Business for: life insurance obligations*			
	Insurance with profit participation	*Index-linked and unit-linked insurance*	*Other life insurance*	*Total*
	€000	**€000**	**€000**	**€000**
Premiums written				
Gross	**21,521**	**30,194**	**13,898**	**65,613**
Reinsurers' share	**–**	**–**	**4,543**	**4,543**
Net	**21,521**	**30,194**	**9,355**	**61,070**
Premiums earned				
Gross	**–**	**–**	**–**	**–**
Reinsurers' share	**–**	**–**	**–**	**–**
Net	**–**	**–**	**–**	**–**
Claims incurred				
Gross	**21,837**	**165,603**	**367**	**187,807**
Reinsurers' share	**18**	**–**	**176**	**194**
Net	**21,818**	**165,603**	**191**	**187,613**
Changes in other technical provisions				
Gross	**9,698**	**(41,666)**	**5,521**	**(26,448)**
Reinsurers' share	**–**	**–**	**2,971**	**2,971**
Net	**9,698**	**(41,666)**	**2,550**	**(29,419)**
Expenses incurred	**1,645**	**2,921**	**3,705**	**8,270**
Other expenses				**–**
Total expenses				**8,270**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.05.01.02

Premiums, claims and expenses by line of business

Life	*Home Country*	*Top 5 countries (by amount of gross premiums written) – life obligations*			*Top 5 countries (by amount of gross premiums written) – life obligations*		*Total Top 5 and home country*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Premiums written							
Gross	**64,569**	–	–	–	–	–	**64,569**
Reinsurers' share	**4,543**	–	–	–	–	–	**4,543**
Net	**60,026**	–	–	–	–	–	**60,026**
Premiums earned							
Gross	–	–	–	–	–	–	–
Reinsurers' share	–	–	–	–	–	–	–
Net	–	–	–	–	–	–	–
Claims incurred							
Gross	**44,152**	–	–	–	–	–	**44,152**
Reinsurers' share	**194**	–	–	–	–	–	**194**
Net	**43,958**	–	–	–	–	–	**43,958**
Changes in other technical provisions							
Gross	**34,976**	–	–	–	–	–	**34,976**
Reinsurers' share	**7,202**	–	–	–	–	–	**7,202**
Net	**27,774**	–	–	–	–	–	**27,774**
Expenses incurred	**8,270**	–	–	–	–	–	**8,270**
Other expenses							–
Total expenses							**8,270**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.12.01.02

Life and Health SLT Technical Provisions

	Insurance with profit participation	*Index-linked and unit-linked insurance*			*Other life insurance*					
			Contracts without options and guarantees	*Contracts with options or guarantees*		*Contracts without options and guarantees*	*Contracts with options or guarantees*	*Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations*	*Accepted reinsurance*	*Total (Life other than health insurance, including Unit-Linked)*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Technical provisions calculated as a whole										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	–	–	–	–	–	–	–	–	–	–
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Gross Best Estimate	**322,240**	–	**1,118,352**	–	–	**(8,387)**	–	–	–	**1,432,206**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default"	–	–	**(76)**	–	–	**1,434**	–	–	–	**1,359**
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**322,240**	–	**1,118,428**	–	–	**(9,821)**	–	–	–	**1,430,847**
Risk margin	**1,010**	**4,413**	–	–	**12,226**	–	–	–	–	**17,649**
Amount of the transitional on Technical Provisions										
Technical Provisions calculated as a whole	–	–	–	–	–	–	–	–	–	–
Best estimate	–	–	–	–	–	–	–	–	–	–
Risk margin	–	–	–	–	–	–	–	–	–	–
Technical provisions – total	**323,250**	**1,122,766**	–	–	**3,839**	–	–	–	–	**1,449,855**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.23.01.01
Own Funds

	Total	*Tier 1 unrestricted*	*Tier 1 restricted*	*Tier 2*	*Tier 3*
	€000	**€000**	**€000**	**€000**	**€000**
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)	27,961	27,961	–	–	–
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	37,515	37,515	–	–	–
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	65,476	65,476	–	–	–
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	65,476	65,476	–	–	–
Total available own funds to meet the MCR	65,476	65,476	–	–	–
Total eligible own funds to meet the SCR	65,476	65,476	–	–	–
Total eligible own funds to meet the MCR	65,476	65,476	–	–	–
SCR	24,729	–	–	–	–
MCR	11,128	–	–	–	–
Ratio of Eligible own funds to SCR	264.78%	–	–	–	–
Ratio of Eligible own funds to MCR	588.39%	–	–	–	–
Reconcilliation reserve					
Excess of assets over liabilities	65,476	–	–	–	–
Own shares (held directly and indirectly)	–	–	–	–	–
Foreseeable dividends, distributions and charges	–	–	–	–	–
Other basic own fund items	27,961	–	–	–	–
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	–	–	–	–	–
Reconciliation reserve	37,515	–	–	–	–
Expected profits					
Expected profits included in future premiums (EPIFP) – Life business	26,341	–	–	–	–
Expected profits included in future premiums (EPIFP) – Non- life business	–	–	–	–	–
Total Expected profits included in future premiums (EPIFP)	**26,341**	**–**	**–**	**–**	**–**

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

	Gross solvency capital requirement	*USP*	*Simplifications*
	€000	**€000**	**€000**
Market risk	39,222	–	–
Counterparty default risk	2,619	–	–
Life underwriting risk	25,161	9	–
Health underwriting risk	–	9	–
Non-life underwriting risk	–	9	–
Diversification	(14,504)	–	–
Intangible asset risk	–	–	–
Basic Solvency Capital Requirement	52,498	–	–
Calculation of Solvency Capital Requirement			
Operational risk	1,939	–	–
Loss-absorbing capacity of technical provisions	(19,984)	–	–
Loss-absorbing capacity of deferred taxes	(9,723)	–	–
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	–	–	–
Solvency Capital Requirement excluding capital add-on	24,729	–	–
Capital add-ons already set	–	–	–
Solvency capital requirement	24,729	–	–
Other information on SCR			
Capital requirement for duration-based equity risk sub-module	–	–	–
Total amount of Notional Solvency Capital Requirements for remaining part	–	–	–
Total amount of Notional Solvency Capital Requirements for ring fenced funds	–	–	–
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	–	–	–
Diversification effects due to RFF nSCR aggregation for article 304	–	–	–

F. Appendix I: Quantitative reporting templates ("QRTs") (continued)

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations		*Net (of reinsurance/ SPV) best estimate and TP calculated as a whole*	*Net (of reinsurance) written premiums in the last 12 months*
	€000	**€000**	**€000**
Medical expense insurance and proportional reinsurance	–	–	–
Income protection insurance and proportional reinsurance	–	–	–
Workers' compensation insurance and proportional reinsurance	–	–	–
Motor vehicle liability insurance and proportional reinsurance	–	–	–
Other motor insurance and proportional reinsurance	–	–	–
Marine, aviation and transport insurance and proportional reinsurance	–	–	–
Fire and other damage to property insurance and proportional reinsurance	–	–	–
General liability insurance and proportional reinsurance	–	–	–
Credit and suretyship insurance and proportional reinsurance			
Legal expenses insurance and proportional reinsurance	–	–	–
Assistance and proportional reinsurance	–	–	–
Miscellaneous financial loss insurance and proportional reinsurance	–	–	–
Non-proportional health reinsurance	–	–	–
Non-proportional casualty reinsurance	–	–	–
Non-proportional marine, aviation and transport reinsurance	–	–	–
Non-proportional property reinsurance	–	–	–
Linear formula component for life insurance and reinsurance obligations			
MCR_L Result	15,946	–	–

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	*Net (of reinsurance/ SPV) total capital at risk*
	€000	**€000**	**€000**
Obligations with profit participation – guaranteed benefits	–	273,269	–
Obligations with profit participation – future discretionary benefits	–	48,972	–
Index-linked and unit-linked insurance obligations	–	1,118,428	–
Other life (re)insurance and health (re)insurance obligations	–	–	–
Total capital at risk for all life (re)insurance obligations	–	–	789,234
Overall MCR calculation			
Linear MCR	15,946	–	–
SCR	24,729	–	–
MCR cap	11,128	–	–
MCR floor	6,182	–	–
Combined MCR	11,128	–	–
Absolute floor of the MCR	3,700	–	–
Minimum Capital Requirement	**11,128**	–	–

Published by HSBC Life Assurance (Malta) Ltd., Malta.

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