HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report 2020

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.

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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 2020 position was 181%, with own funds of €58.6m and a SCR of €32.5m.

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

The Company carries out regular review of the solvency ratio as part of the Company's risk monitoring and capital management system. No material changes to the Company's risk profile were reported during Financial Year ("FY") 31 December 2020.

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 25 March 2021 and was signed on its behalf by:

Muriel Rutland
Director of HSBC Life Assurance (Malta) Ltd

26 March 2021

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
Triq, 1-Imdina Zone 1, Central Business District,
Birkirkara, CBD 1010
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 2020. 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. A part of the portfolio was transferred to a European insurer in December 2018.

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 2020 Annual Report ("Audited Financial Statements"). The Company prepares its Financial Statements in accordance with International Financial Reporting Standards ("IFRSs").

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. Expenses have already been provisioned on the remaining block of business, such that this should not have a significant impact on future years' profits, Own Funds and SCR.

A.1.7 Significant events

During 2020 the Company has seen unprecedented global events.

Throughout the Covid-19 outbreak, the Company has continued to support its customers and adapted its operational processes. The Company has maintained business continuity with high levels of service throughout the Covid-19 outbreak and its people, processes and systems have responded to the changes needed and increased the workload in serving our customers through this time.

Overall the balance sheet and liquidity of the Company have remained strong.

The Company reported Solvency II ratio for 2020 of 181%, compared to 261% registered in the prior year. This negative variance of 80 points is mainly attributable to impacts driven by the Covid-19 pandemic which manifested through the decrease of the Own Funds (39 pts) as a result of worse experience on modelled parameters such as yield and lapses; deterioration of market conditions (including lower interest rates, and wider credit spreads) increasing the SCR (10 pts); and the impact of capping of the Loss Absorbing Capacity of Deferred Tax (LACDT) of €4.8m representing 31pts.

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 2020 and 2019 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*	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Premiums written								
Gross	**14,992**	21,816	**33,824**	35,685	**14,731**	14,694	**63,547**	72,195
Reinsurers' share	**–**	–	**–**	–	**5,420**	5,302	**5,420**	5,302
Net	**14,992**	21,816	**33,824**	35,685	**9,311**	9,392	**58,127**	66,893
Claims incurred								
Gross	**28,591**	35,490	**30,732**	35,795	**4,360**	2,542	**63,682**	73,827
Reinsurers' share	**–**	–	**–**	–	**3,246**	1,537	**3,246**	1,537
Net	**28,591**	35,490	**30,732**	35,795	**1,114**	1,005	**60,436**	72,290
Changes in other technical provisions								
Gross	**2,114**	(4,325)	**17,568**	11,408	**3,770**	(7,552)	**23,452**	(469)
Reinsurers' share	**–**	–	**–**	–	**2,581**	(7,076)	**2,581**	(7,076)
Net	**2,114**	(4,325)	**17,568**	11,408	**1,189**	(476)	**20,871**	6,607
Total expenses incurred	**1,515**	1,464	**2,510**	2,646	**3,080**	3,498	**7,104**	7,608

The explanation of the differences seen as at 31 December 2020 and 2019 is summarised below:

- The decrease in gross written premium for Insurance with profit participation is mainly due to the decision to stop selling regular premium policies and to restrict sales in single premium policies. 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 attrition of the acquired portfolio.
- 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.
- Actual expenses negatively impacted by the onerous contract provision from a closed investment product.

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 as at 31 December 2020 and 2019 is summarised by asset type below:

	Bonds (including structured notes)	*Equities (including investment funds)*	*Cash and deposits*	*Mortgages and Loans*	*Property*	*Derivatives*	*Total*
	2020	2020	2020	2020	2020	2020	2020
	€000	€000	€000	€000	€000	€000	€000
Dividends	–	4,058	–	–	–	–	4,058
Interest	944	–	19	–	–	–	963
Rent	–	–	–	–	10	–	10
Realised/ unrealised gains and losses	4,475	12,599	(455)	–	(599)	–	9,178
Total	**5,419**	**16,658**	**(436)**	**–**	**(589)**	**–**	**12,264**
	2019	2019	2019	2019	2019	2019	2019
	€000	€000	€000	€000	€000	€000	€000
Dividends	–	8,694	–	–	–	–	8,694
Interest	864	–	40	–	–	–	904
Rent	–	–	–	–	–	–	–
Realised/ unrealised gains and losses	14,718	51,941	57	–	–	–	66,716
Total	15,582	60,635	97	–	17	–	76,331

The lower investment returns in 2020, against 2019 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 Company did not recognise any gains and losses directly in equity.

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 2020 and 2019 are presented in the table below:

	2020	2019
	€000	€000
Investment Contract Fee Income		
Fixed fees, change in deferred income and annual management charges on transferred portfolio	**1,189**	1,299

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 2020 is mainly due to a reduction in the annual management charges on a portfolio which is in run-off and lowest Fair Market Value.

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 seven 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.

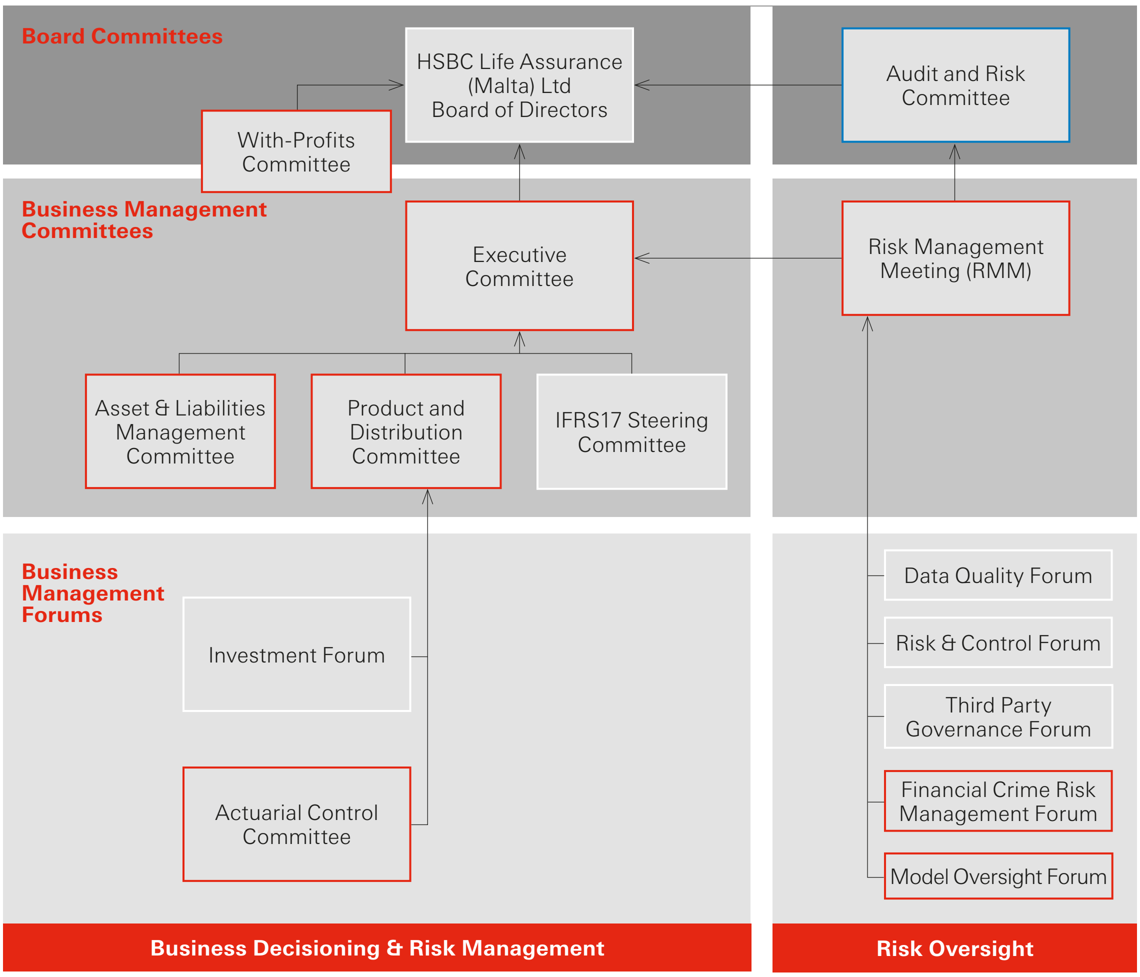
It is the Board's responsibility to review the Company's overall strategy, business planning processes and the performance of Key Functions. In addition, the Board is responsible for the approval of the Company's Board policies and the approval of the persons responsible for Key Functions and deemed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



The IFIM Mandatory Committees and Forums have been outlined in red, local Regulatory requirement have been outlined in blue.

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") operates as a direct management committee under authority of the Board and is responsible for the oversight of the Company's day-to-day operations and performance and for the overall delivery of Insurance strategy and implementation of priorities as approved by the Board, taking into consideration the input from Group Insurance, Wealth and Personal Banking (WPB), Commercial Banking (CMB) and Senior Management.

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 such as the internal HSBC Group policies (IFIM) 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) Financial Crime Compliance Forum which has the primary responsibility for the oversight of FCC risks and issues, ii) Risk and Control 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 and iv) The Third Party Governance Forum which oversees all third party contractual arrangements and v) Data Quality Forum which has the primary responsibility for overseeing the implementation of the Company's Data Quality Guidelines.

3. The Asset and Liabilities Management Committee's ("ALCO") meets at least six times a year 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 IFRS17 Steering Committee was established in 2019 to provide oversight and implementation of the new accounting legislation. It meets at least ten times a year and its primary responsibility is the successful implementation of the IFRS17 project. The steering Committee reports directly into EXCO but also provides direct updates to the Audit & Risk Committee and Board.

5. During 2020 the Company was established a With-Profits Committee (WPC). The function of the WPC is to oversee the management of the With-Profits business and act in an advisory capacity to inform the decision making of the Board. The WPC undertakes initial review and recommends approval and/or highlights points for consideration by the full Board. The membership of the WPC is composed of people outside of the entity; the WPC should appropriately consider the interests of the With-Profits policyholders and address any issues affecting them.

6. End of 2020, the Company was established a Products and Distribution Committee (formally set up in early 2021) which has the primary responsibility of reviewing the existing product range and proposing new products and variations. This committee will also escalate any issues related to the Product Approval Process to the EXCO as the parent committee, and EXCO will in turn escalate any unresolved issues related to the Product Approval Process to the Board. In some circumstances, Products and Distribution Committee is to seek Board Approval.

B.1.1.3 Risk Management

The Company has a risk management policy 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 identification, 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 has overall responsibility for the Second Line of Defence who are responsible to set policy and guidelines for the management of risks and providing advice and guidance on effective risk management. The Regulatory Compliance ("RC") and Financial Crime Compliance 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.

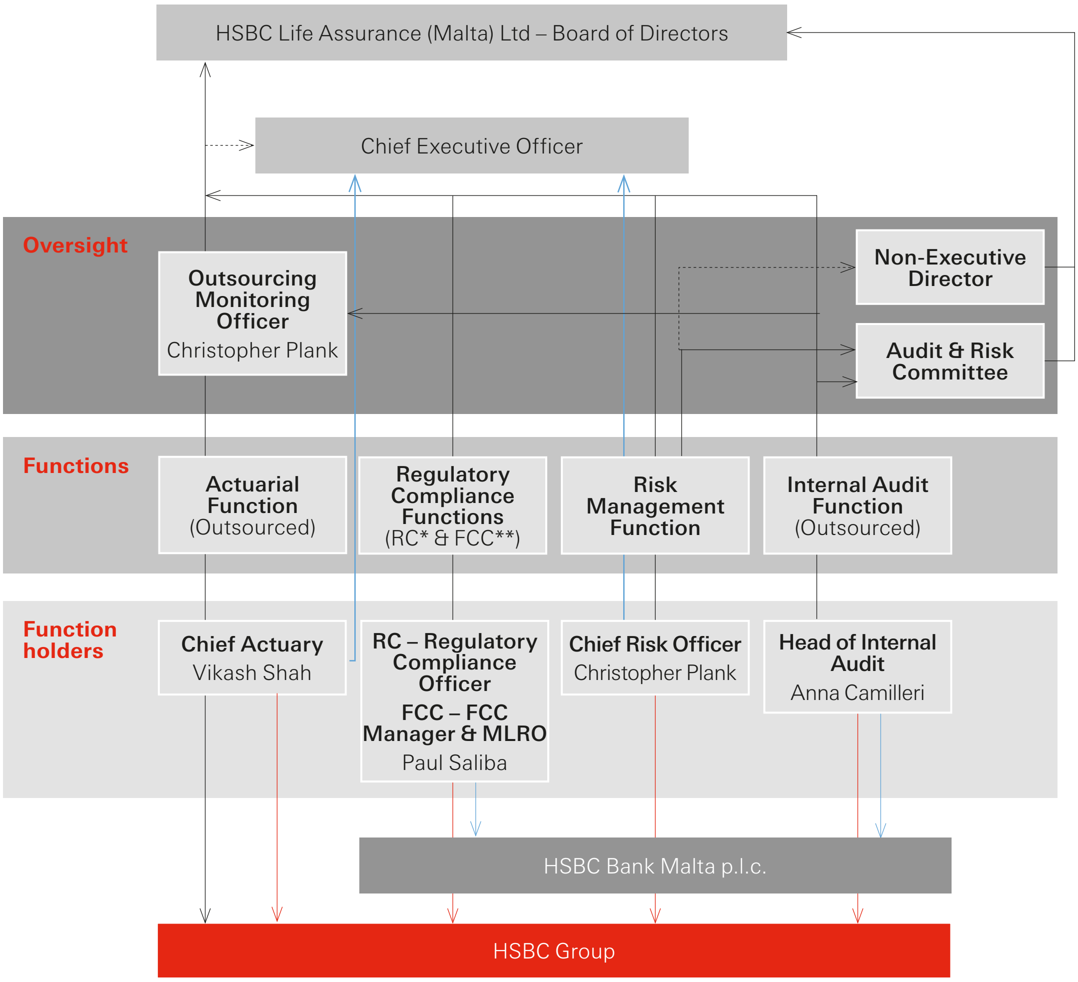
External Audit and the Audit and Risk Committee provide additional oversight and challenge with direct reporting to the Board.

B.1.1.5 Key/Critical Functions

The CCompany 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 Regional 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. Since 2018 the Company's Chief Risk Officer ("CRO"), a qualified actuary, was designated as the person responsible for the oversight of the outsourced Actuarial Function. The With-Profit Committee are responsible for discharging the role of the Approved Actuary.

   Compliance Function:

   The Regulatory Compliance ("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 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 Compliance Officer is also responsible for the Financial Crime Compliance ("FCC") function and focuses specifically on compliance matters related to the Prevention of Money Laundering and Financing Terrorism.

2. 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.

3. 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.

   In addition to the Key Functions under Solvency II, the Company considers the following functions as important/critical:

   - Finance
   - Operations
   - Underwriting & Claims
   - Investments
   - Money Laundering and Financing Terrorism
   - Products and Distribution

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 2020 up to 15 March 2021:

RESIGNATIONS	APPOINTMENTS
Daniel Robinson – 14/2/2020	**Simon Vaughan Johnson – 28/4/2020**
Andrew Beane – 28/4/2020	**Muriel Rutland – 12/5/2020**
Stuart Fairbairn – 12/5/2020	

Muriel Rutland has been appointed as Chief Executive Officer of the Company with effect from 6 April 2020 replacing Stuart Fairbairn.

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 Supplementarypension 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.

No dividend had been paid in 2020.

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 27 in the Audited Financial Statements.

B.2 Fit and proper requirements

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

The fit and proper principles are applicable to all staff and Directors 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 key/critical 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 Key and Critical Function Holders. 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 Risk Management Meeting. This policy applies to all Key Function Holders, Critical Function Holders and the Board of Directors however due to limitations set out by Solvency II Directive and MFSA Insurance Rules, the applicability will vary depending on the role of the person.

In line with Solvency II requirements the system of governance of the Company should include at a minimum the following key functions: Risk Management, Compliance, Internal Audit and Actuarial Function. In addition to the Key Functions under Solvency II, the Company considers the following functions as important/critical:

- Finance.
- Operations.
- Underwriting & Claims.
- Investments.
- Money Laundering and Financing Terrorism.
- Products and Distribution

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 and HR are responsible for the process of when an individual is chosen to lead a key or critical role within the function. 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 Compliance Officer. Moreover, employees are required to notify their line manager and the Compliance Officer in the event of change to their fitness and/or propriety. The Compliance 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 critical functions (Finance, Operations, Underwriting & Claims, Investment, Money Laundering and Financing Terrorism).

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.

B. System of Governance (continued)

<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>Simon Vaughan Johnson (Chair)
Muriel Rutland
Marisa Attard
Joanne Aquilina
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>Muriel Rutland</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>Vikash Shah
With Profit Committee members (subject to regulatory approval)</td><td>Yes</td><td>Yes</td></tr>
<tr><td>5</td><td>Head of Insurance Finance</td><td>Frank Marqué</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>Paul Saliba (subject to regulatory approval)</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) and COO Designate</td><td>Anton Gatt</td><td>Yes</td><td>Yes</td></tr>
<tr><td>10</td><td>Manager, Underwriting & Claims</td><td>Edward Micallef</td><td>Yes</td><td>Yes</td></tr>
<tr><td>11</td><td>Chief Investment Officer</td><td>Ritienne Pisani</td><td>Yes</td><td>Yes</td></tr>
<tr><td>12</td><td>Products & Distribution Officer</td><td>Josef Camileri</td><td>Yes</td><td>Yes</td></tr>
</table>

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 and critical 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. When assessing the fitness and properness of members of the management body, the Board in its Remuneration and Nomination Committee (RemNom) supported by Regulatory Compliance and HR refer to the four assessment criteria defined in the ECB Guide. These are the same as the criteria used to assess the Management Body, with the exception of the collective assessment. These principles are: Experience; Reputation; Conflicts of Interest and Independence of Mind and Time Commitment. There are two assessments that need to be carried out – the individual fit and proper assessment and the collective fit and proper assessment. Two reports are presented to the Board providing a summary and the outcome of the assessment for the members of the management body. One report represents the individual assessment while the other represents the collective assessment. This information is based on that provided by the members of the management body in the Forms.

B.2.2.2 Ongoing fit and proper assessments

Ongoing checks for fitness and propriety of Key and Critical Function Holders is undertaken annually as part of the appraisal process (at a minimum).

It is the duty of all Key and Critical 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. Within the on-going and periodic assessments of individual members, the affected member will be requested by Company Secretary to acknowledge or update any changes against the original signed Forms.

When assessing the collective fitness and properness of the management body the Board supported by the Company Secretary assesses the composition of the management body in its management and supervisory functions separately. The Guidelines outline the criteria upon which the assessment should be carried out.

The Individual Assessment. The criteria are: Time Commitment; Knowledge, skills and experience; Independence; Reputation, honesty and integrity.

The Collective Assessment The criteria are: Business model requirements; Governance; Risk Management, compliance and audit; Management and decision-making; Experience Overview; Diversity & Inclusion.

Ongoing assessment of the Fitness and Properness of Directors and Key and Critical Function holders and those officers having oversight over Outsourced Key Functions (OMOs) is undertaken on an annual basis. The role of the reviewer is to ensure that Directors and individuals performing Key and Critical Function roles complete the Ongoing Assessment Declaration.

Evidence of Ongoing Assessment Declarations is maintained by Human Resources for Key and Critical Function Holders and the Company Secretary for the INMT Board members.

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;
- 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. When re-assessing the individual or collective performance of the members of the management body, the Board considers in particular:

- the efficiency of the management body's working processes, including the efficiency of information flows and reporting lines to the management body taking into account the input from internal control functions and any follow-up or recommendations made by those functions;
- the effective and prudent management of INMT, including whether or not the management body acted in the best interest of INMT;
- the ability of the management body to focus on strategically important matters;
- the adequacy of the number of meetings held, the degree of attendance, the appropriateness of time committed and the intensity of directors' involvement during the meetings;
- any changes to the composition of the management body and any weaknesses with regard to individual and collective fitness and properness, taking into account the INMT's business model and risk strategy and changes thereof;
- any performance objectives set for the institution and the management body;
- the independence of mind of members of the management body, including the requirement that decision making is not dominated by any one individual or small group of individuals and the compliance of members of the management body with the conflict of interest policy;
- the degree to which the composition of the management body has met the objectives set in the INMT's diversity policy; and
- any events that may have a material impact on the individual or collective fitness and properness of the members of the management body, including changes to the INMT's business model, strategies and organisation.

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 Risk Management Function (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.

B. System of Governance (continued)

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.

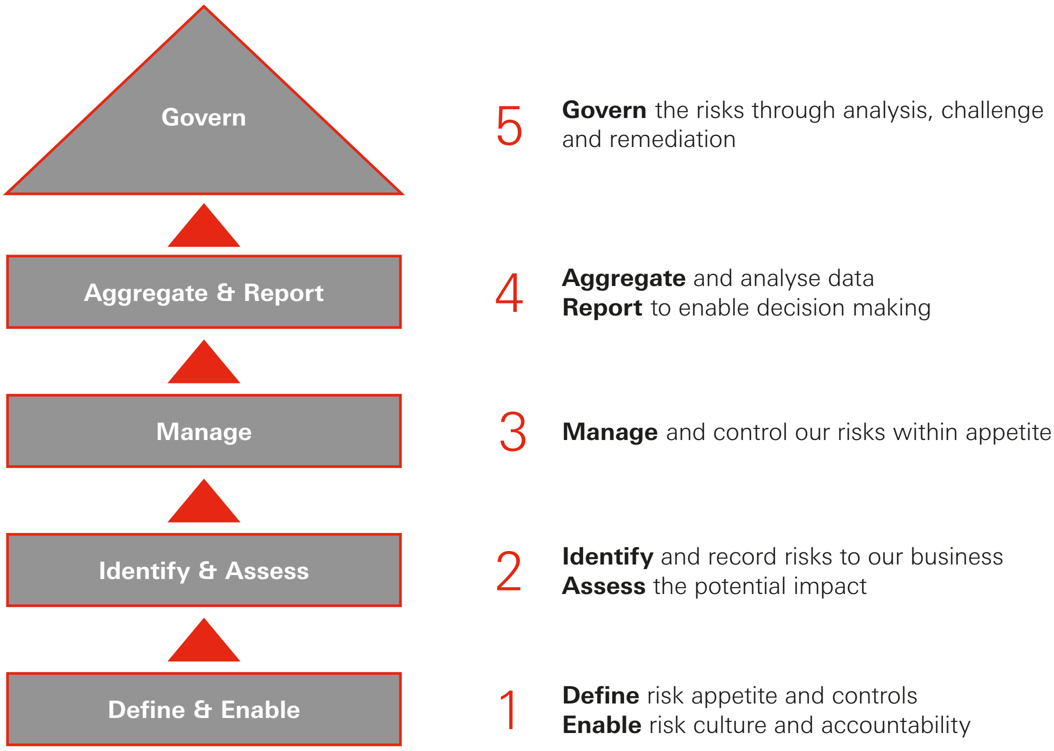
The day-to-day responsibility of the RMF is facilitated through the risk governance structures in place which support reporting and escalation. Policies, procedures and risk limits are appropriately defined to ensure activities remain within the Company's acceptable level of risk.

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.

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

Active risk management helps us to achieve our strategy, serve our customers and communities, and grow our business safely. Our risk management approach follows five steps:



B.3.1.3 Definition of Risk Appetite ("Define and Enable")

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 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 roles and responsibilities.

The risk management approach is reviewed annually and aligned with the annual business planning process. In conjunction with this process the Company's AOP and the Risk Appetite Statement ("RAS") are delivered and communicated to all stakeholders, as appropriate. The RAS establishes limits and tolerances for the business and committees to monitor against (supported by Capital Drivers).

B.3.1.3.1 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. The RAS is approved annually by the Company's Board.

Where a risk assessment identifies that any risk falls outside the boundaries of the Company's risk appetite, now or projected in the future, further steps are taken to control, transfer or mitigate the risk.

B.3.1.3.2 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.3.1.3.3 Risk Monitoring ("Manage")

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.3.1.3.4 Risk reporting ("Aggregate and Report")

Reporting requirements will vary by risk type and the severity of risks. Ultimately risk reporting to the board is undertaken through the enterprise wide risk management reports which include the Risk Appetite Profile, the Risk Map and a summary of the Top and Emerging Risks.

B.3.1.3.5 Governance ("Govern")

Board governance committees, including the meeting of the Board of Directors and the Audit and Risk Committee, provide the structure to ensure clear accountability for risks and support suitable controls, mitigation and management.

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 Capital Management Framework which drives dividend recommendations, 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 with management reports such as the Risk Appetite Profile being undertaken monthly, valuations being reported quarterly and risk and control assessments happening on an ongoing basis.

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 which are a part of the overall ORSA process 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 which would typically be undertaken by Internal Audit (the last review was completed in 2018).
- 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.

To support the creation of the ORSA Report there are a series of supporting documents and reports which are presented to Management and, where appropriate, the Board. These include:

- The Risk Appetite Statement and monthly reporting against this in the Risk Appetite Profile;
- The quarterly valuation reports which assess the Company's capital position;
- The policies, such and the ORSA Policy, Risk Management Framework and Capital Management Framework, which set the frameworks which the Company must operate within; and

- More detailed reports on specific ORSA deliverables such as scenario testing and the Standard Formula justification.

Results of the ORSA activities are presented to relevant employees, Management and the Board through the governance meetings of the Company and through a dedicated walkthrough session held by the CRO.

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 (including the correlations between risk types). The appropriateness of the Standard Formula vis-a-vis the Company's risk profile is assessed on an annual basis. Through this process the Company consider whether the risk is material, whether the standard formula is a good fit and whether there is sufficient data to calibrate and 'Internal Model'. The process which is undertaken as a part of the ORSA demonstrates that the use of the Standard Formula is appropriate.

Notwithstanding this, 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.

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

- personnel – clear and concise operational procedures available to all personnel to ensure that they can understand and carry out their responsibilities effectively and communicate any problems in respect of non-compliance;

- organisational structure – responsibilities and reporting lines are clearly defined and allocated;
- effective communication lines internally that escalate information quickly to the appropriate level;
- segregation of duties and potential conflicts of interest - key duties are segregated; areas of potential conflict are identified and mitigated appropriately;
- authorisation and approval – all transactions require authorisation and approval by an appropriate responsible person;
- an established financial control environment includes routine controls such as reconciliations, audit trails, spot checks and physical control with appropriate supervision by management;
- financial reporting is prepared in accordance with Group standards; risk assessments cover all risks facing the entity and are reported regularly;
- reliable information systems are in place to report all significant activities supported by adequate security and contingency arrangements; and
- business resumption and contingency plans are periodically tested to avoid disruption to business and potential losses. Key controls to manage and mitigate specific risk areas are outlined in section C.

B.4.2 Implementation on the Compliance Policy of the compliance function

The local compliance function within INMT consists of Regulatory Compliance (RC) and Financial Crime Compliance (FCC). The Compliance Officer is in charge of the Regulatory Compliance Function and the Financial Crime Compliance Function as Money Laundering Reporting Officer (MLRO).

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 outsources Internal Audit Function.

The persons carrying out the internal Audit Function do not assume any other Key Functions within the Company.

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 Regional 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 Actuarial Function contributes to the effective implementation of the risk management system through various activities and the membership of a number of key committees with risk and financial reporting responsibilities. Areas of focus include: Solvency Capital Requirement; the Own Risk and Solvency Assessment; identifying, measuring and monitoring risks; capital adequacy management; product pricing; financial reporting; and business planning.

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; and
- In case of outsourcing, then further classified Critical/Important (including Solvency II defined 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.

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	RGA International Reinsurance Company Limited & HSBC Life Assurance (Malta) Ltd	Reinsurance incl. Claims Handling	Insurance Chief Executive Officer.	Ireland	OMOCIF	Critical or Important Activities
4	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
5	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

B. System of Governance (continued)

6	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
7	Schroder Investment Management (Europe) SA & HSBC Life Assurance (Malta) Ltd	Investment of Assets - Portfolio Management	Chief Investment Officer	Luxembourg	OMOCIF	Critical or Important Activities
8	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
9	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
10	Donnelley Financial Solutions UK Ltd & HSBC Life Assurance (Malta) Ltd	Provide data collection, data augmentation and calculation services related to PRIIPs	Head of Process & project Management	United Kingdom	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 and Legal.
2. Other HSBC Group Companies	Other Group companies provide 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' 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 the Internal Audit Plan. Furthermore, the Company undertakes a formal review of the system of governance which includes as assessment that mapping to regulations, policies, Committees' Terms of Reference and effectiveness reviews have been updated. In addition, any open issues and findings are also reported.

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.0 Risk exposures

Risks are assessed quantitatively using the Standard Formula parameters to determine the impact of an extreme event for each risk and thus internal data is not used to define the parameters or the dependencies and correlations between risks. As described in B.3.2.4, the standard formula is considered an appropriate measure of the risk exposure for the key risks such as underwriting, market, credit and operational risk (as set out in C.1, C.2, C.3 and C.5). The table below sets out the Company's exposure to these risks:

SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT)	2020 €'000	2019 €'000
Underwriting Risk	**31,846**	31,703
Market Risk	**18,240**	13,477
Credit Risk	**1,221**	1,423
Operational Risk	**1,494**	1,766

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. The Company's second highest risk is within the market risk module, with equity risk being the largest component. Equity risk arises from the reduction in annual management income on Unit-Linked business and the increase in the cost of guarantees on the With-Profits business under the equity stress.

A description of the risks, the exposure to the risks, control and mitigation techniques and concentrations to particular risk sub-categories are set out below.

There has been an increase in Market Risk exposures over the year, primarily due to the capital associated with the guarantees underlying the With-Profits business. Apart from that, there are no material changes in the Company's significant risk exposures or in the measures used to assess such risk exposures over the reporting period.

C.1 Underwriting Risk

This is the risk due to uncertainties in the occurrence, amount and timing of insurance liabilities arising through insurance underwriting risks accepted by the Company. In more detail it includes:

- The risk due to uncertainties in the occurrence, amount and timing of claim payments. This includes mortality (or longevity), disability and catastrophe risks. Experience could differ from expectations because of random fluctuations, an unanticipated one-off step change, a gradual change or a catastrophe or pandemic meaning claim sizes and volumes are above expectations.
- The risk due to uncertainties in the occurrence, amount and timing of lapses, surrenders or making policies paid-up. Experience could differ from expectations because of random fluctuations, an unanticipated one-off step change or a gradual change or a lapse shock resulting in lapse of a large number of policies over a short time period.
- The risk due to uncertainties in the occurrence, amount and timing of expenses. Experience could differ from expectations because of random fluctuations, an unanticipated one-off step change or unanticipated changes in inflation.

C. Risk profile (continued)

Exposure to these risks is as follows:

SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT)	2020 €'000	2019 €'000
Mortality Risk	**611**	1,087
Longevity Risk	**209**	176
Disability Risk	**1,568**	1,375
Lapse Risk	**27,176**	27,379
Expense Risk	**6,644**	6,135
Catastrophe Risk	**1,613**	1,601
Diversification Benefit	**(5,976)**	(6,051)

The Company have a wide variety of controls in place to manage and mitigate the underwriting risks which are faced. Reinsurance is the primary mitigation for claims risk where in effect, claims risk is exchanged for counterparty risk. Upon the placement of reinsurance an optimisation process is undertaken. Other controls include the following:

- Exposure limits are set which are based on a variety of factors. Limits are set in respect of absolute exposures (for example maximum policy sizes) and in relation to the overall capital that the company which to deploy (e.g. monetary or percentage capital limits against a specific risk types).
- Capital and solvency monitoring through regular valuations and the Risk Appetite Profile.
- Clear underwriting and claims management principles are set. This includes the setting of underwriting and claims authority levels.
- Monitoring of actual experience versus what is expected. Where experience in not in line with expectations the underlying valuation assumptions can be changed and where required this may trigger product changes, such as the repricing of new business.
- Having robust product design and approval processes (including appropriate policy conditions to guard against unacceptable risk).

C.2 Market Risk

This is the risk of adverse movements in interest rates, market prices, currencies or inappropriate investment practices, causing losses to the Company. This can impact the Company in the following ways:

- Movements in market rates (including equity prices, equity volatility or interest rates) change the present value of assets net of liability values.
- Changes in value of net assets due to a move in the yield on an asset relative to the risk-free rate.
- Depreciation of foreign currencies relative to Euro changes the present value of assets net of liabilities.
- Fall in value of properties changes the present value of assets net of liabilities.

Exposure to these risks is as follows:

SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT)	2020 €'000	2019 €'000
Interest Rate Risk	**1,384**	2,320
Equity Risk	**12,582**	6,293
Property Risk	**40**	55
Spread Risk	**3,678**	3,323
Currency Risk	**4,400**	4,909
Concentration Risk	**2,795**	4,194
Diversification Benefit	**(6,639)**	(7,616)

The Company have a wide variety of controls in place to manage and mitigate market risks which are faced. This includes the following:

- Exposure limits are set which are based on a variety of factors. Limits are set in respect of absolute exposures (e.g. maximum exposures to particular classes of assets) and in relation to the overall capital that the company which to deploy (e.g. monetary or percentage capital limits against a specific risk types).
- Capital and solvency monitoring through regular valuations and the Risk Appetite Profile.
- Setting an overall investment strategy for the Company.
- Asset Liability Matching looks to assess the suitability of assets in meeting the liabilities of the Company.
- Having robust oversight of investment related activities through the governance committees of the Company.

C.2.1 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. Kindly refer to the submitted QRT templates S.06.02.01 for the complete list of assets.

C.2.2 Asset Liability Matching Principles

C.2.2.1 Matching: Non-linked

The Company's approach is to select assets to match net cash flows by duration, nature, currency and liquidity. Asset and 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.2.2.2 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.2.2.3 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.2.3 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:

- set the strategic asset allocation;
- consideration of investment constraints when setting strategic asset allocation;
- alignment of the investment strategy with the business model and, where appropriate, how the strategy takes into account the nature and duration of a firm's liabilities and obligations, and the best interests of policyholders;
- alignment of investment strategy with board risk appetite, risk tolerance limits and investment risk and return objectives.

C.3 Credit Risk

This is 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.

Exposure to these risks is as follows:

SOLVENCY CAPITAL REQUIREMENT (WITHOUT DIVERSIFICATION BENEFIT)	2020 €'000	2019 €'000
Type 1	**1,175**	1,375
Type 2	**60**	63

The Company has the following two specific counterparty 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. The reinsurance currently forms a liability and thus there is no loss given default.

b. Cash at bank: this exposure is also accounted for within the capital requirement with respect to counterparty default risk.

The Company have a wide variety of controls in place to manage and mitigate credit risks which are faced. This includes the following:

- Exposure limits are set which are based on a variety of factors. Limits are set in respect of absolute exposures (e.g. maximum exposures to particular investment quality of assets) and in relation to the overall capital that the company which to deploy (e.g. monetary or percentage capital limits against a specific risk types).
- Capital and solvency monitoring through regular valuations and the Risk Appetite Profile.
- Setting an overall investment strategy for the Company.
- Having robust oversight of investment related activities through the governance committees of the Company.

C.4 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. Examples of how this could arise are:

- A one-off severe manifestation of the measure of the underlying risk process. For example, a sudden unexpected increase in claims or early surrender of policies results in an inability to pay customers in a timely manner without incurring excessive costs.
- Insufficient liquid assets to cover severe operational losses.
- Lack of suitable assets in the market results in an inability or decision not to match liabilities.
- Assets become unsaleable at fair values when market conditions deteriorate.

The Company holds sufficient liquid funds such that no capital is required and the risk is considered low. This is tested on a regular basis through a series of liquidity scenario testing with additional controls including:

- A liquidity risk dashboard which is tracked regularly through governance committees of the Company.
- Liquidity contingency plans are maintained and trigger events are monitored.
- Asset Liability Matching looks to assess the suitability of assets in meeting the liabilities of the Company.

C.4.1 Expected profit included in future premiums

The total amount of the expected profit included in future premiums is €28,828k as at 31 December 2020 (31 December 2019: €42,133k). The fall is mainly driven by the lower expected future profits on the Protection book, where ceasing premiums would result in policy terminations of some policies where the outgo is expected to be greater than the income to the company.

C.5 Operational Risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. During 2020 the Company classified Operational Risks across the following main categories: Financial Reporting; Tax; Resilience; Financial Crime and Fraud Risk (internal and external); People; Regulatory Compliance; Legal and Model.

Each specific risk type will also have a specific set of controls to mitigate and manage it. Where a particular type of Operational Risk has been assessed as material each relevant control should be assessed and the overall control effectiveness for the risk is determined. Controls would be tested and where required actions plans would be put in place to improve their operation.

C.6 Other material risks

Within the Company's Risk Management Policy a series of wider risks are also recognised. These include:

- Strategic Risk.
- New Business Risk.
- Group Risk.
- Conduct and Reputational Risk.

The Company does not specifically hold capital against these risks but they are tested through the ORSA process and where appropriate specific scenarios are run in respect of the risks.

C.6.1 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 could arise through:

- A decision by its parent company (and primary distributor) to cease writing business in the Company, thereby effectively closing to any new business.
- The business agrees a business plan that generates unsustainable financial, operational or customer conduct outcomes. This could involve new business volumes or persistency levels that do not produce the margins required to support an effective and compliant customer service.
- The making of business decisions or resource allocations that are sub-optimal or counter to the stated objectives of INMT and/or the Group.
- The risk that the business will fail to identify and react appropriately to opportunities and/or threats arising from changes in the market.

Controls to manage and mitigate this risk include:

- The AOP process is undertaken which sets out strategic plans for the business which is approved at Board and Group level.
- Tracking against AOP to ensure that actual performance is in line with expectations.
- Consideration of the financial outcomes of different strategic scenarios.
- A robust product approvals process ensures that risks are duly considered and priced for appropriately.

C.6.2 New Business Risk

The risk of the new business being written being different to that expected with the plans. This could arise through:

- Insufficient volume of sales in order to cover costs or from selling policies than expected leading to a strain on capital resources.
- A different mix of business is sold compared to the mix that was expected, which could result in the Company exhausting its free assets over time.
- Selling more policies than expected leading to a strain on capital resources.
- A rating reduction which increases the cost of capital.

New Business performance is measured weekly against the targets which core capital and operational planning is based. Stress and scenario testing is used as a method of testing the impact of variances and actions agreed in the event of over or under performance, be that in total or in product segments.

C.6.3 Group Risk

The risk to the Company from operating as an entity within a wider Group. This could arise through:

- Circumstances in which the intended arm's length nature of the Group relationship could be compromised or not operate as expected under stressed circumstances.
- A disproportionate rise in overheads which create either an immediate or prospective adverse capital impact reducing own funds.
- The Group impose decisions or requirements on the Company that are not in its best interests.

Controls to manage and mitigate this risk include:

- All transactions between the Company and the rest of the Group are treated as arm's length arrangements.
- The Company has its own Board of Directors (including Independent Non-Executives) who are ultimately responsible for decision making within the business.
- The Company are required to follow Group policies and practices. However, if these are not appropriate for the business given the nature, scale and complexity formal dispensations can be sought.

C.6.4 Conduct and Reputational Risk

The risk that poor conduct with respect to customers leads to compensation and/or fines from the regulator along with reputational damage. This includes areas where the Company can apply discretion (e.g. the setting of bonus rates) or where the Company has obligations to fulfil for customers. It can arise through:

- Mis-selling, which although is not a risk to the Company, or post sales misconduct occurs has a knock on impact on the reputation of the Company.
- Post sales policy management, notably in areas where the customer has discretion (e.g. the setting of bonus rates).
- Regulators publicise adverse findings which damage HSBC reputation.
- Media or social media publicise adverse findings which damage HSBC reputation and/or industry reputation.

Controls to manage and mitigate this risk include:

- Literature being clear, transparent and meeting regulatory requirements.
- Adherence to the product approval processes.
- Products are operated in line with the Policy Terms and Conditions and other communications.
- Investment performance is tracked against benchmarks.
- Where discretion can be applied, for example the application of bonuses to with-profit customers, this must be applied in line with the expectations of customers which have been gained through pre and/or post-sale literature or past practices; and any approved policies which are in place within the Company.

C.7 Stress testing and sensitivity analysis

The business undertakes a wide variety of stress and scenario testing to consider the breadth of risks covered in C.1 to C.6. While certain stress tests can be attributed to a specific risk type there are often occurrences where stresses or scenarios are applicable across a variety of risk types.

During 2020, the Company has conducted a series of scenario tests which are summarised below and are based on discussions which take place during internal scenario workshops. These scenarios were performed using an adjusted 30 June 2020 position as the base, considering the solvency over the planning horizon.

Under all scenarios the Company results in a lower level of solvency over the projected period, some of which would mean that the business is insolvent on a regulatory basis. The drivers for the movements differ based on the scenario circumstances. While the scenarios are extreme and are unlikely to play out in reality, the information should be used to make the management aware of the types of events that would impact the Company materially. The Company would be required to take necessary actions, for example to raise capital.

C.7.1 COVID-19 Continued Market Volatility

This scenario considers the capital implications as a result of market impacts emanating from the pandemic COVID-19 as well as increased claims. It takes into consideration reduction in equity prices, widening of credit spreads and lower interest rates and mortality spike.

The Company is determined likely to be insolvent on a regulatory basis under the specified scenario, and would need to raise capital. Since Tier 1 Capital must cover at least 50% of the Capital Requirement, the Company would be required to raise Tier 1 Capital (through e.g. issuing shares through a capital injection), but may consider issuing subordinated debt to achieve a solvent position.

C.7.2 COVID-19 Customer Behaviour

This builds on the above scenario with taking into consideration additional impacts on the change within policyholder behaviour in terms of changes to lapse behaviour and reduced new business.

As per the comments made in C.7.1, the company would be required to raise additional capital, including Tier 1 capital through e.g. shares in order to achieve regulatory solvency and may consider issuing subordinated debt to achieve a solvent position. The Company would require to present a plan to the MFSA to restore solvency within 3 months.

C.7.3 Lower Interest Rates

This considered the impacts on the solvency ratio over the 5-year projections as a result of long term lower interest rates.

The Company results in a lower level of solvency within this scenario over the projected period with the solvency ratio falling below 100% and then returning to over 100% over the business planning horizon. Management actions would need to be taken to restore solvency.

C.7.4 Reduced Unit Linked AMCs

This scenario considered solvency impacts as a result of reduced Annual Management Charges and fund rebates on Unit Linked Funds.

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

C.7.5 New Business – Industrial Action

This assumes that no new business is written across all products for a period of 18 months if the industrial action had to take place within the salesforce.

If the distribution of new business is impacted, then this would have a negative impact on the Solvency position of the Company but the solvency ratio remains above 100% throughout the business planning period under this scenario.

C.7.6 New Business – Salesforce Strategy

The level of new business for decreasing term (i.e. business sold alongside mortgages) would remain the same. However, all other business volumes would fall to 50% of current levels. This will impact the level term, riders, unit-linked and the new pensions proposition.

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

C.7.7 *Sensitivity Testing*

Sensitivity analysis assesses the impact of variations in experience. The aim of the analysis is to illustrate the sensitivity of the balance sheet to changes in different parameters. The stresses are applied as single-factor shocks on the current balance sheet, in contrast to the scenario analysis where interactions between risks are considered on the projected balance sheet.

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

- Increasing of interest rates and inflation. The stress applied was a flat 100bps increase in interest rates and inflation at all durations.
- An increase in the Company's expenses. The stress applied was a 25% increase to the renewal expenses in perpetuity.
- A mass lapse event. The stress event is a mass lapse event where 40% of policies are lapsed or surrendered.
- A catastrophe claim event. Under this scenario 3% of protection policies are subject to a claim.
- A fall in the price of equities. The event considered is an immediate 40% fall in the value of equities.
- A stress on lapse rates. The stress applied is an increase in lapse rates of 50% on product lines which are profitable and a decrease in lapse rates of 50% on product lines which are not profitable.
- A widening of credit spreads. The stress applied is 1% increase in the credit spread. A widening of the credit spread would depress bond values.
- Assuming there is no surplus within the with profit fund. Removing the surplus results in a greater cost of the guarantee and increased capital requirement as the cost of guarantees will now bite. This event could happen either through higher bonus declarations and/or negative investment returns.
- Assuming the surplus within the with profit fund is halved. This scenario is similar to the previous, however instead of eliminating the surplus, the surplus is halved.
- Assuming that the equity proportion in the with profit fund is reduced. This assumed a reduction from its current level, 19%, to 15%.
- Assuming that the equity volatility assumption in the cost of guarantees model increases. This assumes an increase from c.12% to c.17%.
- An increase in mortality and morbidity rates. The stress applied is an increase by 50%.

The sensitivities show that the Company reaches a Solvency Ratio of below 100% under most of the market risk scenarios, catastrophe claim of 3% and adverse lapse scenario. The reasons for these sensitivities reducing the Solvency Ratio to below 100% are either due to the With-profits fund surplus is not sufficient to cover for the Cost of Guarantee following a stress, and / or a fall in the Deferred Tax Liability. It is noted that the sensitivities themselves are highly unlikely to materialise, in a large number of cases these are similar to 1-in-200 levels, but the information is used to make the management aware of the types of events that would impact the Company materially.

C.7.8 *Liquidity Testing*

In addition to scenario testing of the solvency position there is also scenario testing on the Company's liquidity position. The purpose is to test the Company's liquidity over a twelve-month period. It was analysed by conducting different stresses and comparing the resulting net cash flow against the available liquid assets. During the exercise the following scenarios were used:

- Scenario 1: A one month combined market wide and idiosyncratic (HSBC specific) scenario. The scenario considers a one-month situation where the market and customers significantly question the capital and liquidity position of HSBC relative to peers and where the market enters a period of extreme risk aversion and where these concerns abate after one month. The stress is expected to last for one month, with the market recovering over the next five months.
- Scenario 2: Loss of confidence in INMT due financial difficulties in non-INMT part of Group which results in a drop in equity values and immediate lapses.
- Scenario 3: There is a significant slowdown in the global economy. Many of the countries in the world are technically in a recession. Interest rates fall globally to restart faltering economies, equity markets fall and immediate lapses occurs.

- Scenario 4: the levels of lapses that the business can deal with if it is unable to sell underlying unit-linked funds due to a run on the funds and them subsequently being suspended by the fund manager. This was considered as a reverse stress test against the different types of asset holdings of the company.
- Scenario 5: Consider the level of lapse that the With-profits fund can deal with based on the level of liquid assets in the With-profits fund.
- Scenario 6: The stress test for large claims was conducted based on the occurrence of claims for the top 5 protection policies with the largest sum assured to test if the current levels of liquidity is able to withstand the total claim amount.

The liquidity scenario testing shows that the Company remains liquid throughout all scenarios identified. This is true based on the current levels of liquidity that the Company holds and if it was to pay out a large dividend. In addition, the reverse stress tests show that the Company is sufficiently liquid to withstand extreme events.

C.8 Any other information

It should be noted that whilst some of the COVID-19 impacts from the financial markets have improved, the expectation is that the implications of the pandemic will continue to impact the Company over the longer term. Given this uncertainty, the assumptions used within the scenarios as part of the ORSA process are prudent and thus include the estimated impacts on the Company as a result of the Pandemic.

D. Valuation for solvency purposes

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 2020.

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 2020, 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 mortality, morbidity, lapse and interest rate assumptions. During 2020, lapse assumptions have been revised to reflect expected future experience. 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 tthe 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.1.2 *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	–	306	(306)
Intangible assets	–	41,146	(41,146)
Deferred tax assets	–	–	–
Pension benefit surplus	–	–	–
Property, plant & equipment held for own use	–	–	–
Investments (other than assets held for index-linked and unit-linked contracts)	332,522	330,246	2,276
Property (other than for own use)	1,600	1,600	–
Holdings in related undertakings, including participations	–	–	–
Equities	15,487	15,487	–
Equities – listed	15,487	15,487	–
Equities – unlisted	–	–	–
Bonds	273,521	271,271	2,250
Government Bonds	153,296	152,181	1,115
Corporate Bonds	120,225	119,090	1,135
Structured notes	–	–	–
Collateralised securities	–	–	–
Collective Investments Undertakings	41,914	41,888	26
Derivatives	–	–	–
Deposits other than cash equivalents	–	–	–
Other investments	–	–	–
Assets held for index-linked and unit-linked contracts	411,500	411,478	22
Loans and mortgages	–	–	–
Loans on policies	–	–	–
Loans and mortgages to individuals	–	–	–
Other loans and mortgages	–	–	–
Reinsurance recoverables from:	(21,104)	78,054	(99,158)
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	(21,079)	78,054	(99,133)
Health similar to life	–	–	–
Life excluding health and index-linked and unit-linked	(21,079)	78,054	(99,133)
Life index-linked and unit-linked	(25)	–	(25)
Deposits to cedants	–	–	–
Insurance and intermediaries receivables	–	474	(474)
Reinsurance receivables	1,865	1,865	–
Receivables (trade, not insurance)	1,537	3,822	(2,285)
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	38,750	38,750	–
Any other assets, not elsewhere shown	35	–	35
Total assets	**765,105**	**906,141**	**(141,036)**

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 31st December 2020:

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	(5,270)	(21,079)	15,809	18,155	33,964
With-Profits	279,276	–	279,276	913	280,189
Index-linked and Unit-linked					
Index-linked and Unit-linked	388,428	(25)	388,453	3,245	391,698
Total	**662,434**	**(21,104)**	**683,538**	**22,313**	**705,851**

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.
- For less material risks, operational risk and counterparty default risk, the capital requirement for each risk in each future year is estimated using the current figure and appropriate risk drivers for scaling.
- For more significant risks, such as lapse risk, the capital requirement is projected in 5-year intervals and liner interpolation is used to estimate the figures annually.
- 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. As per the current bonus philosophy, the Company aims to distribute 75% of the 'Total distributable return' as reversionary bonus. Where the 'Total distributable return' equals Expected return earned on the fund based on the Investment Return assumption above less shareholder's share of investment return (10%) less withholding tax.

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)

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 and the appropriateness of this taking into account future in-force business volumes.

Due to the expected volumes expected to shrink over the next 15 years before recovering to current levels, an expense overrun reserve of €1.3m is maintained to ensure an appropriate allowance is made for any future expense shortfalls.

D.2.1.3.3 Taxation

The Company assumes that the application of current tax legislation will not change. However, the tax environment as it applies to life companies is complex and the application of the respective rules may result in varying interpretations. The directors consistently seek advice on various tax matters, however, there is a possibility that the final tax outcome differs from estimates made as part of the preparation of the financial statements. The directors do not consider that there is material tax exposure that has not been provided for, notwithstanding an element of uncertainty that may apply.

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 is 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.

As further described in Note 4.1 to the Audited Financial statements, the main source of uncertainty is that epidemics such as AIDS, SARS, pandemic flu, swine flu, COVID and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. The Company is also exposed to the volatility of the yield curve. These risks are heightened in the context of the current ongoing COVID pandemic and the SFCR contains information pertaining to stress testing and sensitivity analysis performed by the Company. New estimates are made each subsequent year to reflect the current long term outlook.

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 has 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 22 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. Valuation for solvency purposes (continued)

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)	293,074	404,000	(110,926)
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)	293,074	404,000	(110,926)
TP calculated as a whole	–	–	–
Best Estimate	274,006	–	274,006
Risk margin	19,068	–	19,068
Technical provisions - index-linked and unit-linked	391,673	411,031	(19,358)
TP calculated as a whole	–	–	–
Best Estimate	388,428	–	388,428
Risk margin	3,245	–	3,245
Other technical provisions	–	–	–
Contingent liabilities	–	–	–
Provisions other than technical provisions	–	1	(1)
Pension benefit obligations	–	–	–
Deposits from reinsurers	–	–	–
Deferred tax liabilities	9,952	13,616	(3,664)
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	7,220	7,411	(191)
Reinsurance payables	1,381	1,437	(56)
Payables (trade, not insurance)	3,205	3,205	–
Subordinated liabilities	–	–	–
Subordinated liabilities not in BOF	–	–	–
Subordinated liabilities in BOF	–	–	–
Any other liabilities, not elsewhere shown	–	42	(42)
Total liabilities	**706,505**	**840,743**	**(134,238)**

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.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

The impacts of COVID-19 impacted the Company's Own Funds, Capital Requirements and changes in assumptions. Having considered the uncertainties linked to COVID, in light of the Company's level of solvency as well as plans to further improve the capital base, the directors consider the going concern assumption to remain appropriate on the basis of information known to date.

E. Capital management

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 2020 comprised only of Tier 1 Basic Own Funds, with no Ancillary Own Funds requiring regulatory approval.

The table below summarises the structure of the Company's basic own funds at 31 December 2020 and 2019:

	2020	2019	*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	**30,638**	39,326	(8,688)
Total – Excess of assets over liabilities	**58,599**	67,287	(8,688)

The Basic own funds have fallen by €8.7m during the year driven by the fall in yields and changes to the assumptions during 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 comprises 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 2020 and 2019:

Eligible own funds (Tier 1 and Tier 2)	**2020**	2019	*Difference*
	€000	€000	€000
Ordinary share capital – Tier 1	**27,961**	27,961	–
Reconciliation reserve – Tier 1	**30,638**	39,326	(8,688)
Excess of assets over liabilities	**58,599**	67,287	(8,688)
SCR	**32,401**	25,767	6,634
MCR	**10,904**	10,760	144
Ratio of Eligible own funds to SCR	**181%**	261%	(80%)
Ratio of Eligible own funds to MCR	**537%**	625%	(88%)

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 2020 and 2019:

IFRS versus Solvency II	**2020**	2019	*Difference*
	€000	€000	€000
Total shareholders' equity IFRS	**65,398**	71,456	(6,058)
Solvency II adjustments	**(6,799)**	(4,169)	(2,630)
Excess of assets over liabilities	**58,599**	67,287	(8,688)

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.

Considering the net Deferred Tax Liability of €10m in the Balance Sheet at the end of the year, LACDT was reduced from €14.8m to €10m (i.e. it was capped by €4.8m). This impacted the Solvency ratio downwards by 31 points.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency and Minimum Capital Requirement as at 31 December 2020

The SCR and MCR of the Company as at 31 December 2020 is presented in the table below:

	2020
	€000
SCR	**32,401**
MCR	**10,904**

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 2020 split by risk modules

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

	Net	
Risk Module	**2020**	2019
	€000	€000
Market Risk	**18,240**	13,477
Counterparty Default Risk	**1,221**	1,423
Life Underwriting Risk	**31,846**	31,703
Health Underwriting Risk	**–**	–
Undiversified BSCR	**51,307**	46,603
Diversification	**(10,449)**	(8,729)
BSCR	**40,858**	37,874
Operational Risk	**1,494**	1,766
SCR before the Loss absorbing capacity of deferred taxes	**42,352**	39,640
Loss absorbing capacity of deferred taxes	**(9,952)**	(13,874)
SCR after the Loss absorbing capacity of deferred taxes	**32,401**	25,766

Market Risk increases mainly due to the increase of the Cost of Guaranty to the shareholder under an equity stress and the reduction of the symmetric adjustment (dampener), therefore increasing Equity Risk Capital.

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

The Company conservatively caps its Loss absorbing capacity of deferred taxes to the amount it expects to utilise by the reversal of deferred tax liabilities relating to income taxes levied by the same taxation authority. As a consequence of: the reduction in the deferred tax liability within the SII balance sheet; and the increase in the SCR before the Loss absorbing capacity of deferred taxes, as compared to last year, the loss absorbing capacity of deferred taxes allowed in the SCR calculation was capped by €4.8m (2019: no capping).

The deferred tax liabilities used by the company to demonstrate likely utilisation pertain primarily to the change of the Technical Reserves in IFRS and BEL.

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 2019 and 2018:

	2020	2019
	€000	€000
SCR	**32,401**	25,767
MCR	**10,904**	10,760

The table above shows that there has been an increase in the SCR over the reporting period as detailed in sections C0 to C3 and E 2.1.1.

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

The fall of the Solvency II ratio was primarily driven by the impacts of COVID-19 on the Company's Own Funds and Capital Requirements and changes in assumptions. Having considered the uncertainties linked to COVID, in light of the Company's level of solvency as well as plans to further improve the capital base, the directors consider the going concern assumption to remain appropriate on the basis of information known to date.

HSBC Life Assurance (Malta) Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2020

(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 2020
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	Information on the technical provisions relating to life insurance
S.23.01.01	Information on own funds
S.25.01.21	Information on the Solvency Capital Requirement calculated using the standard formula
S.28.01.01	Minimum Capital Requirement for insurance and reinsurance undertakings engaged in only long-term business

Appendix (continued)

S.02.01.02

Balance Sheet

	Solvency II value
	€000
Assets	
Intangible assets	–
Deferred tax assets	–
Pension benefit surplus	–
Property, plant & equipment held for own use	–
Investments (other than assets held for index-linked and unit-linked contracts)	**332,523**
Property (other than for own use)	**1,600**
Holdings in related undertakings, including participations	–
Equities	**15,487**
Equities – listed	**15,487**
Equities – unlisted	–
Bonds	**273,521**
Government Bonds	**153,296**
Corporate Bonds	**120,225**
Structured notes	–
Collateralised securities	–
Collective Investments Undertakings	**41,914**
Derivatives	–
Deposits other than cash equivalents	–
Other investments	–
Assets held for index-linked and unit-linked contracts	**411,500**
Loans and mortgages	–
Loans on policies	–
Loans and mortgages to individuals	–
Other loans and mortgages	–
Reinsurance recoverables from:	**(21,104)**
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	**(21,079)**
Health similar to life	–
Life excluding health and index-linked and unit-linked	**(21,079)**
Life index-linked and unit-linked	**(25)**
Deposits to cedants	–
Insurance and intermediaries receivables	–
Reinsurance receivables	**1,865**
Receivables (trade, not insurance)	**1,537**
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	**38,750**
Any other assets, not elsewhere shown	**35**
Total assets	**765,105**

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)	**293,074**
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)	**293,074**
TP calculated as a whole	–
Best Estimate	**274,006**
Risk margin	**19,068**
Technical provisions – index-linked and unit-linked	**391,673**
TP calculated as a whole	–
Best Estimate	**388,428**
Risk margin	**3,245**
Contingent liabilities	–
Provisions other than technical provisions	–
Pension benefit obligations	–
Deposits from reinsurers	–
Deferred tax liabilities	**9,952**
Derivatives	–
Debts owed to credit institutions	–
Financial liabilities other than debts owed to credit institutions	–
Insurance & intermediaries payables	**7,220**
Reinsurance payables	**1,383**
Payables (trade, not insurance)	**3,205**
Subordinated liabilities	–
Subordinated liabilities not in BOF	–
Subordinated liabilities in BOF	–
Any other liabilities, not elsewhere shown	–
Total liabilities	**706,506**
Excess of assets over liabilities	**58,599**

Appendix (continued)

S.05.01.02

Premiums, claims and expenses by line of business

Life	*Line of Business for: life insurance obligations*			
	Insurance with profit participation	*Index-linked and unit-linked insurance*	*Other life insurance*	*Total*
	€000	**€000**	**€000**	**€000**
Premiums written				
Gross	14,992	33,824	14,723	63,538
Reinsurers' share	–	–	5,420	5,420
Net	14,992	33,824	9,303	58,118
Premiums earned				
Gross	14,992	33,824	14,715	63,530
Reinsurers' share	–	–	5,423	5,423
Net	14,992	33,824	9,292	58,107
Claims incurred				
Gross	28,591	31,914	4,360	64,864
Reinsurers' share	–	–	3,246	3,246
Net	28,591	31,914	1,114	61,618
Changes in other technical provisions				
Gross	2,114	17,568	3,770	23,452
Reinsurers' share	–	–	2,581	2,581
Net	2,114	17,568	1,189	20,871
Expenses incurred	1,258	4,220	4,288	9,766
Administrative expenses				
Gross	1,255	3,727	3,404	8,386
Reinsurers' share	–	–	–	–
Net	1,255	3,727	3,404	8,386
Investment management expenses				
Gross	–	(29)	(53)	(82)
Reinsurers' share	–	–	–	–
Net	–	(29)	(53)	(82)
Acquisition expenses				
Gross	3	522	937	1,462
Reinsurers' share	–	–	–	–
Net	3	522	937	1,462
Other expenses				–
Total expenses				9,766
Total amount of surrenders	5,865	27,840	–	33,705

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*					*Total Top 5 and home country*
	€000	€000	€000	€000	€000	€000	€000
Premiums written							
Gross	62,958	842	107	79	76	68	64,128
Reinsurers' share	–	–	–	–	–	–	–
Net	71,502	842	107	79	76	68	64,128
Premiums earned							
Gross	–	–	–	–	–	–	–
Reinsurers' share	–	–	–	–	–	–	–
Net	–	–	–	–	–	–	–
Claims incurred							
Gross	61,781	2,779	257	–	–	149	64,966
Reinsurers' share	–	–	–	–	–	–	–
Net	61,781	2,779	257	–	–	149	64,966
Changes in other technical provisions							
Gross	(10,847)	(3,741)	(1,037)	(75)	(71)	(81)	(15,852)
Reinsurers' share	(624)	–	–	–	–	–	(624)
Net	(10,223)	(3,741)	(1,037)	(75)	(71)	(81)	(15,228)
Expenses incurred	–	–	–	–	–	–	–
Other expenses							–
Total expenses							–

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	279,276	–	388,428	–	(5,270)	662,434
Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default"	–	–	(25)	–	(21,079)	(21,104)
Best estimate minus recoverables from reinsurance/SPV and Finite Re	279,276	–	388,453	–	15,809	683,538
Risk margin	913	3,245	–	18,155	–	22,313
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	–	–	–	–	–	–
Best estimate	–	–	–	–	–	–
Risk margin	–	–	–	–	–	–
Technical provisions – total	280,189	391,673	–	12,885	–	684,746

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	30,638	30,638	–	–	–
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	–	–	–	–	–
Deductions for participations in financial and credit institutions	–	–	–	–	–
Total basic own funds after deductions	58,599	58,599	–	–	–
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	58,599	58,599	–	–	–
Total available own funds to meet the MCR	58,599	58,599	–	–	–
Total eligible own funds to meet the SCR	58,599	58,599	–	–	–
Total eligible own funds to meet the MCR	58,599	58,599	–	–	–
SCR	32,401	–	–	–	–
MCR	10,904	–	–	–	–
Ratio of Eligible own funds to SCR	181%	–	–	–	–
Ratio of Eligible own funds to MCR	537%	–	–	–	–
Reconcilliation reserve					
Excess of assets over liabilities	58,599	–	–	–	–
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	30,638	–	–	–	–
Expected profits					
Expected profits included in future premiums (EPIFP) – Life business	28,828	–	–	–	–
Expected profits included in future premiums (EPIFP) – Non-life business	–	–	–	–	–
Total Expected profits included in future premiums (EPIFP)	**28,828**	**–**	**–**	**–**	**–**

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

	Net solvency capital requirement	*Gross solvency capital requirement*	*Allocation from adjustments due to RFF and Matching adjustments portfolios*
	€000	**€000**	**€000**
Market risk	18,240	41,422	–
Counterparty default risk	1,221	1,221	–
Life underwriting risk	31,846	31,846	–
Health underwriting risk	–	–	–
Non-life underwriting risk	–	–	–
Diversification	(10,449)	(15,874)	–
Intangible asset risk	–	–	–
Basic Solvency Capital Requirement	40,858	58,615	–
Calculation of Solvency Capital Requirement			
Operational risk	1,494	–	–
Loss-absorbing capacity of technical provisions	(17,757)	–	–
Loss-absorbing capacity of deferred taxes	(9,952)	–	–
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	–	–	–
Solvency Capital Requirement excluding capital add-on	32,401	–	–
Capital add-ons already set	–	–	–
Solvency capital requirement	32,401	–	–
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	–	–	–
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	–	–	–
New future discretionary benefits	17,757	–	–
Approach to tax rate	–	–	–
Approach based on average tax rate	2	–	–
Calculation of loss absorbing capacity of deferred taxes	Before the shock	After the shock	LAC DT
DTA	–	–	–
DTA carry forward	–	–	–
DTA due to deductible temporary differences	–	–	–
DTL	9,952	–	–
LAC DT	–	–	(9,952)
LAC DT justified by reversion of deferred tax liabilities	–	–	(9,952)
LAC DT justified by reference to probable future taxable economic profit	–	–	–
LAC DT justified by carry back, current year	–	–	–
LAC DT justified by carry back, future years	–	–	–
Maximum LAC DT			(14,823)

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	10,904	–	–

		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	–	244,954	–
Obligations with profit participation – future discretionary benefits	–	34,322	–
Index-linked and unit-linked insurance obligations	–	388,453	–
Other life (re)insurance and health (re)insurance obligations	–	15,809	–
Total capital at risk for all life (re)insurance obligations	–	–	819,931
Overall MCR calculation			
Linear MCR	10,904	–	–
SCR	32,401	–	–
MCR cap	14,580	–	–
MCR floor	8,100	–	–
Combined MCR	10,904	–	–
Absolute floor of the MCR	3,700	–	–
Minimum Capital Requirement	**10,904**	–	–

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