HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report 2018

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 plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises around 3,900 offices in 67 countries and territories in Europe, Asia, North America, Latin America, and the Middle East and North Africa.

HSBC Life Assurance (Malta) Ltd.
Registered in Malta: C18814
Registered Office and Head Office:
80 Mill Street
Qormi QRM 3101
Malta
Telephone: 356 2380 8699
Facsimile: 356 2380 8691
www.hsbc.com.mt

Contents

Summary

HSBC Life Assurance (Malta) Ltd ("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 2018 position was 289%, with own funds of €76.1m and a SCR of €26.3m.

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 reviews 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 2018.

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 to 55 of the Solvency II Directive 2009/138/EC ("Solvency II Directive").

This document aims to provide the information required in accordance with Article 365 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:

a. 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

b. 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 15 April 2019 and was signed on its behalf by:

Stuart J Fairbairn
Director of HSBC Life Assurance (Malta) Ltd

15 April 2019

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 2018. 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 plc, 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 plc 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 plc, 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.

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 2018 Annual Report ("Audited Financial Statements"). The Company prepares its Financial Statements in accordance with International Financial Reporting Standard ("IFRS").

A.1.7 Significant events

There have been no significant events which had a material impact on the Company during 2018.

On 7 December 2018, the Company transferred a group of policies forming part of the Wealth Insurance Italy portfolio to Lombard International Assurance S.A., in line with the Portfolio Transfer Agreement entered into on 9 November 2017. This portfolio formed part of a larger portfolio which was acquired in 2014. This transaction will not have a significant impact on future years' profits, Own Funds and SCR.

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 2017 and 2018 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*	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Premiums written								
Gross	**24,162**	40,457	**67,553**	28,720	**14,187**	14,010	**105,902**	83,187
Reinsurers' share	**–**	–	**–**	–	**3,724**	3,482	**3,724**	3,482
Net	**24,162**	40,457	**67,553**	28,720	**10,463**	10,528	**102,178**	79,705
Claims incurred								
Gross	**43,470**	45,337	**99,718**	289,413	**20,636**	3,224	**163,824**	337,974
Reinsurers' share	**–**	–	**–**	–	**19,699**	2,744	**19,699**	2,744
Net	**43,470**	45,337	**99,718**	289,413	**937**	480	**144,125**	335,230
Changes in other technical provisions								
Gross	**(27,241)**	(6,700)	**(522,815)**	(236,375)	**1,611**	1,776	**(548,445)**	(241,299)
Reinsurers' share	**–**	–	**–**	–	**(651)**	76	**(651)**	76
Net	**(27,241)**	(6,700)	**(522,815)**	(236,375)	**2,262**	1,700	**(547,794)**	(241,375)
Total expenses incurred	**1,319**	1,845	**3,456**	3,793	**2,794**	3,373	**7,569**	9,011

A. Business and performance (continued)

The explanation of the differences seen as at 31 December 2017 and 2018 is summarised below:

- The decrease in gross written premium for the insurance with profit participation is largely due to the With Profits single premium business, which was offered through a limited tranche of €5m in 2018. The increase in gross written premium for the Index-linked and unit-linked insurance is mainly attributable to one-off premiums paid into the investment policy book which was sold to Lombard International Assurance S.A. Aside from the above, premium written remained broadly at the same level to the previous year.
- The decrease in claims incurred for the Index-linked and unit-linked insurance is mainly due to lower maturities, surrenders and claims of the investment products, particularly in relation to the acquired portfolio. The increase in claims incurred in the Other life insurance products is mainly due to a reinsured material claim incurred by the Company in 2018. Aside from the above, claims incurred remained broadly at the same level to the previous year.
- 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 and the transfer of a group of policies forming part of the Wealth Insurance Italy portfolio to Lombard International Assurance S.A., in line with the Portfolio Transfer Agreement entered into on 9 November 2017.
- The overall decrease in expenses is mainly due to a provision in relation to a portfolio of onerous contracts accounted for in 2017 and other one-off expenses incurred in 2017. The decrease in expenses in relation to the index-linked and unit-linked insurance, is largely the result of the provision in relation to the portfolio of onerous contracts accounted for during 2017. This provision amount was revised in 2018 and further details are presented in Note 23 in the Audited Financial Statements.

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 and property. 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 2017 and 2018 is summarised by asset type below:

	Bonds (including structured notes)	*Equities (including investment funds)*	*Cash and deposits*	*Mortgages and Loans*	*Property*	*Derivatives*	*Total*
	2018	2018	2018	2018	2018	2018	2018
	€000	€000	€000	€000	€000	€000	€000
Dividends	–	2,293	–	–	–	–	2,293
Interest	20,089	–	417	(498)	–	–	20,008
Realised/ unrealised gains and losses	(16,191)	(66,278)	126	–	379	14	(81,950)
Total	**3,898**	**(63,985)**	**542**	**(498)**	**379**	**14**	**(59,650)**
	2017	2017	2017	2017	2017	2017	2017
	€000	€000	€000	€000	€000	€000	€000
Dividends	–	4,288	–	–	–	–	4,288
Interest	28,094	–	131	(627)	–	–	27,598
Realised/ unrealised gains and losses	(14,200)	11,465	(1,220)	792	227	(37)	(2,973)
Total	13,894	15,753	(1,089)	165	227	(37)	28,913

The lower investment returns in 2018, against 2017 was largely the result of market value movements of investments underlying the unit-linked business, which does not have a direct 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:

	2018	2017
	€000	€000
Policyholders' investment portfolio	**–**	(78)
Shareholder's investment portfolio	**(15)**	(72)

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 2017 and 2018 are presented in the table below:

	2018	2017
	€000	€000
Investment Contract Fee Income		
Fixed fees, change in deferred income and annual management charges on transferred portfolio	**1,892**	2,375

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 2017 is mainly 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 to A.4 above.

B. System of Governance

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 eight 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.

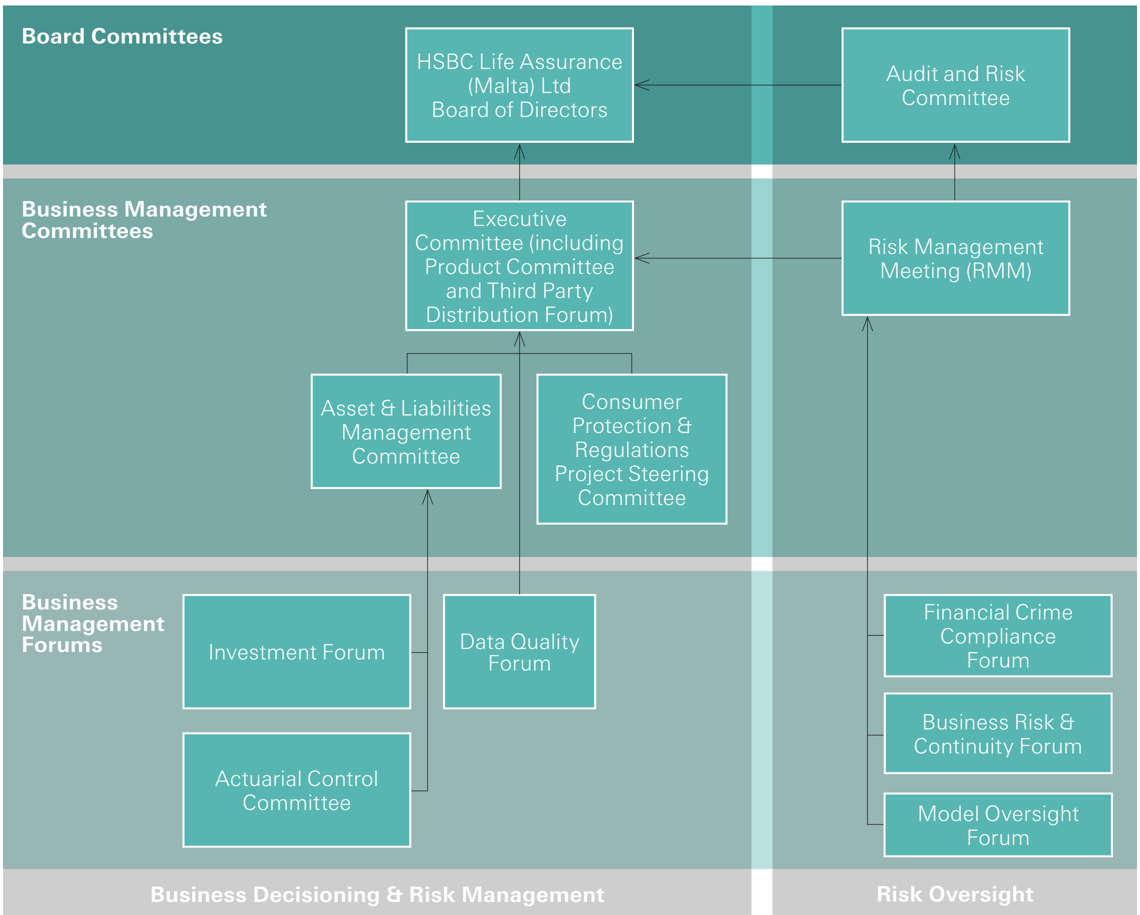
It is the Board's responsibility to review the Company's overall strategy, business planning processes and the performance of Key Functions. In addition, the Board is responsible for the approval of the Company's Board policies and the approval of the persons responsible for Key Functions, in line with 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 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:

a. maintaining high standards of corporate governance;
b. running the business in an efficient and effective manner; and
c. 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.

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



B.1.1.1 Board Committees

The Audit and Risk Committee meets at least quarterly and 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

1. The Executive Management Committee ("EXCO") meets at least ten times a year and 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 HSBC Group Insurance. A sub-committee of the EXCO is the Data Quality Forum which has the primary responsibility for overseeing the implementation of the Company's Data Quality Policy.

2. The Risk Management Meeting ("RMM") meets at least ten times a year and is a meeting 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 sub-committees of RMM are the (i) Finance Crime Compliance Forum which has the primary responsibility for the oversight of FCC risks and issues, (ii) Business Risk and Continuity Forum which has the primary responsibility of overseeing the adherence to the Group Operational Risk Management Framework and (iii) Model Oversight Forum which supports the CRO in discharging their responsibility as the Risk Steward for Model Risks.

3. The Asset and Liabilities Management Committee's ("ALCO") meets quarterly and its primary responsibility is to report to and advise the EXCO on all matters pertaining to the balance sheet 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. ALCO is responsible to report on the compliance with the Solvency II Directive as directed by Article 132 'Prudent Person Principle' of Directive 2009/138/EC. ALCO should consider and manage conduct risks and ensure positive customer outcomes. The sub-committees of ALCO are i) Investment Forum ("IF") whose primary responsibility is to monitor performance of appointed asset managers and provide recommendations to ALCO ii) Actuarial Control Committee ("ACC") whose primary responsibilities is to support the Head of Insurance Finance and Chief Actuary to ensure appropriate governance and control exists for the use of actuarial judgement impacting IFRS, Economic Capital, and local regulatory solvency. ACC's decision requiring ratification should be escalated to local ALCO. ALCO is an advisory committee to support the Head of Insurance Finance's individual accountability for ALCO issues. The Head of Insurance Finance chairs the ALCO and is the executive accountable for ALCO issues and ALCO decisions. The Parent Committee of the ALCO is Insurance Executive Committee (EXCO).

4. The Consumer Protection Regulations & Project Steering Committee meets monthly and 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:

a. understand and manage the most significant risks faced by the Company;

b. take effective decisions around business opportunities; and

c. 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

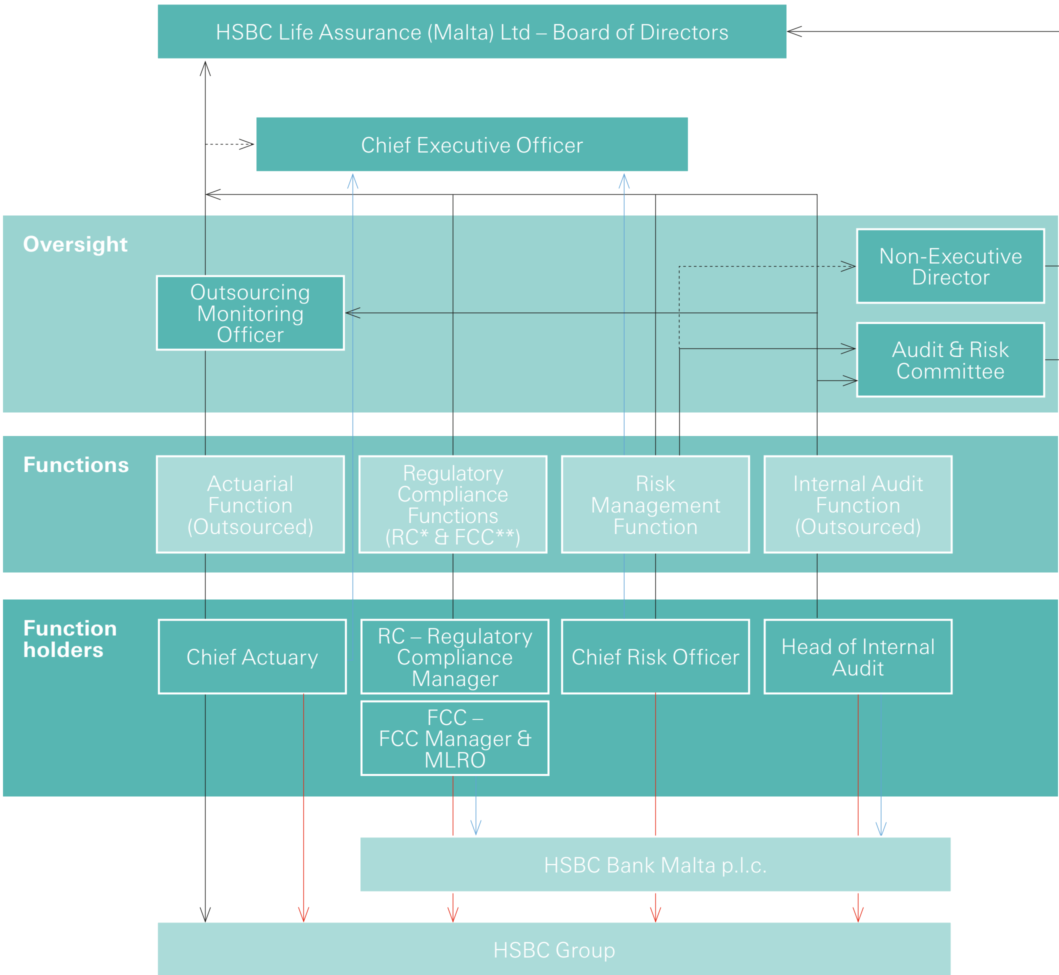
- First Line of Defence: This is provided by Management and staff who are responsible for the day to day management, control and reporting of risk exposures. Risk exposures are monitored against risk appetite and risk tolerance limits, and key performance indicators, set by the Company. Stress and scenario testing are also performed to assess the adequacy of mitigation plans in place. Key risk issues are reported to the RMM, the EXCO, the Audit and Risk Committee 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 Regulatory Compliance ("RC") and Financial Crime Functions also forms part of the second line of defence.
- Third Line of Defence: This comprises of the Internal Audit Function 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.

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, but instead they are entrusted to Key Function holders who all have direct reporting lines to the Board.

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 reporting
Blue straight line – Entity 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 the Group Chief Actuary. The Chief Actuary currently has a direct reporting line to the Board and his responsibilities include, but are not limited to, the determination of the technical provisions that are held on the Company's balance sheet and the calculation of the Solvency Capital Requirement ("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. During 2018 the Company's CRO, a qualified actuary, was designated as the person responsible for the oversight of the outsourced Actuarial Function.

2. Compliance Function:

   The RC Officer leads 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. The RC Officer 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. The Financial Crime Compliance ("FCC") function is led by the FCC Manager and focuses specifically on compliance matters related to the Prevention of Money Laundering and Financing Terrorism.

3. Risk Management Function ("RMF"):

   The CRO heads the RMF and leads the Company in 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 fall under the CRO's responsibility.

   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 and 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 from 1 January 2018 up to 15 April 2019:

RESIGNATIONS	APPOINTMENTS
Rashid Daurov – 28/06/2018	**Eric Emoré – 19/07/2018**
Philip Farrugia – 20/02/2019	**Joyce Grech – 29/08/2018**

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 Board who acts as the Company's Remuneration Committee. The Board is responsible for the establishment of general principles through the approval of the Remuneration Policy. The Board has the oversight of the implementation of the 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

Employees' 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 formalised 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.

In March 2018, the Company paid an interim dividend of €6,000,000 to its parent, HBMT following approval by the Board on 16 February 2018.

There were no other material transactions with Shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory board, other than transactions in the normal course of business.

Related party transactions are presented in Note 28 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 Compliance Officer, for further action. The Chief Operating Officer ("COO") will then assess whether there should be further escalation to RC and also Risk Management Meeting.

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 compliance function is responsible for the oversight of the application of the Fit and Proper requirements. As part of the recruitment process, the COO 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 Officer. Moreover, employees are required to notify their line manager and the RC Officer in the event of change to their fitness and/or propriety. The RC Officer 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, and 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="3">FIT AND PROPER ROLES[1]</th><th>SHOULD BE INCLUDED IN F&P REGISTER</th><th>MFSA APPROVAL REQUIRED</th><th>MINIMUM EXPERIENCE REQUIREMENT</th></tr>
<tr><td colspan="5">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>Andrew Beane (Chair)
Stuart Fairbairn
Daniel Robinson
Ingrid Azzopardi
Mary Grace Demicoli
Harpal Karlcut
Eric Emoré
Joyce Grech</td><td>Yes</td><td>Yes</td></tr>
<tr><td>2</td><td>Chief Executive Officer (CEO)</td><td>Stuart Fairbairn</td><td>Yes</td><td>Yes</td></tr>
<tr><td colspan="5">Heads of Key Functions</td></tr>
<tr><td>3</td><td>Chief Risk Officer (CRO)</td><td>Chris Plank</td><td>Yes</td><td>Yes</td></tr>
<tr><td>4</td><td>Approved Actuary and Head of Actuarial Function</td><td>Dave Doughty</td><td>Yes</td><td>Yes</td></tr>
<tr><td>5</td><td>Head of Insurance Finance</td><td>Mary Grace Demicoli</td><td>Yes</td><td>Yes</td></tr>
<tr><td>6</td><td>Head of Internal Audit</td><td>Anna Camilleri</td><td>Yes</td><td>Yes</td></tr>
<tr><td>7</td><td>Head of Regulatory Compliance (Compliance Officer)</td><td>Andrew Theuma</td><td>Yes</td><td>Yes</td></tr>
<tr><td>8</td><td>Money Laundering Risk Officer (MLRO)</td><td>Paul Saliba</td><td>Yes</td><td>Yes</td></tr>
<tr><td>9</td><td>Chief Operating Officer (COO)</td><td>Doreen Balzan</td><td>Yes</td><td>Yes</td></tr>
<tr><td>10</td><td>Head of Underwriting and Claims</td><td>Mario Fenech</td><td>Yes</td><td>Yes</td></tr>
<tr><td>11</td><td>Chief Investment Officer</td><td>Josianne Camilleri</td><td>Yes</td><td>Yes</td></tr>
</table>

[1]*Fit and Proper Roles as at 15 April 2019.*

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.

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 checks for fitness and propriety of Key Function Holders is undertaken annually as part of the appraisal process (at a minimum). It is the duty of all Key Function holders to inform CEO/Board of Directors of any changes in their personal circumstances that would impact the routine ongoing assessment of their propriety.

B.2.2.3 Key function holders re-assessments

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.

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.
- Risk Management;
- Auditing;
- Cyber Security;
- Standard of Conduct;
- Time Commitment; and
- Independence.

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.

The reassessment of the Board's collective and individual compliance with the Fit and Proper requirements shall be undertaken on an ongoing basis by the Company Secretary, this being at least annually or when a member resigns or retires and when a new 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 should designate a person with overall responsibility for the outsourced key function that is Fit and Proper and possesses sufficient knowledge and experience regarding the outsourced key function. This person should be able to challenge the performance and results of the service provider. The designated INMT outsourcing monitoring officer (OMO) needs to be assessed for the fitness and proprietary in terms of this policy. If the OMO is designated to oversee the outsourcing of a key function (OMOKF), the enhanced fitness and propriety checks for key function roles apply. In addition the outsourcing monitoring officer needs to be notified to the MFSA and is considered to be responsible for that key function.

When outsourcing a key function, the OMOKF is to ensure that the fitness and propriety of staff within outsourced entities is undertaken in line with this policy. The INMT OMOKF for the respective outsourced activity is required to obtain written evidence from the outsourced party, that the fitness and propriety of the persons within the outsourced party working on INMT matters has been assessed and the basis on which this has been assessed. Confirmation of the type of check/assessments undertaken also needs to be 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 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.

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.

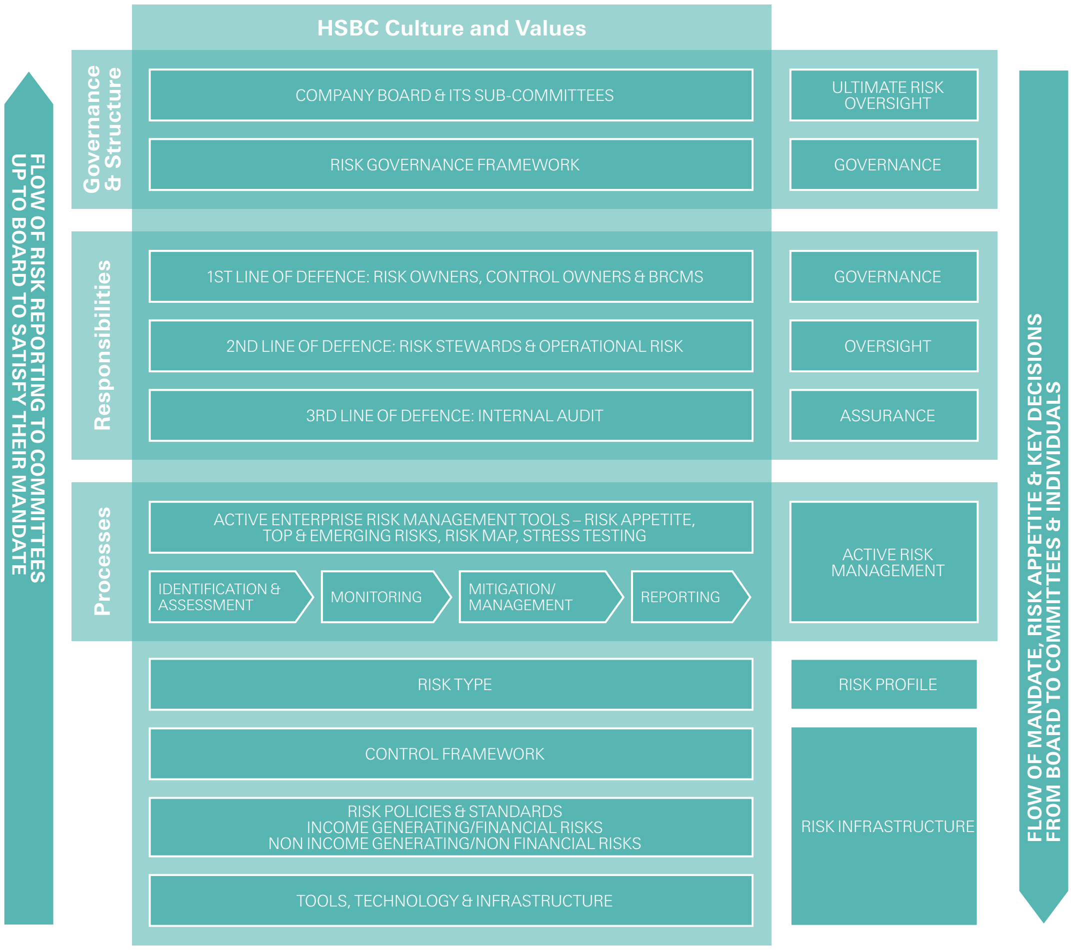
The Board sets the Company's strategy, business plans, performance targets, risk appetite and risk tolerance limits, and in so doing, the Board assumes an essential role in providing the 'tone from the top' to embed the risk culture within the Company.

The day-to-day responsibility of the RMF is facilitated through the risk governance structures in place which support reporting and escalation. 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.

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 Company's AOP.

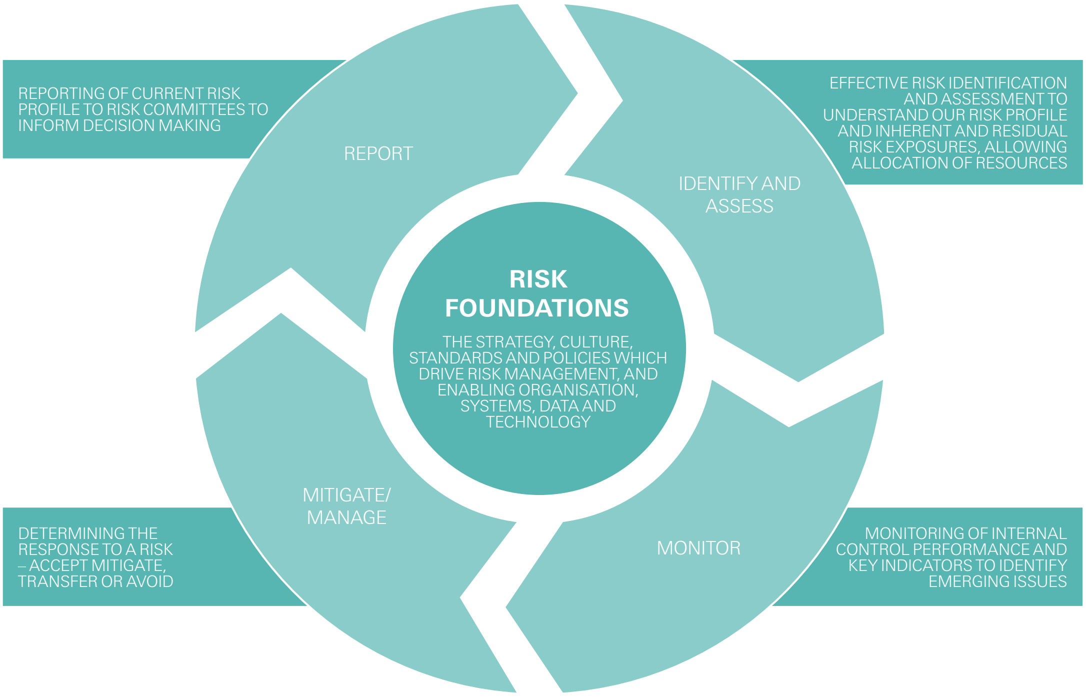
The Company's risk appetite is established in line with the risk management strategy and objectives. It is expressed in terms of qualitative and quantitative targets which determine how the business will be managed.

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 and Assessment ("IDENTIFY AND ASSESS")

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.

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.3.1.2.2 Risk Assessment ("MONITOR")

Effective monitoring allows business areas to provide senior management with timely information on the risks facing the Group, and on the effectiveness of risk management processes. It enables proactive identification of issues before they materialise and can provide a forward-looking view of risk.

B.3.1.2.3 Risk management and mitigation ("MITIGATE/MANAGE")

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

B.3.1.2.4 Risk reporting ("REPORT")

Reporting requirements will vary by risk type and the severity of risks. Ultimately risk reporting to the board us undertaken through the enterprise wide risk management reports which include the Risk Appetite Dashboard and the Risk Map.

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:

a. 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;

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

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

d. Analyse the extent to which the risk profile deviates from the assumptions underlying the capital requirements;

e. 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;

f. Demonstrate the adequacy of management actions and recovery plans; and

g. Provide evidence that the assessment of risk and solvency is an integral part of the business strategy and is taken into account on an on-going basis in strategic decisions.

The ORSA Process is ongoing and continuous. In light of this, the results of the ORSA processes 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; and
- 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.

B.3.2.2 ORSA Roles and Responsibilities

- The Board is responsible for how the ORSA assessment is performed 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.

B.3.2.3 ORSA Report

The ORSA Report is prepared on a regular basis, at least annually, and without delay following any significant change in the Company's risk profile or external environment by the CRO. The ORSA Report is subsequently presented to Management for consideration and the Board for its approval. The report covers 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. 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 through a '*Risk Control Assessment*' process and additional risk workshops. These processes then feed into the consideration of the appropriateness of the overall capital requirements.

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.

Key controls of the Company are documented across the Risk Management Policy and the HSBC Group risk and control taxonomy. Under the HSBC Group framework the risk and control processes for operational risks include the following:

- Undertaking an inherent risk assessment which assesses the maximum plausible impact on the business over the next 12 months assuming day to day management controls are in place but before considering controls specifically mitigating risk events for a specific risk instance.
- Where risks have been inherently risk rated as Very High or High, a full Risk and Control Assessment (RCA) is carried out. All controls are assessed in order to determine the control effectiveness by the control owner.

- All controls identified in the RCA are compiled into an Internal Control Monitoring Plan (ICMP) where depending on the severity of the risk, the effectiveness of the control is tested on a monthly, quarterly, half yearly or annual basis. Testing is monitored by the Business Risk and Control Management Forum and outcomes of testing are reported to the Risk Management Meeting.
- A residual risk assessment is carried out to assess the level of risk remaining in the context of the control environment. When a risk has been rated as Very High or High the Risk Owner could take action to mitigate the risk through strengthening the processes and/or supporting controls. Alternatively, Risk Acceptance can be considered.

In addition, the System of Governance as described in Section B.1.1 is a fundamental component of the internal control system of the Company.

B.4.2 Implementation of the compliance function

The local compliance function is divided into RC and 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 RMM 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 student members of the Institute and Faculty of Actuaries.

The Company's CRO, also a Fellow of the Institute and Faculty of Actuaries, 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 and Third Party Management 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. The Third Party Risk Policy was introduced by HSBC Group on 31 December 2016 to cover new engagements with Third Parties and renewals. This Policy also applies to single and multiple extensions of existing engagements which either singly or cumulatively exceed 6 months.

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

The following activities are not 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.

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) Ltd	Actuarial Function Agreement	Chief Risk Officer	UK	OMOKF	Key Function
2	HSBC Bank PLC & HSBC Life Assurance (Malta) Ltd	Internal Audit function Agreement	Chairperson of the Audit and Risk committee	Malta	OMOKF	Key Function
3	Lifeware SA & HSBC Life Assurance (Malta) Ltd	Data Storage	Chief Operating Officer	Switzerland	OMOCIF	Critical or Important Activities
4	RGA International Reinsurance Company Limited & HSBC Life Assurance (Malta) Ltd	Reinsurance incl. Claims Handling	Head of Insurance Underwriting & Claims	Ireland	OMOCIF	Critical or Important Activities
5	HSBC Global Services Ltd & HSBC Life Assurance (Malta) Ltd	IGSA CRS TR Migration	Head of Insurance Operations & Business Standards	Sri Lanka	OMOCIF	Critical or Important Activities
6	HSBC Global Operations Company Ltd & HSBC Life Assurance (Malta) Ltd	Indexing of Client Insurance Policies on FVQ & FATCA	Head of Insurance Operations & Business Standards	Sri Lanka	OMOCIF	Critical or Important Activities
7	HSBC Global Asset Management (UK) Ltd & HSBC Life Assurance (Malta) Ltd	Investment of Assets – Portfolio Management	Chief Investment Officer	United Kingdom	OMOCIF	Critical or Important Activities
8	Schroder Investment Management Ltd & HSBC Life Assurance (Malta) Ltd	Investment of Assets – Portfolio Management	Chief Investment Officer	United Kingdom	OMOCIF	Critical or Important Activities
9	HSBC Global Asset Management (Malta) Ltd & HSBC Life Assurance (Malta) Ltd	Investment of Assets – Portfolio Management	Chief Investment Officer	Malta	OMOCIF	Critical or Important Activities
10	HSBC Electronic Data Processing India Private Ltd & HSBC Life Assurance (Malta) Ltd	Knowledge Processing Services – Finance Activities	Head of Insurance Finance	India	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 plc, 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 to 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.	€29,393
Market Risk	The risk of adverse movements in interest rates, market prices, currencies or inappropriate investment practices, causing losses to the Company.	€16,333
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.	€1,677
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.	€1,903
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.

RISK CLASS	SCOPE	SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT) €'000
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

C.1.2.1.1 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 by the Actuarial Function and subject to the oversight of ALCO.

C.1.2.1.2 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.

C.1.2.1.3 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.

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 liquidity within the funds.

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 performance and 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;
  - the levels of liquid funds held against predicted requirement;
  - trigger points (e.g. to invoke liquidity contingency plan); and
  - matched position of linked funds.
- 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 ALCO and Audit and Risk Committee.

Management activities focus on ensuring that the monitoring process operates effectively (i.e. it covers all material risks and remains 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. Certain HLE products allowed, policyholders to appoint external investment managers to manage their assets on a discretionary basis. In these cases, the Company checks that the 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 the investment strategy or risk mitigating measure for its non-linked assets. Any new derivatives proposed for such asset portfolio would be subject to approval of appropriate committees of the Board.

e. Securitised instruments

   The Company does not hold any securitised instruments. Any new investment in securitised instruments would be subject to ALCO approval. Kindly refer to the submitted QRT templates S.06.02.01 for the complete list of assets.

C.2 Material risk concentrations

The Company's highest risk exposure is within the underwriting risk module and arises from mass lapse. The primary driver for this is a reduction in own funds on contracts where the best estimate liabilities are negative, meaning that the policy is expected to generate a profit over its remaining term and thus in the event of a mass lapse event the Company will lose out on future profits. In addition, the Company has the following two specific concentration risk exposures:

a. 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 are included as part of the reinsurance contract, which protects the Company in the event of a downgrade in the reinsurer's credit rating.

b. Cash at bank: this exposure is also accounted for within the capital requirement with respect to counterparty default risk. Cash is held at a bank which has a credit rating of 'AA'.

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 Company's use of reinsurance is 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 €32,015k as at 31 December 2018 (31 December 2017: €24,313k). The increase is mainly driven by the new business written over the year plus change in the expected future lapse rates which is then offset by the emergence of premiums on the existing business.

C.5 Stress testing and sensitivity analysis

During 2018, the Company has conducted a series of scenario tests which are summarised below and are based on discussions which took place during internal scenario workshops. These scenarios were performed using the 31 December 2017 as the base, look at the solvency over the planning horizon and consider the impact before and after actions which can be taken by management.

In all scenarios, the Company's available capital remains above the SCR.

C.5.1 Mortality Event

This scenario considered a mortality event which impacts the mortality assumption and causes a reinsurance default.

Under the scenario the solvency ratio remains above 100% throughout the business planning period (before and after management actions) and reverse stress tests showed that the business is well capitalised to withstand this type of shock.

C.5.2 Cyber Risk Event

This scenario considers a cyber risk event which could create issues with our systems leading to a fine from the regulator and reputational damage.

Under the scenario the solvency ratio remains above 100% throughout the business planning period (before and after management actions) and a reverse stress tests shows the business is well capitalised with withstand such an event.

C.5.3 Jurisdictional Impact

This scenario considers a jurisdictional situation which impacts local market conditions. The scenario was aligned to one of the Banks ICAAP scenarios which considered a property price shock.

The solvency ratio remains above 100% throughout the business planning period (before and after management actions).

C.5.4 A Conduct Risk Event

This scenario considered our product charging and whether this could be deemed unfair to customers and as a result the Company adjust the approach to charging.

The solvency ratio remains above 100% throughout the business planning period (before and after management actions).

C.5.5 Expenses Scenarios

Scenarios were considered which recognise the various expense risks to the business. Costs to the business could increase significantly as a result of increased salary costs, increased Group recharges and change projects (such as IFRS 17). An alternative scenario is that the Company does not actively invest which could impact new business volumes.

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

C.5.6 Scenarios altering New Business Volumes

New business volumes are increased and decreased for each major product line in each of the years 2018 to 2022.

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

C.5.7 Sensitivity Testing

Sensitivity of the current balance sheet to the following are performed:

- Increasing of interest rates and inflation;
- An increase in the Company's expenses;
- A mass lapse event;
- A catastrophe claim event;
- A fall in the price of equities;
- An increase in lapse rates;
- A widening of credit spreads; and
- Assuming there is no surplus within the with profit fund.

The solvency ratio remains above 100% under all sensitivities.

C.6 Any other information

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

D.1 Assets

The Solvency II valuation of each material class of asset is presented in Section D.1.2 below.

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:
   - government bonds;
   - corporate bonds;
   - listed equities;
   - investment funds; and
   - property (other than for own use).

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):
   - government bonds;
   - corporate bonds;
   - listed equities; and
   - investment funds.

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 2018.

As these assets are reported on a fair value basis in the IFRS financial statements, there are no adjustments required for Solvency II purposes, other than in relation to accrued interest. The Solvency II valuations include accrued interest receivable as at 31 December 2018, where applicable, whereas the accrued interest is classified with receivables in the IFRS financial statements.

There are no differences between the recognition and valuation bases for the assets and there have 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. Some changes to the lapse assumptions over the year have been made. 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:

a. Insurance & intermediaries receivables;

b. Reinsurance receivables; and

c. 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

In the IFRS Financial Statements, 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, which is considered to equate to fair value.

Within Solvency II Balance Sheet, cash and cash equivalents comprise of cash and on demand deposits.

There are no differences between the value 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")
b. Computer Software; and
c. Deferred Acquisition Costs.

a. 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.

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

None of these intangible assets are recognised for Solvency II purposes.

There has been no difference in 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.1.1.6 Deferred Tax Asset

Deferred Tax Asset is attributable to temporary differences in relation to property and equipment, share-based payments and other provisions.

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	–	285	(285)
Intangible assets	–	53,019	(53,019)
Deferred tax assets	379	–	379
Pension benefit surplus	–	–	–
Property, plant & equipment held for own use	1	1	–
Investments (other than assets held for index-linked and unit-linked contracts)	329,011	326,237	2,774
Property (other than for own use)	2,199	2,199	–
Holdings in related undertakings, including participations	–	–	–
Equities	16,175	16,175	–
Equities – listed	16,175	16,175	–
Equities – unlisted	–	–	–
Bonds	261,512	258,738	2,774
Government Bonds	167,222	165,642	1,580
Corporate Bonds	94,290	93,096	1,194
Structured notes	–	–	–
Collateralised securities	–	–	–
Collective Investments Undertakings	49,125	49,125	–
Derivatives	–	–	–
Deposits other than cash equivalents	–	–	–
Other investments	–	–	–
Assets held for index-linked and unit-linked contracts	376,913	376,913	–
Loans and mortgages	–	–	–
Loans on policies	–	–	–
Loans and mortgages to individuals	–	–	–
Other loans and mortgages	–	–	–
Reinsurance recoverables from:	(2,786)	85,375	(88,161)
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	(2,691)	85,375	(88,066)
Health similar to life	–	–	–
Life excluding health and index-linked and unit-linked	(2,691)	85,375	(88,066)
Life index-linked and unit-linked	(95)	–	(95)
Deposits to cedants	–	–	–
Insurance and intermediaries receivables	565	565	–
Reinsurance receivables	1,010	1,010	–
Receivables (trade, not insurance)	914	3,711	(2,797)
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	50,010	50,010	–
Any other assets, not elsewhere shown	23	–	23
Total assets	756,040	897,126	(141,086)

In view that the Company adopts IFRS as its financial reporting standards, there are no material differences between the Solvency II and IFRS balance sheet 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 within the IFRS financial statements.

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 reinsurance recoverable is therefore adjusted in consequence of the adjustment. 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 sheet 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 31 December 2018:

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	(9,107)	(2,691)	(6,416)	9,304	2,888
With-Profits	290,224	–	290,224	1,675	291,899
Index-linked and Unit-linked					
Index-linked and Unit-linked	355,003	(95)	355,098	6,966	362,064
Total	**636,120**	**(2,786)**	**638,906**	**17,945**	**656,851**

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 Risk Margin ("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.

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.

D.2.1.2.2 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.2.1.3 Assumptions used to calculate the technical provisions

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

D.2.1.3.1 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 future assumed reversionary bonuses varies in line with the change in the Investment Return assumption 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.2.1.3.2 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 determining 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 the Critical Illness contract. The rates reflected in this table are adjusted to calculate the best estimate of the morbidity assumptions based on the investigations that have 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

An 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.2.1.3.3 Taxation

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

D.2.1.4 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 sheet are also affected by volatility in the financial markets, for example the equity and bond markets. Where assets held on the balance sheet are affected, this may increase the value of technical provisions due to the cost of covering guarantees on the with-profits portfolio.

D.2.1.5 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 were 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 are calculated as the sum of the BEL, CoG and RM. If the with-profit fund is in surplus, the CoG reserve is held within the with-profit fund and does not form part of the technical provisions. However, if the with-profit fund is in deficit, part of CoG not supported by the with-profit fund is temporarily supported by the Company by increasing the technical provisions until the fund returns to surplus.

The BEL is calculated using the best estimate assumptions and the liabilities can be negative.

The key methodology differences are:

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

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

c. 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.2.1.6 Matching adjustment to the EIOPA risk-free interest rates

The Company does not apply the matching adjustment.

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

The Company does not apply the volatility adjustment.

D.2.1.8 Transitional risk-free interest rate-term structure

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

D.2.1.9 Transitional deduction

The Company does not apply the transitional deduction.

D.2.1.10 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.2.1.11 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.2.1.12 Off Balance Sheet items

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

D.3 Other liabilities

The Solvency II valuation of each material class of liability is presented in section D.3.3 below.

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:

1. Deferred tax liabilities
2. Payables; and
3. Provision for liabilities and charges

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 are recognised on 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 is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. 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. Section D.3.3.1 contains further information on the SII valuation basis.

D.3.2.2 Payables

The payables of the Company comprise of the following items:

a. Insurance & intermediaries payables;
b. Reinsurance payables; and
c. 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.3.2.3 Provision for liabilities and charges

A provision for contingent liabilities and charges is recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

The Company holds a provision in relation to an onerous contract which results from a closed investment product where related income is based on balances under management, whilst related costs are predominantly fixed. The provision for liabilities and charges represents an estimate of future losses and is substantially not current in nature. Provision for liabilities and charges are presented in Note 23 in the Audited Financial Statements.

This provision was classified within technical provisions in the Solvency II Balance Sheet, and valued in accordance with section D.2.

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

	Solvency II value	IFRS value	Difference
	€000	**€000**	**€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)	292,096	407,950	(115,854)
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)	292,096	407,950	(115,854)
TP calculated as a whole	–	–	–
Best Estimate	281,117	–	281,117
Risk margin	10,979	–	10,979
Technical provisions – index-linked and unit-linked	361,969	376,885	(14,916)
TP calculated as a whole	–	–	–
Best Estimate	355,003	–	355,003
Risk margin	6,966	–	6,966
Other technical provisions	–	–	–
Contingent liabilities	–	–	–
Provisions other than technical provisions	–	–	–
Pension benefit obligations	–	–	–
Deposits from reinsurers	–	–	–
Deferred tax liabilities	15,269	18,308	(3,039)
Derivatives	–	–	–
Debts owed to credit institutions	–	–	–
Debts owed to credit institutions resident domestically	–	–	–
Debts owed to credit institutions resident in the euro area other than domestic	–	–	–
Debts owed to credit institutions resident in rest of the world	–	–	–
Financial liabilities other than debts owed to credit institutions	–	–	–
Debts owed to non-credit institutions	–	–	–
Debts owed to non-credit institutions resident domestically	–	–	–
Debts owed to non-credit institutions resident in the euro area other than domestic	–	–	–
Debts owed to non-credit institutions resident in rest of the world	–	–	–
Other financial liabilities (debt securities issued)	–	–	–
Insurance & intermediaries payables	6,349	10,204	(3,855)
Reinsurance payables	1,275	1,323	(48)
Payables (trade, not insurance)	3,017	–	3,017
Subordinated liabilities	–	–	–
Subordinated liabilities not in BOF	–	–	–
Subordinated liabilities in BOF	–	–	–
Any other liabilities, not elsewhere shown	–	125	(125)
Total liabilities	**679,975**	**814,795**	**(134,820)**

D.3.3.1 Deferred tax

Any adjustments made to the IFRS balance sheet for the purpose of Solvency II reporting should be considered for potential related deferred tax adjustments. The adjustments represent the tax effect of the valuation differences between the IFRS basis and the Solvency II basis namely the PVIF, technical provisions and reinsurance. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

D.3.3.2 Insurance & intermediaries payables and Payables (trade, not insurance)

The differences between these two line items in the table above result from a different manner of classification under Solvency II as compared to IFRS.

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 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 to 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 SCR, for the following reasons:

a. 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;

b. 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

c. To protect against regulatory intervention.

The optimum level of capital buffer ensures that:

a. A capital injection is not required over the planning time horizon with an acceptable confidence level; and

b. 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

There were no material changes in the objectives, policies and processes employed for managing own funds. As part of the Capital Management Framework annual review, the target capital level was updated in line with the business' 5 year plans.

E.1.2 Structure, amount and quality of own funds

The Company's Own Funds as at 31 December 2018 comprised only of Tier 1 Basic Own Funds, with no Ancillary Own Funds requiring regulatory approval. The Company does not plan to hold Tier 2 capital in the foreseeable future, which is in line with the Capital Management Framework of the Company.

The table below summarises the structure of the Company's basic own funds at 31 December 2017 and 2018:

	2018	2017	*Difference*
	€000	€000	€000
Basic own funds (Tier 1 and Tier 2)			
Ordinary Share Capital – Tier 1	**27,961**	27,961	
Reconciliation Reserve – Tier 1	**48,104**	43,682	4,422
Total – Excess of assets over liabilities	**76,065**	71,643	4,422

The Basic own funds have increased by €4.4m during the year mainly due to the profitable new business written during the year and favourable changes to assumptions in the basis review.

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. 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 reconciliation reserve comprise the difference between the Company's IFRS net assets and the Solvency II excess of assets over liabilities. The tables presented in Section D present the valuation differences for each material class of asset and liability.

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 at 31 December 2017 and 2018:

Eligible own funds (Tier 1 and Tier 2)	**2018**	2017	*Difference*
	€000	€000	€000
Ordinary share capital – Tier 1	**27,961**	27,961	–
Reconciliation reserve – Tier 1	**48,104**	43,682	4,422
Excess of assets over liabilities	**76,065**	71,643	4,422
SCR	**26,327**	25,004	1,323
MCR	**11,390**	11,252	138
Ratio of Eligible own funds to SCR	**289%**	287%	2%
Ratio of Eligible own funds to MCR	**668%**	637%	31%

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.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 at 31 December 2017 and 2018:

IFRS versus Solvency II	**2018**	2017	*Difference*
	€000	€000	€000
Total shareholders' equity IFRS	**82,332**	85,613	(3,281)
Solvency II adjustments	**(6,267)**	(13,970)	7,703
Excess of assets over liabilities	**76,065**	71,643	4,422

Refer to Section D.1, D.2 and D.3 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 presented 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:

a. paid-in subordinated mutual member accounts;

b. paid-in preference shares and the related share premium account; and

c. 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.1.10 *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.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 *Solvency and Minimum Capital Requirement as at 31 December 2018*

The SCR and MCR of the Company as at 31 December 2018 is presented in the table below:

	2018
	€000
SCR	**26,327**
MCR	**11,390**

There are no balances relating to the SCR and MCR which are currently under supervisory assessment.

E.2.1.1 Solvency Capital Requirement as at 31 December 2018 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	Net 2018	Net 2017
	€000	€000
Market Risk	**16,333**	14,648
Counterparty Default Risk	**1,677**	3,077
Life Underwriting Risk	**29,393**	26,066
Health Underwriting Risk	**–**	–
Undiversified BSCR	**47,403**	43,790
Diversification	**(9,828)**	(9,776)
BSCR	**37,575**	34,014
Operational Risk	**1,903**	2,116
SCR before the Loss absorbing capacity of deferred taxes	**39,478**	36,130
Loss absorbing capacity of deferred taxes	**(13,151)**	(11,127)
SCR after the Loss absorbing capacity of deferred taxes	**26,327**	25,004

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:

a. With-profit obligations relating to the guaranteed benefits;

b. With-profit obligations relating to the discretionary benefits;

c. Unit-linked obligations;

d. Total Capital at risk for all life insurance obligations, after allowing for reinsurance; and

e. SCR.

The BEL for non-linked products is set to a minimum of zero in order to avoid reducing the MCR, 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 2017 and 2018:

	2018	2017
	€000	€000
SCR	**26,327**	25,004
MCR	**11,390**	11,252

The table above shows that the SCR has increased by €1.3m during the period. This increase is mainly driven by the Lapse Risk capital following an update in the stress methodology after a clarification was provided by EIOPA in a Q&A published in December 2018.

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 to E.5 above.

HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2018

(Monetary amounts in EUR thousands)

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	EN
Reporting reference date	31 December 2018
Currency used for reporting	EUR
Accounting standards	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 by country
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

Appendix (continued)

S.02.01.01

Balance Sheet

	Solvency II value
	€000
Assets	
Intangible assets	–
Deferred tax assets	**379**
Pension benefit surplus	–
Property, plant & equipment held for own use	**1**
Investments (other than assets held for index-linked and unit-linked contracts)	**329,011**
Property (other than for own use)	**2,199**
Holdings in related undertakings, including participations	–
Equities	**16,175**
Equities – listed	**16,175**
Equities – unlisted	–
Bonds	**261,512**
Government Bonds	**167,222**
Corporate Bonds	**94,290**
Structured notes	–
Collateralised securities	–
Collective Investments Undertakings	**49,125**
Derivatives	–
Deposits other than cash equivalents	–
Other investments	–
Assets held for index-linked and unit-linked contracts	**376,913**
Loans and mortgages	–
Loans on policies	–
Loans and mortgages to individuals	–
Other loans and mortgages	–
Reinsurance recoverables from:	**(2,786)**
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	**(2,691)**
Health similar to life	–
Life excluding health and index-linked and unit-linked	**(2,691)**
Life index-linked and unit-linked	**(95)**
Deposits to cedants	–
Insurance and intermediaries receivables	**565**
Reinsurance receivables	**1,010**
Receivables (trade, not insurance)	**914**
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	**50,010**
Any other assets, not elsewhere shown	**23**
Total assets	**756,040**

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)	292,096
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)	292,096
TP calculated as a whole	–
Best Estimate	281,117
Risk margin	10,979
Technical provisions – index-linked and unit-linked	361,969
TP calculated as a whole	–
Best Estimate	355,003
Risk margin	6,966
Contingent liabilities	–
Provisions other than technical provisions	–
Pension benefit obligations	–
Deposits from reinsurers	–
Deferred tax liabilities	15,269
Derivatives	–
Debts owed to credit institutions	–
Financial liabilities other than debts owed to credit institutions	–
Insurance & intermediaries payables	6,349
Reinsurance payables	1,275
Payables (trade, not insurance)	3,017
Subordinated liabilities	–
Subordinated liabilities not in BOF	–
Subordinated liabilities in BOF	–
Any other liabilities, not elsewhere shown	–
Total liabilities	679,975
Excess of assets over liabilities	76,065

Appendix (continued)

7,569

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	24,162	67,553	14,187	105,902
Reinsurers' share	–	–	3,724	3,724
Net	24,162	67,553	10,463	102,178
Premiums earned				
Gross	–	–	–	–
Reinsurers' share	–	–	–	–
Net	–	–	–	–
Claims incurred				
Gross	43,470	99,718	20,636	163,824
Reinsurers' share	–	–	19,699	19,699
Net	43,470	99,718	937	144,125
Changes in other technical provisions				
Gross	(27,241)	(522,815)	1,611	(548,445)
Reinsurers' share	–	–	(651)	(651)
Net	(27,241)	(522,815)	2,262	(547,794)
Expenses incurred	1,319	3,456	2,794	7,569
Other expenses				–
Total expenses				7,569

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	71,634	33,547	–	–	–	–	105,181
Reinsurers' share	–	–	–	–	–	–	–
Net	71,634	33,547	–	–	–	–	105,181
Premiums earned							
Gross	–	–	–	–	–	–	–
Reinsurers' share	–	–	–	–	–	–	–
Net	–	–	–	–	–	–	–
Claims incurred							
Gross	86,801	33,911	–	–	–	–	120,712
Reinsurers' share	19,699	–	–	–	–	–	19,699
Net	67,102	33,911	–	–	–	–	101,013
Changes in other technical provisions							
Gross	(35,182)	(463,368)	–	–	–	–	(498,550)
Reinsurers' share	557	–	–	–	–	–	557
Net	(35,182)	(463,368)	–	–	–	–	(499,107)
Expenses incurred	7,569	–	–	–	–	–	7,569
Other expenses							–
Total expenses							7,569

Appendix (continued)

S.12.01.02

Life and Health SLT Technical Provisions

		Index-linked and unit-linked insurance		Other life insurance		
	Insurance with profit participation		*Contracts without options and guarantees*		*Contracts without options and guarantees*	*Total (Life other than health insurance, including Unit-Linked)*
	€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	290,224	–	355,003	–	(9,107)	636,120
Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default”	–	–	(95)	–	(2,691)	(2,786)
Best estimate minus recoverables from reinsurance/SPV and Finite Re	290,224	–	355,098	–	(6,416)	638,906
Risk margin	1,675	6,966	–	9,304	–	17,945
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	–	–	–	–	–	–
Best estimate	–	–	–	–	–	–
Risk margin	–	–	–	–	–	–
Technical provisions – total	291,899	361,969	–	197	–	654,065

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	48,104	48,104	–	–	–
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	76,065	76,065	–	–	–
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	76,065	76,065	–	–	–
Total available own funds to meet the MCR	76,065	76,065	–	–	–
Total eligible own funds to meet the SCR	76,065	76,065	–	–	–
Total eligible own funds to meet the MCR	76,065	76,065	–	–	–
SCR	26,327	–	–	–	–
MCR	11,390	–	–	–	–
Ratio of Eligible own funds to SCR	288.93%	–	–	–	–
Ratio of Eligible own funds to MCR	667.82%	–	–	–	–
Reconcilliation reserve					
Excess of assets over liabilities	76,065	–	–	–	–
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	48,104	–	–	–	–
Expected profits					
Expected profits included in future premiums (EPIFP) – Life business	32,015	–	–	–	–
Expected profits included in future premiums (EPIFP) – Non-life business	–	–	–	–	–
Total Expected profits included in future premiums (EPIFP)	**32,015**	**–**	**–**	**–**	**–**

Appendix (continued)

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

	Gross solvency capital requirement	*USP*	*Simplifications*
	€000	**€000**	**€000**
Market risk	43,378		
Counterparty default risk	1,677	–	–
Life underwriting risk	29,393	–	–
Health underwriting risk	–	–	–
Non-life underwriting risk	–	–	–
Diversification	(15,738)	–	–
Intangible asset risk	–	–	–
Basic Solvency Capital Requirement	58,710	–	–
Calculation of Solvency Capital Requirement			
Operational risk	1,903	–	–
Loss-absorbing capacity of technical provisions	(21,135)	–	–
Loss-absorbing capacity of deferred taxes	(13,151)	–	–
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	–	–	–
Solvency Capital Requirement excluding capital add-on	26,327	–	–
Capital add-ons already set	–	–	–
Solvency capital requirement	26,327	–	–
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	–	–	–

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	11,390	–	–

		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	–	263,224	–
Obligations with profit participation – future discretionary benefits	–	27,001	–
Index-linked and unit-linked insurance obligations	–	355,098	–
Other life (re)insurance and health (re)insurance obligations	–	–	–
Total capital at risk for all life (re)insurance obligations	–	–	813,138
Overall MCR calculation			
Linear MCR	11,390	–	–
SCR	26,327	–	–
MCR cap	11,847	–	–
MCR floor	6,582	–	–
Combined MCR	11,390	–	–
Absolute floor of the MCR	3,700	–	–
Minimum Capital Requirement	**11,390**	–	–

HSBC Life Assurance (Malta) Ltd.

80 Mill Street
Qormi QRM 3101
Malta
Telephone: 356 2380 2380
www.hsbc.com.mt