



# SOLVENCY AND FINANCIAL CONDITION REPORT

Reporting year 2018



General  
Insurance  
of Cyprus

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## Executive Summary

General Insurance of Cyprus Ltd (“Company” or “GIC”) is a member of the Bank of Cyprus Group of Companies. Since its establishment, the Company has played a leading role in the development of the insurance industry and insurance awareness and gained a reputation as one of the most important and reliable insurance companies in Cyprus. The Company is committed to continuously improving traditional non-life insurance plans, while at the same time developing new, innovative and flexible covers which satisfy the modern needs of every individual and business. It also maintains over time, a high level of client service at the time of sale as well as in claims handling.

Responding to the increasing demands for direct service and utilising the possibilities offered by modern technology, the Company offers a wide range of products over its call center at 8000.87.87 and online through its webpage [www.gic.com.cy](http://www.gic.com.cy). In addition, GIC leads the development of bancassurance by designing and promoting the appropriate insurance products through the Branch network of the Bank of Cyprus.

As from 1 of January 2016, the Company transitioned into the Solvency II regulatory framework after completing a comprehensive program of regulatory requirements in corporate governance, risk assessment and management, solvency and reserving as well as supervisory and public disclosure.

The purpose of the Solvency and Financial Condition Report (“SFCR”) is to satisfy the public disclosure requirements according to Article 304 (1) of the Delegated Regulation (EU) 2015/35. The Report discloses the information referred to in Articles 292 to 298 of this Regulation under the following main headings: business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. The SFCR has been prepared with reference date 31 December 2018 and it was approved by the Company’s Board of Directors on 18 April 2019. GIC publishes its annual comprehensive Pillar 3 Disclosures on its webpage [www.gic.com.cy](http://www.gic.com.cy).

### Business and Performance

The Company’s main lines of business are Motor, Fire and Liability classes which in total account for 90% of the overall business portfolio. In 2018, the Company continued to operate in a challenging environment achieving high profitability levels. The Company’s net technical result from Cyprus operations amounted to €10,1m (2017: €8,9m) and represents approximately more than one third of the total Cyprus non-life insurance market results<sup>1</sup>. Overall, the Company experienced growth in both gross written and net earned premiums during the year. The Company’s total net claims ratio decreased slightly from 42% in 2017 to 41% in 2018 due to the increase in the net earned premiums in Motor line of business. The Company’s net claims ratio compares favourably to the Cyprus non-life market ratio of 64%<sup>1</sup>.

### System of Governance

The corporate governance framework of the Company is based on the “Three Lines of Defence” model which supports the implementation of a robust internal control system and is aligned with the “four eye principle” that the Company is required to comply with.

The Company’s Board of Directors bears the ultimate responsibility for ensuring that corporate governance arrangements within the Company are sufficient and appropriate to the size, nature and complexity of its business. Furthermore, the Company’s Board delegates authority to certain

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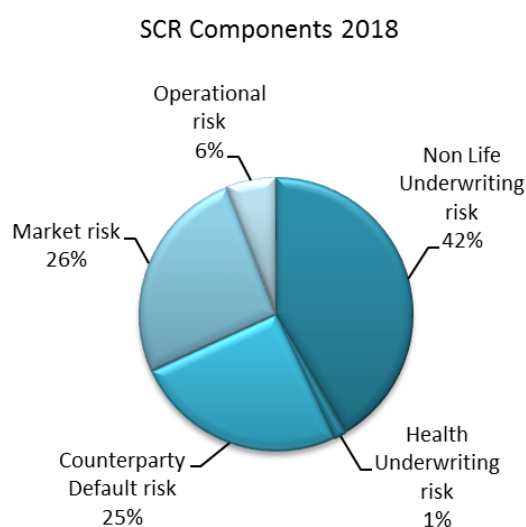
<sup>1</sup> Market data is based on the annual preliminary statistics for the year 2018, as published on the website of the Insurance Association of Cyprus [www.iac.org.cy](http://www.iac.org.cy).

Committees in order to monitor and oversee specific aspects of the business. In addition, the Company has established and incorporated into its governance system the following four key functions: Risk Management, Actuarial, Internal Audit and Compliance.

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

### Risk Profile

The Company uses the standard formula to estimate its Solvency Capital Requirement (“SCR”) according to which the SCR calculation is divided into risk modules. The main components of the SCR (before diversification) for the reporting year ended 31 December 2018 are as follows:



Non-Life Underwriting risk, Counterparty Default risk and Market risk are the main components of the Company’s SCR. Non-life underwriting risk components are premium, reserve risk and catastrophic events risk which are mitigated through the purchase of adequate reinsurance cover. Also, the Company follows a defined Investment Policy which includes specific criteria and limits (qualitative and quantitative) for each category of asset in order to ensure that investments are made in a prudent manner.

The most significant events with material impact on the SCR were the diversification of bank deposits and increased placements in collective investment undertakings that took place in 2018 and resulted in a decrease in the concentration and counterparty default risk components.

### Capital Management

The Company’s SCR at 31 December 2018 is estimated at €18,2m and is covered by €34,9m of eligible capital resources, providing a surplus of €16,6m and an SCR coverage ratio of 191%.

	2018	2017
	€'000	€'000
<b>SCR Coverage</b>		
Own funds - Basic, Tier 1 Unrestricted	34.883	40.828
SCR	18.242	20.612
<b>Surplus</b>	<b>16.641</b>	<b>20.216</b>
<b>SCR Coverage Ratio</b>	<b>191%</b>	<b>198%</b>
MCR	5.182	5.153
<b>MCR Coverage Ratio</b>	<b>673%</b>	<b>792%</b>

As part of its risk management process, the Company carries out stress and scenario testing for material risks, to ensure continued compliance with the SCR. Based on the assessment performed, the Company's risk profile lies within its defined risk appetite limits.

### Valuation for solvency purposes

The valuation of assets and liabilities for Solvency II purposes is the same as the Company's financial statements prepared under International Financial Reporting Standards ("IFRS") except for:

- Differences in the valuation of technical provisions and associated reinsurance recoverables.
- Revaluation of property held for own use as at 31 December 2018 for Solvency purposes not accounted for under IFRS.
- Intangibles and deferred acquisition costs recognised as assets under IFRS but valued at zero under Solvency II.
- Differences in deferred tax measurement.

	2018	2017
Own Funds Reconciliation	€'000	€'000
<b>Equity (IFRS Financial Statements)</b>	<b>35.554</b>	<b>41.772</b>
Difference in valuation of technical provisions (net)	4.981	4.052
Revaluation of property held for own use	230	-
Deferred Acquisition Costs	(5.221)	(4.755)
Intangible assets	(789)	(376)
Differences in deferred tax measurement	128	135
<b>Own Funds (Solvency II)</b>	<b>34.883</b>	<b>40.828</b>

The Company does not apply any matching and volatility adjustments nor any transitional measures for the valuation of technical provisions.

## A Business and Performance

### A.1 Business

General Insurance of Cyprus Ltd (“Company” or “GIC”) was incorporated in Cyprus as a limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. GIC is a wholly owned subsidiary of the Bank of Cyprus Public Company Ltd (“BOC” or “Parent” or “Bank”) and is part of the BOC Group of companies (“BOC Group” or “Group”).

BOC is the holding company of the BOC Group. The principal activities of BOC involve the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt. BOC is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The shares of BOC’s parent company Bank of Cyprus Holdings Public Limited Company, a company incorporated in Ireland, are listed and trading on the London Stock Exchange and the Cyprus Stock Exchange. BOC remains a public company for the purposes of the Cyprus Income Tax Laws. More information on the entities of the BOC Group can be found in the Bank’s website and in the Bank’s Annual Financial Report for 2018 (Note 49, Subsidiary companies) at [www.bankofcyprus.com](http://www.bankofcyprus.com).

Since its establishment, GIC has played a leading role in the development of the insurance industry and insurance awareness and gained a reputation as one of the most important and reliable insurance companies in Cyprus. GIC is committed to continuously improving traditional non-life insurance plans, while at the same time developing new, innovative and flexible covers which satisfy the modern needs of every individual and business. It also maintains over time, a high level of client service at the time of sale as well as in claims handling.

The Company operates through its Head Office, which is located in Nicosia and five district branches (Nicosia, Limassol, Larnaca, Famagusta, Paphos). Each branch supports the sales activity and operates as a customer service center, including the handling of claims in its geographical area of responsibility. By the end of the reporting period the Company employed 98 full time employees.

The Company is subject to supervision by the Insurance Companies Control Service of the Cyprus Ministry of Finance (“Supervisory Authority” or “Regulator”). The Superintendent of Insurance is the head of the Service which at all times acts on behalf of and by order of the Superintendent of Insurance. The Regulator can be contacted at:

Insurance Companies Control Service

P.O. Box 23364,  
1682 Nicosia, Cyprus  
Tel. No: 22 602 990  
Fax. No: 22 302 938  
Email: [insurance@mof.gov.cy](mailto:insurance@mof.gov.cy)  
Website: [www.mof.gov.cy](http://www.mof.gov.cy)

The Company’s independent external auditors are:

Ernst & Young Cyprus Ltd  
P.O. Box 21656  
1511, Nicosia, Cyprus  
Tel. No: 22 209 999  
Fax. No: 22 209 997  
Website: [www.ey.com/cy/](http://www.ey.com/cy/)

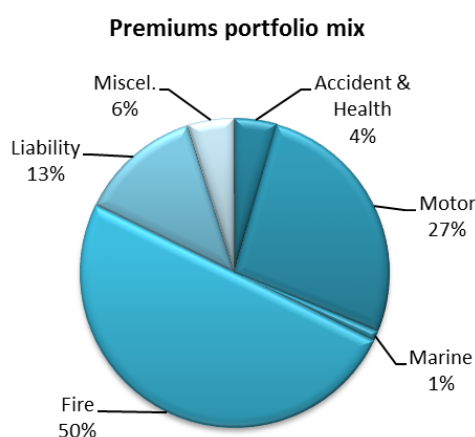
The Company carries out business in Cyprus under the following non-life insurance lines of business (“LoB”):

Per Financial Statements (“IFRS”)	Per Solvency II
Accident & Health	Medical expense
Motor	Motor vehicle liability, Other motor
Marine	Marine, aviation and transport
Fire	Fire and other damage to property
Liability	General liability
Credit	Credit and suretyship
Miscellaneous	Miscellaneous financial loss

The Company engaged in insurance operations in Greece via its Branch “Kyprou Asfalistikí”. In 2014, the Company entered into a co-operation agreement with another insurance company in Greece regarding the placement of the insurance operations of the Branch upon expiry of insurance policies issued by the Branch. Since then the Branch has been in a run-off status.

## A.2 Underwriting Performance

Gross written premiums portfolio mix for the year ended 31 December 2018 is as follows:



As per the financial statements the Company’s underwriting performance is summarised as follows:

Underwriting performance	2018 €'000	2017 €'000
<b>Gross written premiums</b>	<b>48.897</b>	<b>46.197</b>
<b>Net earned premiums</b>	<b>27.364</b>	<b>25.451</b>
Other insurance income	6.662	7.114
Net claims cost	(10.329)	(10.428)
Expenses	(12.931)	(12.696)
<b>Net Technical Result</b>	<b>10.766</b>	<b>9.441</b>
<b>Break down by LoB:</b>		
Accident & Health	534	511
Motor	462	(167)
Marine	16	(6)
Fire	6.845	7.325
Liability	2.690	1.576
Credit	(54)	6
Miscellaneous	273	196
<b>Total</b>	<b>10.766</b>	<b>9.441</b>



Net technical result represents the underwriting result of the Company net of reinsurance. The Company maintains adequate reinsurance protection at all times, to reduce the volatility of the claims and underwriting performance.

Overall, the Company experienced growth in both gross written and net earned premiums during the year. The Company's total net claims ratio decreased slightly from 42% in 2017 to 41% in 2018 due to the increase in the net earned premiums in Motor line of business. The Company's net claims ratio compares favourably to the Cyprus non-life market ratio of 64%<sup>2</sup>.

Total net technical result increased mainly due to the increase in premiums. The Company's net technical result from Cyprus operations for 2018 and 2017 represents more than one third of the Cyprus non-life market results as demonstrated in the table below:

	2018	2017
Net Technical Result	€'000	€'000
Cyprus non-life market <sup>2</sup>	26.663	25.032
GIC (Cyprus) operations	10.112	8.882
GIC share of market profitability	38%	35%

### A.3 Investment Performance

The Company's investments comprise mainly of cash and deposits, bond funds and properties. Performance and information on income and expenses arising from investments by asset class is presented in the following table:

Asset Class	Investment income		Investment expenses		Realised gains/(losses)		Unrealised gains/(losses)	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Cash and deposits	169	384	-	-	-	-	-	-
Bond funds	-	-	114	23	-	(3)	(360)	33
Investment properties	131	132	-	-	-	-	39	(20)
Equities <sup>3</sup>	-	1	-	-	(3)	15	(1)	(8)
Other	17	16	-	-	-	-	-	-
<b>Total</b>	<b>317</b>	<b>533</b>	<b>114</b>	<b>23</b>	<b>(3)</b>	<b>12</b>	<b>(322)</b>	<b>5</b>

Investment income is lower compared to last year, mainly due to the lower level of bank placements during the period. Bond funds' performance slowed down in 2018 with unrealised losses of €360k against gains of €33k in 2017.

The real estate market in Cyprus started to rise steadily by the end of 2017. This continued in 2018, as evident from unrealised gain related to investment properties shown above.

### A.4 Other material information

All material information regarding business and performance has been addressed in the previous sections.

<sup>2</sup> Market data is based on the annual preliminary statistics for the year 2018, as published on the website of the Insurance Association of Cyprus [www.iac.org.cy](http://www.iac.org.cy).

<sup>3</sup> Realised and unrealised losses relating to equities classified at fair value through other comprehensive income amounting to €4k (2017: unrealised losses relating to equities classified as available for sale amounting to €8k) were recognised directly in equity.

## B System of Governance

### B.1 General information on the system of governance

The Corporate Governance framework of the Company is based on the “Three Lines of Defence” model. The “Three Lines of Defence” model supports the implementation of a robust internal control system and is aligned with the “four eye principle” that the Company is required to comply with (i.e. the Company is effectively run by at least two persons).

The organisational structure and reporting lines of the Company are designed to:

- Enable apportionment of responsibilities and clear accountability.
- Ensure the prudent and effective management of the Company.
- Facilitate prompt transfer of information to all persons who need it.
- Prevent any conflicts of interest.

The Company has also established and incorporated into its governance system the following key functions:

- Risk Management Function
- Actuarial Function
- Internal Audit Function
- Compliance Function

First Line of Defence: This refers to the control activities carried out by business line management and staff (i.e. controls within the risk-taking functions, operations, Human Resources, Information Technology, etc). These control activities are built into policies, systems, processes and procedures of the specific business line.

Second Line of Defence: This refers to the bodies that provide challenge and oversight over the activities of the 1<sup>st</sup> line of defence. These include Risk Management, Compliance and Actuarial Functions.

Third Line of Defence: This refers to bodies that provide independent and objective assurance of the effectiveness of the Company’s systems of internal control established by the first and second lines of defence. In practice, this is the Company’s Internal Audit Function and ultimately the Audit/Risk Committee.

#### B.1.1 Main roles and responsibilities of the Administrative, management or supervisory body

The Company’s Board of Directors (“BoD”) bears the ultimate responsibility for ensuring that Corporate Governance arrangements within the Company are sufficient and appropriate to the size, nature and complexity of its business. The BoD of the Company delegates authority to certain Committees in order to monitor and oversee specific aspects of the business. Delegating to specialised Committees, does not in any way release the BoD from collectively discharging its duties and responsibilities. Specifically, the BoD has regular and robust interaction with the Committees it establishes, requesting information from them proactively and challenging it when necessary.

The BoD is the ultimate authority for the management of the Company and it maintains responsibility for the Company’s prudent management. The BoD organises and directs the affairs of the Company in a manner that seeks to protect its policyholders’ interests, maximise the value of the Company for the benefit of its shareholder, while complying with regulatory requirements and relevant governance standards.

In performing its overall oversight function, the BoD reviews and assesses the Company's strategic and business planning, its solvency, as well as the Management's approach to addressing significant risks and challenges facing the business. In performing its oversight function, the BoD maintains frequent, active and open communication and discussions with Management.

No changes to the composition of the BoD took place during 2018. At 31 December 2018, the BoD consists of the Executive Chairperson, one executive member and five non-executive members two of which are independent.

The main responsibilities of the Company's BoD are as follows:

- Consider and approve the business strategy; approve and monitor the implementation of business objectives of the Company.
- Oversee the internal control functions and confirm adequacy of the control environment.
- Oversee risk management and establish appropriate and prudent risk management policies. Approve all relevant policy documentation and any exceptions to such policies.
- Understand the capital needs of the Company and oversee the Company's capital management and liquidity.
- Oversee Management. The Board selects and when necessary, replaces Management members and puts in place an appropriate plan for succession.
- Ensure high ethical standards in doing business.
- Assess the governance structure periodically to ensure that it remains appropriate in light of growth, increased complexity etc.

For a more effective operation of the BoD, the BoD has established the Audit/Risk and Investment Committees with oversight responsibility over key functions. The ultimate responsibility and approval of relevant issues remains with the BoD.

#### **Audit/Risk Committee**

The Audit/Risk Committee ("ARC") is an advisory Committee to the BoD which assists with the formulation of the Company's overall risk strategies and policies for managing significant business risks, and is responsible for designing and implementing the Company Risk Management Framework. In addition, the ARC ensures that the Company's overall system of internal control operates effectively, monitors and reviews risk exposures and breaches and monitors and approves technical provisions.

The ARC consists of three non-executive Directors and at least two members are independent. The ARC meets at regular intervals and at least 4 times a year.

#### **Investment Committee**

The Investment Committee ("IC") is the Company's delegated authority for developing and overseeing the implementation of the Company's investment strategy, policies and procedures and for ensuring the investment decisions are made in a prudent manner and are within the Company's risk appetite.

The IC consists of three non-executive Directors and at least two members are independent. The IC holds ad hoc meetings and meets twice a year as a minimum.

#### **Executive Committee**

In addition to the BoD Committees and in order to promote the effective operation of management, the Company has set up the Executive Committee ("ExCo") which consists of members of the Company's Executive Management and is chaired by the General Manager. The ExCo enables the coordination of all internal business areas and functions within the Company and discusses the

Company's strategic decisions. In addition, it is responsible for the regular review of the Company's performance, strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken in a timely manner.

The structure of the Company's administrative, management or supervisory body at the end of the reporting period is presented in Appendix B.

#### **B.1.2 Material changes in the system of governance during the reporting period**

In December 2018, the BoD decided the abolishment of the Investment Committee and the separation of the Audit/Risk Committee into two distinct Committees, namely the Audit Committee and the Risk Committee, effective from 1 January 2019. There have been no other material changes to the Company's governance system in 2018.

#### **B.1.3 Remuneration Policy**

The Company follows the BOC Group Remuneration Policy.

The Group's objective to attract, develop, motivate and retain high value professionals is considered fundamental in achieving its goals and objectives and ensuring that the right people are in the right roles whilst managing its remuneration strategy and policies in a manner aligned with its shareholders.

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

The main form of remuneration of Executive Management and staff is fixed remuneration which comprises of salary and applicable allowances as determined by employment contracts, collective agreements and relevant employment legislation. Also, the remuneration of non-executive members of the BoD is not linked to the profitability of the Company. It is related to the responsibilities and time devoted for Board meetings and for their participation in the Committees of the Board.

In addition to the employer's contributions to state social insurance, the Company operates a defined contribution plan for the provision of additional retirement benefits for the Company's permanent employees in Cyprus. The plan which provides for employer and employee contributions at predefined percentages of the employees' gross salaries is managed by a Committee appointed by the members.

#### **B.1.4 Material transactions with shareholders, with persons who exercise significant influence and members of the administrative, management or supervisory body**

BOC is a tied insurance intermediary of the Company and accounts for a significant share of the Company's premiums that are written through the Bank's network. In return for this business the Company incurs commission expenses. Other transactions with BOC include the payment of dividends, insurance and rental arrangements and interest income earned on bank deposits.

Transactions with members of the BoD and Executive Management include Directors' fees, salary compensations and retirement benefit plan contributions, as well as the collection of insurance premiums and payment of claims in the normal course of business.

#### **B.2 Fit and proper requirements**

The Company ensures that all persons who effectively run the undertaking or hold other key functions at all times fulfil the following requirements:

- Their professional qualifications, knowledge and experience are adequate to enable sound and prudent Management (“fit”).
- They are of good repute and integrity (“proper”).

A person is considered to have a good reputation if there is no reason to assume anything to the contrary. Any indications that may give rise to well-founded doubts about the ability of that person to ensure reliable and prudent management may adversely affect his good reputation.

When evaluating the experience, skills and knowledge of a person, the Company considers the nature and extent of a number of matters. Such factors include but are not limited to:

- The person’s character, competence and suitability relative to the duties involved, including whether the person:
  - Possesses the necessary skills, knowledge, expertise, diligence and soundness of judgment to undertake and fulfil the particular duties and responsibilities of the particular position.
  - The level and object of the individual’s education and whether it is relevant to the sector or other relevant sectors such as economics, law, management, etc.
  - Studies equivalent to a university degree or a recognised professional qualification relevant to financial matters and an adequate knowledge of the sector.
- Knowledge in financial markets, regulatory framework, strategic planning and corporate management, risk management, company organisation, governance and control, accounting, actuarial.
- Interpretation of key insurance figures.
- Adequate professional experience in corporate management or supervisory and control functions.

In addition to the above, the following governance criteria are also evaluated:

- The person does not have a conflict of interest in performing the duties of the position or, if there is a conflict of interest, the Company must conclude that the conflict will not create a material risk that the person will fail to perform properly the duties of the position.
- The individual is able to commit the necessary time to his duties.
- The individual’s ability to perform his duties independently without undue influence from others.
- The composition of the BoD, the collective knowledge and experience.

The Company applies the following processes and procedures to ensure that individuals are fit and proper:

- Training: The Company ensures that all individuals receive appropriate training for maintaining their competence.
- Appraisals: Management carries out annual appraisals to review staff’s current performance and establish goals for the upcoming year.
- Annual Declaration: Assessed persons (BoD members, General Manager, Key persons influencing decision making) are required to submit on an annual basis a declaration of any changes to ensure that they remain fit and proper.
- Board assessment: The Corporate Governance Compliance Officer (“CGCO”) is responsible for assessing and evaluating the performance of the BoD, its Committees, the Directors and the Chairperson on an annual basis. For the purposes of assisting such assessment by the CGCO and providing constructive input for the improvement of the BoD as a whole, the BoD adopts a self-assessment policy on its effectiveness and performance through the completion of specific questionnaires.

### **B.3 Risk management system**

#### **B.3.1 Risk management framework**

The Corporate Governance framework for the management of risks within the Company is based on the “Three Lines of Defence” model as discussed above.

The “First Line of Defence” is the business line Management and staff who are responsible for identifying, managing and reporting risks (Underwriting, Claims, etc). The “First Line of Defence” is controlled by the “Second Line of Defence” functions (Risk Management, Compliance and Actuarial). The work of the Risk Management Function is supervised by the Audit/Risk Committee, the BoD Committee with responsibilities for risk management. The risk governance framework is complemented by the “Third Line of Defence” which is the Internal Audit Function, which provides an independent assurance to the BoD on the performance and effectiveness of the risk management system within the Company.

The Company’s risk management framework objectives are to provide:

- A clearly defined and well documented risk management strategy that:
  - Sets the Company’s risk management objectives, key risk management principles, overall risk appetite and assignment of responsibilities for risk across all the activities of the Company
  - Is consistent with the Company’s overall business strategy.
- Adequate written policies that:
  - Include a definition and categorisation of the material risks faced by the Company by type, and the levels of acceptable risk limits for each risk type
  - Implement the Company’s risk strategy
  - Facilitate control mechanisms
  - Take into account the nature, scope and time horizon of the business and the risks associated with it.
- Appropriate processes and procedures which enable the Company to identify, assess, manage, monitor and report the risks it is or might be exposed to.

As noted above, GIC’s risk strategy is a core element in the overall risk management framework, as it defines the strategy that needs to be followed in order to manage the risks that the Company faces while implementing its business strategy. With this risk strategy, GIC aims to:

- Maintain sufficient solvency to meet regulatory and internal requirements
- Ensure that has sufficient liquidity to meet its liabilities as they fall due
- Remain a profitable company in the non-life insurance sector
- Protect its reputation and brand image.

#### **B.3.2 Risk Management Function**

The Risk Management Function (“RMF”) is responsible for coordinating all risk management activities and comprises of the Head of Risk Management and specialised staff.

The RMF is free from influences that may compromise their ability to undertake their duties in an objective, fair and independent manner. The RMF cooperates with business functions/departments to carry out its role and has a reporting line to the BoD, through the Audit/Risk Committee, through which it is possible to escalate issues and act independently from Management. It also has a direct reporting line to the BOC Group’s Risk Committee through the BOC Group’s Risk Management Function in order to ensure its operational independence and safeguard its ability to escalate important issues.

The main roles and responsibilities of the RMF in the risk management framework are defined below:

- Support the BoD in the determination and implementation of the risk strategy and capital planning

- Coordinate the implementation of the risk management framework
- Evaluate and monitor the level of regulatory capital available to meet risk strategy and business objectives
- Ensure that the eligible own funds are adequate to cover SCR and MCR
- Regular reporting to Management and Audit/Risk Committee
- Review the appropriateness of the risk strategy by reference to Company objectives, appetite and limits, and inform the Audit/Risk Committee of any changes that may be required
- Monitor material risk exposures on an ongoing basis
- Develop internal risk methodologies and models
- Escalate breaches to appropriate authority.

### **B.3.3 Risk management methodology**

Risk management methodology follows the stages below for all categories of risks:

- Risk Identification
- Risk Measurement
- Risk Mitigation
- Risk Monitoring
- Risk Reporting

#### **Risk identification**

Risk identification is the process followed to identify and record all material risk exposures that arise from the Company's activities. Material risks are identified both formally, through the annual review of the Company's risk strategy, and informally as they arise in the course of business. The risks are assessed based on the severity of adverse impact that they could have on the Company if they were to be crystallised.

The risk identification is performed jointly by the business functions/departments and the RMF and is documented in the Company's Risk Register. Risk identification is performed at all levels of business as listed below:

- Existing risk identification
- Emerging risk identification
- Risks identified following the recording of loss events
- Risks identified through internal audit, compliance and information security reports
- Risk and control self – assessment ("RCSA") process.

#### **Risk measurement**

Once risks are identified, the measurement procedure is performed by all departments/functions on an annual basis in cooperation with the RMF. Material risks are considered more carefully, in order to measure their impact precisely using qualitative and quantitative techniques.

The methodology used to classify risks (low, medium or high) in terms of materiality is based on the "impact and likelihood" method. The impact is measured either in quantitative or qualitative terms (i.e. economic loss, capital loss, reputational loss etc.).

Risks are assessed across a consistent scale of likelihood and impact criteria and parameters:

- Likelihood of occurrence refers to the possibility that a given event (risk) will occur within a specific time frame.
- Impact is the extent to which the risk, if realised, would affect the ability of the Company/department/function to deliver its strategy and objectives within a specific time horizon.



**Risk mitigation**

The Company recognises that the prevention of the impact of new/existing risks is achieved through a solid system of internal governance and controls. The Company strives to maintain a strong system of internal controls and governance commensurate with its risk profile and in full compliance with the relevant laws and regulations. Business functions/Departments are responsible to implement the appropriate control procedures for all business processes.

**Risk monitoring**

The monitoring of risk exposures is a joint responsibility between all three lines of defence in the risk management framework, consisting of prudent and regular review of both tolerance levels and exposure levels. The RMF has the responsibility to ensure that all material risk exposures are monitored on an ongoing basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the Audit/Risk Committee. All risk monitoring is undertaken in the context of the BoD's risk appetite.

Key Risk Indicators ("KRIs") metrics are established in order to monitor variables which indicate the possibility of losses.

Action plans and relevant approvals are documented in a consistent manner. Action plans for material breaches, are approved by the Audit/Risk Committee and actions are implemented by the risk owner and are overseen by the RMF. Possible actions may include:

- Decrease of the exposure
- Temporary increase of the risk appetite limit (with Audit/Risk Committee approval)
- Transfer of the risk.

Progress against action plans on previous breaches is monitored by the RMF. The RMF supports the business owner in implementing a mitigating plan in order to rectify breaches to the Company's risk appetite.

**Risk reporting**

The RMF, through a set of reports prepared on a regular basis, keeps all interested and involved persons informed of its activities and the findings of the analyses it carries out. Main reports include:

- ORSA Report - to communicate outcome of the ORSA process and describe the risk profile of the Company
- Risk Management Reports - to describe the risk profile of the Company, highlight risk monitoring results and provide suggestions for managing any exposures
- Risk Dashboard - to highlight monitoring results for key quantitative risk metrics.

**B.4 Own Risk and Solvency Assessment**

The Company conducts an Own Risk and Solvency Assessment ("ORSA") in order to monitor the risks it is exposed to and assess the impact of these risks on the capital adequacy (current and future) of the business. ORSA goes beyond determining the capital needs determined by solely applying standard formula and considers stress scenarios and other non-quantifiable risks and determines how these risks are translated into capital needs. The ORSA is used by the BoD to make future business decisions and to ensure that any risk remaining after controls have been applied is within the Company's risk appetite.

The Company's assessment in terms of risk and solvency is crucial for the implementation of a risk-based regime. The risk-based approach requires that the Company holds an amount of own funds commensurate with the risks which is or may be exposed to. In addition to having sufficient eligible



own funds to cover the regulatory capital requirements, the Company assesses the adequacy of this regulatory capital requirement to its individual risk position.

This allows the management to take into account all the risks associated with the Company's business strategies and define the required level of capital that the Company needs to cover such risks.

#### **B.4.1 Process for performing the ORSA**

The Company follows the steps below to implement its ORSA:

##### **Driving factors**

The Company defines the driving factors before ORSA planning – i.e. size and complexity, importance to the sector, proportionality issues, internal governance issues, supervisory perceptions about the Company and supervisory expectations in relation to ORSA, etc.

##### **Risk identification**

Risks are identified both formally, through the annual review of the Company's risk strategy, and informally as they arise in the course of business and all of them are documented in the risk register of the Company. The risk register includes a description of the specific risk together with any controls adopted by the Management in order to mitigate it. The risk identification includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic, business risks, reputational etc.

##### **Risk measurement**

Once risks are identified, the measurement of material risks through the standard formula as provided by the EIOPA is performed.

##### **Capital allocation**

Following the risk measurement results in respect of the risks identified in the risk register, the Company determines the need for any additional capital over and above the SCR based on:

- Its existing risk profile, and
- By taking into account risks that are not captured in the standard formula calculation (e.g. liquidity risk, reputational risk, strategic risk).

##### **Link with financial plan**

Based on the strategic objectives, financial projections and assumptions on future economic conditions, the Company prepares its capital planning for the next 4 years which must be aligned with the risk appetite statement.

##### **Stress and scenario testing**

As mentioned above the Company maintains a repository for all risks identified in its risk register. These risks mainly include discrete operational events which are considered for the purposes of the ORSA exercise and modelled onto the Company's financial outlook. This provides the Company with insight into how sensitive its financial health is to changes around individual risks. But measuring individual risks discretely does little to illuminate a more complex landscape of interrelated risks that often move together in the real world. Therefore, the Company takes the further step of coherently clustering risks together into combined scenarios and carries out reverse stress testing by assessing scenarios and circumstances that would render its business unviable, thereby identifying potential business vulnerabilities. Based on the results of stress and scenario testing, actions are developed that can be taken in case the risks are crystallised in the future.

### Communication of the ORSA results

The ORSA report presents the results and findings of the ORSA exercise to the Management and BoD of the Company. The preparation of the report is coordinated by the RMF and is based on the results received by the Actuarial Function and the Financial Control Department.

### Decision making

The Company's risk and solvency assessment is crucial to the decision-making process and serves a critical role in the development, implementation and monitoring of management strategies:

- Risks assessed as high in the ORSA are also considered in the strategic planning of the Company.
- Improvements in the governance, risk and capital management processes suggested in the ORSA document are implemented by the Company.

The BoD uses the output of the ORSA exercise to review the Company's risk profile and assess whether the profile exceeds or approaches the risk appetite limits set. If this is the case, the BoD decides whether to amend the risk appetite limits or mitigate the risk.

#### B.4.2 Timing and frequency

GIC performs an ORSA and summarises the results at least annually based on the reference date 31 December. The ORSA is submitted to the Supervisory Authority within two weeks from BoD approval. The BoD may deem necessary the revision of the ORSA report and the submission of a whole or partial update to the Supervisory Authority when there are significant changes in the risk profile of the Company.

### B.5 Internal control system

#### B.5.1 Internal control system description

Internal Control is an important aspect of corporate governance, since a system of effective internal controls is fundamental to the safe and sound management of the Company by reducing the possibility of significant errors and irregularities and by assisting in their timely detection when they do occur. Effective internal controls help the Company to protect and enhance shareholders' value and reduce the possibility of unexpected losses or damage to its reputation.

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

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

The Company's internal control system comprises of five interrelated components which are discussed below:

- **Control Environment:** All parts of the control environment of the Company are influenced by the actions and decisions of Management. The organisational structure of the Company sets the level of responsibility and defines appropriate and clear internal reporting relationships. Management reviews the organisational structure of the Company and identifies segregation of duties issues and takes the appropriate corrective actions before conflicts can arise. Management ensures that employees are aware of their duties and responsibilities and receive the required guidance and training to ensure proper work flow. Authority and responsibility are clearly assigned throughout the Company and are properly communicated to all employees.
- **Risk Assessment:** The Management has established a process to identify and consider the implication of external and internal risk factors concurrent with establishing entity wide objectives

and plans. Management employs qualitative and quantitative methods to identify risk and determine relative risk rankings.

- **Control Activities:** The Company has appropriately documented policies and procedures, in place for each of its business areas (e.g. Underwriting, Claims, Reinsurance, Investments, etc.) and control functions (Risk, Actuarial, Compliance and Internal Audit). Management oversees the implementation of the Company's policies and procedures and ensures that control activities are properly applied.
- **Reporting:** The Company has clear reporting and communication lines in relation to the Company's plans, objectives, control environment, risks, control activities, and performance. Personnel understand their own role in the internal control system, as well as how their individual activities relate to the work of others. The Company's management information system supports the frequent and structured reporting across all levels of the organisation. The Company's reporting framework identifies the types of internal reporting, its frequency and the individuals/Departments responsible for their preparation.
- **Monitoring:** The Company has established the necessary monitoring mechanisms that facilitate the understanding of the Company's situation and provide the BoD with relevant information for the decision-making process. Regular monitoring occurs during normal operations and includes ongoing management activities and actions taken by all personnel when performing their duties. The Internal Audit function takes the necessary steps to ensure that the scope and frequency of separate evaluations of internal control are appropriate for the Company and establishes a formal methodology for evaluating internal control, which is logical and appropriate to the operations of the Company.

### B.5.2 Compliance Function

The Compliance Function ("CF") is part of the second line of defence in the Company. The main function of Compliance is the establishment and application of suitable procedures for the purpose of achieving the timely and on-going compliance of the Company with the existing legal and regulatory framework.

CF is headed by the Local Compliance Officer ("LCO") who reports to the General Manager of the Company and to the BOC Group Director of Compliance. The LCO has the authority as well as the obligation to operate independently from local management and has free access at all times to Group Line Directors and/or Country Management. The CF also has a reporting line to the BoD, through the ARC, through which it is possible to escalate issues and act independently from Management.

The CF establishes, implements and maintains appropriate mechanisms and activities to:

- Promote and facilitate a corporate culture of compliance, integrity and ethical values.
- Assist management to design, develop and implement an appropriate and effective compliance framework.
- Exercise oversight to ensure prompt and on-going compliance with legal, regulatory and business obligations.
- Manage effectively risks of non-compliance with these obligations.

Compliance activities are set out in a compliance programme prepared and monitored by the CF to ensure that all relevant areas are appropriately covered, taking into account their susceptibility to compliance risk. The compliance activities include:

- Identifying, on an on-going basis, legal, regulatory and business requirements, which govern and/or affect the operations of the Company.
- Ensuring that a fully updated register (Compliance Chart) of legal, regulatory and business requirements is maintained and that emanating compliance obligations are documented.

- Measuring and assessing the impact of these obligations on the Company's processes, procedures and operations.
- Identifying and documenting the compliance risks associated with the Company's business activities, on a pro-active basis.
- Applying appropriate practices and methodologies to measure compliance risk.
- Cooperating and exchanging information with other internal control and risk management functions on compliance matters.
- Educating, advising and responding to queries on compliance issues from staff.

### **B.6 Internal Audit Function**

The Internal Audit Function ("IAF") is an independent function responsible for examining and evaluating the effectiveness of the risk management, internal controls and corporate governance processes of the Company. The Company outsources its IAF to the BOC Group's Internal Audit Department.

The IAF reports to the Company's BoD (through the ARC), as well as to the BOC Group's Audit Committee. The Chairperson of the ARC is responsible for monitoring the performance of the IAF. This reporting line offers:

- Independence from the audited activities – allowing the carrying out of internal audit responsibilities in an unbiased manner.
- Objectivity – judgements are not subordinated to Executive Management or any other operational functions within the Company; however, IAF reports are communicated to the Company's Management in order to ensure that actions are taken with respect to each of the internal audit findings and recommendations.

Notwithstanding any outsourcing, the Company remains fully responsible for discharging all of its obligations regarding the IAF. Risks inherent in the outsourcing of the IAF are identified, monitored and appropriately mitigated and service providers properly supervised and managed.

The IAF carries out audits, aiming to provide assurance on:

- Reliability, integrity and completeness of the accounting, financial reporting, management information and information technology systems;
- Compliance with the institutional framework governing the operations of the Company;
- Adequacy and effectiveness of the Company's internal controls and procedures; and
- Adequacy of corporate governance and risk management processes.

The IAF is responsible to submit and follow up recommendations/suggestions for the improvement of the internal control system. The IAF prepares a Triennial Audit Plan, which is arrived at based on a Risk Based Approach, and carries out risk-based audits. As the third line of defence, GIA assesses the work carried out by both the first- and second-line of defence, in order to provide an objective, independent perspective, based on professional practice standards, and offer assurance on the effectiveness of corporate governance, risk management and internal control framework. Members of the IAF should perform their duties with integrity, objectivity, confidentiality and competency.

### **B.7 Actuarial Function**

The overall responsibility of the Actuarial Function ("AF") falls under the Technical Department and comprises of two specialised actuaries. The AF also has a direct reporting line to the BoD through the ARC, through which it is possible to escalate issues and act independently from Management. The AF and the associated reporting lines are free from influences that may compromise their ability to undertake their duties in an objective, fair and independent manner.

The AF is part of the governance of the Company and advises the BoD and Management on the valuation of the technical provisions, the adequacy of reinsurance arrangements and underwriting policy, and contributes to the effective implementation of the risk-management system.

The responsibilities of the AF include:

- Coordinating the calculation of technical provisions and ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions
- Expressing an opinion on the adequacy of reinsurance arrangements
- Expressing an opinion on the overall underwriting policy and technical pricing of products
- Contributing to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements and to the ORSA.

### **B.8 Outsourcing**

The Company's outsourcing policy is summarised as follows:

- Assessment of the risks, costs and benefits of the potential outsourcing activity
- Selection and assessment of the outsourcing service provider (due diligence is conducted)
- Approval for outsourcing the activity is obtained
- Notification to the Regulator regarding the outsourcing of the activity
- Establishment of a written agreement which defines all aspects of the arrangement including the rights, responsibilities and obligations of each party
- Monitoring of the execution of the outsourcing agreement and assessing service provider's performance.

The Company secures that outsourcing critical functions or activities does not lead to a material impairment of the quality of its governance system and there is no increase in the operational risk by:

- Adequately considering the outsourced activities in its risk management and internal control systems.
- Ensuring that the service provider has in place an adequate risk management and internal control system.
- Verifying that the service provider has the necessary financial resources to perform the tasks in a proper and reliable way, and that all staff of the service provider who will be involved are sufficiently qualified and reliable.
- Ensuring that the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary.

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

- The potential service provider has the ability, capacity and license required by law to deliver the required functions or activities.
- The service provider has adopted all means to ensure that no explicit or potential conflict of interest with the Company impairs the needs of the outsourcing undertaking.
- The general terms and conditions of the agreement are authorised and understood by the Company's Management and BoD.
- The outsourcing does not represent a breach of any data protection regulation or any other laws.
- The service provider is subject to the same provisions on the safety and confidentiality of information relating to the Company or to its policyholders or beneficiaries that are applicable to the Company.

- A written agreement between both parties exists, which defines the respective rights and obligations of each party.

The Company outsources the following critical or important functions or activities:

- Motor assistance and accident care services
- Archiving of documentation
- Claims assessment services
- Investment portfolio management
- Internal audit services.

All the above service providers are located in Cyprus.

### **B.9 Adequacy of the system of governance**

The Company is committed to implementing a sound governance system that is commensurate to the nature, scale and complexity of risks inherent in its business. As such, the Company aims to continuously improve its governance by ensuring relevant systems are reviewed and evaluated with appropriate recommendations made to the Board at least on an annual basis.

The key values of corporate governance that the Company implements are the following:

- The organisational structure is designed to ensure a prudent and effective management of the Company.
- The Board consists of executive and non-executive members (two of which are independent). The Board strives to be sufficiently diverse as regards age, gender, educational and professional background.
- The Audit/Risk and Investment Committees have clearly defined responsibilities which have been delegated by the BoD. Committees are empowered to make decisions and take actions within the limits of their delegated authority.
- The ExCo, formulates a strategy in the form of a 4-year plan by taking into account the Company's risk appetite, legal and regulatory framework and the Group's strategic direction.
- The Corporate Governance Manual sets the guidelines and provides transparency on corporate governance throughout the Company.
- The Company's Corporate Governance Compliance Officer reviews on an annual basis the effectiveness and adequacy of the corporate governance policy of the Company.
- The Employee Code of Conduct governs staff obligations.
- The Internal Audit Function is independent and reports to the Board through the Audit/Risk Committee.
- Internal and external audits provide further independent evaluation of the Company's governance system and relevant recommendations are considered by the Board/Committees and implemented proportionate to the business risks.

### **B.10 Other material information**

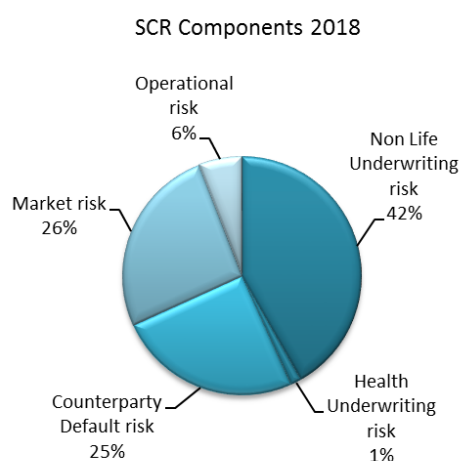
All material information regarding the system of governance has been addressed in the previous sections.

## C Risk Profile

Solvency II is a risk-based solvency requirement framework which requires the Company to hold capital against underwriting, market, credit and operational risks. The Company aims to maintain sufficient available capital to cover all risks faced by the Company and to satisfy regulatory requirements at all times.

The Solvency Capital Requirement (“SCR”) is the economic capital that should be held to ensure that the Company can meet its obligations to policyholders and beneficiaries with certain probability and should be set to a confidence level of 99.5% over a 12-month period. That requirement limits the chance of financial loss for the following year to a 1 in 200 year event. There is also a Minimum Capital Requirement (“MCR”), which represents an 85% confidence level and should not be less than 25% of the SCR. The Company uses the standard formula to calculate the SCR, as provided by the European Insurance and Occupational Pensions Authority (“EIOPA”).

The calculation of the SCR according to the standard formula is divided into modules and sub-modules. The components of the SCR (before diversification) for the reporting period ended 31 December 2018, are presented in the following graph:



Non-Life Underwriting risk, Counterparty Default risk and Market risk are the main components of the Company’s SCR. Non-life underwriting risk components are premium, reserve risk and catastrophic events (“CAT”) risk which are mitigated through the purchase of adequate reinsurance cover. Also, the Company follows a defined Investment Policy which includes specific criteria and limits (qualitative and quantitative) for each category of asset in order to ensure that investments are made in a prudent manner.

The Company’s SCR, calculated using the standard formula and split by risk module, is presented in Section E – Capital Management. In order to assess the risk sensitivity for each risk, the Company uses the standard formula and performs stress testing scenarios to ensure it will be solvent if any of these scenarios materialise.

No material changes in the method of assessment have occurred over the reporting period.

### C.1 Underwriting Risk

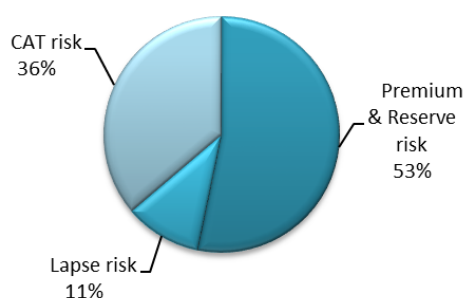
#### C.1.1 Key Underwriting Risks

Non-Life Underwriting risk represents 42% of the Company’s SCR (before diversification). Underwriting risk is the risk of loss or of adverse change in the value of insurance liabilities due to



inadequate pricing and/or reserving assumptions. Underwriting risk includes the fluctuations in the timing, frequency and severity of insured events, with relation to the undertaking's expectations at the time of underwriting. This risk can also refer to fluctuations in the timing and amount of claims settlements. The underwriting risk is analysed in the following sub-modules:

Non-life Underwriting Risk Components 2018



#### Premium & Reserve risk

The premium and reserve risk only takes into account losses that occur at a regular frequency.

- Premium risk only relates to future claims (excluding incurred but not reported ("IBNR") and incurred but not enough reported ("IBNER")), and originates from claim sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected.
- Reserve risk only relates to incurred claims, i.e. existing claims, (including IBNR and IBNER), and originates from claim sizes being greater than expected, differences in timing of claims payments from expected, and differences in claims frequency from those expected.

#### Lapse risk

Lapse risk is the risk of a change in value caused by deviations from the actual rate of policy lapses compared to their expected rates. Lapse risk is estimated as the discontinuation of 40% of the insurance policies which would result in an increase of technical provisions.

#### CAT risk

CAT risk is the risk that a single event or series of events, of major magnitude, usually over a short period, lead to a significant deviation in actual claims from the total expected claims. It refers to the risk of loss or of adverse change in the value of insurance liabilities resulting from extreme or exceptional events whose effects are not sufficiently captured by the capital requirements from premium and reserve risks.

The non-life CAT risk consists of the natural and man-made catastrophe risk and the non-life health CAT risk from a mass accident and concentration risk arising from unusual accumulation of risks.

#### **C.1.2 Assessment and risk mitigation techniques for underwriting risk**

The Company's underwriting objective is to maximise earning levels and minimise volatility of earnings, while ensuring that the Company is appropriately compensated for the risks it assumes. The Company monitors and controls underwriting risk through various methods summarised below:

- Having a defined framework for the approval, control, management, monitoring and reporting of underwriting activity and its associated risks as set out in the Company's Underwriting Manual.
- Having defined underwriting authorisation limits and approval procedures.
- Maintaining a risk register which is assessed on a regular basis.
- Monitoring KRIs which include the assessment of underwriting risks.



- Performing stress and scenario testing during the ORSA process to assess the risk under stressed conditions.
- Regular monitoring of the Company's underwriting performance by ExCo.
- Using reinsurance, either through proportional or non - proportional arrangements to reduce the Company's exposure.
- The standard formula SCR includes an assessment and quantification of the underwriting risk exposure.
- The Company's AF conducts quarterly reserve reviews to determine the appropriate reserving levels.

The Company maintains adequate reinsurance protection at all times, purchased both directly and through reinsurance brokers. The main reason for purchasing reinsurance is to protect the interest of the Company's policyholders as reinsurance provides liquidity, which can be in need especially in cases of large catastrophic events. Moreover, reinsurance coverage assists the Company to lower its volatility of earnings and increase capacity, allowing it to underwrite a larger volume of business and bigger risks.

The Company's Reinsurance Unit is responsible for analysing the performance and effectiveness of reinsurance arrangements and assessing the necessity for changes including additional capacity, retention levels, wording clauses and exclusions in order to be in line with the Company's underwriting objectives. The Internal Audit provides an independent and objective review on the effectiveness of the reinsurance arrangements and reports its findings to the ARC.

### C.1.3 Stress testing and sensitivity analysis

As part of the ORSA process, the Company carries out stress and scenario testing for the material underwriting risks to which it is exposed to, and the results are summarised as follows:

Scenario	Assumptions	Impact	Observations/Actions
Major catastrophic event	<ul style="list-style-type: none"> <li>• Major earthquake all over Cyprus.</li> <li>• Claims settlement pattern same as for attritional claims.</li> <li>• Dividends at original levels.</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum decrease in overall SCR ratio by 64 pp. in the first year of the event.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimise SCR ratio impact by assuming lower dividend distribution.</li> <li>• Reassessment of the Company's capital management and distribution strategy.</li> <li>• Reassessment of the reinsurance program.</li> </ul>
Worsening of claims experience	<ul style="list-style-type: none"> <li>• Increase in gross loss ratios by 10-30 pp.</li> <li>• 2018 reinsurance treaty structure applies.</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in overall SCR ratio by 17-19 pp. throughout the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>• SCR ratio remains within risk appetite limits</li> <li>• Review and reassessment of underwriting and pricing policies.</li> </ul>

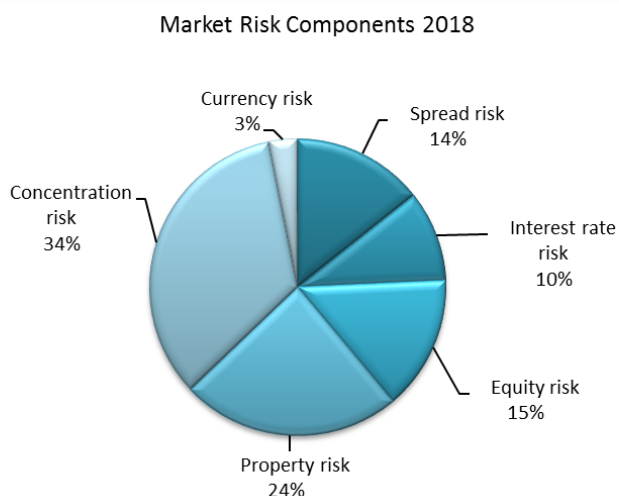
Based on the analysis performed the Company's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

## C.2 Market Risk

### C.2.1 Key Market Risks

Market risk represents 26% of the Company's SCR (before diversification). Market Risk is the risk of loss or of adverse change in the financial situation, which may result directly or indirectly from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Exposures to Market Risk are measured by the impact of movements in the level of financial variables such as equity prices, interest rates, real estate values and exchange rates.

The Company's Market Risk consists of the following sub-risks:



#### Spread Risk

Spread risk reflects the change in the value of assets and liabilities caused by changes in the level or the volatility of credit spreads over the risk free term structure. This will apply particularly to corporate bonds and term deposits. The capital charge is calculated per instrument and an SCR charge is then derived for spread risk as the sum of the SCRs for each sub-component. The Company's assets subject to spread risk are corporate bonds and term deposits.

#### Interest Rate Risk

Interest rate risk arises from the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates. The Company's interest-sensitive assets are investments in bonds and term deposits. The Company's interest-sensitive liabilities are best estimates of technical provisions.

#### Equity Risk

Equity risk arises from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level/volatility of market prices of equities.

#### Property Risk

Property risk arises from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level/volatility of market prices of real estate. Properties of the Company subject to property risk include land and buildings either owner-occupied or used as investment property.

#### Concentration Risk

Concentration risk includes all risk exposures with a loss potential which is large enough to threaten the solvency/financial position of the Company. Concentration Risk applies to assets considered under equity, spread and property risk above and excludes assets covered by the counterparty default risk covered under Credit Risk below.

Concentration risk assumes that the geographical or sector concentration of the assets held by the Company is not material. As evident from the chart above, the Company shows a high capital requirement for concentration risk arising mainly from term deposits with financial institutions. Concentration risk exposure decreased since the last reporting period due to the decrease in bank term deposits and the increased placements in highly rated bond funds.

### Currency Risk

Currency risk arises from changes in the level or volatility of currency exchange rates. Company may be exposed to currency risk arising from various sources, including investment portfolios, as well as assets, liabilities and investments in related undertakings. Due to the increased investment in bond funds with indirect investments in financial assets denominated in currencies other than Euro, the currency risk accounts for 3% of the overall market risk exposure (before diversification).

#### **C.2.2 Investment assets and prudent person principle**

The investments of the Company, meet the eligibility criteria (qualitative and quantitative) as set out in the Company's Investment Policy per type of asset. The said policy defines specific criteria and limits for each category of asset in order to ensure that investments are made in a prudent manner as follows:

- The overall policy objective is to adequately fund the Company's technical provisions and solvency margin and to contribute to the growth of surplus for the benefit of the shareholders.
- All investments qualify under applicable laws and regulations.
- The Company holds assets with sufficient values and adequate liquidity to meet all liabilities and enable payments as they fall due.
- Investment activities are appropriate so that the Company's shareholders and policyholders are not exposed to undue risks.
- Investments are sufficiently diversified across asset classes, maturities and geographical location of instruments.
- Counterparties are selected by taking into account the credit rating and reputation of each entity. Credit ratings are used as a way of properly identifying and managing the risk attached to a counterparty and Company ensures only counterparties with high credit rating are used.
- The Company does not engage in speculative investments or other high risk investment activities. The Company does not invest in complex instruments or markets where the risks cannot be sufficiently understood, measured and managed.

#### **C.2.3 Assessment and risk mitigation techniques for market risk**

The Company follows its Investment Policy for managing the risks arising from the Company's investment decisions and practices by defining the framework for the approval, monitoring and reporting of investment activity and associated risks and establishing adequate limits and controls. The investment risk appetite is expressed in terms of acceptable asset classes for investment and the tolerance level for the risks arising from each investment. The Investment Policy is reviewed annually to ensure that the mitigation guidelines defined are still appropriate for the Company.

The RMF monitors, assesses and reports regularly on the investment risk exposures and market developments that may conduce to the generation of potential market risks. A risk register is maintained and stress and scenario testing is performed during the ORSA process to assess the risk under the stressed conditions.

The IC is the Company's delegated authority for developing and overseeing the implementation of the Company's investment strategy, policies and procedures and for ensuring the investment decisions are made in a prudent manner and in accordance with the Investment Policy.

The standard formula SCR includes an assessment and quantification of the market risk exposure.

### C.2.4 Stress testing and sensitivity analysis

As part of the ORSA process, the Company carries out stress and scenario testing for the material market risks to which it is exposed to, and the results are summarised as follows:

Scenario	Assumptions	Impact	Observations/Actions
Default of banking counterparty	<ul style="list-style-type: none"> <li>Loss of deposits</li> <li>Impact on new business and cancellations</li> </ul>	<ul style="list-style-type: none"> <li>Decrease in overall SCR ratio by 12-60 pp. throughout the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>Further actions were implemented in December 2018 and exposure was significantly reduced.</li> <li>Reassessment of the Company's capital management and distribution strategy.</li> </ul>

Based on the analysis performed the Company's market risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

## C.3 Credit Risk

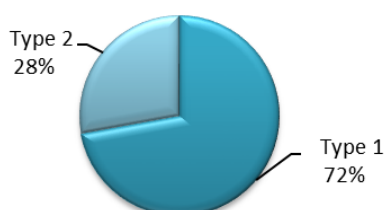
### C.3.1 Key Credit Risk

Credit risk (in the form of Counterparty Default Risk) represents 25% of the Company's SCR (before diversification). Credit risk is the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the Company is exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations. Counterparty Default Risk is the risk of loss due to unexpected default, or deterioration in the credit standing of the counterparties and debtors of the Company over the following 12 months.

Counterparty Default risk of the Company is further analysed as follows:

- Type 1 exposures which include the best estimates of reinsurance outstanding amounts and cash at bank (current accounts).
- Type 2 exposures which include premium receivables from agents/brokers and policyholders debtors and are assumed to be well diversified but unlikely to be rated.

Counterparty Default Risk Components 2018



The high capital requirement for Type 1 exposures mainly arises from cash deposits with financial institutions.

### C.3.2 Assessment and risk mitigation techniques for credit risk

The Company assesses, monitors and mitigates credit risk through various methods as summarised below:

- Using specific approved external credit assessment institutions (Standards & Poor's, Moody's, or Fitch) for counterparty selection.
- Selecting reinsurance counterparties with a minimum credit rating of "A-" (Standard and Poor's or equivalent).
- Monitoring the credit ratings of reinsurance counterparties on a quarterly basis.

- Regular monitoring of exposures and assessment of the adequacy of existing provisions for bad debts and evaluating of the need for further provisions.
- Selecting only highly reputable and creditworthy counterparties.
- A risk register is maintained and stress and scenario testing is performed during the ORSA process to assess the risk under stressed conditions.
- The standard formula SCR includes an assessment and quantification of the credit risk exposure.

### C.3.3 Stress testing and sensitivity analysis

As part of the ORSA process, the Company carries out scenario testing for the material credit risks to which it is exposed to, summarised as follows:

Scenario	Assumptions	Impact	Observations/Actions
Default of banking counterparty	<ul style="list-style-type: none"> <li>• Loss of deposits</li> <li>• Impact on new business and cancellations</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in overall SCR ratio by 12-60 pp. throughout the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>• Further actions were implemented in December 2018 and exposure was significantly reduced.</li> <li>• Reassessment of the Company's capital management and distribution strategy.</li> </ul>
Downgrading of investments	<ul style="list-style-type: none"> <li>• Downgrading from credit quality step 2 to 3</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in overall SCR ratio by 20-25 pp. throughout the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal impact</li> <li>• Use of specific approved ECAs for counterparty selection.</li> <li>• Monitor credit ratings of investment counterparties.</li> <li>• Monitor investment qualitative and quantitative limits.</li> </ul>
Default of reinsurance counterparty	<ul style="list-style-type: none"> <li>• All outstanding claim amounts paid by the Company</li> <li>• New reinsurance cover obtained with equivalent pre-default credit rating</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in overall SCR ratio by 12-49 pp. throughout the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>• SCR ratio remains within risk appetite limits</li> <li>• Being one of the largest reinsurers worldwide, the counterparty is able to absorb a significant amount of losses.</li> <li>• Monitor credit ratings of reinsurance counterparties.</li> </ul>

The results of the testing showed that the most material impact on the SCR coverage was in the event of default of banking counterparty. Based on the analysis performed the Company's credit risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

### C.4 Liquidity Risk

Liquidity Risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due. Liquidity Risk arises in circumstances where a Company has insufficient liquid or readily realisable assets to meet its commitments and is forced to rely on the realisation of assets that cannot be realised at short notice at a reasonable value.

The greatest threat to liquidity may occur during a catastrophic event, when a large number of claims will be received at once or there may be prospects of a significantly large claim. In case of such events, the Company has in place sufficient reinsurance cover.

Generally, the Company aims to ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses.

At 31 December 2018, 81% of the Company's investment assets were placed in highly liquid assets which could be liquidated within 1 week as demonstrated in the graph below:



#### **C.4.1 Assessment and risk mitigation techniques for liquidity risk**

The Investment Policy sets out specific limits to ensure that the Company maintains sufficient liquidity to manage its day to day operations and as sufficient buffer for covering sudden liquidity demands that may arise. The Investment Policy is reviewed at least on an annual basis to ensure its contents reflect the latest regulatory requirements and any changed business processes and economic circumstances.

The RMF monitors, assesses and reports regularly on the liquidity risk exposures and market developments that may conduce to the generation of potential liquidity risks. A risk register is maintained and stress and scenario testing is performed during the ORSA process to assess the risk under stressed conditions.

#### **C.4.2 Stress testing and sensitivity analysis**

As part of the ORSA process, the stress and scenario testing performed under risks mentioned above, also assesses the impact on the Company's liquidity and ability to meet its obligations as they fall due.

Based on the analysis performed, the Company's liquidity risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

#### **C.4.3 Expected profit included in future premiums**

The Expected Profit Included in Future Premiums ("EPIFP") represents the amount of profits expected to be earned in the future, on existing unexpired policies. The expected profit is calculated as the excess of expected future cash inflows over the expected future cash outflows. The EPIFP calculated by the end of the reporting period amounts to €3,7m (net of recoverables).

#### **C.5 Operational Risk**

Operational risk represents 6% of the Company's SCR (before diversification). Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational Risk excludes Strategic and Reputational Risks and is designed to address risks not been explicitly covered in other SCR risk modules. The risk calculation is based on the best estimates and the premiums earned during the previous twelve months.

The Company classifies operational risks under the following main categories:

- **Internal fraud:** Losses due to acts intended to defraud, misappropriate property or circumvent regulations, the law or Company policy, excluding diversity/discrimination events, which involve at least one internal party e.g. intentional misreporting of positions or employee theft.

- **External fraud:** Losses due to acts intended to defraud, misappropriate property or circumvent the law, by a third party e.g. robbery, forgery or hacking into systems.
- **Employment practices and workplace safety:** Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events e.g. violation of health and safety rules or discrimination claims.
- **Clients, products and business practices:** Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients, or from the nature or design of a product e.g. misuse of confidential customer information.
- **Damage to physical assets:** Losses arising from damage to physical assets from natural disasters or other events such as floods, fires, terrorism or vandalism.
- **Business disruption and system failures:** Losses arising from disruption of business or system failures e.g. electricity outages.
- **Execution, delivery and process management:** Losses from failed transaction processing or process management, from relations with trade counterparties and vendors e.g. data entry errors or incomplete legal documentation.

#### C.5.1 Assessment and risk mitigation techniques for operational risk

The Company employs a specific methodology and a number of tools to identify, assess, mitigate and monitor operational risks.

- **Risk Control and Self – Assessment (RCSA):** The most important tool for identifying and assessing operational risk is the RCSA, which allows business-owners to identify and measure (based on likelihood and impact) the exposure to operational risk through estimates by managers and staff. Every month the progress and status of the risk mitigation action plans are updated by the Units/Departments with the progress achieved towards meeting the actions and deadlines originally set. The RCSA process is repeated annually or in the event of significant developments or changes in the organisational structure, processes or systems of the Units/Departments or at the occurrence of any other event that may affect the risk profile of the Company.
- **Key risk indicators (KRIs):** In addition, metrics which are commonly known as KRIs are established in order to monitor variables which indicate the possibility of losses. KRIs are monitored by the RMF and are reported to the ARC on a regular basis. KRIs are established from a pool of business data/indicators considered useful for the purpose of risk tracking.
- **Operational loss events:** The Company records data on operational risk events (actual and potential losses as well as near misses) with a set threshold per loss and aggregate thresholds. An operational risk event is defined as any incident where through a failure or lack of control, the Company could actually or potentially have incurred a loss. This enables the identification of weaknesses or vulnerabilities and potential threats, which in turns supports the specification of actions to minimise the risk of similar incidents occurring in the future.
- **Business Continuity Plan/Disaster Recovery Plan:** The Company has in place continuity plans to ensure that any business continuity and disaster recovery risks are managed properly. This enables the Company to operate on an ongoing basis and limit any losses in case of disruption of operations. These plans are reviewed and tested on a regular basis.
- **Outsourcing:** The Company is outsourcing the provision of certain services to external service providers, and as such is exposed to any potential failure on their part. Key functions with the exception of the Internal Audit Function are in-house in order to minimise the risk of potential failure of the service provider. Some non-key functions are also outsourced but the Company monitors whether the specific service provider adheres to all the terms of their written agreement.



### C.5.2 Stress testing and sensitivity analysis

As part of the ORSA process, the stress and scenario tests performed also assess the impact on the Company's operational risk.

Based on the analysis performed, the Company's risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

## C.6 Other material risks

### C.6.1 Reputational risk

Reputational Risk is the risk of potential loss to the Company through deterioration of its reputation or standing due to a negative perception of the Company's image among customers, counterparties, shareholders and supervisory authorities.

The Company monitors early warning indicators of Reputational Risk that arise from business as usual activities, through the monitoring of its reputation in the market (e.g. through market research) and the testing of its ability to respond quickly to a deterioration to its reputation.

### C.6.2 Compliance risk

Compliance Risk is defined as the risk arising from the failure to comply with the overall regulatory and supervisory environment governing the conduct of the Company's business.

The Company monitors all regulatory developments very closely and despite the regularly changing regulation environment, Management ensures that GIC remains compliant on a continuous basis. The CF of the Company is responsible for the establishment and application of suitable procedures for the purpose of achieving a timely and on-going compliance of the Company with the existing legal and regulatory framework.

### C.6.3 Strategic risk

Strategic Risk is the risk of the current and prospective impact on earnings or capital arising from adverse business conditions, improper implementation of decisions, or lack of responsiveness to industry changes.

The Company monitors changes to the external and internal financial and competitive environment and assesses the impact on its overall strategy at regular intervals. Management monitors all business targets versus actual experience and is very agile in adjusting its business goals in response to changes in the market, competitive or regulatory environment.

### C.6.4 Stress testing and sensitivity analysis

In addition to the above stress testing scenarios performed under specific risks, the Company also assessed the following:

Scenario	Assumptions	Impact	Observations/Actions
No premium growth over the planning horizon	<ul style="list-style-type: none"> <li>No growth in premium production</li> <li>Proportionate decrease in investment income</li> <li>Expenses as originally assumed other than production related</li> <li>Dividends at original levels.</li> </ul>	<ul style="list-style-type: none"> <li>Maximum decrease in overall SCR ratio by 64 pp. in year 4 of the planning period.</li> </ul>	<ul style="list-style-type: none"> <li>Minimise SCR ratio impact by assuming lower dividend distribution.</li> <li>Determine the potential for growth of sales through the use of all available tools and channels.</li> <li>Review and reassessment of underwriting and pricing policies.</li> </ul>





The Company also took the further step of coherently clustering risks together into combined scenarios and carried out reverse stress testing by assessing scenarios and circumstances that would render its business unviable, thereby identifying potential business vulnerabilities.

Based on the analysis performed, the Company's risk profile was assessed to be resilient to withstand severe shocks and is within the Company's risk appetite.

## D Valuation for Solvency Purposes

### D.1 Assets and Other Liabilities

#### D.1.1 Base and assumptions

The Solvency II framework requires an economic and market-consistent approach for the valuation of assets and other liabilities. According to this approach assets and other liabilities should be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

The default reference framework for valuing assets and other liabilities, are the IFRSs as adopted by the European Union ("EU"). If IFRSs allow for more than one valuation method, only valuation methods that are consistent with Article 75 of the Solvency II Directive are used. In most cases, IFRSs are considered to provide a valuation consistent with Solvency II principles. Also, the IFRSs' accounting bases, such as the definitions of assets and other liabilities, as well as the recognition and derecognition criteria, are applicable as the default accounting framework, unless otherwise stated. IFRSs also refer to a few basic presumptions, which are equally applicable:

- The going concern assumption.
- Individual assets and liabilities are valued separately.
- The application of materiality.

The following hierarchy of high level principles for the valuation is used:

- Quoted market prices in active markets for the same or similar assets/liabilities.
- Quoted market prices in active markets for similar assets/liabilities with adjustments to reflect differences.
- Mark-to-model techniques that are benchmarked, extrapolated or otherwise calculated as far as possible from a market input.
- Maximum use of relevant observable inputs and market inputs and as little reliance as possible on undertaking-specific inputs, minimising the use of unobservable inputs.

#### D.1.2 Valuation

The material classes of assets and other liabilities on the Solvency II Balance sheet, the Solvency II values and the values for the corresponding items shown in the Company's financial statements, as well as the valuation methods used and major differences in valuation are summarised in the table below:

31 December 2018 Assets	Solvency II Balance Sheet		Financial Statements		Major Differences
	Value €'000	Valuation basis	Value €'000	Valuation basis	
Intangible assets	-	Valued at zero	789	Cost less accumulated amortisation and impairment losses (IAS 38)	Zero value for Solvency II as they cannot be sold separately and there is no value for the same or similar assets from quoted market prices in active markets
Property and equipment held for own use	9.573	Same as IFRS	9.343	Fair value less accumulated depreciation (IAS 16)	Assets not revalued as at 31 December 2018 in IFRS financial

31 December 2018 Assets	Solvency II Balance Sheet		Financial Statements		Major Differences
	Value €'000	Valuation basis	Value €'000	Valuation basis	
					statements based on IAS 16, par.34. For Solvency II purposes they are stated at fair value as at 31 December 2018
Investment property	1.319	Same as IFRS	1.319	Fair value (IAS 40)	-
Investment in Subsidiary	757	Same as IFRS	757	Fair value (IAS 27)	-
Investment in equities	3	Same as IFRS	3	Fair value (IAS 39)	-
Investment in collective investment undertakings	39.090	Same as IFRS	39.090	Fair value (IAS 39)	-
Deferred acquisition costs	-	Valued at zero	5.221	Calculated on a basis compatible with that used to determine unearned premiums (IFRS 4)	Zero value for Solvency II
Reinsurance recoverables – non life/health technical provisions	13.225	Cash flow basis (Best Estimates)	18.335	Share of insurance contracts liabilities (IFRS 4)	Refer to section D2 below
Insurance and intermediaries receivables	11.113	Same as IFRS	11.113	Amortised cost less impairment (IAS 39)	-
Other receivables	77	Same as IFRS	77	Amortised cost less impairment (IAS 39)	-
Tax refundable	1.242	Same as IFRS	1.242	Asset recognised for the excess of the amount paid over the amount due for current and prior periods (IAS 12)	-
Cash and deposits	15.110	Same as IFRS	15.110	Fair value (IAS 39)	-
<b>Total Assets</b>	<b>91.509</b>		<b>102.399</b>		
<b>Other Liabilities</b>					
Insurance and intermediaries payables	3.465	Same as IFRS	3.465	Amortised cost (IAS 39)	-
Reinsurers' current accounts	3.653	Same as IFRS	3.653	Amortised cost (IAS 39)	-
Other payables	4.384	Same as IFRS	4.384	- Best estimate of the expenditure required to settle obligation (IAS 37) - Amortised cost (IAS 39)	-
Deferred tax liability	1.119	Valued in relation to all assets and liabilities, including	1.247	Recognised on all temporary differences between the tax bases	Different valuation basis of assets/ liabilities between

31 December 2018 Assets	Solvency II Balance Sheet		Financial Statements		Major Differences
	Value €'000	Valuation basis	Value €'000	Valuation basis	
		technical provisions that are recognised for Solvency or tax purposes.		of assets/liabilities and their carrying amounts in the IFRS Balance Sheet (IAS 12)	IFRS and Solvency II balance sheet.
<b>Total Liabilities</b>	<b>12.621</b>		<b>12.749</b>		

## D.2 Technical provisions

### D.2.1 Valuation for Solvency purposes

The Solvency II Technical Provisions consist of the best estimates of claims provisions, the best estimates of premium provisions and the risk margin. The AF calculates technical provisions according to Solvency II requirements and in line with Cyprus Laws and Regulations.

The provision for claims outstanding relates to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not. Thus, the components of the claims provision are the outstanding case estimates, the incurred but not reported, the incurred but not enough reported and the unallocated claims management expenses. Under Solvency II, the reserves are discounted to allow for the time value of money. The analysis was performed separately for the portfolios of Cyprus and Greece (Kyprou Asfaltistiki) because it is naturally expected that different regions have different characteristics regarding the claim costs and the reporting patterns.

The AF performs projections using various deterministic techniques to assess the undiscounted element of the earned claims reserves. The main methods used to calculate the claims reserves are the Chain Ladder on paid and incurred claims, the Expected Loss Ratio method and the Bornhuetter-Ferguson method:

- The Chain Ladder method is appropriate for relatively stable historical development patterns. In addition, the Chain Ladder method could lead to unreliable projections when the presence of large claims or sometimes just a single claim produce unusual changes in the reporting or settlement pattern. Chain Ladder estimates on paid and incurred claims data are considered in parallel in order to form an opinion about the stability of results under different approaches. The paid Chain Ladder is mostly used for old accident years and therefore more mature, whereas the incurred Chain Ladder for more recent years.
- The Expected Loss Ratio method forecasts the ultimate losses by applying an estimated loss ratio to the earned premium of the specific accident year. This method is often used where the claim development method is not appropriate for less mature periods or data is not available to use the Chain Ladder methods.
- The Bornhuetter-Ferguson technique is essentially a blend of the Chain Ladder and Expected Loss Ratio methods. As experience matures, more weight is given to the actual claims and the expected claims become gradually less important. The Bornhuetter-Ferguson method uses as a starting point an assumed expected loss ratio and blends in the loss ratio, which is implied by the claims experience to date, using benchmark loss development patterns on paid claims data or reported claims data. Although this method tends to provide less volatile indications at early stages of development, it can be slow to react to emerging loss development.

The above three methods are used interchangeably for each accident year in each line of business depending on the development pattern and on the information gathered by the Claims Department related to large claims and court cases.

Large losses usually exhibit a development pattern different to that of regular claims. Including them in the valuation exercise would distort the results. A thorough review of the data was performed for the

identification of claims which follow an irregular pattern with respect to the aggregate claims pool. The thresholds were set based on the risk profile of each line of business.

Motor vehicle liability, Fire and other damage to property and General liability were the three lines of business in which a significant number of claims were marked as large. For these classes, a separate valuation analysis was performed given that there is sufficient credibility of data and stability in the results.

Any outstanding large claims related to other lines of business were subsequently added to the calculated reserve at their book value. The small number of these claims makes it difficult to apply any statistical modelling for the purpose of their valuation. Since large losses are reviewed and adjusted frequently and appropriately, the reported large loss case estimates can be considered as robust and as a valid reserving basis.

The calculation of the best estimate of the premium provision relates to all future cash flows arising from future events, in relation to unexpired policies. Such cash flows mostly relate to future claims, administration expenses and reinsurance.

The premium provision for all lines of business is determined on a prospective basis taking into account the expected cash inflows and cash outflows and time value of money. The main expected cash flows were estimated by applying an appropriate prospective combined ratio to the unearned premium reserve. The combined ratio is defined as the sum of the expense ratio, the claims ratio and the reinsurance cost ratio. This enables the claims forecast and the expense forecast to be modelled separately.

The best estimates are discounted using the euro risk free interest rate curve as at the valuation date, published by EIOPA.

The risk margin is defined as the amount of future cash flows, in excess of the best estimate, that an insurer would require in order to take over and meet the insurance obligations covered by the technical provisions. It is calculated using a cost of capital approach. The risk margin is calculated using one of the simplification methods suggested by EIOPA, classified as method 3. This method assumes that all future SCRs are proportional to the best estimate of Technical Provisions, taking into account the maturity and the run-off pattern of the obligation net of reinsurance.

The Company does not apply any matching and volatility adjustments nor any transitional measures for the valuation of technical provisions.

The Solvency II Technical Provisions are calculated based on the following key assumptions:

- Future management actions are assumed to be consistent with the Company's current business practice and business strategy.
- Future external environment and policyholder behaviour is assumed to be the same if there is no indication of the opposite.
- The historic loss development and trend experience is assumed to be indicative of future loss development and trends. Inflation associated with claims is usually implicitly allowed for in data, with the assumption that future inflation will continue in the same way as historical inflation.
- The information developed from internal sources can be used to develop meaningful estimates of the initial expected ultimate loss ratios. Moreover, historical claims and exposure base (earned premium) are not greatly affected by inflation and other systematic influences and therefore no trend adjustment is applied beyond the one implied in the historical data for deriving the initial expected ultimate loss ratios (applicable for claim provisions).

- Significant losses or types of losses will emerge that are not represented in either the initial expected loss ratios or the historical development patterns (applicable for claim provisions).
- Premium cancellation rates of the previous twelve months are assumed to be the same as the next twelve months (applicable for premium provisions).
- Reinsurance structure is assumed to be the same for the next twelve months (applicable for premium provisions).

In addition, the AF compares best estimates against experience on a quarterly basis and uses the insights gained from this assessment to improve the quality of current calculations. This is performed by calculating the movement of gross and reinsurance claims development (both incurred and paid) by quarter and/or year and the differences from an expected amount. The AF interprets any material deviations between best estimates and experience, by identifying their causes and, when applicable, makes appropriate changes in the assumptions underlying the model in order to attenuate such differences.

No material changes were made in the assumptions used in the calculation of the technical provisions compared to the previous reporting period.

Although the AF performs various reasonableness checks, reconciliation exercises and validation tests as well as removes data elements that could create obvious distortions in the data, we caution against any uncertainties in the valuation of technical provisions caused by the following:

- Economic, legal, social and political changes
- Distortions caused by ‘large losses’
- One-off large claims reviews
- Random claim fluctuations
- Fluctuations in the time, frequency and severity of claim events
- Fluctuations in the amount of expenses
- Changes in legislation
- Changes in claims handling processes and procedures
- Uncertainty in policyholder behaviour.

The causes of uncertainty outlined above are taken into consideration in the estimation of the best estimates, provided that credible information is available to the AF.

#### **D.2.2 Valuation in Financial Statements**

Insurance contracts liabilities for the purposes of the Company’s financial statements are measured in accordance with IFRS 4 Insurance Contracts.

Provision is made for the estimated cost of all claims arising from valid insurance contracts that were in force when the insured incident occurred that affected the policyholder negatively. The provision is estimated separately for each reported claim. Provision is also made for claims incurred but not reported (IBNR) by the balance sheet date. Past experience as to the number and amount of claims reported after the balance sheet date is taken into consideration, in estimating the IBNR provision. Claims settlement costs are included in the estimation of the provision for outstanding claims. Recoverable amounts arising out of the acquisition of the rights of policyholders with respect to third parties (subrogation) or of the legal ownership of insured property (salvage), are deducted from the provision.

Provision is also made for unearned premiums which represents the amount of premium income and reinsurance premiums attributable to the period of risk after the balance sheet date. The provision is

computed using the method of 365<sup>ths</sup>, according to which the earned and unearned premiums are calculated on a daily period apportionment basis.

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost assets, using current estimates of future contractual cash flows. Any inadequacy is charged to the income statement by establishing an unexpired risk provision. The unexpired risk reserve is calculated based on claims and administration expenses that may arise after the balance sheet date and relate to insurance policies written before this date, to the extent that the likely amount exceeds the reserve for unearned premiums, net of any deferred acquisition costs.

The liabilities for outstanding claims arising from insurance contracts issued by the Company are calculated based on experts' estimates and facts known at the balance sheet date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends and take into consideration claims handling costs, inflation and claim numbers for each accident year. Also external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are taken into consideration. The insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of court cases, is very difficult to be quantified. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty over the cost of claims at the reporting date.

No material changes were made in the assumptions used in the calculation of the insurance contracts liabilities compared to the previous reporting period.

### D.2.3 Solvency II and Financial Statements valuation of technical provisions

An overview of the technical provisions, including best estimates and risk margin used for Solvency II purposes and the corresponding information shown in the Company's financial statements are summarised in the table below:

2018 Lines of Business	Solvency II valuation			IFRS valuation	Difference in net technical provisions €'000
	Best estimates	Risk Margin	Total net Technical Provisions	Total net Technical Provisions	
	€'000	€'000	€'000	€'000	
Medical expense	681	38	719	940	(221)
Motor vehicle liability	9.531	305	9.836	10.417	(581)
Other motor	3.899	107	4.006	3.630	376
Marine, aviation and transport	248	20	268	219	49
Fire and other damage to property	7.516	730	8.246	10.192	(1.946)
General liability	7.150	319	7.469	10.228	(2.759)
Credit and suretyship	25	1	26	34	(8)
Miscellaneous finance loss	263	22	285	177	108
<b>Total</b>	<b>29.313</b>	<b>1.542</b>	<b>30.855</b>	<b>35.836</b>	<b>(4.981)</b>

The value of the Company's technical provisions for Solvency II purposes is equal to the sum of the best estimate and the risk margin which are calculated separately and overall are significantly lower compared to IFRS provisions as shown in the Company's financial statements.

The Solvency II technical provisions are calculated on a best estimate basis removing any margin for implicit or explicit prudence and therefore with equal probability that the estimated values will go up or down. The premium provisions are calculated on a cash flow and on a policy by policy basis. The best estimates are also discounted.

The insurance contracts liabilities as valued in the Company's financial statements are calculated in accordance with IFRS 4 Insurance Contracts and consist of the case estimates which incorporate prudence, the incurred but not reported reserves, the unexpired risk reserves and the unearned premium reserve calculated based on the assumption that the insurance risk is evenly spread throughout the duration of the policy. Also, the IFRS insurance contracts liabilities are not discounted.

#### **D.2.4 Reinsurance**

Reinsurance recoverables represent the difference between gross and net technical provisions.

For the purpose of calculating the amounts recoverable from reinsurance contracts, the cash-flows only include payments in relation to compensation of insurance events and unsettled insurance claims. With regards to claims reserves the approach used for the valuation of reinsurance recoverables may differ by line of business depending on its characteristics. The main methodologies used are gross to net techniques and claims development techniques.

With regards to premium provisions, the reinsurer has been assumed to have a share in the reserves, as we expect future in flows to arise as a result of having reinsurance with respect to the unexpired policies.

The result of the calculation of the amounts recoverable from reinsurance contracts is adjusted to take account of expected losses due to default of the counterparty. That adjustment is based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

#### **D.3 Other material information**

All material information regarding the valuation of assets and liabilities for solvency purposes has been addressed in the previous sections.



## E Capital Management

### E.1 Own funds

For Solvency II purposes, the Company's capital is defined as "Own Funds" and this is divided into "Basic Own Funds" (such as paid share capital and retained earnings) and "Ancillary Own Funds" (such as unpaid share capital and letters of credit). Own funds are further subdivided into three "Tiers" depending on the quality of the capital. Capital of the highest quality is categorised as Tier 1 and capital of a lower quality is categorised either as Tier 2 or Tier 3. Tier 1 is also further divided into "Restricted" and "Unrestricted". Unrestricted Tier 1 basic own funds include paid-in ordinary share capital, paid-in initial funds, members' contributions, the reconciliation reserve and surplus funds that meet certain criteria. Restricted Tier 1 own funds include Tier 1 own funds items which are not suitable to be classified as unrestricted Tier 1 own funds.

The Company manages its Own Funds to ensure that it has capital of sufficient value and quality to cover the Solvency Capital Requirements (SCR and MCR). There are restrictions in place in relation to the amount of capital from each tier that can be used to cover Solvency Capital Requirements. These restrictions aim to ensure that the Company possesses capital of sufficient value and quality to absorb losses that may arise in the future due to unforeseen loss events.

The Company has developed and documented a Capital Management Policy which sets out the Company's methodology, policies and procedures in place to manage its capital base, with the purpose of ensuring the maintenance of sufficient capital to:

- Protect the shareholders and the Company's creditors against excess volatility of returns
- Cover all risks faced by the Company
- Protect the Company's economic viability
- Finance new growth opportunities
- Meet regulatory requirements at all times.

In order for the Company to remain a going concern, it needs to assess not only its current risks, but also the risks it will or could face in the foreseeable future. The Company follows the processes below for managing own funds:

- **Business plan:** The Company's business and financial projections (3-year plan) are fed into the ORSA in order to enable the Company to form an opinion on its future overall solvency needs and own funds. Projected capital requirements are compared with own funds so that the Company is able to observe whether the forecasted available own funds of the Company will be adequate to cover any future strategic actions that the Management intends to take.
- **Monitoring of SCR/MCR:** The Company's Management monitors on a quarterly basis the calculated SCR/MCR and any material changes arising, in order to detect trends and early warning signals and ensure the maintenance of sufficient capital to cover the capital requirements.
- **Prospective changes in risk profile:** Prospective changes in the Company's risk profile and how they affect its current and projected level of solvency requirements are taken into account during the capital planning process. The quality and profile of the Company's own funds over the planning period is also taken into consideration.
- **Dividends distribution:** To maintain the required capital the Company may adjust the amount of dividends paid to the Parent company.

The Company's own funds are all classified as Basic Own Funds Tier 1 Unrestricted and are available to cover the Company's Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") as follows:

	2018	2017
	€'000	€'000
<b>Basic Own Funds – Tier 1 Unrestricted</b>		
Ordinary share capital	5.130	5.130
Reconciliation Reserve	29.753	35.698
<b>Own funds eligible to cover SCR/MCR</b>	<b>34.883</b>	<b>40.828</b>

Significant changes in own funds over the reporting period are attributable to variations in net technical provisions and changes in retained earnings for the year.

The excess of assets over liabilities as calculated for Solvency purposes is different than the amount of equity as reported in the Company's audited financial statements. The following table presents a reconciliation of own funds between IFRS financial statements and Solvency II:

	2018	2017
	€'000	€'000
<b>Own Funds Reconciliation</b>		
<b>Equity (IFRS Financial Statements)</b>	<b>35.554</b>	<b>41.772</b>
Difference in valuation of technical provisions (net)	4.981	4.052
Premises valuation adjustment	230	-
Deferred Acquisition Costs	(5.221)	(4.755)
Intangible assets	(789)	(376)
Differences in deferred tax valuation	128	135
<b>Own Funds (Solvency II)</b>	<b>34.883</b>	<b>40.828</b>

## E.2 SCR and MCR

The SCR is the aggregation of market, counterparty, non-life underwriting risks, less diversification and then an additional charge to represent operational risks faced by the Company. The calculated SCR (overall and by risk module), at the end of the reporting period is as follows:

	2018	2017
	€'000	€'000
<b>Solvency Capital Requirement</b>		
Market Risk	6.299	9.324
Counterparty Risk	6.115	6.951
Non-Life Underwriting Risk	10.073	9.855
Health Risk	355	319
Diversification BSCR	(5.712)	(6.906)
<b>Basic SCR (BSCR)</b>	<b>17.130</b>	<b>19.543</b>
Operational Risk	1.424	1.368
Loss absorbing capacity of deferred taxes	(313)	(730)
<b>SCR</b>	<b>18.242</b>	<b>20.612</b>
<b>SCR coverage ratio</b>	<b>191%</b>	<b>198%</b>
<b>MCR</b>	<b>5.182</b>	<b>5.153</b>
<b>MCR coverage ratio</b>	<b>673%</b>	<b>792%</b>

The Company calculates the SCR based on the risk modules and sub-modules of the standard formula without using any simplified calculations or undertaking specific parameters.

The amount of MCR for the reporting period is €5,2m (2017: €5,2m). The inputs used to calculate the MCR are the net premiums written amounts in the previous 12 months and the net best estimate



technical provisions both split by Solvency II class of business. The charge for premium and technical provisions elements are then summed to create a total charge.

Line of business	Net best estimate	Net written premiums (last 12 months)
	€'000	€'000
Medical expense	681	1.341
Motor vehicle liability	9.531	6.004
Other motor	3.899	3.533
Marine, aviation and transport	248	394
Fire & other damage to property	7.516	11.760
General liability	7.150	4.995
Credit and suretyship	25	11
Miscellaneous financial loss	263	336

### E.3 Other material information

All material information regarding capital management has been addressed in the previous sections.

## Appendices

Appendix	Description
<b>A</b>	Terms/Definitions
<b>B</b>	Structure of the Company's administrative, management or supervisory body

The following applicable Quantitative Reporting Templates ("QRTs") are publicly disclosed as part of the SFCR:

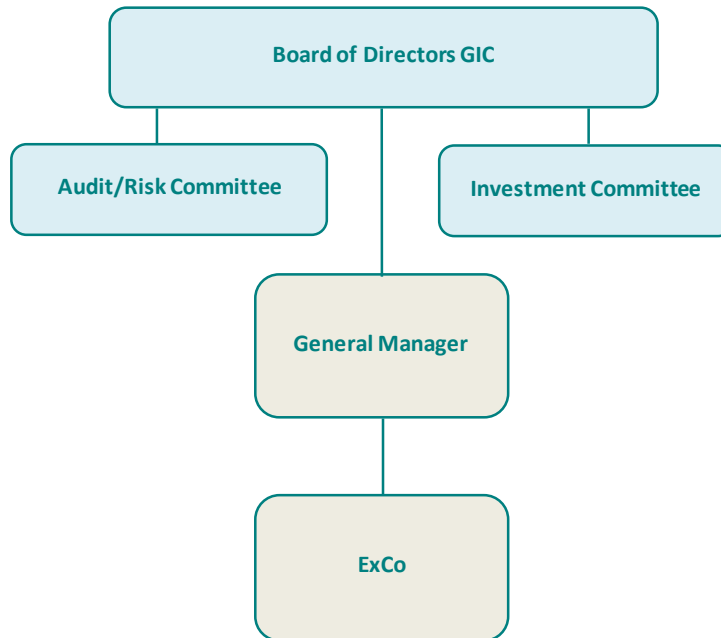
Appendix	Table code	Table Label
<b>C1</b>	S.02.01.02	Balance Sheet
<b>C2</b>	S.05.01.02	Premiums, claims and expenses by line of business
<b>C3</b>	S.05.02.01	Premiums, claims and expenses by country
<b>C4</b>	S.17.01.02	Non-life Technical Provisions
<b>C5</b>	S.19.01.21	Non-life insurance claims
<b>C6</b>	S.23.01.01	Own Funds
<b>C7</b>	S.25.01.21	SCR - for undertakings on Standard Formula
<b>C8</b>	S.28.01.01	MCR

Appendix	Description
	Independent Auditor's Report

## Appendix A: Terms/Definitions

Term	Definition / Description
AF	Actuarial Function
ARC	Audit/Risk Committee
BOC or the Bank or the Parent	Bank of Cyprus Public Company Ltd
BoD	Board of Directors
BSCR	Basic Solvency Capital Requirement
CAT	Catastrophic Event
CF	Compliance Function
CGCO	Corporate Governance Compliance Officer
ECAI	External Credit Assessment Institutions
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected Profit included in Future Premiums
EU	European Union
ExCo	Executive Committee
Group or BOC Group	BOC Group of Companies
GIC or the Company	General Insurance of Cyprus Ltd
IAF	Internal Audit Function
IAS	Internal Accounting Standards
IBNR/IBNER	Incurred But Not Reported/Incurred But Not Enough Reported
IC	Investment Committee
IFRSs	International Financial Reporting Standards
KRIs	Key Risk Indicators
LCO	Local Compliance Officer
LOB	Line of Business
MCR	Minimum Capital Requirement
ORSA	Own Risk & Solvency Assessment
QRTs	Quantitative Reporting Templates
RCSA	Risk and Control Self-Assessment
RMF	Risk Management Function
SCR	Solvency Capital Requirement
Supervisory Authority or Regulator	Insurance Companies Control Service

## Appendix B: Structure of the Company's administrative, management or supervisory body





**Appendix C1 - S.02.01.02: Balance Sheet**

	Solvency II value C0010
<b>Assets</b>	
Intangible assets	R0030 -
Deferred tax assets	R0040 -
Pension benefit surplus	R0050 -
Property, plant & equipment held for own use	R0060 9.572.885
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 49.913.137
Property (other than for own use)	R0080 1.319.000
Holdings in related undertakings, including participations	R0090 756.620
Equities	R0100 3.238
Equities - listed	R0110 -
Equities - unlisted	R0120 3.238
Bonds	R0130 -
Government Bonds	R0140 -
Corporate Bonds	R0150 -
Structured notes	R0160 -
Collateralised securities	R0170 -
Collective Investments Undertakings	R0180 39.089.980
Derivatives	R0190 -
Deposits other than cash equivalents	R0200 8.744.299
Other investments	R0210 -
Assets held for index-linked and unit-linked contracts	R0220 -
Loans and mortgages	R0230 -
Loans on policies	R0240 -
Loans and mortgages to individuals	R0250 -
Other loans and mortgages	R0260 -
Reinsurance recoverables from:	R0270 13.149.342
Non-life and health similar to non-life	R0280 13.149.342
Non-life excluding health	R0290 12.941.694
Health similar to non-life	R0300 207.648
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 11.112.937
Reinsurance receivables	R0370 76.310
Receivables (trade, not insurance)	R0380 1.318.480
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 6.366.306
Any other assets, not elsewhere shown	R0420 -
<b>Total assets</b>	<b>R0500 91.509.397</b>
	Solvency II value C0010
<b>Liabilities</b>	
Technical provisions – non-life	R0510 44.005.001
Technical provisions – non-life (excluding health)	R0520 43.078.565
Technical provisions calculated as a whole	R0530 -
Best Estimate	R0540 41.574.245
Risk margin	R0550 1.504.320
Technical provisions - health (similar to non-life)	R0560 926.436
Technical provisions calculated as a whole	R0570 -
Best Estimate	R0580 888.453
Risk margin	R0590 37.983
Technical provisions - life (excluding index-linked and unit-linked)	R0600 -
Technical provisions - health (similar to life)	R0610 -
Technical provisions calculated as a whole	R0620 -
Best Estimate	R0630 -
Risk margin	R0640 -
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650 -
Technical provisions calculated as a whole	R0660 -
Best Estimate	R0670 -
Risk margin	R0680 -
Technical provisions – index-linked and unit-linked	R0690 -
Technical provisions 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 1.118.805
Derivatives	R0790 -
Debts owed to credit institutions	R0800 -
Financial liabilities other than debts owed to credit institutions	R0810 -
Insurance & intermediaries payables	R0820 3.465.499
Reinsurance payables	R0830 3.653.014
Payables (trade, not insurance)	R0840 4.383.877
Subordinated liabilities	R0850 -
Subordinated liabilities not in Basic Own Funds	R0860 -
Subordinated liabilities in Basic Own Funds	R0870 -
Any other liabilities, not elsewhere shown	R0880 -
<b>Total liabilities</b>	<b>R0900 56.626.196</b>
<b>Excess of assets over liabilities</b>	<b>R1000 34.883.201</b>







**Solvency and Financial Condition Report**
**Appendix C4 - S.17.01.02: Non-life Technical Provisions**

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation		
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance	
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160		C0170	C0180
<b>Technical provisions calculated as a whole</b>	R0010																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050																	
<b>Technical provisions calculated as a sum of BE and RM Best estimate</b>																		
Premium provisions																		
Gross	R0060	509.519			3.644.601	3.497.924	111.493	6.126.641	1.366.756	14.586		190.439						15.461.959
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	105.318			849.588	974.537	12.409	1.530.252	201.111	260		62.333						3.735.808
Net Best Estimate of Premium Provisions	R0150	404.201			2.795.013	2.523.387	99.084	4.596.389	1.165.645	14.326		128.106						11.726.151
<b>Claims provisions</b>																		
Gross	R0160	378.934			8.954.613	1.727.965	159.055	6.231.450	9.310.052	93.087		145.583						27.000.739
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	102.330			2.218.212	352.171	10.280	3.311.909	3.325.580	82.375		10.677						9.413.534
Net Best Estimate of Claims Provisions	R0250	276.604			6.736.401	1.375.794	148.775	2.919.541	5.984.472	10.712		134.906						17.587.205
<b>Total Best estimate - gross</b>	R0260	888.453			12.599.214	5.225.889	270.548	12.358.091	10.676.808	107.673		336.022						42.462.698
<b>Total Best estimate - net</b>	R0270	680.805			9.531.414	3.899.181	247.859	7.515.930	7.150.117	25.038		263.012						29.313.356
<b>Risk margin</b>	R0280	37.983			304.800	107.362	20.594	730.144	318.715	1.156		21.547						1.542.303
<b>Amount of the transitional on Technical Provisions</b>																		
Technical Provisions calculated as a whole	R0290																	
Best estimate	R0300																	
Risk margin	R0310																	
<b>Technical provisions - total</b>																		
Technical provisions - total	R0320	926.436			12.904.014	5.333.251	291.142	13.088.235	10.995.523	108.829		357.569						44.005.001
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	207.648			3.067.800	1.326.708	22.689	4.842.161	3.526.691	82.635		73.010						13.149.342
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	718.788			9.836.214	4.006.543	268.453	8.246.074	7.468.832	26.194		284.559						30.855.659

**Appendix C5 - S.19.01.21: Non-life insurance claims**
**Total Non-Life Business**

 Accident year / Underwriting year **Z0010** Accident year [AY] {s2c\_AM:x4}

**Gross Claims Paid (non-cumulative)**  
 (absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)		
	0	1	2	3	4	5	6	7	8	9	10&+				
		<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	<b>C0060</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>	<b>C0100</b>	<b>C0110</b>		<b>C0170</b>	<b>C0180</b>
Prior	<b>R0100</b>												79.950.917	<b>R0100</b>	79.950.917
N-9	<b>R0160</b>	11.365.794	6.489.952	946.621	1.511.826	796.902	136.600	181.070	36.286	-2.115.300	61.419			<b>R0160</b>	61.419
N-8	<b>R0170</b>	13.632.953	7.539.041	1.118.530	925.594	267.533	177.571	1.158.434	-2.650.499	128.627				<b>R0170</b>	128.627
N-7	<b>R0180</b>	12.290.251	7.716.409	1.309.293	258.749	438.854	1.769.291	-1.359.572	836.319					<b>R0180</b>	836.319
N-6	<b>R0190</b>	12.137.769	4.699.723	1.654.595	201.648	114.190	-131.739	-50						<b>R0190</b>	-50
N-5	<b>R0200</b>	10.599.018	3.918.076	405.421	1.301.227	48.561	16.025							<b>R0200</b>	16.025
N-4	<b>R0210</b>	9.495.120	3.593.803	508.272	83.983	295.113								<b>R0210</b>	295.113
N-3	<b>R0220</b>	10.168.077	2.427.964	300.109	132.901									<b>R0220</b>	132.901
N-2	<b>R0230</b>	7.647.242	4.011.442	331.316										<b>R0230</b>	331.316
N-1	<b>R0240</b>	8.500.168	3.098.440											<b>R0240</b>	3.098.440
N	<b>R0250</b>	8.939.794												<b>R0250</b>	8.939.794
<b>Total</b>	<b>R0260</b>													<b>R0260</b>	93.790.822

**Gross undiscounted Best Estimate Claims Provisions**  
 (absolute amount)

Year	Development year											Year end (discounted data)			
	0	1	2	3	4	5	6	7	8	9	10&+				
		<b>C0200</b>	<b>C0210</b>	<b>C0220</b>	<b>C0230</b>	<b>C0240</b>	<b>C0250</b>	<b>C0260</b>	<b>C0270</b>	<b>C0280</b>	<b>C0290</b>	<b>C0300</b>		<b>C0360</b>	
Prior	<b>R0100</b>											1.574.812		<b>R0100</b>	1.578.262
N-9	<b>R0160</b>	0	0	0	0	0	0	0	0	0	933.777			<b>R0160</b>	936.969
N-8	<b>R0170</b>	0	0	0	0	0	0	0	0	1.126.575				<b>R0170</b>	1.129.429
N-7	<b>R0180</b>	0	0	0	0	0	0	1.782.649						<b>R0180</b>	1.787.496
N-6	<b>R0190</b>	0	0	0	0	0	1.869.243							<b>R0190</b>	1.875.154
N-5	<b>R0200</b>	0	0	0	0	2.231.232								<b>R0200</b>	2.237.129
N-4	<b>R0210</b>	0	0	0	1.237.172									<b>R0210</b>	1.240.222
N-3	<b>R0220</b>	0	0	1.666.132										<b>R0220</b>	1.668.352
N-2	<b>R0230</b>	0	2.038.221											<b>R0230</b>	2.038.739
N-1	<b>R0240</b>	0	3.091.490											<b>R0240</b>	3.083.812
N	<b>R0250</b>	8.161.152												<b>R0250</b>	8.169.183
<b>Total</b>	<b>R0260</b>													<b>R0260</b>	25.744.747



**Appendix C6 - S.23.01.01: Own funds**

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

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

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

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

**Deductions**

- Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

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

- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Other ancillary own funds

**Total ancillary own funds**

**Available and eligible own funds**

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR
- Total eligible own funds to meet the SCR
- Total eligible own funds to meet the MCR

**SCR**

**MCR**

**Ratio of Eligible own funds to SCR**

**Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges
- Other basic own fund items
- Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

**Reconciliation reserve**

**Expected profits**

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

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

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	5.130.000	5.130.000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	29.753.201	29.753.201			
R0140					
R0160	0				0
R0180					
R0220					
R0230					
R0290	34.883.201	34.883.201			0
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	34.883.201	34.883.201			0
R0510	34.883.201	34.883.201			
R0540	34.883.201	34.883.201	0	0	0
R0550	34.883.201	34.883.201	0	0	
R0580	18.242.160				
R0600	5.182.403				
R0620	191%				
R0640	673%				

**C0060**

R0700	34.883.201	
R0710	0	
R0720		
R0730	5.130.000	
R0740		
R0760	29.753.201	
R0770		
R0780	3.727.421	
R0790	3.727.421	



**Appendix C7 - S.25.01.21: Solvency Capital Requirement - for undertakings on Standard Formula**

	Gross solvency capital requirement	USP	Simplifications
	<b>C0110</b>	<b>C0090</b>	<b>C0100</b>
Market risk	R0010 6.299.171		
Counterparty default risk	R0020 6.114.726		
Life underwriting risk	R0030 .		
Health underwriting risk	R0040 355.402		
Non-life underwriting risk	R0050 10.073.285		
Diversification	R0060 -5.712.095		
Intangible asset risk	R0070 .		
<b>Basic Solvency Capital Requirement</b>	R0100 17.130.489		
<b>Calculation of Solvency Capital Requirement</b>	<b>C0100</b>		
Operational risk	R0130 1.424.399		
Loss-absorbing capacity of technical provisions	R0140 0		
Loss-absorbing capacity of deferred taxes	R0150 -312.728		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160 .		
<b>Solvency Capital Requirement excluding capital add-on</b>	R0200 18.242.160		
Capital add-on already set	R0210 .		
<b>Solvency capital requirement</b>	R0220 18.242.160		
<b>Other information on SCR</b>			
Capital requirement for duration-based equity risk sub-module	R0400 .		
Total amount of Notional Solvency Capital Requirements for remaining part	R0410 .		
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420 0		
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430 0		
Diversification effects due to RFF nSCR aggregation for article 304	R0440 0		



## Appendix C8 - S.28.01.01: Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

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

MCR <sub>NL</sub> Result	C0010		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	
	R0010	5.182.403			C0020
Medical expense insurance and proportional reinsurance			R0020	680.805	1.340.751
Income protection insurance and proportional reinsurance			R0030	.	.
Workers' compensation insurance and proportional reinsurance			R0040	.	.
Motor vehicle liability insurance and proportional reinsurance			R0050	9.531.414	6.003.518
Other motor insurance and proportional reinsurance			R0060	3.899.181	3.532.569
Marine, aviation and transport insurance and proportional reinsurance			R0070	247.859	393.992
Fire and other damage to property insurance and proportional reinsurance			R0080	7.515.930	11.760.312
General liability insurance and proportional reinsurance			R0090	7.150.117	4.994.709
Credit and suretyship insurance and proportional reinsurance			R0100	25.038	11.023
Legal expenses insurance and proportional reinsurance			R0110	.	.
Assistance and proportional reinsurance			R0120	.	.
Miscellaneous financial loss insurance and proportional reinsurance			R0130	263.012	335.508
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

MCR <sub>L</sub> Result	C0040		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	
	R0200	. <th>C0050</th> <th>C0060</th>			C0050
Obligations with profit participation - guaranteed benefits			R0210	.	.
Obligations with profit participation - future discretionary benefits			R0220	.	.
Index-linked and unit-linked insurance obligations			R0230	.	.
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	5.182.403
SCR	R0310	18.242.160
MCR cap	R0320	8.208.972
MCR floor	R0330	4.560.540
Combined MCR	R0340	5.182.403
Absolute floor of the MCR	R0350	3.700.000
	C0070	
<b>Minimum Capital Requirement</b>	R0400	5.182.403



## Independent Auditor's Report

To the Board of Directors of General Insurance of Cyprus Limited

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

### Opinion

We have audited the following Solvency II Quantitative Reporting Templates ("QRTs") contained in Annex I to Commission Implementing Regulation (EU) No 2015/2452 of 2 December 2015, of General Insurance of Cyprus Limited (the "Company"), prepared as at 31 December 2018:

- S.02.01.02 - Balance sheet
- S.17.01.02 - Non-Life Technical Provisions
- S.23.01.01 - Own funds
- S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

The above QRTs are collectively referred as "the relevant QRTs of the Solvency and Financial Condition Report".

In our opinion, the information in the relevant QRTs of the Solvency and Financial Condition Report as at 31 December 2018 is prepared, in all material respects, in accordance with the Insurance and Reinsurance Services and other Related Issues Law of 2016, the Commission Delegated Regulation (EU) 2015/35 and Solvency II Technical Standards and Guidelines (collectively "the Framework").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the relevant QRTs of the Solvency and Financial Condition Report in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other information

The Board of Directors is responsible for the Other information. The Other information comprises certain narrative sections and certain QRTs of the Solvency and Financial Condition Report as listed below:

Narrative sections:

- Business and performance
- Valuation for solvency purposes
- Capital management

QRTs (contained in Annex I to Commission Implementing Regulation (EU) No 2015/2452 of 2 December 2015):

- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.19.01.21 - Non-Life insurance claims

Our opinion on the relevant QRTs of the Solvency and Financial Condition Report does not cover the Other information listed above and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors for the Solvency and Financial Condition Report

The Board of Directors is responsible for the preparation of the Solvency and Financial Condition Report in accordance with the Framework.

The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

In preparing the Solvency and Financial Condition Report, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.



## **Auditor's Responsibilities for the Audit of the relevant QRTs of the Solvency and Financial Condition Report**

Our objectives are to obtain reasonable assurance about whether the relevant QRTs of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Solvency and Financial Condition Report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the relevant QRTs of the Solvency and Financial Condition Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of the basis of preparation used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Solvency and Financial Condition Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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### Other Matter

Our report is intended solely for the Board of Directors of the Company and should not be used by any other parties. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris  
Certified Public Accountant and Registered Auditor  
for and on behalf of

Ernst & Young Cyprus Limited  
Certified Public Accountants and Registered Auditors

Nicosia  
22 April 2019