ADVENT INSURANCE PCC LIMITED

GROUP AND SOLO SOLVENCY AND FINANCIAL CONDITION REPORT

31ST DECEMBER 2017

Table of Contents

A. EXECUTIVE SUMMARY

This report provides the **Solo SFCR data** in relation to the business and performance of Advent Insurance PCC Limited, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management (the PCC). The report's purpose is to assist interested parties in understanding the capital position of the PCC.

In addition to the **Solo SFCR data** for Advent Insurance PCC Limited and all of its constituent Cells, this report also encompasses the **Group SFCR data**, where relevant, for the Advent Insurance PCC Group ("the PCC Group") which is comprised of:

Advent International Holdings Limited (formerly AIF Holdings Limited)
Advent Insurance PCC Limited – for its ordinary non-cellular shares
Advent Insurance PCC Limited – AIF Cell
Advent Insurance PCC Limited – Finance One Cell

Advent International Holdings Limited (AIHL) is a company registered in Malta, incorporated on 4th March 2011. Its Directors consider that its ultimate controlling party is Abbey International Finance Limited, a company registered in Ireland.

Advent Insurance PCC Limited ('the PCC') was authorised on 29th March 2011 in Malta to carry on the business of insurance under all classes of general business and is registered in Malta under registration number C52394. The PCC is a subsidiary of AIHL. The PCC was established to provide insurance services, from its Core and individual Cells, into EU or EEA States pursuant to article 4 of the Insurance Business Act and regulation 10 of Part II of the European Passport Rights for Insurance and Reinsurance Undertakings Regulations, 2004. As a Protected Cell Company, the PCC is bound by the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2010 (The PCC Regulations).

The PCC's authorised share capital consists of 6 classes of "Cell shares", each class being in respect of one of the PCC's six Cells, and €4,070,000 ordinary shares of €1 each.

The relationship between the PCC and the Cell shareholders is governed by Cell shareholder agreements supported by Malta's PCC Regulations. The PCC Regulations specifically provide for the legal segregation of assets and liabilities between various Cells in a Protected Cell Insurance Company. The Cellular assets of any individual Cell may only be used to satisfy the liabilities of that Cell. The PCC's non-Cellular assets can be secondarily used to satisfy the Cellular liability, provided that the Cellular assets attributable to the relevant Cell have been exhausted; and Cellular assets not attributable to the relevant Cell may not be used to satisfy the liability. Further, any liability not attributable to a particular Cell is the sole liability of the company's non-Cellular assets.

This Solvency & Financial Condition Report ('SFCR') is produced as part of the reporting requirements under Solvency II, a European directive implemented in Malta under various instruments including:

- SL 403.20 Insurance Business (Phasing-In) Regulations, 1st April, 2015, 1st July 2015,
- SL 403.23 – Insurance Business (Solvency II Transitional Provisions) Regulations, January 2016, and:
- SL.403.21 – Insurance Business (Commission Delegated Regulation on Solvency II) Regulations, January 2016

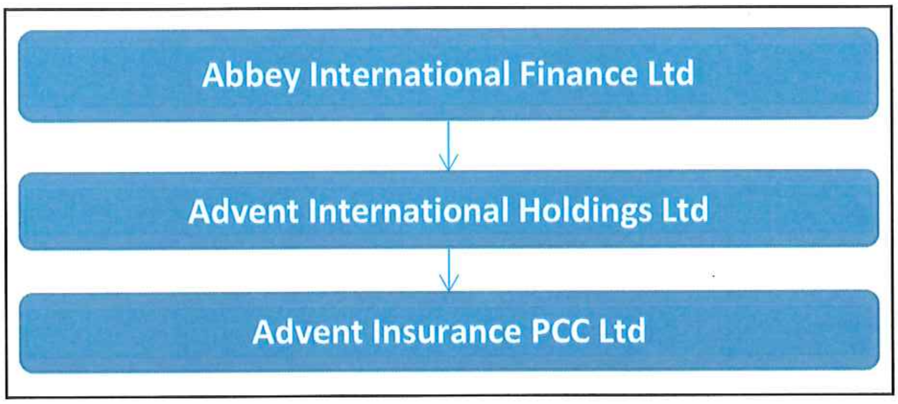
B. BUSINESS AND EXTERNAL ENVIRONMENT

1. Legal status and registered address

The PCC was established as a Protected Cell insurance undertaking in Malta to exercise passport rights to provide insurance services, from its Core and individual Cells, into EU or EEA States. Its registered address is: The Landmark, Level 1, Suite 2, Triq l-Iljun, Qormi QRM 3800, Malta.

2. Ownership structure

The PCC's ordinary non-cellular shares are wholly owned by Advent International Holdings Limited ("AIHL"), (formerly AIF Holdings Ltd), a company registered in Malta. The directors consider that the ultimate controlling party is Abbey International Finance Limited, a company registered in Ireland. The Group structure is as follows:



The Cellular shares of AIF Cell and Finance One Cell are also owned by AIHL.

As Advent International Holdings Limited, Advent Insurance PCC Limited Core (for ordinary shares excluding third party cellular shares), Finance One Cell and AIF Cell share common ownership, they comprise the PCC Group. In addition to the Solo data provided herein for the PCC, data pertaining to the PCC Group will also be provided.

For the purposes of group solvency, method 1 – accounting consolidation based method – has been used.

3. Third party ownership of third party cellular shares

The Cellular shares of the other Cells are owned by third parties who are unrelated to Advent Insurance PCC Limited or its holding or parent companies.

4. Activities of the Core

During 2017 the PCC's Core continued with a full year of the French loss of rent cover, commenced on 1st December 2016. From 1st October 2017 the Core began writing missed flight cover to customers based in Spain, previously written in the AIF Cell.

5. Activities of Cells

- At 31st December 2017 the PCC had the following operational Cells:

- Absolut Cell: This Cell provide, under general insurance Class 16 (Miscellaneous Financial Loss), travel insurance to customers based primarily in Belgium, plus Loss of Licence insurance (affiliated risk)
- Finance One Cell: This provided, under general insurance Class 15 (Suretyship), various types of bonds, mainly construction, performance and custom bonds, to customers based primarily in Ireland. The Cell ceased writing its current risks at 31st December 2017 and the portfolio is expected to be fully run off by the end of 2020. Decisions about the Cell's future have not yet been taken.
- UIB Cell: This sells, under general insurance Classes 1 (Accident) and 2 (Sickness), income protection insurance to customers based in the UK.
- Freedom Health Cell: This sells, under general insurance Classes 1 (Accident) and 2 (Sickness), Private Medical Insurance to customers based in the UK and Germany.
- Unlimited Care Cell: This was authorised by the MFSA during 2016 to sell, under general insurance Classes 1 (Accident) and 2 (Sickness), Private Medical Insurance to customers based in Portugal. The Cell was not operational during 2017 but started underwriting during 1st quarter 2018.
- AIF Cell: Although this cell ceased underwriting at the end of September 2017, it remained open at the end of the year.

6. Related Party Transactions

During the year the Company entered into various transactions into parties which are subject to common control. All transactions are conducted within the normal course of business.

The legal firm of one of the Directors is the appointed legal advisor of the Company. The retainer fee charged by the legal firm is separate from the emoluments paid to the Director concerned.

7. Performance from underwriting activities – PCC Solo Data

The Company's underwriting performance in the past two years is summarised below by Line of Business and geographical area. Since the PCC prepares its financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis. The PCC's functional currency is Euro, albeit two Cells operate in GBP.

PCC SOLO DATA – TECHNICAL RESULT - YEAR ENDED 31ST DECEMBER 2017								
	CREDIT & SURETYSHIP	PROPERTY	MISCELLANEOUS FINANCIAL LOSS			MEDICAL EXPENSES	INCOME PROTECTION	TOTALS
Geographical Area	IRELAND	FRANCE	FRANCE	SPAIN	BELGIUM	UK	UK	
Premiums Earned	991,597	36,365	690,926	136,527	10,748,754	7,078,364	5,311,337	24,993,870
Reinsurance Outwards	-447,546	0	-	-	-	-1,907,856	-52,194	-2,407,596
Gross Claims Incurred	-347,059	-27,273	-508,391	-35,173	-4,279,211	-3,262,646	-1,457,687	-9,917,440
Net Operating Expenses	-252,566	-9,091	-182,535	-65,774	-187,500	-2,889,354	-1,937,702	-5,524,522
Other Technical Income	280,003		-	-		1,666,983	-	1,946,986
Technical UW Result	**224,429**	**1.00**	**0**	**35,580**	**6,282,043**	**685,491**	**1,863,754**	**9,091,298**

PCC SOLO DATA – TECHNICAL RESULT - YEAR ENDED 31ST DECEMBER 2016								
	CREDIT & SURETYSHIP	**PROPERTY**	**MISCELLANEOUS FINANCIAL LOSS**			**MEDICAL EXPENSES**	**INCOME PROTECTION**	**TOTALS**
Geographical Area	**IRELAND**	**FRANCE**	**FRANCE**	**SPAIN**	**BELGIUM**	**UK**	**UK**	
Premiums Earned	712,718	2,443	46,414	276,365	8,872,789	2,044,777	3,023,668	14,979,174
Claims Incurred	-249,451	-1,249	-23,722	-28,414	-4,702,284	-669,325	-764,988	-6,439,433
Reinsurance Outwards	-334,861	0	-	-	-	-687,727	-94,094	-1,116,682
Net Operating Expenses	-160,610	-611	-11,603	-158,228	-230,000	-755,036	-1,836,383	-3,152,471
Other Technical Income	154,302	0	-	-		166,320	-	320,622
Technical UW Result	**122,098**	**583**	**11,089**	**89,723**	**3,940,505**	**99,009**	**328,203**	**4,591,210**

The differences between the underwriting activity of 2016 and 2017 years, from the **PCC Solo** perspective, are summarised below:

All countries and lines of business enjoyed increases in earned premium with the exception of Spain, where the earned premium dropped by over 50%. The PCC's Belgian earned premium increased by 24%. Its UK medical expenses portfolio's premium increased by 61%, whilst the UK income protection business saw earned premium increase by 76%, as both portfolios became fully operational. The Irish surety portfolio also enjoyed a significant increase in earned premium, of 86%, in 2017. The Core wrote a full year of its French business in 2017, compared with one month in 2016.

In total the consolidated earned premium increased by 66% and the net technical underwriting result increased by 98%. Broadly in line with earned premium growth, net operating expenses increased by 75% over 2016.

8. Performance from underwriting activities – PCC Group Data

PCC GROUP DATA – YEAR ENDED 31ST DECEMBER 2017					
	CREDIT & SURETYSHIP	**PROPERTY**	**MISCELLANEOUS FINANCIAL LOSS**		**TOTALS**
Geographical Area	**IRELAND**	**FRANCE**	**FRANCE**	**SPAIN**	
Premiums Earned	991,597	36,365	690,926	136,527	1,855,415
Reinsurance Outwards	-447,546	0	-	-	-447,546
Gross Claims Incurred	-347,059	-27,274	-508,391	-35,172	-917,896
Net Operating Expenses	-252,566	-9,091	-182,535	-65,774	-509,966
Other Technical Income	280,003		-	-	280,003
Technical UW Result	**224,429**	**0**	**0**	**35,581**	**260,010**

PCC GROUP DATA – YEAR ENDED 31ST DECEMBER 2016					
	CREDIT & SURETYSHIP	PROPERTY	MISCELLANEOUS FINANCIAL LOSS		TOTALS
Geographical Area	**IRELAND**	**FRANCE**	**FRANCE**	**SPAIN**	
Premiums Earned	712,718	2,443	46,414	276,365	1,037,940
Claims Incurred	-249,451	-1,249	-23,722	-28,414	-302,836
Reinsurance Outwards	-334,861	0	-	-	-334,861
Net Operating Expenses	-160,610	-611	-11,603	-158,228	-331,052
Other Technical Income	154,302	0	-	-	154,302
Technical UW Result	**122,098**	**583**	**11,089**	**89,723**	**223,493**

Overall the earned premiums increased by 78% during 2017, arising from increases in Ireland and France, but a reduction in Spain. The underwriting profit has not increased in line with earned premium, due to a conservative reserving stance for the French business to reflect the very early stages of development of the claims experience.

9. Performance from investment activities

I. PCC Solo Finance and Investment gains

The following tables summaries the finance income and investment gains earned by the PCC during 2017.

PCC SOLO – INVESTMENT INCOME FOR YEAR ENDED 31.12.2017			
Income	**Core**	**All Cells**	**TOTALS**
Cash at Bank	19	3,380	3,399
Investment Income	24,880	227,381	252,261
Net gains on Investments	30,764	0	30,764
Unrealised FX gains and losses	0	-210,790	-210,790
Total	**55,663**	**19,971**	**75,634**

Investment income includes interest on group loans. The Core has earned investment income from its professionally managed investment portfolio. At 31st December, 2017 the portfolio holdings were in collective instrument schemes or debt securities, in addition to cash balances.

II. PCC Group Finance and Investment gains

PCC GROUP – INVESTMENT INCOME FOR YEAR ENDED 31.12.2017				
Income Type	**AIHL**	**PCC Core**	**Group Cells**	**TOTALS**
Cash at Bank	12	19	1,068	1,099
Investment Income		24,880	44,543	69,423
Net gains on Investments		30,764		
Unrealised FEX G/(L)		0	-209,802	-209,802
Total	**18**	**55,663**	**-164,191**	**-108,510**

III. PCC Solo Operating / other expenses

PCC SOLO – OPERATING EXPENSES FOR YEAR ENDED 31.12.2017						
Administration Expenses	**Core 2017**	**Core 2016**	**All Cells 2017**	**ALL Cells 2016**	**Total 2017**	**Total 2016**
Acquisition costs	190,776	12,214	4,822,336	2,720,587	5,013,112	2,732,801
Claims Handling fee	850	0	510,560	419,670	511,410	419,670
Administration Expenses	202,358	165,153	532,666	457,623	735,024	622,776
	393,984	**177,367**	**5,865,562**	**3,597,880**	**6,259,546**	**3,775,247**

The acquisition costs and claims handling fees are included in the technical underwriting results. The administration expenses are non-underwriting overheads which are included in the non-technical profit and loss account.

The acquisition costs and claims handling fees expensed during 2017 represent commissions payable to agents for introducing the business and for services, including claims management, related to managing the business in the risk territories. They include €1,937,702 paid in respect of the UK income protection business, €2,889,354 paid in respect of the UK medical expenses business, €252,566 paid in respect of the Irish surety business, €257,000 paid in respect of the Spanish and French business, and €187,500 paid in respect of the Belgian business. The increases over 2016 are generally in line with increases in earned premium.

IV. PCC Group Operating / other expenses

PCC GROUP – OPERATING EXPENSES FOR YEAR ENDED 31.12.2017								
Administration Expenses	**AIHL 2017**	**AIHL 2016**	**Core 2017**	**Core 2016**	**Group Cells 2017**	**Group Cells 2016**	**Total 2017**	**Total 2016**
Acquisition costs			190,776	12,214	313,850	308,213	504,626	320,427
Claims Handling fee			850	0	4,490	12,222	5,340	12,222
Administration Expenses	13,389	18,977	202,358	165,153	211,197	171,351	426,944	355,481
	13,389	**18,977**	**393,984**	**177,367**	**529,537**	**491,786**	**936,910**	**688,130**

V. Other income

The Core earned facilities fees facility fees of €149,000 in 2017, compared with €141,038 in 2016.

C. SYSTEM OF GOVERNANCE

1. General Governance Arrangements – Board and Management and Committees

The Board of Directors of the group holding company, AIHL, consists of John Prosser, Derek Douglas, Christian Farrugia, James Dunbar-Cousin. All of these individuals are also directors of the PCC. As the PCC is the main operational arm of the Group the references in this section to the 'Board' are largely to the Board of Directors of the PCC.

I. The Board of Directors

The PCC is managed by an active Board of Directors. At 31st December 2017 the Board had five directors, four of whom were resident in Malta. The Board members are: John Prosser, Derek Douglas (Malta), Christian Farrugia (Malta), James Dunbar Cousin (Malta), Anne Finn (Malta). Mr. David Hill was confirmed as a board member on 27th March 2018 and Mr. Derek Douglas is returning to reside in the UK at the end of May 2018, but will continue as a board member of the PCC. The Board members collectively have qualifications and expertise in Accounting, Insurance Underwriting, Risk Management, Compliance, Investment and Banking and Law. The Board is responsible for the strategic management of the PCC. It oversees all PCC operations and appoints and supervises Managers and key function holders. All material decisions relating to or made by the Cells are subject to the approval of the Board. The Board meets at least quarterly, but also more frequently should it be required.

II. Underwriting Committee

The Board is supported by an Underwriting Committee, which is a sub-committee of the Board. The Underwriting Committee members are: John Prosser, Derek Douglas and Anne Finn. It is intended that David Hill will replace John Prosser as a member of this committee during 2018. The Underwriting Committee assists the Board in evaluating Cell proposals and underwriting opportunities for the Core. The Underwriting Committee also reviews material claims, both Core and Cellular, over and above the normal underwriting authorities granted to agencies. The Underwriting Committee meets on an ad hoc basis as required but its members are in regular communication with each other and with the Managers.

III. Audit Committee

The PCC does not have a separate Audit Committee. The statutory obligations of an Audit Committee are retained directly by the Board of Directors.

IV. Remuneration Committee

The PCC has no direct employees. Its directors are remunerated on a flat fee basis. The PCC therefore does not have a remuneration committee and its remuneration policy is very simple: to pay its directors and advisors a fair and adequate fee reflective of market rates, appropriate to the skills and functions being employed, for services rendered. Such fees are not directly tied to profit margins or financial performance of the Company.

V. Management structure and key functions

The Board is also supported by:

i. A professional management company, Artex Risk Solutions (Malta) Limited, which takes care of all day to day operational matters in Malta.
ii. A Compliance function and an appointed Compliance Officer to help ensure that the PCC is compliant with all its legal and regulatory obligations both in Malta and in the risk territories.
iii. A Risk Management function to measure, manage, monitor and control the risks the PCC is exposed to.
iv. An Internal Audit function executed by an Internal Auditor appointed by Abbey International Finance Limited, the PCC's ultimate controlling party. The Internal Auditor is completely independent of the day to day operations of the PCC.
v. An Actuarial function which is outsourced to Artex who provide the service through an outsourced qualified actuary.

VI. Cell Committees

Each Cell within the PCC has a dedicated committee to manage the Cell business and operations, to receive reports from service providers and to act in an advisory capacity to the Advent Board in relation to the Cell business. Each Cell committee includes representatives of the Cell shareholders, Advent Board and the Managers. The Cell committees meet quarterly and report to the Advent Board.

VII. Adequacy of the System of Governance

The Board is satisfied that the System of Governance is adequate and appropriate for the PCC in view of the nature, scale and complexity of its business.

VIII Fit and Proper Processes and Procedures

It is the PCC's policy to ensure that:

i. All personnel involved with the PCC including shareholders, directors and employees are fit and proper persons within the regulatory definitions including being i) suitably qualified and experienced to carry out the functions delegated to them and ii) of good reputation and character
ii. All actual or potential conflicts of interest that directors or function holders may have are identified, avoided or managed as necessary
iii. Background checks are carried out on all individuals it employs or contracts with, to confirm their identity, background, qualifications, employment history, credit records, criminal record, including spent or lapsed offences, if any to ensure their 'fit' and 'proper' status.
iv. All employments are subject to a trial period and all outsourcing and consultancy arrangements are cancellable.
v. All Board members, qualifying shareholders, senior employees holding key functions such as compliance, internal audit, actuarial, financial, and underwriting are subject to the personal questionnaire process and approval by MFSA

vi. The performance and integrity of individuals are monitored and evaluated on an ongoing basis through interaction and four eyes output review and assessment

vii. Outsourced service providers nominate a person to be responsible for the function who is subject to the PCC's fit and proper assessments.

D. RISK MANAGEMENT SYSTEM

As the PCC is the main operational arm of the Group the references in this section to the 'Board' are largely to the Board of Directors of the PCC.

1. Responsibility

The Board is responsible for setting the PCC's risk appetite and overall risk tolerance limits as well as approving and implementing the main risk management strategies and policies. To facilitate and support the achievement of the PCC's business strategy, the Board has put in place a Risk Management System of the strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual Cell and at an aggregated level, to which the PCC is or could be exposed, and their interdependencies.

2. Guiding policies

To guide the successful operation of the Risk Management System the Board has agreed the following risk policies which set out the minimum standards to be maintained by the PCC to manage its risks in a way that is consistent with its risk appetite and tolerances limits.

Underwriting and Reserving Risk Policy	Investment Risk Policy
Reinsurance and Financial Mitigation Risk Policy	Liquidity Risk Policy
Strategic and Reputation Risk Policy	Data Quality Policy
Operational Risk Management Policy	Outsourcing Policy
Conflicts of Interest Policy	Internal Control Policy
Fitness and Probity Policy	Internal Audit Policy
Asset & Liability Management (ALM) Risk Policy	Capital Management Policy

3. Risk Management Strategy: Risk Register and Risk Matrix

Risk Register: A key element of the Board's risk management strategy is the Risk Register (one each for the Core and each Cell) through which the Board identifies and captures all material risks. Within the Risk Registers the PCC:

- Defines the risk categories which are relevant to the PCC /Cell.
- Defines the methods to be used to measure the risk.
- Outlines the strategies in place for management, control and mitigation to limit its exposure to each material risk.

Risk Matrix: The PCC has set out its desired levels of risk appetite and risk tolerances for its key quantifiable risks. The over-arching risk appetites and tolerances are set out in the PCC's Risk Management System framework document. Individual specified risk appetite and tolerance metrics are set out in a Risk Appetite matrix, one each for the Core and for individual Cells.

4. Strategy for managing Insurance and Investment Risks

The PCC's strategy for managing Insurance and Investment risks is to:

i. Select quality insurance risks with skilled underwriting assessment
ii. Retain insurance risk within approved risk appetite and solvency requirements
iii. Reinsure insurance risk above the selected net retention levels
iv. Handle claims and reserving risk with suitable expertise and quality information
v. Diversify investment risk through careful selection and ongoing review and management
vi. Invest in instruments and deposits that offer it security, quality, liquidity, accessibility and profitability
vii. Monitor changing environment and market conditions that affect risk

5. Strategy for managing other risks

The PCC's strategy for managing other business, operational, reputational, strategy and governance risks is to:

i. Identify and analyse such risks through a multi-disciplinary risk assessment process
ii. Accept certain risks within agreed risk tolerances and with appropriate solvency
iii. Mitigate or avoid risks that do not fit within the PCC's business objectives by risk control and reduction techniques

6. Monitoring and reporting of risk positions

The PCC's strategy for monitoring and reporting of actual risk positions involves a number of functions and forms part of a number of processes. On an ongoing basis the Manager is responsible for reporting to the Board on: risks or risk events that the Board or the Manager has identified as potentially material; and on other specific areas of risk as they arise, both on its own initiative and at the request of the Board.

In addition:

i. At least annually the Board reviews the PCC's risk register, and those of each individual Cell, to ensure that all significant risks are adequately measured, monitored and controlled
ii. At least annually the Board reviews the individual risk policies for appropriateness and adherence
iii. At least quarterly, reporting of cash, investments and liquidity positions, including those of the individual Cells, takes place; these will in future be augmented by detailed aged debtors' reports
iv. At least quarterly, reporting of premium and claim positions for the Core and each individual Cell, takes place
v. At every quarterly Board meeting the PCC's compliance function reports on its monitoring of compliance with the compliance policy

7. Adequacy of Risk Management System

The PCC considers that its Risk Management System is adequate and appropriate to the nature scale and complexity of its business. However, the system itself is periodically reviewed, at least as part of the PCC's regular 'Own Risk and Solvency Assessment' and monitored on an ongoing basis for effectiveness and inclusiveness.

Risk management is discussed further under the RISK PROFILE section.

E. OWN RISK AND SOLVENCY ASSESSMENT

1. ORSA Objectives

The PCC produces its Own Risk and Solvency Assessment (ORSA) at least annually and more frequently should there be any material change to the Company's business or risk profile. The objective of the ORSA is to ensure an effective level of Enterprise Risk Management to enable the PCC to identify, assess, monitor, prioritise and report on the nature and scale of its material and relevant risks and to assess the adequacy of its risk management structures and current and prospective solvency positions under normal and severe stress scenarios, in the light of those risks. The information and knowledge thus obtained allows the PCC to understand and manage not only its current risks and solvency needs, but to consider the effects its strategic decisions will have on its future risk profile, regulatory capital requirements and overall solvency. The ORSA is therefore a tool to assist the Company and Cell owners in decision making and strategic analysis and in achieving their business objectives in a robust Enterprise Risk Management environment.

2. ORSA Principles

i. The Board takes an active, top down part in the ORSA including provision of ongoing guidance on how it is to be carried out. It questions and challenges the assumptions, inputs and results to ensure the integrity of the ORSA, and that it fully understands the risks the company is exposed to and how they translate into capital needs.

ii. The ORSA is an entity wide process requiring input from all relevant personnel including Cell owners and their underwriting and claims teams, the PCC's actuarial, finance, risk management investment and compliance functions, and the local management team. Therefore, as well as being a top down, Board-driven, process the ORSA is granular enough to ensure that the information communicated to the Board is sufficiently detailed to be used by the Board in its strategic decision-making process, and to enable relevant personnel to take any necessary follow up action.

iii. The Board relies on robust systems of governance and risk management to help it identify, manage and reduce risk and to provide it with the information it needs to properly assess its own solvency requirements. Therefore, during the ORSA process the Board evaluates the strength and quality of these systems, taking into consideration risks that may arise from inadequacies or deficiencies of the systems themselves, to ensure that they continue to be robust, effective and efficient, and is committed to taking all necessary steps to improve and strengthen the systems where needed.

3. ORSA Frequency

The PCC carries out an ORSA at least annually and more frequently should a significant change in the PCC's business strategy or profile, including the addition of a new Cell, require it. All ORSA processes are managed, monitored, controlled and reviewed by the Board, and ORSA reports are subject to its approval.

4. ORSA Process

As part of the ORSA process the PCC compares its base case financial projections (over a three-year period), and related SCR and MCR requirements vis-à-vis own funds with differing outcomes likely should certain assumed stressed scenarios take place. This enables it to assess its solvency sensitivity to unlikely but plausible events and to make plans to bolster its capital position should it be needed. The stressed scenarios are derived from the underlying risk review and assessment that also forms part of the ORSA process. The PCC maintains detailed records of the ORSA process including minutes of management and Board meetings, and related correspondence. The ORSA is independently reviewed by the Actuarial function and is available for review by regulators and auditors.

F. INTERNAL CONTROL SYSTEM

As the PCC is the main operational arm of the Group this section focuses on its internal control system. However, the same management and control structures, where relevant, also apply to AIHL, the holding company.

1. Internal Control System Responsibility

The Internal Control Framework for the PCC is overseen by the Board which retains ultimate responsibility. The Board sets the PCC's policies and appoints professional managers and service providers, to help ensure that internal controls are in place to protect the PCC. It also ensures that the internal audit, compliance and risk management functions have the resources, authority and freedom to carry out their responsibilities in an objective, impartial and independent manner, and have direct access to the Board as needed, without impediment by executive management. It supervises cell and operational management activities, including outsourced functions, through regular meetings and interaction between its executive directors and outsourced managers and service providers, and through the receipt of regular and exceptions reporting.

2. Local Managers

Local internal controls are effected through professional Insurance Managers, Artex, who operate under written management agreements and provide management services to the PCC and all cells and also the PCC Group holding company, AIHL. Artex are the initial recipients of the Cells' business data, in the form of detailed monthly and quarterly reports from Cell service providers. Artex scrutinise this underlying data to ensure its accuracy and completeness, and use it to produce reliable and timely financial and management information for Cell Committee and Board reporting. As part of their day to day accounting and administrative support services Artex maintain checks and balances, methods and procedures to safeguard the PCC's and Cells' assets and resources, to detect and deter errors, fraud, theft, and generally to ensure that the Cells and the PCC Core are operating in line with the PCC's policies and the Cells' own business plans. Specific controls in place include **preventive measures such as:** four eyes review of transactions and reports, separation of duties between initiation and approval of, **by at least 2 signatures,** all bank tranactions and contracts; passport controlled computer and office access**; detective measures such as:** monthly reconciliations of bank accounts, checking of bordereaux data against guidance manuals and claims against policy data, random checks on policy and claim files held by outsourcers, onsite reviews and internal audit; **corrective measures** such as data backups, data validity tests, variance reports.

3. Cell Committees

At Cell level the internal controls are overseen by the individual Cell's dedicated Cell Committee. The committee, operating under written Terms of Reference approved by the PCC Board, ensures that adequate systems and controls are in place, both in Malta and in the risk territory, for the effective operation of the Cell's business. Each Cell committee has at least two representatives from the PCC Board, one representative from the local Managers, and two representatives from the Cell shareholders. The Committee's supervision of the Cell's systems and controls, both in Malta and in the business territory, is effected through receipt and scrutiny of detailed underwriting, claims, financial and investment reports, control of contracts, and the requirement for Cell approval and sign-off for insurance policies and claims over specified authority levels. The Board and Management representatives on the Cell Committees report regularly, and at least quarterly, to the Board on the Cells' activities and results.

4. Compliance Function

The PCC's Compliance function, and the role of the Compliance Officer, is outsourced to Artex. In addition, the Board has designated a Director to oversee the compliance function on its behalf. The Compliance Function is recognised as a key part of the PCC's internal control system. It identifies, assesses, monitors and reports on the PCC's and Cells' compliance risk and status to ensure adherence to their legal and regulatory obligations. It reports on these matters, and the effectiveness and adequacy of the Compliance Function, at least quarterly, or more frequently as needed, to the Cell Committees and ultimately to the Board. The Internal Audit function periodically audits the Compliance function to ensure that it is operating as necessary.

5. External oversight

External oversight of internal controls is provided by the Internal Audit and External Audit functions. The Internal Audit function is described below. External oversight of certain key aspects of the PCC's business, in particular its Technical Provision and Solvency calculations, is provided by the Actuarial Function. The Actuarial Function is described below.

6. Adequacy of Internal Control System

Given the nature, scale and complexity of its business the PCC Board considers this Internal Control framework to be adequate and suitable for purpose.

There is a clear division of duties between local directors, local operational staff, risk territory personnel, compliance function, local directors, external audit function and actuarial function. The effective functioning of the overall system is facilitated by regular structured meetings, and information flows and report, between the different divisions, all of which ultimately are answerable to the Board.

G. INTERNAL AUDIT FUNCTION

1. Independence of Internal Audit function

The Abbey Group, the wider Group to which AIHL and the PCC core belong, has established an Internal Audit Function to examine and evaluate the functioning effectiveness and efficiency of the internal control systems, and other elements of the systems of control, of its group companies.

The appointed Internal Auditor for the PCC is a senior executive of the Abbey Group who is operationally independent of the PCC, having never worked directly for the PCC, and not having any current day to day involvement in its operations.

2. Reporting to the Board

Further, the Board has designated a Director to oversee the PCC's audit function, including internal audit. The designated Director liaises with, and maintains free and open communication with, the Internal Auditor. Minutes of their meetings are provided to the Board, which include reports on the progress of internal audits and findings. However, the Internal Auditor reports directly to the Board on the outcome of the audits, their findings and recommendations.

3. Internal Audit responsibilities and scope

The Internal Audit function has been given the following remit for the PCC:

Establish, implement and maintain an audit plan setting out the audit work to be undertaken in the upcoming years, taking into account all activities and the complete system of governance of Advent Insurance PCC Limited

i. take a risk-based approach in deciding its priorities
ii. report the audit plan to the Board of Directors
iii. issue an internal audit report to the Board based on the result of work carried out in accordance with point a. which includes findings and recommendations to the Board including the envisaged period of time to remedy the shortcomings and the persons responsible for doing so, and information on the achievement of audit recommendations
iv. submit the internal audit report to the Board on at least an annual basis
v. verify compliance with the decisions taken by the Board based on those recommendations referred to in point iv.

Every activity and unit of the PCC, including Cells, falls within the scope of the Internal Audit function. Responsibility for following up Internal Audit recommendations rests with the Board with delegation to local executive directors and local management as appropriate.

H. ACTUARIAL FUNCTION

1. Implementation and Objectivity

The PCC has outsourced the Actuarial Function to the local Managers who perform the underlying tasks and calculations. The overview aspects of the Actuarial Function have been outsourced by the Managers to a qualified actuary. The qualified actuary is not an employee of the PCC or the Managers, nor is he involved with the day to day operations of the PCC, thus ensuring that the function is objective and free from the influence of other functions or from the PCC's Board and management.

2. Responsibilities

The responsibilities of the Actuarial Function are to:

i. Co-ordinate the calculation of technical provisions in order to: a) explain any material effect of changes in data, methodologies or assumptions between valuation dates; b) report on the consistency of the technical provisions with the requirements set out in the Solvency II EU directive, and to propose any corrections needed;
ii. Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
iii. Assess the sufficiency and quality of the data used in the calculation of technical provisions;
iv. Compare best estimates against experience;
v. Inform the Board of the reliability and adequacy of the calculation of technical provisions;
vi. Oversee the calculation of technical provisions as set out in Article 82 of Solvency II;
vii. Express an opinion on the overall underwriting policy;
viii. Express an opinion on the adequacy of reinsurance arrangements (if any); and
ix. Contribute to the effective implementation of the risk-management system referred to in Article 44, particularly with respect to the risk modelling underlying the calculation of the capital requirements.
x. The Actuarial Function Holder is required to report to the Board at least annually documenting all material tasks that have been undertaken and their results, clearly identifying any deficiencies and giving recommendations as to how such deficiencies could be remedied.

I. OUTSOURCING

1. Outsourcing in risk territories

The business strategy of the PCC is to insure portfolios of risks on a Freedom of Services basis in various parts of the EU. This strategy results in a need for localised market access, technical, legal and linguistic expertise, and cultural knowledge, in the risk territories, to facilitate the management of the business there. To this end the PCC outsources underwriting, distribution and claims handling services in the Belgium, France, Ireland, Portugal and the UK, as set out in the following table, which states the position at 31st December 2017. Oversight of the outsourcing at Advent Board level is undertaken by Mr D Douglas and Ms A Finn.

Advent Insurance PCC Limited

Third Party Service Providers under contract at 31st December 2017

Note: Internal may indicate common ownership with the Cell shareholder or with the Core

Outsourced Provider	AIHL/Core/ Cells	Service Outsourced	Internal/ External	Jurisdiction	Outsourcing Oversight
Artex Risk Solutions (Malta) Ltd	AIHL/Core/All Cells	Management & Administration services including Accounting, MLRO, Admin and Co Sec. Compliance Actuarial	External	EU: Malta	Derek Douglas
Abbey International Finance Ltd	AIHL/Core/All Cells	Internal Audit	Internal	EU: Ireland	Derek Douglas
Finance One Capital	Finance One	Distribution, Underwriting services and claims handling	Internal	EU: Ireland	Derek Douglas
Vantage Insurance Services Ltd	AIF	Distribution, Underwriting services and claims handling	External	EU: UK	Derek Douglas
Westservice S.A.	Absolut	Claims handling	External	EU: Belgium	Derek Douglas
UIB Holdings UK Ltd	UIB	Distribution, Underwriting Services.	Internal	EU:UK	Derek Douglas
Compass Underwriting Ltd	UIB	Underwriting assistance and claims handling	External	EU:UK	Derek Douglas
Freedom Healthnet Ltd	Freedom Health	Distribution, Underwriting services and claims handling	Internal	EU:UK/ Germany	Derek Douglas
FH International SGPS SA	Unlimitedcare	Claims handling	External	EU: Portugal	Anne Finn
APS Prevoyance t/a Assurances	Core	Distribution, Underwriting services and claims handling	External	EU: France	Anne Finn
Unlimitedcare-Servicos de Saude e Assistencia, S.A.	Unlimitecare	Distribution and Underwriting services	External	EU: Portugal	Anne Finn
Unlimitedcare-Servicos de Saude e Assistencia, S.A	Unlimitedcare	Claims handling services	External	EU: Portugal	Anne Finn

2. Outsourcing in Malta

Due to its relatively small size the PCC, its Group Holding Company AIHL, and all of the PCC's cells, have determined that outsourcing of their day to day operations in Malta, including the accounting, compliance, company secretarial, anti-money laundering and actuarial functions, provides the best solution for their effective and efficient management. These functions are outsourced to the Malta operations of Artex, a global professional insurance management company.

The Internal Audit function is outsourced to Abbey International Finance Limited, the parent company of AIHL. This company is based in Ireland.

Outsourcing risk, and its management, is discussed below under the Risk Profile section.

J. RISK PROFILE

1. Underwriting Risk

I. PCC Solo Underwriting Risk Profile

Underwriting risk at 31st December 2017 comprises 38.67% of the Base SCR which is €10.169m of €26.292m (undiversified).

The PCC in its constituent parts is exposed to underwriting risk in the form of various general insurance products covering travel and missed flight insurance, personal accident & income protection insurance, private medical insurance, bonds and other forms of financial guarantees. The PCC in its entirety is considered to have low underwriting concentration risk because its underwriting exposures are diversified across unconnected portfolios and Cells and over a wide range of classes, products, risks and territories. Further, the Cells are legally and contractually protected from the losses of other Cells and from the Core.

The underlying control by the PCC of its underwriting risk is the initial assessment of Cell & Core portfolio proposals to ensure they meet the Board's acceptance criteria, the optimum profile being short tail, low individual values, well-spread, medium to high premium volume, consistently profitable history, sustainable product, introduced by experienced specialists with proven track records, and high regulatory and market standing.

Once accepted and established, each Cell, and Core portfolio, has its own separate and distinct underwriting profile and operations, with its own mechanisms for assessing, monitoring and controlling its individual underwriting risks. However, all Cells share a common process centred around individual risk registers, which are qualitative analyses of various risk categories, and individual risk matrices which contain quantitative parameters of risk appetites and tolerances against which risk events are monitored. As underwriting is considered the main risk exposure, scrutiny and analysis of regular detailed premium and claims reported results, vis-à-vis the stated risk tolerances and appetites, are the main methodologies for monitoring and controlling this risk. Results are reviewed at regular Cell committee meetings and at, at least quarterly, Board meetings.

The nature of the exposures, the concentrations risk within portfolios, the mechanisms for risk assessment and control including risk mitigations, are discussed in the next section for each Cell, and for the Core. The Cell / Core risk exposure profile is discussed in terms of volatility whereby portfolios are considered non-volatile if they have a medium to high volume of low value exposures where a single loss would have a negligible impact on underwriting results or SCR. Portfolios with larger single loss limits are considered more volatile. Concentration and catastrophe risk is measured by the potential for two or more claims to emerge from the same event. Concentration and volatility levels are key criteria for determining the need, or not, for reinsurance protection.

The risks considered on a Cell by Cell basis are: *underwriting pricing risk*, the risk that premiums charged will be insufficient to cover losses: *underwriting reserving risk*, the risk that reserves held will be insufficient to pay for ultimate claims, *underwriting concentration and catastrophe risk,* the exposure of multiple insureds to the same event, and *reinsurance strategy and concentration risk.*

II. PCC Group Underwriting Risk Profile

Underwriting risk comprises 29% (€1.361m) of the Group's base SCR of €4.682m (undiversified). The Group underwriting risk profile comprises the underwriting risks of the Core, and the AIF and Finance One cells. Its risk profile also includes any shortfall in SCR cover, below 100%, for any individual cell, including non-Group cells. Any such shortfall is accounted for by a corresponding reduction in Group Own Funds, as discussed under K.3.II below.

III. Core Underwriting Risk Profile

Exposure: The PCC sells directly from its Core rent default insurance to landlords of mostly residential property based in France. The portfolio consists of a medium volume of relatively low value risk exposures. The maximum contract limit is moderate but with a very low probability of occurrence, based on experience, and a typical large claim within the normal range is materially lower. The portfolio risk profile is assessed as non-volatile, as single losses, even those up to the full contract limit, would not have the capacity to materially affect the underwriting result or the Core's solvency status. The risk exposure is mitigated by robust due diligence procedures on tenants, including credit checks, and a very active approach to loss recovery from defaulting tenants. The core also writes a small book of missed flight cover, in Spain, comprising very low value and very short tail policies.

Concentration and catastrophe risk: The rental portfolio is diversified across a wide range of properties and tenants with a reasonable geographic spread across several areas of France, resulting in low concentration risk, albeit with potential exposure to economic downturns. The missed flight cover portfolio is also very diverse across a wide range of policyholders with negligible concentration or catastrophe risk.

Pricing risk: The portfolios' underwriting pricing risk is assessed and managed by reference to their historic loss experience, and the experience of similar portfolios in France and Spain, and ongoing analysis of actual premium and claim data. As the policies are annual, or shorter tail, rating can be adjusted relatively quickly should loss experience deteriorate.

Reserving risk: On the rental portfolio the occurrence of a loss leading to a claim is known very quickly which aids reasonably accurate estimation of the technical provisions to be set aside for claims, thus reducing reserving risk. There is no reserving risk connected with the missed flight cover due to the stringent reporting conditions on the policy.

Mitigation: The availability of detailed historic data and the low volatility of the portfolios increase the predictability of the underwriting result and the PCC has not considered it necessary to purchase reinsurance cover to mitigate its Core underwriting risk exposures.

IV. Absolut Cell underwriting risk profile

Exposure: Absolut Cell provides holiday cancellation insurance to customers primarily based in Belgium. Its underwriting exposure consists of short tail, high volume, very low single value covers. The portfolio is considered non-volatile as individual losses do not have the capacity to materially affect the Cell's' underwriting result or solvency position.

Concentration & catastrophe: The concentration risk for the Cell is also low because the insurances are spread over a wide range of unconnected customers in respect of unconnected events. The Cell's exposure to catastrophe risk, the risk of multiple claims arising from one major event, is mitigated by explicit terrorism and war exclusions and is considered low.

Pricing risk: The Cell's underwriting pricing risk is assessed and managed by reference to the portfolio's historic loss experience and the experience of similar portfolios in Belgium, ongoing analysis of actual premium and claim data, and by pre-defining underwriting acceptance criteria. The short-term, short-tail nature of the risks enables pricing adjustments as necessary, to mitigate this risk.

Reserving risk: Assessment and control of reserving risk is also facilitated by the short tail nature of the risks in the Cell. Claims are both reported and settled very quickly, allowing reasonably accurate projection of ultimate losses.

Mitigation: Because result predictability is enhanced by the availability of detailed historical statistics, low volatility, and the short tail and short-term nature of the covers, the Absolut Cell has not considered it necessary to purchase reinsurance protection to further mitigate its underwriting risk. In the light of the Cell's underwriting risk profile the Cell accepts this reinsurance strategy risk.

V. AIF Cell underwriting risk profile

AIF Cell provided missed flight cover to customers in Spain, up until 30th September 2017. However, as those risks were fully expired by 31st December 2017, AIF cell's underwriting risk profile is not discussed further.

VI. UIB Cell underwriting risk profile

Exposure: This Cell provides income protection and personal accident insurance to customers based in the UK. Single maximum contractual limits are relatively high. However, the probability of the occurrence of a maximum claim is considered low, based on 16 years claim data, and a typical large claim within the normal range is materially lower. The risk profile makes the portfolio one of moderately low volatility, as even rare maximum limit losses would be very comfortably withstood by the Cell and would not materially affect its solvency status.

Concentration and catastrophe risk: UIB Cell has a low to moderate concentration risk because an event accidentally injuring several connected individuals or family members is possible. However, the concentration risk is mitigated by policy inner limits, deferred cover periods, and terrorism exclusions. Catastrophic risk, the risk of several claims from unrelated individuals arising from a single large event, is also considered low because of i) good geographic risk across the UK and Northern Ireland; ii) Terrorism and Pandemic exclusions.

Pricing Risk: The Cell's underwriting pricing risk is assessed and managed by reference to its 16 years of historic loss experience and ongoing analysis of actual premium and claim data. Cover under the personal accident policies is sold on a monthly basis, and the income protection policies are annual; therefore, rating and underwriting criteria can be adjusted quickly should loss experience deteriorate.

Reserving Risk: Short-tail claim reporting and payment horizons help in the assessment and control of reserving risk.

Mitigation: To further mitigate against a major catastrophe involving large numbers of people in a public place, catastrophe excess of loss reinsurance has been purchased to cap the exposure to the Cell's normal exposure level for non-catastrophe events. To further reduce potential result volatility the Cell has purchased stop loss reinsurance which limits its portfolio loss rates, should experience deteriorate generally.

VII. Freedom Health Cell Underwriting risk profile

Exposure: Freedom Health Cell's underwriting exposure is derived from the provision of private medical insurance to customers based in the UK and Germany. The Cell's contractual annual limit for one claim is moderately high; however, only a small number of claims a year reach this level and average claims are materially lower. In addition to annual limits, single claims are controlled by: sub-limits on various procedures; in-patient time limits for certain conditions and treatments; explicit exclusion of pandemic events and negligible accident and emergency risk. Potentially moderate volatility is further reduced by the purchase of reinsurance.

Concentration and catastrophe risk: Freedom Health Cell has a low concentration risk because the cover is sold to individuals with a wide geographic spread across UK and Germany; therefore, the probability of more than one person submitting a claim for medical costs arising out of one event is deemed negligible. For a mass accident health catastrophe, albeit considered of very low probability, the Cell has assessed a potential loss of higher in value than a single maximum loss.

Mitigation: However, to mitigate underwriting risk, including protection against a catastrophe shock, and to increase result predictability, the Cell has purchased 50% quota share reinsurance.

Pricing risk: The Cell's underwriting pricing risk is assessed and managed by reference to several years of historic loss experience and ongoing analysis of actual premium and claims data. The policies are annual, allowing underwriting criteria and rating adjustments to be made should the general experience deteriorate.

Reserving risk: Loss reserving, and the reduction of reserving risk, are facilitated by the relatively short tail nature of the cover, including treatment time limits. This is further aided by the use of health procedures guide prices for surgical and non-surgical treatments, which are updated regularly.

VIII. Finance One Cell Underwriting risk profile

Exposures: This Cell provided various types of bonds, mainly construction, performance and custom bonds, for customers based primarily in Ireland. However, the cell ceased accepting new business on 31st December 2017 and is currently in run-off, with the last bonds expected to expire before the end of 2020. The loss limit exposures are relatively high making the portfolio moderately volatile, but the exposure is mitigated by the application of extensive underwriting due diligence, including detailed financial analysis of the contractor's financial condition, robust credit checks and selective collateral requirements.

Concentration and catastrophe risk: Concentration exists as several bonds may be issued for one contractor. However, the aggregate exposure to a single contractor is contractually capped; further, bond aggregations are rigorously monitored, and are capped by facultative reinsurance arrangements if they exceed standard appetite levels.

Mitigations: A severe economic downturn has the potential to affect more than one contractor. The moderate volatility and the concentration risk are drivers of the decision to purchase 65% quota share reinsurance, reduced to 58.5% from 1.4.2017. In addition to aiding risk mitigation the support of the reinsurance panel over several years provides comfort as to underwriting strategy, criteria and rating. For the 2016 underwriting year, the Cell also purchased excess of loss reinsurance to further reduce its net retention but discontinued this in 2017.

Pricing Risk: Risk pricing is guided by industry rating and experience.

Reserving Risk: Loss reserves are set at a conservative level reflective of industry loss levels and are regularly reviewed. Further, the risk is relatively short tailed, aligned with contract completion when bonds are released, thus mitigating reserving risk.

IX. Underwriting Risk Sensitivities for Cells and Core

The sensitivity of the Cells' and the Core's pricing, reserving, concentration and reinsurance strategy risk to stressed events was tested in the PCC's recent ORSA. Tests included business volume increases combined with hypothetical large increases in loss ratios over and above base case projections. The results indicated that in some cells, some stresses, assuming an accumulation of negative results over two to three years, would bring SCR cover below 100%. Monitoring is in place to detect early warning signs of such scenarios.

2. Market risks

I. PCC Solo Market Risks

Market Risks comprised 47% of the PCC's Solo consolidated Base SCR at 31st December 2017 of which: 42.7% was market concentration risk, 4.19% equity risk and a minimal amount of interest rate risk - 0.26%. The PCC's investment assets at 31st December 2017 were a mixture of bank deposits, parental loans, and collective investment schemes.

II. PCC Group Market Risks

Market risks comprised 59% of the PCC Group's consolidated Base SCR at 31st December 2017 of which 38.6% was market concentration risk, 20.4% equity risk, and a negligible amount of interest rate risk. The PCC Group's investment assets at 31st December 2017 were a mixture of bank deposits, parental loans, collective investment schemes and investment in subsidiary and associated companies.

Both Group and Solo Market Risks are discussed below:

III. Market Concentration Risk

The PCC Solo is exposed, within two Cells, to market risks concentration risk, in the form of parental loans by these cells to their respective parent or group. This creates a large market concentration risk charge representing 42.71% of the PCC's Solo Base SCR.

For the PCC Group the market concentration risks represents 38.6% of the PCC's Group's Base SCR, of which a significant portion relates to AIF cell's loan to a group company.

IV. Interest rate risk

Both group and PCC solo are exposed to negligible risk associated with the effects of fluctuations in the prevailing levels of market interest rates, representing 0.26% of the PCC's Solo base SCR and 0.17% of the PCC Group's base SCR. Deposits and assets held at variable rates expose both to cash flow interest risk whereas assets held at fixed rates expose both to fair value interest rate risk. The fair value interest rate risk is considered low since relevant assets principally mature within the short term and are carried at amortised cost. Should market interest rates at the end of the reporting period increase/decrease by 1%, with all other variables remaining constant, the estimated impact in fair value pre-tax profit of both PCC Solo and Group, would be negligible. Cash flow interest risk is also negligible due to the prevailing low interest rates. Technical Provisions are not directly sensitive to the level of market interest rates, as they are not discounted.

V. Currency risk

At the end of 2017 the PCC carried minimal currency risk on some US$ financial instruments in the investment portfolio of its Core, representing a negligible amount of its Solo or Group base SCR. The PCC manages currency risk by regular monitoring of the relevant exchange rates, by matching the currency of its assets to the denomination of its liabilities and by reacting to material movements thereto.

VI. Equity risk

The PCC Core is exposed to some equity risk in respect of collective investment schemes included in its investment portfolio, classified as at fair value through profit or loss. This risk represents 20.4% of the group base SCR and 4.19% of the PCC solo base SCR. The risk is managed and mitigated by the employment of professional investment advisers and careful monitoring of investment instruments and results. The PCC is not subject to significant amounts of other price risk.

3. Credit Risk

I. Exposure by Holding Company, Cell and Core

At 31st December 2017 credit risk in the form of counterparty default, spread and concentration risk represented 14% of the PCC's undiversified Solo Basic SCR, and 12% of the PCC Group Basic SCR. Credit risk is deemed to be the risk that the Company, or any constituent part thereof, is exposed to lower returns or loss if another party fails to perform its financial obligations towards the Company.

The PCC has multiple counterparties which avoids credit concentration risk on a PCC wide basis albeit a degree of concentration risk exists within Cells. The PCC's credit risk exposures relate to investment, reinsurance and intermediary positions as outlined below:

i. *AIHL* AIHL's credit risk relates to cash deposits held with BBB rated bank.

ii. *Core* 6% of the Core's overall investment, in the form of a group loan, some receivables from insurance operations, and other receivables, were with unrated counterparties. However, 50% was with A and better rated counterparties and 44% with BBB rated banks.

iii. *Absolut Cell:* The Absolut Cell had a minimal level of exposure to unrated counterparties, in the form of insurance and other receivables of c. 5.8% of total assets. 11.8% of assets were with A- rated banks and 1% with BBB rated banks. However, 80% of assets values consisted of a loan to a BB rated group counterparty.

iv. *AIF Cell:* The AIF Cell had material exposure (85% of assets) to a non-rated entity in the form of a group loan. 2% of assets were with a BBB rated bank, a negligible amount with an A rated bank, the balance being insurance and other receivables with insurance and other counterparties. However, as the underwriting risk in the AIF cell is now expired, there are no particular concerns with the asset distribution.

v. *Finance One Cell:* The Finance One Cell had a small amount of credit exposure to unrated entities, in the form of insurance receivables, being 6.6% of investments. However, most of the credit risk rested with BBB (52%) and A2 (3.3) banks and A or higher rated reinsurers (38%). Reinsurance is placed with a panel of A-rated reinsurers.

vi. *UIB Cell:* The major part of UIB Cell assets (92%) at 31st December 2017 was with a BBB rated bank. The balance relates to receivables from unrated insurance entities. Some diversification was introduced in early 2018, by transfer of 16% of funds into certificates of deposits placed through asset managers and 16% into Bonds placed through professional investment managers.

vii. *Freedom Health Cell:* 67.85% of Freedom Health Cell's credit risk was with an unrated entity, being receivables from insurance operations. Reinsurance receivables are due from A- rated entities and represent 32% of total. The balance is cash on deposit with an BBB rated bank.

viii. *Unlimitedcare Cell:* The Cell had not commenced operations at 31st December 2017 and currently holds all funds with a BBB rated bank.

II. Management of Credit Risk

The Boards applies the *Prudent Person principle* to credit risks and counterparties are selected by taking into account the credit rating of each entity. Credit ratings are used as a way of properly identifying and managing the risk attached to a counterparty. Further, the investment function takes account of the credit risk inherent in AIHL and the PCC's investment and insurance portfolios by adopting cautious practices in identifying investment opportunities, including ensuring reasonable risk spread, by regular monitoring of portfolio performance, and by regular reporting to, and discussion by, the Boards.

III. Assessment and risk mitigation used for credit risks

i. For investment transactions only counterparties with a high enough credit rating are used, except in some limited cases where counterparties, for example, are group companies.
ii. Reinsurer credit rating is a main criterion in the selection of reinsurance counterparties, such that only counterparties who are well established multinational reinsurers with at least Standard and Poor's single A (or equivalent), are selected. The range of contracted reinsurance counterparties mitigates the default risk.
iii. For direct insurance transactions the business is unavoidably placed with the PCC through unrated intermediaries, which introduces a significant credit risk.

*Assessment and risk mitigation techniques embrace the following methods:

i. Robust contract terms and conditions with all counterparties
ii. Monitoring the credit ratings and status of counterparties;
iii. Reporting of cash, investment and liquidity positions on a quarterly basis as part of the PCC's and Cells' management accounts reporting process;
iv. Reporting of intermediary balances and remittance of said balances monthly
v. Retaining underwriting risk, net of reinsurance, within an approved risk appetite and solvency requirements.

Arrangements are in hand to increase control of agents' premium accounts, including the establishment of accounts held under trust conditions for the Cell and PCC.

*Notwithstanding these controls the PCC's exposure to the counterparty credit risk materialised in the last quarter of 2017 when certain debtors balances due from one intermediary remained outstanding beyond their due date, causing an increase in capital charge for credit default. However, it is expected that these debtors balances will normalise over time, as the portfolio's inherent timing issues balance out, and as increased controls over the agent's dedicated premium account take effect.

VI. Risk sensitivity testing for credit risks

The sensitivity of the PCC and individual Cells to potential credit rating downgrades of their counterparties was assessed, based on hypothetical assumptions including:

- one credit step down for one of the main banks (in relation to three of the PCC Cells)
- a parental credit downgrade in relation to one Cell

The credit risk of AIHL was not specifically stress tested

In all cases it was demonstrated that each Cell would continue to comfortably meet its solvency capital requirements.

Credit risk stress testing for the Core assumed a) a downgrade in all investments and b) the failure of the three largest investments in the professional portfolio. In each case the the Core's SCR would continue to be very comfortably covered by its own funds. However, the latter indicated a shortfall in the Core's MCR in that extreme scenario, albeit the MCR being measured is the minimum floor of €3,700,000, not the technical business driver MCR, which is significantly lower. In any event the PCC Core shareholders are committed to maintaining its MCR and SCR cover with significant comfort levels, at all times.

4. Liquidity Risk

The PCC's exposure to liquidity risk arises from the eventuality that the frequency or severity of claims are greater than estimated. Liquidity risk is the risk that sufficient cash may not be readily available to pay obligations when due at a reasonable cost. The PCC does not consider the risk to be significant given the liquidity of its financial assets and the short-term nature of its liabilities.

In terms of the PCC Group liquidity risk, this exists in AIHL in the context of investment in subsidiary and associated companies, making its assets largely illiquid in the short term. However, corresponding liabilities represent balances and dividends due to group companies, thereby largely negating AIHL's liquidity risk.

5. Operational Risk

I. Assessment of exposures

Outsourcing is considered the main risk within the systems and operational category because of the heavy reliance on it both by the Core and by individual Cells. The PCC, and AIHL, outsource their day to day management in Malta to Artex Risk Solutions Limited, part of the A J Gallagher group. Key functions such as underwriting, distribution and claim handling services are also extensively outsourced to various third parties in Ireland, France, Belgium and UK.

Outsourcing to Agents outside Malta: Within the PCC's outsourcing risk material risks include execution, delivery and process management, particularly, poor controls around underwriting and claim handling processes, poor service standards, deliberate mis-selling or acting outside authority levels. Reputation and fraud risk are also concerns. Various other risks include cyber/data security, IT network resilience, business continuity planning, data storage, compliance, money laundering, data protection.

Malta based Systems and operational risks (outsourced locally to Artex), include: inadequate internal controls and accounting systems leading to greater fraud and money laundering risk; failure to produce timely and accurate financial reports, or to bring matters of concern to the board in good time; failure to submit accurate and timely regulatory returns; cyber risk; shortage of staff and resources.

Key personnel risk: This is centred largely around outsourced operations, reflected in poor recruitment practices, failure to develop, train, manage and retain personnel, leading to operational and service problems. However, it exists at the PCC's own board and executive level also.

Credit risk aligned with intermediaries/agents: This is also identified as a key operational and outsourcing risk, being the risk that agents will not pass on funds due to the company, within credit terms, or at all.

II. Risk mitigation techniques used for operational and outsourcing risks

The PCC and AIHL have a relatively high tolerance level for outsourcing risk, as it would not be possible to operate without it due to the need for local (risk territory) access mechanisms, local cultural legal and technical knowledge, language skills, and market connections. However, the Boards remains conscious at all times of their own duty to manage and control outsourcing risk and to ultimately retain full responsibility for the functions that are outsourced.

Key controls are: stringent pre-engagement checks on individuals and operations, written contract terms and detailed service level agreements, regular interactions with Third Party Service Providers (TPSPs) via committee and operational meetings and other communications including regular detailed reports. Such interaction would flag any potential deficiencies of the individual service provider reasonably quickly.

Regular onsite visits of key outsourced function holders is also part of the risk control & mitigation strategy, and there are plans to ensure that every key service provider is visited at least biennially by either PCC directors, managers, internal auditors, or other representatives. However, more stringent requirements are being developed to upgrade the visits to formalised audits. Increased controls are also being developed to mitigate credit risk, including greater access to agents' premium accounts, increase in the regular provision of detailed evidential information, regular reconciliations of banking transactions with bordereaux, and the establishment of premium accounts under trust conditions.

Other systems and operational risks as they relate to Maltese based operations (outsourced locally to Artex), include: inadequate internal controls and accounting systems leading to greater fraud and money laundering risk, and failure to produce timely and accurate financial reports and regulatory returns; cyber risk; shortage of staff and resources. These risks are considered low to moderate because of employment of a professional management company, regular interaction between Managers and local executive directors, regular onsite visits and meetings, and internal audits.

All operational risks which the PCC is exposed to, are identified and recorded in the risk register. The risks are assessed, decisions made as to monitoring, management and control and then onward reporting to management and the Board. Options for management of these risks include reduction or removal where possible, transfer or acceptance.

The PCC is also conscious of its **Key Personnel risk** and strives to make greater use of its own wider, international, group network to alleviate gaps in knowledge of its own board and executive personnel.

III. Risk sensitivity for operational risks

The main financial impact to the PCC and Cells, from outsourcing risk, is aligned with underwriting and claim results which would be impacted by poor product design, inadequate underwriting criteria and pricing and inappropriate reserving practices. It is therefore considered to be captured within the underwriting risk sensitivity tests: stress test 1 - an additional 15 (25 for Core) percentage points onto the expected loss ratios, stress test 2 - increased premium levels, and a third stress test combining the first two.

Credit risk related to outsourced providers has not been specifically stress tested.

Outsourcing risk as it relates to AIHL is considered insignificant and has not been specifically stress tested.

6. Compliance and Regulatory Risk

This is defined as the failure to comply with regulatory laws and rules applicable to insurance companies and PCCs in Malta and at EU level particularly relating to solvency requirements and technical provision calculations.

This risk is considered material for both Core and Cells because of the impact on the business of regulatory sanctions.

Apart from stringent focus on and commitment to regulatory SCR and other compliance, the existence of professional Managers, local executive directors, a compliance function and compliance officer, internal audit function, actuarial function supported by qualified actuary and actuarial support at group level mitigates this risk.

The compliance risk has not been specifically stress tested. However, all stress tests, including reverse stress tests for all components of the PCC contemplate a key risk of failing to meet solvency capital requirement in normal and stressed conditions. Otherwise the risk is considered covered within the base SCR.

Compliance and regulatory risk is not considered material for AIHL as it does not engage in regulated activities.

7. PCC Risk

I. PCC Strategy Risk

This is defined as inadequate, inappropriate or unrealistic strategic objectives for the PCC as a whole, leading to i) poor Core portfolio selection, poor performance and loss of capital, and ii) poor Cell acceptance criteria leading to risk of exposure to financial loss/capital shortfall within Cells.

These risks are considered material for the Core because the PCC could suffer critical financial, regulatory and reputational consequences should either of these scenarios materialise.

However, the probability is considered very low in both cases. The risk is managed by having a well-defined risk acceptance policy for both Core and Cells; by carrying out stringent due diligence on Cell & Core portfolio proposers to ensure that they demonstrate good track records and performance history, and meet high standards of professional integrity, ability, industry reputation, product knowledge and compliance. Once on board the PCC monitors and manages Cell performance by ongoing risk management and controls as discussed elsewhere in this report, including regular focus on financial results, vis-à-vis projections, operational and management issues, and market developments. Monitoring of actual performance, SCR and stress results are the main means of managing and controlling the Cell risk. Any concerns are focused on and discussed at regular, at least quarterly, operational and management meetings.

The risk is further mitigated by the requirement for each Cell to fully meet and exceed its own SCR in normal and stressed circumstances, the sensitivities of which are tested by individual stress tests and reverse stress tests carried out for each Cell, as discussed elsewhere in this report. The Core's sensitivity to Cell performance is also tested by the Cell stress tests and by the tests carried out for the Core's own risk profile.

II. PCC Structural Risk

The PCC structural risk is relevant to each Cell and the Core. It is defined as the impact of problems in or failure by the Core caused by Core underwriting, or by failure of another Cell. This risk is considered of low probability, mitigated by the risk management and controls discussed elsewhere in this report including the requirement for each Cell to maintain its own SCR levels with comfort.* Cells are legally protected from the liabilities of other Cells and from the Core. Therefore, the most serious financial impact for a Cell is assessed to be the financial cost associated with moving the Cell to another PCC structure. This cost is assessed as similar to the cost of initial Cell establishment. It was concluded that the existing capital buffer currently carried by each Cell would be sufficient to carry this cost.

*Notwithstanding this assessment, one cell fell below 100% solvency at 2017 year end. However due to the material surplus of SCR cover in the core, the consolidated position of the PCC remained robust. The capital cover of the cell in question is expected to normalise in the short term.

III. PCC Reputational Risk

The PCC reputation risk is relevant to each Cell and the Core. This is defined as the impact on a Cell, or the Core, of reputational damage caused by association with other Cells or the Core. This risk is considered relatively low in probability and impact, due to the corporate nature of risks in certain Cells, the commoditised nature of risks in other Cells, and the risk mitigations discussed elsewhere within this report. It was concluded that the existing capital buffer carried by each Cell, and the Core, was sufficient to cater for this risk.

8. External Risk Factors

I. Economic Deterioration

The risk of economic deterioration leading to

a) a reduction in Cell take-up or take up of Cell insurance products. Although these scenarios would not be desirable they would not, alone, lead to a deterioration of solvency vis-à-vis risk. This risk has not been specifically stress tested.
b) poorer underwriting results. The risk of poor loss experience is assessed as part of stress testing.

II. Brexit

Events such as Brexit leading to a reduction in Cell take-up or take up of Cell insurance products. Although these scenarios would not be desirable they would not, alone, lead to a deterioration of solvency vis-à-vis risk. Further, the negative aspects will potentially be offset by other opportunities which may arise out of Brexit or similar, for Cell usages e.g. fronting European risks for UK wholesale insurance markets. However, the full implications for those cells writing UK business from Malta on a Freedom of Services basis, will be considered as Brexit plans develop and more is known. Brexit is considered a risk relating to the modus operandi of these Cells, but not in terms of SCR cover vis-à-vis underlying risk exposures.

K. REGULATORY BALANCE SHEET

1. Assets – PCC Solo & Group

The first table below is a summary of the assets of the Core and Cells combined as at 31 December 2017. The second table is a summary of the assets of the Group combined as at 31st December 2017.

PCC SOLO BALANCE SHEET ASSETS – STATUTORY COMPARED WITH SOLVENCY II			
	Statutory accounts €	Solvency II value €	Commentary
Financial assets	2,331,464	2,331,464	See I below
Deferred tax asset	9,933	279,073	See II below
Reinsurers' share of technical provisions	3,412,923	1,672,230	See III below
Loans & Receivables	13,678,646	13,678,646	See V below
Direct insurance operations receivables	6,387,671	6,387,671	See VI below
Deferred acquisition costs	1,692,014		See VII below
Pre-payments and accrued income	288,270	288,270	
Cash at bank	11,038,649	11,038,649	See VIII below
Total Balance Sheet Assets	**38,839,874**	**35,676,003**	

PCC GROUP BALANCE SHEET ASSETS – STATUTORY COMPARED WITH SOLVENCY II			
	Statutory accounts €	Solvency II value €	Commentary
Financial assets	2,331,464	2,331,464	See I below
Deferred tax asset	9,933	80,760	See II below
Reinsurers' share of technical provisions	1,050,888	635,844	See III below
Holding in related undertaking, including participations	865,439	148,610	See IV below
Loans & Receivables	3,251,355	3,251,355	See V below
Direct insurance operations receivables	282,950	282,950	See VI below
Deferred acquisition costs	263,181	-	See VII below
Pre-payments and accrued income	119,204	119,204	
Cash and cash equivalents	3,769,662	3,769,662	See VIII below
Total Balance Sheet Assets	**11,944,076**	**10,619,848**	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

The valuation principles applied to these assets are consistent with those used in the Statutory accounts (IFRS), with any differences in valuation set out below:

I. **Financial assets** are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets. All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets at fair value through profit or loss are subsequently re-measured at fair value.

II. **Deferred tax** is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The difference between the DTA in the statutory accounts and that in the SII balance sheet is generated by the impact on reconciliation reserve of the SII adjustments.

III. **Reinsurance technical provisions** are considered to be current in nature. The statutory reinsurance technical provisions are based on reinsurers' share of outstanding loss reserves and incurred but not reported reserves plus reinsurers' share of unearned premium reserves. The Solvency II technical provisions for claims include loadings for binary events or events not in data (ENIDS). Premium technical provisions are based on an estimate of the ratio of expected losses against unearned premium plus loadings for binary events. Valuation difference of reinsurer's share of TP under SII is derived from the adjustments to the Gross TPs to SII from IFRS, further adjusted for own costs and risk margin retained for net account.

IV. **Holding in related undertaking including participations** are valued in the statutory accounts at cost. The Solvency II value is adjusted using the equity method.

V. **Loans, and trade receivables,** are carried at amortised cost using the effective interest method, less any provision for impairment. The fair value of loans and receivables are deemed to be a Level 2 measurement. Loans are group loans to cell or core shareholders. There were no differences in valuation between IFRS and SII bases, as their fair value approximates amortised cost due to their short term nature.

VI. **Receivables arising out of direct insurance operations** represent amounts due from policyholders and agents. These amounts are collected and remitted to the Cells by related entities on a monthly basis.

VII. **Deferred acquisition costs (DAC)** that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, which is typically a period of between one to three years. These are capitalised and shown as DAC in the balance sheet. DAC are amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred. Deferred acquisition costs are not recognised for Solvency II valuation of assets.

VIII. **Cash at bank** comprise call deposits with maturities of three months or less and are carried at face value.

2. Technical Provisions

The Solvency II technical provisions comprise the best estimate of liabilities and risk margin according to articles 75 to 86 of the Solvency II Directive. The best estimate liability reflects a realistic estimate

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

of future claims attributable to bound insurance contracts and contracts close to being bound. The estimates are based on past experience with adjustments for expected deviations in the future.

The IFRS Accounts of the Company include provisions for all claims notified by the Insured (claims outstanding), except for medical insurance where provision is made for all claims where treatment has occurred. Provision is also made for claims incurred but not reported (IBNR) based on previous claims experience. Claims reserves comprise provisions for the estimated cost of settling claims incurred up to but not paid at the reporting date. Unearned premium reserves are also provided for in the IFRS accounts to reflect the unexpired portion of written premium.

An overview of the technical provisions for the year ended 31 December 2017 is as follows, on both Solvency II and Statutory bases, for PCC Solo and Group:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Solo Technical Provisions at 31st December 2017 (P17.01.02)

		Statutory/ IFRS Accounts Gross €	Recoverable from Reinsurers €	StatutoryAccounts/ IFRS Net €	Solvency II value Gross €	Recoverable from Reinsurers €	Solvency II Value Net €
TECHNICAL PROVISIONS - NON-LIFE (EXCLUDING HEALTH)	**Total Best Estimate**	**3,844,285**	**1,050,888**	**2,793,397**	**2,877,161**	**635,844**	**2,241,317**
	Fire & Other Damage to Property	*27,000*	*0*	*27,000*	*20,259*		*20,259*
	Credit & Suretyship	*1,719,710*	*1,050,888*	*668,822*	*1,087,999*	*635,844*	*452,145*
	Miscellaneous Financial Loss	*2,097,575*	*0*	*2,097,575*	*1,768,903*		*1,768,903*
	Risk Margin				**608,706**		**608,706**
TECHNICAL PROVISIONS (HEALTH - SIMILAR TO NON-LIFE)	**Total Best Estimate**	**6,568,399**	**2,371,123**	**4,197,276**	**4,065,064**	**1,036,386**	**3,028,678**
	Medical Expense	*4,742,246*	*2,371,123*	*2,371,123*	*2,087,377*	*1,036,386*	*1,050,991*
	Income Proteection	*1,826,153*	-	*1,826,153*	*1,977,687*	-	*1,977,687*
	Risk Margin				**306,370**		**306,370**
TOTAL TECHNICAL PROVISIONS		**10,412,684**	**3,422,011**	**6,990,673**	**7,857,303**	**1,672,230**	**6,185,072**

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Group Gross Technical Provisions at 31st December 2017		Statutory/ IFRS Accounts Gross	Recoverable from Reinsurers	Statutory/ IFRS Accounts Net	Solvency II value Gross	Recoverable Reinsurers	Solvency II Value Net
		€	€	€	€	€	€
TECHNICAL PROVISIONS - NON-LIFE (EXCLUDING HEALTH)	**Total Best Estimate**	**2,097,157**	**1,050,888**	**1,046,269**	**1,493,270**	**635,844**	**857,426**
	Fire & Other Damage to Property	*27,000*	-	*27,000*	*20,259*		*20,259*
	Credit & Suretyship	*1,719,710*	*1,050,888*	*668,822*	*1,087,999*	*635,844*	*452,145*
	Miscellaneous Financial Loss	*350,447*	-	*350,447*	*385,012*	-	*385,012*
	Risk Margin			-	**306,871**		**306,871**
TECHNICAL PROVISIONS (HEALTH - SIMILAR TO NON-LIFE)	**Total Best Estimate**	-	-	-	-	-	-
	Medical Expense	-	-	-	-	-	-
	Income Protection	-	-	-	-	-	-
	Risk Margin	-	-	-	-	-	-
TOTAL TECHNICAL PROVISIONS		**2,097,157**	**1,050,888**	**1,046,269**	**1,800,041**	**635,844**	**1,164,197**

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

The main difference between the best estimates in the Solvency II balance sheet, and the statutory technical provisions arise from the calculation of premium reserves (under statutory accounts) on a timing basis whereby full premium reserves are held to represent the unexpired portion of written premium. However, under Solvency II, premium reserves are calculated by applying expected loss ratios to unexpired written premium plus loadings for management expenses, binary events and events not in data. This difference in valuaton applies across all lines of business.

Reinsurance recoverables shown are amounts due under quota share contracts placed with A rated reinsurance. Under quota share arrangements reinsurers agree to pay a fixed percentage of each and every loss from the ground up.

Assumptions and methods

The main assumptions in the reserving exercise relate to the nature of the underlying insured risks and is the average cost per claim, the future number of claims projected, as well as trends in inflation (where applicable). The inherent uncertainty in insurance claims makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. A substantial measure of judgement is involved in both establishing the individual claims provisions and in interpreting past claims experience as part of the process of establishing the total claims provision.

The risk margin is added to the best estimate liability. This margin is calculated in accordance with Article 37 of the Commission Delegated Regulation (EU) 2015/35 whereby an additional margin is added to the best estimate liability to ensure that the technical provisions as a whole are equivalent to the amount that an insurance undertaking would be expected to require in order to take over the insurance obligations.

The key areas of uncertainty around technical provisions are as follows:

i. Estimation of outstanding loss reserves ("OSLR") – while information about claims is generally available, assessing the cost of settling the claim is subject to some uncertainty.

ii. Estimation of the losses relating to claims which have been incurred but not yet reported ("IBNR"): this is generally subject to a greater degree of uncertainty than estimating the OSLR since the nature of the claims is unknown. In general the IBNR is estimated by projecting 'best estimate' ultimate loss ratios using a combination of past experience and judgement, with actuarial input as needed, and calculating the difference between that ultimate figure, and reported losses. The technical provisions are discounted using the risk free rate with no volatility adjustment produced by EIOPA.

iii. Incurred but not enough reported ("IBNER") – where the occurrence of a loss event has been reported but the extent of the loss has not been reported.

iv. Estimation of claims arising on business which have not yet expired ("unexpired risks") – this is uncertain as the claims have not yet been incurred, but are expected to be incurred on the business which the Company has written.

v. Market environment – changes in the market environment increase the inherent uncertainty affecting the business, in particular, claims inflation.

vi. Events not in data ('ENID loading') – estimating a provision for events not in data, is subject to considerable uncertainty as the events being reserved for have not been observed in the observable historical loss data. It also includes a loading for Binary events, being loss-generating events with low frequency and high severity impact.

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

vii. Run-off expenses – the estimation of the change in expense base for run off of the Company is inherently uncertain due to the estimations around the period of the run off, base costs and inflation.

viii. Risk margin – the risk margin, being the margin payable to transfer the business to another insurance carrier, is uncertain due to the requirement to forecast future solvency capital requirements over the period of a run off. This therefore shares the same uncertainties of the run off expenses provision considered above, as well as the inherent uncertainties around forecasting future solvency capital requirements.

The Company manages the risks around these uncertainties via the following actions:

i. Ongoing monitoring of claims, including regular reviews of claims handling functions.
ii. Internal controls through the Board and actuarial function which monitor claims development.
iii. Bespoke Solvency II software
iv. Regular external actuarial reviews.

There have been no changes in the assumptions made since the previous period under either basis. There was no application of matching adjustment, volatility adjustment, transitional risk free market interest rate and transitional deductions.

3. Other liabilities

The other liabilities of PCC (separate for both Solo and Group) at 31st December 2017, on both Solvency II and IFRS basis, are shown below:

PCC Solo Other Liabilities at 31st December 2017	Statutory/IFRS Accounts Gross €	Solvency II value Gross €
Deferred Tax Liabilities – *see I below*		**19,995**
Other Technical Provisions – *see III below*	**174,575**	
Reinsurance Payables – see *IV below*	**2,952,659**	**2,952,659**
Trade Payables (Not Reinsurance) – *see V below*	**5,124,109**	**5,124,109**
Other Liabilities – *see VI below*	**111,203**	**111,203**
Total	**8,362,546**	**8,207,966**

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Group Other Liabilities at 31st December 2017	Statutory Accounts Gross €	Solvency II value Gross €
Deferred Tax Liabilities – *see I below*		-
Other Financial Liabilities other than debts owed to credit institutions – see II below	1,351,250	1,351,250
Other Technical Provisions – *see III below*	174,575	
Reinsurance Payables – *see IV below*	322,140	322,140
Trade Payables (Not Reinsurance) – *see V below*	116,279	116,279
Other Liabilities – *see VI below*	111,203	111,203
Total	2,075,447	1,900,872

I. *Deferred Tax Liabilities:* This item arises on the Solvency II balance sheet in respect of one cell for which the technical provisions were lower under Solvency II than under IFRS, due to the adjustment between the two bases described above. This increased the balance of the SII reconciliation account for the cell, thereby increasing profits, and creating an additional tax liability over and above tax liabilities on the IFRS balance sheet.
II. *Other Financial Liabilities other than debts owed to credit institutions:* This amount is in respect of the holding company's (AIHL) loans from group companies. Valuation is the same under both bases.
III. *Other Technical Provisions*: The amount shown on the IFRS balance sheet relates to commissions received for quota share reinsurance placements, but deferred, as they refer to unexpired periods of insurance. This item arises under IFRS as full unexpired premium is reserved, offset by related unexpired reinsurance outward premium, with deferred inward reinsurance commissions thereon being treated as a liability. However, in line with the Solvency II adjustment wherein premium reserves are calculated by estimating future losses for unexpired periods, offset by reinsurers share of those loss reserves, unexpired premium, both inward and outward, and related deferred outward and reinsurance commissions, are ignored under Solvency II.
IV. *Reinsurance payables:* These refer to premiums due to reinsurers. Valuation is the same under both bases.
V. *Trade payables:* These include overheads and administration fees but mostly consist of taxes payable on profits made up to 31st December 2017. Valuation is the same under both bases for PCC Solo.
VI. *Other liabilities* consist of client monies held as collateral against bonds issues, and deferred facility fee income in the core. Valuation is the same under both bases.

4. Any other disclosures

There are no further disclosures.

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

L. CAPITAL MANAGEMENT

1. Function of Capital Management

Own funds of the PCC and its constituent parts are managed as part of the financial and solvency management processes which are a focal point at every quarterly Board meeting and at every quarterly Cell committee meeting. At these meetings, the ratio of eligible own funds over SCR and MCR are reviewed, by the Board for the Core and the PCC as a whole, and by the individual Cell committees for the particular Cell.

As part of own fund management, and within its ORSA process during which risk and capital management functions interact, the PCC prepares ongoing annual solvency projections with three-year time horizons. As part of this process it reviews the structure of own funds to ensure that they will be sufficient and of the appropriate quality to satisfy future requirements.

2. Capital Management methods employed

The PCC is required to hold regulatory capital for its general insurance business in compliance with the Insurance rules issued by the Malta Financial Services Authority ("MFSA") which are founded on the EU wide Solvency II regime.

The minimum capital requirement must be maintained at all times throughout the period, and the PCC monitors its capital level on a regular basis. The PCC's minimum capital requirement absolute floor stands at €3,700,000 as per Chapter 5 of Malta's Insurance Rules. At least this level of capital must be, and is, covered by eligible own funds in the Core at all times. Further, the Cells are individually required by their licensing conditions to maintain their own SCR, as determined by their own risk profiles.

In terms of Legal Notice 412 or 2007 of the Companies Act (Cell Companies carrying on business of insurance), where any liability arises which is attributable to a particular Cell company:

a. the Cellular assets attributable to that Cell shall be primarily used to satisfy the liability;
b. the Company's Core assets shall be secondarily used to satisfy the liability, provided that the Cellular assets attributable to the relevant Cell have been exhausted; and
c. any Cellular assets not attributable to the relevant Cell shall not be used to satisfy the liability.

The PCC has taken the following safeguards in this respect:

a. if the assets of the Cells are at any time insufficient to meet any payments, liabilities or obligations due or about to become due by the Cell, the PCC shall notify the Cell owners in writing and the Cell owners shall ensure forthwith that the Cell is adequately funded to meet all payments, liabilities or other obligations due or becoming due by the Cell; and
b. in the event that the Cellular Assets of the Cell are exhausted, the Cell Owner agrees to indemnify the PCC for any assets paid or otherwise transferred to creditors of the Cell.

In order to maintain or adjust the capital structure, the PCC may issue new shares or capitalise contributions received from its shareholders, both ordinary and Cellular.

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

3. Own Funds – PCC Solo and PCC Group

I. Own Funds Management Objectives

- To maintain, at all times, sufficient own funds, of the quality required by virtue of Article 82 of the Delegated Regulations, to cover the SCR and MCR of the Core and each Cell within the PCC with a good level of comfort.
- To ensure sufficient capital funding in order that the PCC, including its constituent Cells may continue as a going concern;
- To safeguard the interests of the policyholders arising from the PCC's contractual obligations;
- To provide adequate return for shareholders; and
- To ensure that shareholder and other stakeholder interests are safeguarded at all times.

II. Structure of Own Funds

Only the PCC's tier 1 own funds may be used towards meeting the Minimum Capital Requirement. The PCC & Group classify their Qwn Funds as tier 1, tier 2 or tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses.

PCC Solo Own Funds at 31 December 2017 are as follows.

Own Fund item Solvency II	Tier	Solvency II (Restricted) Own Funds €	%		Own Fund Item Statutory/ IFRS	IFRS Own Funds €
Ordinary and Cellular Share Capital	1	10,373,518	63%		Share Capital	10,373,518
Reconciliation Reserve	1	4,655,145	28%		Retained Earnings	8,978,982
Amount equal to the value of net deferred tax assets	3	259,079	2%			
Other Own Funds	1	563,552	3%		Other Reserves	720,921
Ancillary Own Funds	2	688.147	4%			
Total		**16,549,441**	**100.00**		**Total**	**20,073,421**

The Solvency II Own Funds and IFRS Total Equity under IFRS are reconciled as follows:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Solo – Reconciliation of SII Own Funds and IFRS Equity at 31st December 2017	
	€
IFRS Own Funds	20,073,421
	-
Deferred Acquisition Costs (asset) disallowed under SII - *see J1 above*	(1,692,003)
Net reduction in Technical Provision liabilities *- see J2 above*	805,598
Other Technical Provision liabilities deducted *- see J3 above*	174,575
Reduction in net tax liabilities *- see J3 above*	249,145
Ancillary Own Funds - Issued but unpaid share capital	688,147
Solvency II unrestriced Own Funds	**20,298,883**
*Effect of restriction of Own Funds due to the adjustment in respect of ring fenced funds (RFF);	3,749,442
Solvency II restricted Own Funds	**16,549,441**

* This provision requires that funds of each separately constituted Cell be capped at 100% of its own SCR. It is reflected in a reduction in the cell's reconciliation reserve. The consolidated difference of €3,749,442 is noted under 5.i below, (QRT 23.01.01 (Solo), line R0740).

PCC Solo Own Funds as at 31st December 2016 were as follows:

Solo Own Fund items	Tier	Solvency II Restricted Own Funds* €	%		Own Funds Item Statutory/ IFRS	IFRS Own Funds €
Ordinary and Cellular Share Capital	1	9,685,499	75%		Share Capital	9,685,499
Reconciliation Reserve	1	1,982,447	15%		Retained Earnings	5,325,455
Amount equal to the value of net deferred tax assets	3	287,250	2%			
Other Own Funds	1	689,560	5.5%		Other Reserves	819,168
Ancillary Own Funds	2	318,147	2.5%			
Total		**12,962,903**	**100%**		**Total**	**15,830,122**

The Solvency II Own Funds and IFRS Total Equity under IFRS are reconciled as follows:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Solo – Reconciliation of SII Own Funds and IFRS Equity at 31st December 2016	
	€
IFRS Own Funds	15,830,122
Deferred Acquisition Costs (asset) disallowed under SII	(1,216,731)
Net reduction in Technical Provision liabilities	323,212
Other Technical Provision liabilities deducted	-
Reduction in net tax liabilities	270,519
Ancillary Own Funds	318,147
Solvency II unrestriced Own Funds	**15,525,269**
*Effect of restriction of Own Funds due to the adjustment in respect of ring fenced funds (RFF);	2,562,366
Solvency II restricted Own Funds	**12,962,903**

During 2017 the Core increased its issued and paid up share capital by €370,000, and its issued but unpaid up share capital (ancillary own funds) by €370,000. Freedom Health Cell also increased its paid up share capital by stg£200,000 (€218,019) during 2017, as did Finance One Cell, by €100,000. Other own funds in each year refer to members' contribution made by shareholders of UIB cell, which decreased from €689,560 in 2016 to €563,552 in 2017. However, the restricted Solo own funds in 2017 over 2016 mainly arose from the higher reconciliation reserve of €4.65m in 2017 compared with €1.98m in 2016. This rise resulted from the increase in profitable underwriting activity, reflected in the technical results set out in A7 above, allowing for the RFF restriction effect*. These increases in share capital and reconciliation reserves are further reflected in the differences between the IFRS equity at year end 2016 and at year end 2017.

PCC Group Own Funds at 31st December 2017 were as follows:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Own Fund item	Tier	Total Solvency II Own Funds €	%	Own Funds Item IFRS	Total IFRS Own Funds
Ordinary and Cellular Share Capital	1	4,842,344	76%	Share Capital	4,842,344
Reconciliation Reserve	1	1,573,226	25%	Retained Earnings	2,433,702
Amount equal to the value of net deferred tax assets	3	80,760	1%	Other Reserves	495,426
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities #		-496,369	-8%		0
Other Own Funds	1	370,000	6%		0
Total		**6,369,962**	**100%**	**Total**	**7,771,472**

The Solvency II Own Funds and IFRS Total Equity under IFRS are reconciled as follows:

PCC Group – Reconciliation of SII Own Funds and IFRS Equity at 31st December 2017	€
IFRS Own Funds	7,771,472
Deferred Acquisition Costs (asset) disallowed under SII	-263,181
Net reduction in Technical Provision liabilities	56,647
Reduction in valuation of Group assets under SII	-716,829
Increase in deferred tax assets under SII	70,827
Solvency II Excess of Assets over Liabilities	**6,918,936**
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities #	-496,369
Ancillary Own Funds	370,000
Solvency II Unrestricted Own Funds	**6,792,567**
*Effect of restriction of Own Funds due to the adjustment in respect of ring fenced funds (RFF);	-422,605
Solvency II restricted Own Funds	**6,369,962**

At 31st December 2017, the Group Own Funds are broken down between group entities as follows:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

GROUP OWN FUNDS AT 31ST DECEMBER 2017 - BY ENTITY							
Group Own Fund item	**Tier**	**AIHL**	**Core**	**AIF**	**Finance One**	**Total**	**%**
Ordinary and Cellular Share Capital	1	4,842,344				4,842,344	76%
Reconciliation Reserve	1	1,573,226				1,573,226	25%
Amount equal to the value of net deferred tax assets	3	-	68,006	-	12,755	80,761	1%
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities #	1		(496,369)			(496,369)	-8%
Ancillary Own Funds	2		370,000			370,000	6%
Total Own Funds		**6,415,570**	**- 58,363**	**-**	**12,755**	**6,369,963**	**100%**

#This reduction in own funds relates to a solvency deficiency of a third party cell.

These funds are fully available within the group to cover its SCR. There are no known restrictions to the fungibility and transferability of such own funds to cover the Group's SCR, except to the extent that cellular funds are restricted to meeting the liabilies of the cell in question, in accordance with Malta's Protected Cell legislation, and are not available to meet other group liabilities.

As this is the first year in which a Group SFCR has been produced on the current basis the report does not include comparative information with the Own Funds position at 31st December 2016.

III. Ancillary Own Funds

At 31st December 2017, Freedom Health Cell had unpaid and uncalled ordinary share capital callable on demand of €318,147 in addition to paid up share capital of €727,054. The core had unpaid and uncalled ordinary share capital of €370,000 in addition, in addition to paid up share capital of €4,070,000.

From a PCC Solo perspective the Ancillary Own Funds were therefore €688,147 at 31st December, 2017. The PCC Group Ancillary Own Funds were €370,000 at 31st December, 2017.

4. MCR and SCR

I. Solvency Capital Requirement (SCR) – PCC Solo and PCC Group

The SCR of the PCC Solo at as 31st December 2017 was €13,736,852. Own funds available to cover the SCR were €20,298,881, restricted to €16,549,440, due to adjustment for restricted own fund items in respect of ring fenced funds (RFF), resulting in a ratio of eligible Own Funds to SCR of 120.47%.

The PCC Solo SCR is composed of the following risk modules:

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

PCC Solo – Solvency Capital requirement at 31st December 2017	Gross solvency capital requirement
	C0030
Market risk-- *see I below*	12,400,542
Counterparty default risk – *see II below*	3,724,290
Life underwriting risk – n/a	0
Health underwriting risk – *see III below*	3,312,263
Non-life underwriting risk – *see III below*	6,856,833
Diversification	-7,760,755
Intangible asset risk	0
Basic Solvency Capital Requirement	18,533,175
Calculation of Solvency Capital Requirement	C0100
Operational risk	966,740
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	-5,763,063
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency Capital Requirement excluding capital add-on	13,736,852
Solvency capital requirement	13,736,852

The SCR of the PCC Group at as 31st December 2017 was €3,086,120. Available Own Funds eligible to cover the SCR were €6,792,567, restricted to €6,369,963 due to adjustment for restricted own fund items in respect of ring fenced funds (RFF), resulting in a ratio of eligible Own Funds to SCR of 206.41% on a group consolidated basis.

The PCC Group SCR is composed of the following risk modules:

PCC Group – Solvency Capital requirement at 31st December 2017	Gross solvency capital requirement
	C0030
Market risk– *see I below*	2,771,220
Counterparty default risk – *see II below*	549,585
Life underwriting risk – n/a	0
Health underwriting risk – n/a	0
Non-life underwriting risk – *see III below*	1,361,420
Diversification	-1,044,741
Intangible asset risk	0
Basic Solvency Capital Requirement	3,637,484
Calculation of Solvency Capital Requirement	C0100
Operational risk	80,317
Loss-absorbing capacity of technical provisions	0
Loss-absorbing capacity of deferred taxes	-631,681

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Minimum Consolidated Group Capital Requirement	3,700,000
Solvency Capital Requirement excluding capital add-on	3,086,120
Solvency capital requirement	3,086,120

I. Market Risk - the PCC & Group are exposed to market risks derived predominately from the assets held by them to meet their insurance liabilities although exposures to shocks in interest rates and currency rates also consider the exposure from underwriting risks.

II. Counterparty Risk - the PCC & Group are exposed to counterparty risks in the form of cash deposits (type 1) and from receivables from intermediaries, policyholders and other debtors (type 2).

III. Health & Non-life Underwriting Risks - the PCC & Group are exposed to non-life underwriting risk as a result of the insurance policies it sells. The risks are based on volatility around earned premiums and claims reserves, and to catastrophe events to which they may be exposed.

IV. The final solvency capital requirements of the PCC & Group are the aggregations of their market, counterparty and non-life underwriting risks, less a credit for diversification, and then an additional charge to represent the operational risks faced by them.

The PCC or Group have not utilised simplified calculations in applying the standard model and there has been no use of undertaking specific parameters in the non-life underwriting risk calculations.

II. Minimum Capital Requirement (MCR) – PCC Solo

The MCR of the PCC Solo as at 31 December 2017 was €3,700,000. Eligible own funds to meet the MCR, €20,039,803, were adjusted to €16,290,362 due to restriction of own fund items in respect of ring fenced funds (RFF). This resulted in a ratio of eligible own funds to MCR of 440.28%.

The inputs used to calculate the MCR of the PCC Solo are as follows, with comparative figures shown for 2016:

MCR INPUTS – PCC SOLO	Net best estimate technical provisions (2017) €'000	Net best estimate technical provisions (2016) €'000	Net written premiums in the last 12 months (2017) €'000	Net written premiums in last 12 months (2016) €'000
Medical expense	1,051	526	4,049	2,521
Income protection	1,978	800	5,268	2,930
Fire and other damage to property	20	1	36	2
Credit & suretyship	452	277	569	198
Miscellaneous financial loss	1,769	986	11,890	9,255
	€ '000		€ '000	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

	(2017)	(2016)
Linear MCR	2,875	1,881
SCR	13,737	10,692
MCR cap	6,182	4,811
MCR floor	3,434	2,673
Combined MCR	3,434	2,673
Absolute floor of the MCR	3,700	3,700
Minimum Capital Requirement	**3,700**	**3,700**

The linear MCR and SCR have increased in line with business increases discussed elsewhere in this report.

III. Minimum Consolidated Group SCR – PCC Group

The MCR of the PCC Group as at 31 December 2017 was €3,700,000. The PCC Group's (restricted) Own funds available to meet its MCR were €6,289,202, giving a ratio of eligible own funds to MCR of 169.98%

Group data for the Solvency Capital Requirement and Minimum Capital Requirement was not reported for 2016.

IV. Any other disclosures

There are no other disclosures to be made.

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

5. Quantitative Reporting Templates

I. Own Funds – PCC Solo (S.23.01.01)

S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	10,374	10,374			
Share premium account related to ordinary share capital	R0030					
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	4,665	4,665			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	259				259
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	564	564			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	15,861	15,602			259
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	688			688	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400	688			688	
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	16,549	15,602		688	259
Total available own funds to meet the MCR	R0510	16,290	15,602		688	
Total eligible own funds to meet the SCR	R0540	16,549	15,602		688	259
Total eligible own funds to meet the MCR	R0550	16,290	15,602		688	
SCR	R0580	13,737				
MCR	R0600	3,700				
Ratio of Eligible own funds to SCR	R0620	120.47%				
Ratio of Eligible own funds to MCR	R0640	440.28%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	19,611	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	11,196	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	3,749	
Reconciliation reserve	R0760	4,665	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790		

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

II. Balance Sheet – PCC Solo (S.02.01.02)

Annex I
S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	279
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	2,331
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	
Equities	**R0100**	
Equities – listed	**R0110**	
Equities – unlisted	**R0120**	
Bonds	**R0130**	
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	2,331
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	13,383
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	13,383
Reinsurance recoverables from:	**R0270**	1,672
Non-life and health similar to non-life	**R0280**	1,672
Non-life excluding health	**R0290**	635
Health similar to non-life	**R0300**	1,036
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	6,387
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	295
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	11,038
Any other assets, not elsewhere shown	**R0420**	288
Total assets	**R0500**	35,676

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	7,857
Technical provisions – non-life (excluding health)	**R0520**	3,486
TP calculated as a whole	**R0530**	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Best Estimate	**R0540**	2,877
Risk margin	**R0550**	609
Technical provisions - health (similar to non-life)	**R0560**	4,371
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	4,065
Risk margin	**R0590**	306
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
TP calculated as a whole	**R0700**	
Best Estimate	**R0710**	
Risk margin	**R0720**	
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	20
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	
Reinsurance payables	**R0830**	2,953
Payables (trade, not insurance)	**R0840**	5,124
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	111
Total liabilities	**R0900**	16,065
Excess of assets over liabilities	**R1000**	19,611

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

III. Technical Provisions by Line of Business – PCC Solo (S.17.01.01)

		Medical expense Insurance	Income Protection Insurance	Fire & Other damage to Property Insurance	Credit & Suretyship Insurance	Miscellaneous Financial Loss	Total Non-Life Obligation
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole						
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross - Total	1,121,230	-	-	337,605	285,174	1,744,008
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	553,939	-	-	197,485	0	750,424
R0150	Net Best Estimate of Premium Provisions	568,291			140,120	285,174	993,584
	Claims provisions						
R0160	Gross - Total	966,147	1,977,687	20,259	750,395	1,483,730	5,198,218
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	483,447	0	0	438,359	0	921,806
R0250	Net Best Estimate of Claims Provisions	482,700	1,977,687	20,259	312,036	1,483,730	4,276,412
R0260	Total Best estimate – gross	2,087,377	1,977,687	20,259	1,088,000	1,768,903	6,942,226
R0270	Total Best estimate – net	1,050,991	1,977,687	20,259	452,156	1,768,903	5,269,996
R0280	Risk margin	142,801	163,562	6,910	164,503	[illegible]	915,076
	Amount of the transitional on Technical Provisions						

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

R0290	TP as a whole						-
R0300	Best estimate						-
R0310	Risk margin						-
	Techncial Provisions Total						
R0320	Technical provisions – total	2,230,185	2,141,249	27,169	1,252,503	2,206,197	7,857,303
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	1,036,386	-	-	635,844	-	1,672,230
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	1,193,798	2,141,249	27,169	616,659	2,206,197	6,185,073

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

IV. Overall SCR Calculation – PCC Solo

Annex I

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	12,401		
Counterparty default risk	R0020	3,724		
Life underwriting risk	R0030			
Health underwriting risk	R0040	3,312		
Non-life underwriting risk	R0050	6,857		
Diversification	R0060	-7,761		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	18,533		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	967
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-5,763
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	13,737
Capital add-on already set	R0210	
Solvency capital requirement	R0220	13,737
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	1,171
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	12,566
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

V. MCR Calculation – PCC Solo (S.28.01.01)

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	1,051	4,049
Income protection insurance and proportional reinsurance	R0030	1,978	5,268
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	20	36
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100	452	569
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	1,769	11,890
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070
Linear MCR	R0300	2,875
SCR	R0310	13,737
MCR cap	R0320	6,182
MCR floor	R0330	3,434
Combined MCR	R0340	3,434
Absolute floor of the MCR	R0350	3,700
-	-	C0070
Minimum Capital Requirement	R0400	3,700
-	-	

- -

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

VI. Own Funds – PCC Group (S.23.01.22)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	4,842	4,842			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030					
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070					
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	1,573	1,573			
Subordinated liabilities	R0140					
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160	81				81
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	**R0230**	496	496			
whereof deducted according to art 228 of the Directive 2009/138/EC	**R0240**					
Deductions for participations where there is non-availability of information (Article 229)	**R0250**					
Deduction for participations included by using D&A when a combination of methods is used	**R0260**					
Total of non-available own fund items	**R0270**					
Total deductions	**R0280**	496	496			
Total basic own funds after deductions	**R0290**	6,000	5,919			81
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	370			370	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**					
Unpaid and uncalled preference shares callable on demand	**R0320**					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**					
Non available ancillary own funds at group level	**R0380**					
Other ancillary own funds	**R0390**					
Total ancillary own funds	**R0400**	370			370	
Own funds of other financial sectors						
Reconciliation reserve	**R0410**					
Institutions for occupational retirement provision	**R0420**					
Non regulated entities carrying out financial activities	**R0430**					
Total own funds of other financial sectors	**R0440**					
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	**R0450**					
Own funds aggregated when using the D&A and a combination of method net of IGT	**R0460**					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	6,370	5,919		370	81
Total available own funds to meet the minimum consolidated group SCR	**R0530**	6,289	5,919		370	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	6,370	5,919		1	
Total-eligible own funds to meet the minimum consolidated group SCR	R0570	6,289	5,919		370	
Minimum consolidated Group SCR	R0610	3,700				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	169.98%				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	6,370	6,293		1	81
Group SCR	R0680	3,086				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	206.41%				

		C0060				
Reconciliation reserve						
Excess of assets over liabilities	R0700	6,919				
Own shares (included as assets on the balance sheet)	R0710					
Forseeable dividends, distributions and charges	R0720					
Other basic own fund items	R0730	4,923				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	423				
Other non available own funds	R0750					
Reconciliation reserve before deduction for participations in other financial sector	R0760	1,573				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770		-			
Expected profits included in future premiums (EPIFP) - Non- life business	R0780		-			
Total EPIFP	R0790		-			

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

VII. Balance Sheet – PCC Group (S.02.01.02)

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	81
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	2,480
Property (other than for own use)	**R0080**	
Holdings in related undertakings, including participations	**R0090**	149
Equities	**R0100**	
Equities – listed	**R0110**	
Equities – unlisted	**R0120**	
Bonds	**R0130**	
Government Bonds	**R0140**	
Corporate Bonds	**R0150**	
Structured notes	**R0160**	
Collateralised securities	**R0170**	
Collective Investments Undertakings	**R0180**	2,331
Derivatives	**R0190**	
Deposits other than cash equivalents	**R0200**	
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	
Loans and mortgages	**R0230**	2,658
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	2,658
Reinsurance recoverables from:	**R0270**	636
Non-life and health similar to non-life	**R0280**	636
Non-life excluding health	**R0290**	636
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	
Health similar to life	**R0320**	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Life excluding health and index-linked and unit-linked	**R0330**	
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	283
Reinsurance receivables	**R0370**	
Receivables (trade, not insurance)	**R0380**	593
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	3,770
Any other assets, not elsewhere shown	**R0420**	119
Total assets	**R0500**	10,620

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	1,800
Technical provisions – non-life (excluding health)	**R0520**	1,800
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	1,493
Risk margin	**R0550**	307
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	
Risk margin	**R0680**	
Technical provisions – index-linked and unit-linked	**R0690**	
TP calculated as a whole	**R0700**	
Best Estimate	**R0710**	
*Risk margin	**R0720**	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	
Derivatives	**R0790**	
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	1,351
Insurance & intermediaries payables	**R0820**	
Reinsurance payables	**R0830**	322
Payables (trade, not insurance)	**R0840**	116
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	111
Total liabilities	**R0900**	3,701
Excess of assets over liabilities	**R1000**	6,919

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

VIII. Overall SCR Calculation – PCC Group

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	2,771		
Counterparty default risk	R0020	550		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	1,361		
Diversification	R0060	-1,045		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	3,637		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	80
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-632
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	3,086
Capital add-on already set	R0210	
Solvency capital requirement	R0220	3,086
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,367
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	1,719
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	3,700
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited

Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	**R0520**	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	**R0530**	
Capital requirement for non-controlled participation requirements	**R0540**	
Capital requirement for residual undertakings	**R0550**	
Overall SCR		
SCR for undertakings included via D and A	**R0560**	
Solvency capital requirement	**R0570**	3,086

Ian Coppini
Certified Public Accountant
Director, Deloitte Audit Limited